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Enforcement Affairs*

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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
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
INL	Bureau for International Narcotics Control and Law Enforcement Affairs
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

International Agreements

1988 UN Drug Convention	United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988
UN Single Drug Convention	United Nations Single Convention on Narcotic Drugs, 1961 as amended by the 1972 Protocol
UN Psychotropic Substances Convention	United Nations Convention on Psychotropic Substances, 1971
UN Convention Against Transnational Organized Crime	United Nations Convention Against Transnational Organized Crime and its supplementing protocols:
Trafficking in Persons Protocol	Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime
Migrant Smuggling Protocol	Protocol Against the Smuggling of Migrants by Land, Air and Sea, supplementing the United Nations Convention against Transnational Organized Crime
Firearms Protocol	Protocol against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition, supplementing the United Nations Convention against Transnational Organized Crime

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 2006 INCSR, published in March 2006, covers the year January 1 to December 31, 2005 and is published in two volumes, the second of which covers money laundering and financial crimes. It is the 23rd 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 2006 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 section entitled "U.S. Government Assistance."

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, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.

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:

Afghanistan, 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, Guatemala, 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, St. Kitts and Nevis, 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 15, 2005

Presidential Determination No. 2005-36

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, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.**

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)(2) and (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 geographical, commercial, and economic factors that allow drugs to transit or be produced despite the concerned government's most assiduous enforcement measures.

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

I have also determined, in accordance with provisions of section 706(3)(A) of the FRAA, that support for programs to aid Venezuela's democratic institutions, establish selected community development projects, and strengthen Venezuela's political party system is vital to the national interests of the United States.

I have removed China and Vietnam from the list of major drug transit or major illicit drug producing countries because there is insufficient evidence to suggest that China is a major source zone or transit country for illicit narcotics that significantly affect the United States. There is insufficient evidence to refute claims by the Government of Vietnam that they have virtually eliminated opium poppy production. Additionally, although cooperation with United States law enforcement is limited, there are no indications of a significant Vietnam based drug threat to the United States.

Despite the Government of Afghanistan's counternarcotics efforts, we remain concerned about the disturbing magnitude of the drug trade and the prospect that opium poppy cultivation will likely increase in 2006. We are also concerned about government corruption, especially at the regional and local levels, impeding counternarcotics efforts. For these efforts to be effective, government corruption with respect to the opium economy must be seriously addressed by both local and central government authorities.

The Government of Canada has made real progress in curbing the diversion into the United States of pseudoephedrine, which fuels the production of methamphetamine. There are indications, however,

that Canadian based criminal groups are increasingly involved in the production of MDMA (ecstasy) destined for the United States. Large scale cross-border trafficking of Canadian grown marijuana remains a serious concern. The United States appreciates the excellent law enforcement cooperation with Canada in combating these shared threats.

While Haiti made efforts this year to improve its performance, we reiterate our concerns from last year about the Interim Government of Haiti's inability to effectively organize Haitian law enforcement resources to permit sustained counternarcotics efforts. Further, the national criminal justice system must be significantly strengthened in order to be effective and gain public confidence.

The Government of The Netherlands has achieved considerable success in countering the production and flow of MDMA (ecstasy) to the United States, and The Netherlands is commended for its enhanced efforts. In the coming year, the United States would like to build upon our law enforcement cooperation with the Dutch government through advancements in mutual legal assistance and direct engagement between our respective police agencies.

Drug trafficking, money laundering, and other organized criminal activity in Nigeria remain major sources of concern to the United States. Progress over the past year on anti money laundering controls is welcome, but much remains to be done to make such controls effective. Implementing anti corruption policies must advance more quickly, as corruption at all levels of government continues to hamper effective narcotics law enforcement. In addition, measures similar to those taken to improve drug law enforcement at Nigeria's main airport need to be expanded to, and replicated at, Nigeria's seaports, where drug trafficking is a growing concern. Finally, the National Drug Law Enforcement Agency (NDLEA) and other counternarcotics institutions should work towards developing the mindset and capacity to pursue investigations, and prosecutions of major drug traffickers based in the country.

We remain concerned with the continued involvement by the Democratic People's Republic of Korea (DPRK) in criminal activity, including drug production and drug trafficking. Given the close relationship between Japanese and Chinese criminal elements and DPRK drug traffickers in past smuggling incidents, there is a real possibility of continuing DPRK involvement in drug trafficking, even when a given incident appears only to involve ethnic Chinese or other organized Asian criminal groups.

You are hereby authorized and directed to submit this determination to the Congress and to 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 transmit 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 to take the counternarcotics measures specified in U.S. law.

In his report, the President identified as major drug-transit or major illicit drug-producing countries: **Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.**

The President removed China and Vietnam from the list of major drug-transit or major illicit drug-producing countries.

The President also reported to Congress his determination that Burma and Venezuela have “failed demonstrably,” during the previous 12 months, to adhere to their obligations under international counternarcotics agreements and take the measures set forth in U.S. law. However, the President also determined to maintain U.S. programs that aid Venezuela’s democratic institutions, establish selected community development projects, and strengthen Venezuela’s political party system.

The certification determinations required the President to consider each country’s performance in areas such as reducing illicit cultivation, interdiction, 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 considered efforts taken by these countries to stop production and export of, and reduce the domestic demand for, illegal drugs.

POLICY AND PROGRAM DEVELOPMENTS

Overview for 2005

Vigorous international drug control efforts kept the drug trade on the defensive in 2005. Our long-standing, international campaign to curb the flow of cocaine and heroin to the United States advanced significantly during the year. Coordinated international enforcement programs limited drug crop expansion, strengthened interdiction efforts, destroyed processing facilities, and weakened major trafficking organizations. Drug seizures set new records for cocaine interdiction in the Western Hemisphere. Better enforcement and judicial reforms led to the arrest of several long-sought drug kingpins, while tougher enforcement of chemical control and money laundering laws in key countries further hobbled the major trafficking organizations' ability to refine drugs and bank their profits.

The Drug Threat

Cocaine, heroin, marijuana, and synthetic amphetamine-type stimulants (ATS) are the drugs that most threaten the United States. Cutting off their supply has been and will continue to be our primary international counternarcotics goal. Although U.S. cocaine consumption has been declining recently, cocaine continues to be our greatest concern. An estimated 300 metric tons or more of cocaine hydrochloride (HCl) enter the country annually, feeding addiction, fueling crime, and damaging the economic and social health of the United States. As all cocaine originates in the Andean countries of Colombia, Peru, and Bolivia, we have channeled a significant portion of our international resources toward eliminating coca cultivation, disrupting cocaine production, and preventing the drug from reaching the United States.

Coca and Cocaine

Colombia—the source of roughly 90 percent of the cocaine destined for the U.S. and other world markets—leads the world in coca cultivation. Peru and Bolivia lag behind, a distant second and third respectively. The USG has directed a large share of its counternarcotics resources to attacking Colombian coca cultivation, while helping to thwart a resurgence of coca cultivation in Peru and Bolivia. In 2005, USG-supported Colombian police units reported eliminating over 170,000 hectares of coca. Aerial eradication removed 138,775 hectares of this amount, while manual eradication destroyed the other 31,285 hectares. If harvested and refined, the coca eradicated could have yielded over 150 metric tons of cocaine with a street value of over \$15 billion.

Bolivia and Peru, which had drastically reduced their coca cultivation in the past five years, now face campaigns to roll back these achievements. The challenge comes from increasingly active cocalero (coca grower) associations that link coca cultivation to issues of cultural identity and national pride. These farmer's unions, often exploited by trafficking interests, glorify coca cultivation and consumption as ancient and sacred indigenous traditions that must be protected against international efforts to destroy them. They portray coca reduction programs as a means for a mainly white, urban governing minority to limit the economic advancement of a rural indigenous majority.

Cocalero influence has been greatest in Bolivia, where the Bolivian cocaleros' founder and leader, Evo Morales, won the country's presidency in the December 2005 Bolivian Election. Bolivia's coca cultivation grew by eight percent in 2005 to 25,500 hectares, thanks in part to cocalero activism and the government's desire to avoid violent confrontation. It was the fourth year in succession that the figure has risen. Between 2001 to 2005, coca cultivation in Bolivia has gradually expanded by 36 percent, from 19,500 to 26,500 hectares. Though this amount is half of Bolivia's peak cultivation figure of 52,000 hectares in 1989, the trend is disquieting, as it shows no signs of being reversible in the short run.

In Peru, though government programs surpassed their 2005 coca eradication goal, they still may not have kept pace with expanding coca cultivation. Coccaleros in those rural valleys, where in previous years the violent Sendero Luminoso guerrillas held sway, have become more violent and better organized. New terrorist groups claiming an affiliation with Sendero Luminoso have openly identified with coca growers and drug traffickers. They have organized increasingly violent ambushes of police and intimidation of alternative development teams in coca growing areas.

USG estimates of coca cultivation for 2005 were not available at time of publication. The Government of Peru's Office of Drug Control, however, has accepted as accurate the United Nation's June 2005 estimate of 50,000 hectares of coca under cultivation in Peru.

Interdiction:

Cocaine seizures in the Western hemisphere set new records in 2005. Colombian interdiction programs seized 228 metric tons of cocaine in the course of the year, a record for any country, including the United States. Of this amount, the Colombian National Police secured 94 metric tons, while the remaining 124 metric tons were seized by the Army, Navy, and Air Force. Colombian forces destroyed 104 HCl and 773 base labs.

Other important drug-affected countries in the Hemisphere also reported seizing impressive amounts of cocaine: Bolivia, 10.7 metric tons; Peru, 15.6 metric tons; Venezuela, 54.2 metric tons; Mexico, 21 metric tons. In all, these countries seized approximately 329 metric tons of cocaine, more than the estimated 300 metric tons that enter the United States every year. Its retail value on the streets of the U.S. would have been approximately \$33 billion.

Opium and Heroin

Opium poppy is the source of heroin. Containing its cultivation presents its own set of challenges. Unlike coca, which currently grows in significant amounts in only three Andean countries, opium poppy is cultivated in nearly every region of the world. In contrast to coca, a perennial which takes at least a year to mature into usable leaf, opium poppy is an easily planted annual crop with as many as three harvests per year. The gum is harvestable in less than six months. It is therefore much harder to eliminate.

Most of the heroin used in the United States comes from poppies grown in Colombia and Mexico, though their opium gum production accounts for less than four percent of the world's total production. Mexico's geographical location allows Mexican growers and refiner to supply some 30 to 40 percent of the U.S. heroin market, mostly west of the Mississippi River. Colombia supplies most of the remainder of the states east of the Mississippi. Since eliminating poppy cultivation in Colombia and Mexico is crucial to reducing U.S.-bound heroin flows, we have had long-standing joint eradication programs in both countries.

Colombian law enforcement and alternative development programs eradicated 2,000 hectares of opium poppy in 2005. Of these, 1,624 hectares were sprayed and 376 hectares uprooted through voluntary manual eradication programs. The 2005 cultivation and production data were not available at the time of publication.

In Mexico, in the first 11 months of 2005, the Government of Mexico (GOM) reported eradicating slightly over 20,000 hectares of opium poppy, approximately the same annual level of opium eradication that Mexican authorities have reported in previous years. The 2005 cultivation and production data were not available at time of publication.

Burma is the world's second largest producer of illicit opium after Afghanistan, accounting for most of Southeast Asian heroin. In 2005, Burma produced an estimated 380 metric tons of opium, less than

eight percent of the opium produced in Afghanistan. Burma's opium poppy is grown predominantly in the "Golden Triangle" border region of Shan State—in areas near the borders of China, Laos, and Thailand controlled by former insurgent groups (less than one percent of Burma's poppy crop is grown outside of Shan State).

The remaining 90-plus percent of the world's opium gum production occurs in Afghanistan. Afghanistan supplies all but a small amount of the heroin going to Europe and Russia. Because of the limited reach of Afghan law enforcement, endemic corruption, and a weak judicial system, the Afghan Government has been unable to enforce a total ban against opium cultivation. Low opium prices after a large harvest last year, threats of destruction and appeals from President Karzai to the provincial governors and the people of Afghanistan to forego the planting of opium in return for alternative development assistance appear to have resulted in major reductions in overall poppy cultivation in 2005, most notably in Nangarhar Province. The latest USG crop survey, released in November 2005, revealed that approximately 107,400 hectares of poppy were cultivated during the 2005 crop season, 48 percent less than in 2004. The crop had an estimated potential yield of 4,475 metric tons of opium, down only ten percent because favorable weather increased yields.

Synthetic Drugs

Amphetamine-Type Stimulants. Global demand for Amphetamine-Type Stimulants (ATS), such as methamphetamine, amphetamine, and MDMA ("ecstasy"), has steadily increased throughout both the industrialized and the developing world. ATS drugs have displaced cocaine as the stimulant of choice in many countries, especially in those of Central and Northern Europe, and Southeast Asia. The relative ease and low cost of manufacturing ATS drugs from readily available chemicals appeals as much to small drug entrepreneurs as to the large international syndicates. Since they do not rely on organic sources such as coca and opium poppy, synthetics allow individual trafficking organizations to control the whole process, from manufacture to sale on the street. Synthetics can be made anywhere and offer enormous profit margins.

Methamphetamine. Methamphetamine abuse remains the fastest-growing drug threat in the United States today. Transnational drug trafficking organizations, based in Mexico and California, control a large percentage of the U.S. methamphetamine trade. Mexico is the principal foreign supplier of methamphetamine and most frequently used transit country for ATS precursors (especially Pseudoephedrine-PSE) destined for the United States. USG drug enforcement authorities believe that PSE imported into Canada continues to be diverted to the United States for illegal drug manufacture. Since Canada enacted regulations in 2002 to control PSE and other precursor and essential chemicals, a drop in seizures suggests that flows are diminishing.

Methamphetamine has displaced heroin as the principal trafficked drug in Burma and Thailand. Almost every country chapter in this year's INCSR indicates a rise in methamphetamine or other ATS drug trafficking and consumption. Methamphetamine production in the U.S. shows no sign of slowing, 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, are the principal suppliers of MDMA to the international market, but there also seems to be a good deal of production in Canada. The Netherlands took notable steps against the ecstasy trade in 2005, as highlighted in November when Dutch authorities dismantled the largest MDMA laboratory ever discovered in that country. 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 five years ecstasy

use has plummeted among the teenage population most at risk. According to the December 2005 Monitoring the Future report, annual prevalence rates among teenagers are between a half and a third of what they were in early 2001.

Cannabis (Marijuana)

Cannabis (marijuana) production and consumption is a problem in nearly every country, not least in the United States. Drug organizations in Mexico and Canada produce more than 5,000 metric tons of marijuana, which is then marketed to more than 20 million users in the United States. Colombia, Jamaica, and Paraguay also export marijuana to the United States. Of greatest concern to the USG is the high potency cannabis produced on a large scale in Canada. Plants are grown in laboratory conditions using specialized timers, ventilation, moveable lights on tracks, nutrients sprayed on exposed roots and special fertilizer that maximize THC levels. The result is a particularly powerful, dangerous, and addictive drug. The higher the THC content, the greater is the danger. Despite suggestions that marijuana use has no long-term consequences, the latest scientific information indicates that marijuana is associated with learning difficulties as well as memory disturbances and may contribute to schizophrenia.

Attacking Trafficking Organizations.

The drug trade depends upon reliable and efficient distribution systems to get its product to market. While most illicit distribution systems have short-term back-up channels to compensate for temporary law enforcement disruptions, a network under intense enforcement pressure cannot function for long. Working closely with our neighbors and allies, our strategy targets the leadership of the main trafficking groups, focusing on the operations along the network that bring drugs to the United States. Our goal is not simply to disrupt these organizations, but to remove the leadership, the facilitators who launder money and provide the chemicals needed for the production of illicit drugs, and their networks. By capturing the leaders of trafficking organizations, we demonstrate both to the criminals and to the governments fighting them that even the most powerful drug syndicates are vulnerable to concerted 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 U.S. distribution centers, directing the movement of cocaine, heroin, ATS drugs, and marijuana. Three years ago, in 2003, USG and Mexican officials developed a common targeting plan against major drug trafficking organizations in both countries. We also implemented secure mechanisms for data sharing. As a result, Mexican Federal enforcement and military authorities inflicted serious damage on several important trafficking organizations.

Mexican authorities struck at the leadership and key operating figures in major drug syndicates. These included: Juan Jose Alvarez Tostado, the financial mastermind of the Carrillo Fuentes Organization; Gulf Cartel principal operator Guadalupe Eugenio Rivera “El Gordo” Mata; Jose Gustavo “El Chapulin” Contreras Lopez, the leader of an Arellano Felix Organization (AFO) cell, based in the border region of Tijuana (Baja California), and engaged in kidnappings and murders related to drug trafficking. The top target was the Sinaloa cartel of Joaquin “El Chapo” Guzman Loera, one of Mexico’s best-known drug lords and a key figure in moving cocaine from Colombia to Mexico and on to the United States. In 2005, Mexican authorities arrested Guzman Loera’s son, Archivaldo, Guzman’s brother, Miguel Angel, and an important enforcer for “El Chapo’s” organization, Joaquin Angel Rios Felix. In November in Mexico City, Mexican federal agents arrested Ricardo (“The Doctor”) Garcia Urquiza, an important drug trafficker, money launderer, and associate of Vicente Carrillo Fuentes. Mexican authorities have described him as one of the most important drug traffickers arrested in Mexico in 2005.

In 2005, as in previous years, Sensitive Investigative Units (SIUs) within the Mexican Federal Investigative Agency served as effective mechanisms for sharing sensitive intelligence data in both directions without compromise. They played an important role in successful investigations against drug trafficking organizations on both sides of the border.

Institutional Reform

A pivotal element of USG international drug control policy has been to help governments strengthen their enforcement, judicial, and financial institutions to narrow the opportunities for infiltration by the drug trade. In drug source and transit countries, law enforcement agencies often arrest influential drug criminals only to see them released following a questionable or inexplicable decision by a single judge.

This still occurs, but not as often. Each year, there are fewer of these abuses, as governments work for basic reforms involving transparency, efficiency, and better pay for police and judges. Reform efforts advanced in 2005. For example, the Mexican government 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. In Colombia, USG agencies have provided training, technical assistance, and equipment to enhance the system's capacity and capabilities and to make it more transparent to the public. Chile completed its multi-year, nationwide criminal justice reform project in June 2005, adopting a new adversarial judicial system relying on oral trials rather than document-based legal proceedings. There are similarly encouraging developments outlined in many of the country chapters of this report.

Extradition

Extradition to the United States is still the sanction international drug criminals fear most. The host of notorious foreign drug criminals serving long prison terms in the U.S. is a sober reminder to the most powerful international criminals of what can happen when they can no longer use bribes and intimidation to manipulate the local judicial process. Over the past decade, governments have been increasingly willing to risk domestic political repercussions and extradite drug kingpins to the United States.

Colombia and Mexico now extradite drug criminals to the United States on a regular basis. The number of extraditions from Colombia to the United States has increased significantly in recent years. In President Uribe's administration, extraditions have increased dramatically, with 304 Colombian nationals and 11 nonnationals extradited by the end of 2005.

In early 2005, Colombia extradited FARC leader Anayibe Rojas Valderama (aka "Comandante Sonia") and other criminal associates for drug trafficking and terrorism charges. Colombia also extradited Cali Cartel leader Miguel Rodriguez Orejuela in 2005. Other high-ranking drug trafficking targets arrested and/or extradited include Consolidated Priority Targets and members of the North Valley Cartel's Top 10 list, such as Gabriel Puerta Parra, Jose Rendon Ramirez, John Cano Carrera, and Dagaberto Florez

In 2005 for the fourth consecutive year, Mexican authorities extradited a record number of fugitives to the United States. As of mid December, Mexico had extradited 40 fugitives to the United States, up from 34 in 2004, 31 in 2003, and 25 in 2002. These included Mexican citizens and narcotics and money laundering defendants.

In a watershed decision in late 2005, the Mexican Supreme court removed a significant obstacle to the extradition of fugitives facing life imprisonment in the United States for major drug trafficking and violent crimes. Reversing a 2004 decision, the court ruled that life in prison without the possibility of

parole did not violate the Mexican Constitution's prohibition on cruel and unusual punishment. Criminals subject to the death penalty in the United States, however, cannot be extradited since the Mexican Constitution prohibits capital punishment.

In another departure from past practice, the Afghan Government for the first time permitted the extradition of one of its citizens for drug trafficking to a foreign country. Afghanistan will extradite Haji Baz Mohammad under the 1988 UN Drug Convention to the U.S. to stand trial on narcotics charges. Other countries that extradited criminals to the U.S. in 2005 for prosecution were the Dominican Republic, El Salvador, Ghana, and Paraguay.

Controlling Drug Processing Chemicals

Cocaine, heroin and synthetic drugs cannot be manufactured without certain critical chemicals, many of which are subject to international controls. Cocaine and heroin refining operations generally require widely available essential chemicals. Substitutes for unavailable chemicals can be used for most of the chemicals used in the manufacturing process, but there are some indispensable chemicals—potassium permanganate for cocaine and acetic anhydride for heroin—for which there are few readily 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 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 2005 to improve controls on cocaine and heroin processing chemicals, and those used for manufacturing synthetic drugs.

Bilaterally, we continued to work closely with the Canadian government in 2005 to curtail the diversion of drug processing chemicals to criminal interests in the United States. Pseudoephedrine (PSE), a common cold remedy and the main component in the manufacturing of methamphetamine, is legally imported into Canada from China, India, and Germany. U.S. counternarcotics authorities assess that a portion of those imports is diverted to the United States for the production of illicit drugs. Other precursor chemicals available in Canada and used in the production of synthetic drugs are sassafras oil, piperonal, and gamma butyrolactone (GBL). These precursors are used in the manufacturing of ecstasy (methylenedioxymethamphetamine or MDMA), methylenedioxyamphetamine (MDA), and gamma hydroxybutyrate (GHB).

In November 2005, the Canadian Government implemented the first major amendments to augment the 2003 Precursor Control Regulations. These changes strengthen verification of import and export licensing procedures, require that companies requesting those licenses provide additional detail in their initial requests provide guidelines on the suspension and revocation of licenses for abusers, and add controls of six chemicals that can be used to produce GHB and/or methamphetamine.

Controlling Supply

The USG's goal is to reduce and ultimately cut off the flow of illegal drugs to the United States. Our strategy targets 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 starts 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 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 better are our chances of halting the

flow of drugs altogether. Crop control is the most cost-effective means of cutting supply. Drugs cannot enter the system from crops that have been destroyed or left unharvested. It is the equivalent of removing a malignant growth before it can spread uncontrollably into the rest of the system. In theory, with no drug crops to harvest, there would be no cocaine or heroin for distribution, nor would there be any need for costly enforcement and interdiction operations.

In the real world, however, theory falters. Widespread (aerial and chemical) eradication is not legal in many countries. Even when eradication is feasible, destroying a lucrative crop, even an illegal one, carries enormous political, economic and social consequences for the producing country. In most cases, it means threatening the livelihood of the poorest sector of the population. Democratic governments that take away vital income without any viable quid pro quo seldom survive for long. Developing, implementing, and reaping the benefits of practical, long-term alternatives for the affected population can take decades. So we also must focus upon the succeeding links: the processing and distribution stages of laboratory destruction and interdiction of drug shipments.

Our programs can shift resources to those links where we can achieve both an immediate impact and long-term results. The right combination of effective law enforcement actions and alternative development programs can deliver truly remarkable results, as coca reductions in the Andean region demonstrate. 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 individual circumstances. Alternative development programs play a vital role in countries seeking to free their agricultural sector from reliance on the drug trade by offering farmers opportunities to abandon illegal activities and join the legitimate economy. In the Andean countries, such 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.

Illegal Drugs, Spraying, and the Environment

Questions inevitably arise over the environmental risks of regular use of herbicides on illegal drug crops. Colombia is currently the only country that allows regular aerial spraying of coca and opium poppy. The Colombian government has approved the herbicide that is being used to conduct aerial eradication in the growing areas. The only active ingredient in the herbicide used in the aerial eradication program is glyphosate, one of the most widely used agricultural herbicides in the world. It has been tested widely in the United States, Colombia, and elsewhere in the world. The U.S. Environmental Protection Agency (EPA) approved glyphosate for general use in 1974 and re-registered it in September 1993. EPA has approved its use on food croplands, forests, residential areas, and around aquatic areas. It is one of the top five pesticides, including herbicides, used in the United States.

Environmental Consequences of Illicit Coca Cultivation

The environmental impact of approved herbicides must be weighed against the devastating potential of all aspects of coca cultivation. Coca cultivation in the Andean region has led to the destruction of approximately six million acres of rainforest in the past twenty years. Working in remote areas beyond settled populations, coca growers routinely slash and burn virgin forestland to make way for their illegal crops. Tropical rains quickly erode the thin topsoil of the fields, increasing soil runoff, depleting soil nutrients, and, by destroying timber and other resources that would otherwise be available for more sustainable uses, decreasing biological diversity. The destructive cycle continues, as growers regularly abandon nonproductive parcels to prepare new plots. At the same time, traffickers destroy jungle forests to build clandestine landing strips and laboratories for processing raw coca and poppy into cocaine and heroin.

Illicit coca growers tend to be negligent and indiscriminate 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.

The most toxic chemicals are those 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 kilograms 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 and poison 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 on 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 over cases and remove the corrosive pressure from large Trafficking Organizations on some foreign governments. This team effort led to unprecedented success by removing over 150 metric tons of cocaine from the maritime transit zone in 2005 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.

Fighting Corruption

Though corruption may seem a less obvious threat than the challenge of armed insurgents, the weakening of government institutions through bribery and intimidation ultimately poses just as great a danger to democratic governments. Terrorist groups or guerrilla armies overtly seek to topple and replace governments through violence. Drug syndicates, however, work behind the scenes, seeking to subvert governments in order to guarantee themselves a secure operating environment by co-opting key officials. Unchecked, the drug trade is capable of taking de facto control of a country by essentially buying off a majority of key government officials, including a president. With a president, defense chief, and interior minister secretly on its payroll, a criminal organization can operate with near impunity behind the façade of sovereign legitimate government. While this has yet to happen, there have been several close calls in the recent past. By keeping the focus on eliminating corruption, we can prevent the nightmare of a government entirely manipulated by drug lords from becoming a reality.

Fighting the drug trade is a dominant element in a broader struggle against corruption. Drug organizations possess and wield the ultimate instrument of corruption: money. The drug trade has access to almost unimaginable quantities of it. No commodity is so widely available, so cheap to produce, and as easily renewable as illegal drugs. They offer dazzling profit margins that allow

criminals to generate illicit revenues on a scale without historical precedent. For example, assuming an average U.S. retail street price of one hundred dollars a gram, a metric ton of pure cocaine is worth \$100 million on the streets of the United States—twice as much if the drug is cut with additives. That same metric ton typically would have cost around \$3,000,000 (\$3,000 per kilogram) when it left Colombia. Few legitimate businesses can boast of a 30-fold return. At \$100 per gram, the 329 metric tons of cocaine seized in Mexico and Latin America in 2005 could in theory be worth as much as \$30 billion to the drug trade, more than the gross domestic product of many of the countries of Central America. If only a portion of these profits flows back to the drug syndicates, we are still speaking of hundreds of millions, if not billions, of dollars.

To put these sums into perspective, in FY 2005 the State Department's budget for international drug control operations was approximately \$1.2 billion. That equates to roughly 12 metric tons of cocaine. The drug syndicates have lost that amount in a single shipment, with no serious consequences, except to the unfortunate subordinate responsible for the loss.

Next Steps

The international drug trade is a complex, dynamic organism that learns quickly from its mistakes. It is nothing if not adaptable. Every time we score a major success—and over the past decade and a half we have had many—the drug trade learns from it. Successful operations weed out the weaker elements, leaving the more agile and sophisticated criminals in place. In time, this selection process eventually leaves us with a very astute adversary.

The drug trade itself also evolves naturally, like any business in a competitive market place. We are now dealing with second or even third-generation transnational drug syndicates. They embrace modern management techniques, employ state-of-the-art communications, and hire the best technical and financial expertise.

The drug trade, however, has an inherent weakness: it is simultaneously a criminal organization and a business. It has to straddle two worlds. As a criminal organization, it operates in the shadows with virtual impunity. But to prosper as a business, it must emerge into the legitimate commercial world and lose its protective cover. Once in the legitimate world, it becomes vulnerable. It needs raw materials, processing chemicals, transportation networks, and, most important of all, a means of getting its profits into legitimate commercial and financial channels.

In the past twenty years, working with our international partners, we have successfully increased pressures on the drug trade and narrowed opportunities at every stage of their operations, from cultivation and production to transport and marketing. Without lessening pressure at all these points, we must now intensify our efforts to strike at the critical point—the financial end. Just as a business that cannot reinvest its profits soon fails, without a steady flow of funds, the drug trade cannot function effectively. Since governments individually control domestic access to the global financial system, working together they have the potential to make it all but impossible for drug profits to enter the legitimate international financial system. Our goal is to transform that potential into a reality and reduce the drug trade from serious threat to a common nuisance.

Demand Reduction

Drug “demand reduction” aims to reduce worldwide use and abuse of illicit drugs worldwide. The need for demand reduction is reflected in escalating drug use that takes a devastating toll on health, welfare, security and economic stability of all countries. Recognizing this problem, the National Security Presidential Directive (NSPD#25) on International Drug Control Policy urges the Secretary

of State “to expand U.S. international demand reduction assistance and information sharing programs in key source and transit countries”. As opposed to drug production and trafficking, the NSPD addresses rising global demand for drugs as the principal threat to the U.S. As outlined in the NSPD, drug trafficking organizations and their linkages to international terrorist groups also constitute a serious threat to U.S. national security by generating money that increasingly threatens global peace and stability. Demand reduction assistance has subsequently evolved as a key foreign policy tool to address the inter-connected threats of drugs, crime, and terrorism. More recently it is recognized as a key complimentary component in efforts to stop the spread of HIV/AIDS, particularly in countries with high intravenous drug users.

Foreign countries recognize the vast U.S. experience and efforts in reducing drug demand. In return for cooperation with supply reduction efforts, many drug producing and transit countries request U.S. assistance with demand reduction technology, since drug consumption also has debilitating effects on their society and children. Demand reduction assistance thereby helps secure foreign country support for U.S. driven supply reduction efforts, while at the same time reducing consumption in that country and reducing a major source of terrorist financing.

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 community coalition development efforts to increase public awareness of the deleterious consequences of drug use/abuse. 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 2005, INL’s assistance targeted the cocaine producing and transit countries in Latin America, addressed the amphetamine-type stimulant (ATS) epidemic in Southeast Asia, and addressed the heroin threat from Asia, Afghanistan and Colombia. It also focused on countries in Southeast Asia and Africa where intravenous drug use is fueling an HIV/AIDS epidemic. 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. As a result of INL’s training assistance, the first counternarcotics community coalition network outside the United States was established in Peru. INL funded a symposium on Drug Demand Reduction in Kabul, Afghanistan that was attended by over 500 of the country’s senior religious leaders and resulted in a major Fatwa against drug production, trafficking and abuse in that country. INL’s training targeting predominantly Muslim populations also resulted in the establishment of mosque-based outreach drug treatment centers in 25 provinces throughout Afghanistan, 12 centers in Indonesia religious schools and a total of 6 in Pakistan, Southern Philippines and Malaysia.

INL funding has provided new updated curricula to 24 Drug Abuse Resistance Education (D.A.R.E.) programs in Latin America and Asia. INL funding also supported drug treatment training in Vietnam to address the connection between intravenous drug use and HIV/AIDS, and to reduce overall drug consumption. 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.-and foreign-based demand reduction efforts. An outcome-based evaluation of INL-funded, school-based D.A.R.E. training in Colombia revealed that drug use was reduced from 54 percent to 10 percent in the eight target cities participating in the program. Other recent research on the long-term impact of INL-funded treatment training in Peru revealed that overall drug use was reduced from 90 percent to 34 percent in

the targeted population. A leading journal on drug addiction, *Journal of Teaching in the Addictions*, devoted its entire November 2005 edition to “best practices” in drug abuse treatment that resulted from INL assistance to Southeast Asia, Latin America, and Eastern Europe.

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. 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

1998–2005 (All Figures in Hectares)

	2005	2004	2003	2002	2001	2000	1999	1998
Opium								
Afghanistan	107,000	206,700	61,000	30,750	1,685	64,510	51,500	41,720
India								
Iran								
Pakistan		3,100		622	213	515	1,570	3,030
Total SW Asia	107,000	209,800	61,000	31,372	1,898	65,025	53,070	44,750
Burma	40,000	30,900	47,130	78,000	105,000	108,700	89,500	130,300
China								
Laos	5,600	10,000	18,900	23,200	22,000	23,150	21,800	26,100
Thailand				750	820	890	835	1,350
Vietnam				1,000	2,300	2,300	2,100	3,000
Total SE Asia	45,600	40,900	66,030	102,950	130,120	135,040	114,235	160,750
Colombia		2,100	4,400	4,900	6,500	7,500	7,500	6,100
Lebanon								
Guatemala		330						
Mexico		3,500	4,800	2,700	4,400	1,900	3,600	5,500
Total Other		5,930	9,200	7,600	10,900	9,400	11,100	11,600
Total Opium	152,600	256,630	136,230	141,922	142,918	209,465	178,405	217,100
Coca								
Bolivia	26,500	24,600	23,200	21,600	19,900	14,600	21,800	38,000
Colombia ¹		114,100	113,850	144,450	169,800	136,200	122,500	101,800
Peru	38,000	27,500	29,250	34,700	34,000	34,200	38,700	51,000
Ecuador								
Total Coca	64,500	166,200	166,300	200,750	223,700	185,000	183,000	190,800
Cannabis								
Mexico				3,900	3,900	3,900	3,700	4,600
Colombia		5,000	5,000	5,000	5,000	5,000	5,000	5,000
Jamaica								
Total Cannabis		5,000	5,000	8,900	8,900	8,900	8,700	9,600

¹ Colombian coca cultivation survey results for 2005 will not be available until the spring of 2006.

Worldwide Illicit Drug Cultivation

1990–1997 (All Figures in Hectares)

	1997	1996	1995	1994	1993	1992	1991	1990
Opium								
Afghanistan	39,150	37,950	38,740	29,180	21,080	19,470	17,190	12,370
India	2,050	3,100	4,750	5,500	4,400			
Iran								
Pakistan	4,100	3,400	6,950	7,270	6,280	8,170	8,205	8,220
Total SW Asia	45,300	44,450	50,440	41,950	31,760	27,640	25,395	20,590
Burma	155,150	163,100	154,070	154,070	146,600	153,700	160,000	150,100
China			1,275	1,965				
Laos	28,150	25,250	19,650	19,650	18,520	25,610	29,625	30,580
Thailand	1,650	2,170	1,750	2,110	2,110	2,050	3,000	3,435
Total SE Asia	6,150	3,150		177,795	167,230	181,360	192,625	184,185
Colombia	191,100	193,670	176,745				1,160	
Lebanon	6,600	6,300	6,540	20,000	20,000	20,000	3,400	3,200
Guatemala		90	150		440	na	1,145	845
Mexico			39	50	438	730	3,765	5,450
Vietnam	4,000	5,100	5,050	5,795	3,960	3,310		
Total Other	10,600	11,490	11,779	25,845	24,838	24,040	9,470	9,495
Total Opium	247,000	249,610	238,964	245,590	223,828	233,040	227,490	214,200
Coca								
Bolivia	45,800	48,100	48,600	48,100	47,200	45,500	47,900	50,300
Colombia	79,500	67,200	50,900	45,000	39,700	37,100	37,500	40,100
Peru	68,800	94,400	115,300	108,600	108,800	129,100	120,800	121,300
Ecuador							40	120
Total Coca	194,100	209,700	214,800	201,700	195,700	211,700	206,240	211,820
Cannabis								
Mexico	4,800	6,500	6,900	10,550	11,220	16,420	17,915	35,050
Colombia	5,000	5,000	5,000	4,986	5,000	2,000	2,000	1,500
Jamaica	317	527	305	308	744	389	950	1,220
Total Cannabis	10,117	12,027	12,205	15,844	16,964	18,809	20,865	37,770

Worldwide Potential Illicit Drug Production

1998–2005 (All Figures in Metric Tons)

	2005	2004	2003	2002	2001	2000	1999	1998
Opium Gum								
Afghanistan	4,475	4,950	2,865	1,278	74	3,656	2,861	2,340
India								
Iran								
Pakistan		70		5	5	11	37	66
Total SW Asia	4,475	5,020	2,865	1,283	79	3,667	2,898	2,406
Burma	380	292	484	630	865	1,085	1,090	1,750
China								
Laos	28	49	200	180	200	210	140	140
Thailand				9	6	6	6	16
Vietnam				10	15	15	11	20
Total SE Asia	408	341	684	829	1,086	1,316	1,247	1,926
Colombia		30	63	68			75	61
Lebanon								
Guatemala		12						
Mexico		73	101	58	71	21	43	60
Total Other		115	164	126	71	21	118	121
Total Opium	4,883	5,476	3,713	2,238	1,236	5,004	4,263	4,453
Coca Leaf								
Bolivia ¹	18,800	17,500	17,210	16,600	20,200	26,800	22,800	52,900
Colombia		108,000	115,500	147,918		583,000	521,400	437,600
Peru	56,300	48,800	52,300	59,600	52,600	54,400	69,200	95,600
Ecuador								
Total Coca	75,100	174,300	185,010	224,118	72,800	664,200	613,400	586,100
Cannabis								
Mexico		10,440	13,500	7,900	7,400	7,000	3,700	8,300
Colombia		4,000		4,000	4,000	4,000	4,000	4,000
Jamaica								
Belize								
Others		3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Cannabis		17,940	17,000	15,400	14,900	14,500	11,200	15,800

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

Worldwide Potential Illicit Drug Production 1990–1997 (All Figures in Metric Tons)

	1997	1996	1995	1994	1993	1992	1991	1990
Opium Gum								
Afghanistan	2,184	2,174	1,250	950	685	640	570	415
India	30	47	77	90				
Iran								
Pakistan	85	75	155	160	140	175	180	165
Total SW Asia	2,299	2,296	1,482	1,200	825	815	750	580
Burma	2,365	2,560	2,340	2,030	2,575	2,280	2,350	2,255
China			19	25				
Laos	210	200	180	85	180	230	265	275
Thailand	25	30	25	17	42	24	35	40
Vietnam	45	25						
Total SE Asia	2,645	2,815	2,564	2,157	2,797	2,534	2,650	2,570
Colombia	66	63	65					
Lebanon		1	1		4		34	32
Guatemala							11	13
Mexico	46	54	53	60	49	40	41	62
Total Other	112	118	119	60	53	40	86	107
Total Opium	5,056	4,285	4,165	3,417	3,675	3,389	3,486	3,257
Coca Leaf								
Bolivia	70,100	75,100	85,000	89,800	84,400	80,300	78,000	77,000
Colombia	347,000	302,900	229,300	35,800	31,700	29,600	30,000	32,100
Peru	130,200	174,700	183,600	165,300	155,500	223,900	222,700	196,900
Ecuador					100	100	40	170
Total Coca	547,300	552,700	497,900	290,900	271,700	333,900	330,740	306,170
Cannabis								
Mexico	8,600	11,700	12,400	5,540	6,280	7,795	7,775	19,715
Colombia	4,133	4,133	4,133	4,138	4,125	1,650	1,650	1,500
Jamaica	214	356	206	208	502	263	641	825
Belize							49	60
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total	16,447	19,689	20,239	13,386	14,407	13,208	13,615	25,600

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	9 May 1995
4. Andorra	Accession	23 July 1999
5. Angola	Accession	26 October 2005
6. Antigua and Barbuda	Accession	5 April 1993
7. Argentina	20 December 1988	28 June 1993
8. Armenia	Accession	13 September 1993
9. Australia	14 February 1989	16 November 1992
10. Austria	25 September 1989	11 July 1997
11. Azerbaijan	Accession	22 September 1993
12. Bahamas	20 December 1988	30 January 1989
13. Bahrain	28 September 1989	7 February 1990
14. Bangladesh	14 April 1989	11 October 1990
15. Barbados	Accession	15 October 1992
16. Belarus	27 February 1989	15 October 1990
17. Belgium	22 May 1989	25 October 1995
18. Belize	Accession	24 July 1996
19. Benin	Accession	23 May 1997
20. Bhutan	Accession	27 August 1990
21. Bolivia	20 December 1988	20 August 1990
22. Bosnia and Herzegovina	Succession	01 September 1993
23. Botswana	Accession	13 August 1996
24. Brazil	20 December 1988	17 July 1991
25. Brunei Darussalam	26 October 1989	12 November 1993
26. Bulgaria	19 May 1989	24 September 1992
27. Burkina Faso	Accession	02 June 1992
28. Burundi	Accession	18 February 1993
29. Cambodia	Accession	7 July 2005
30. Cameroon	27 February 1989	28 October 1991
31. Canada	20 December 1988	05 July 1990
32. Cape Verde	Accession	08 May 1995
33. Central African Republic	Accession	15 October 2001
34. Chad	Accession	09 June 1995

Country	Date Signed	Date Became a Party
35. Chile	20 December 1988	13 March 1990
36. China	20 December 1988	25 October 1989
37. Colombia	20 December 1988	10 June 1994
38. Comoros	Accession	1 March 2000
39. Congo, Democratic Republic of	20 December 1988	28 October 2005
40. Costa Rica	25 April 1989	8 February 1991
41. Cote d'Ivoire	20 December 1988	25 November 1991
42. Croatia	Succession	26 July 1993
43. Cuba	7 April 1989	12 June 1996
44. Cyprus	20 December 1988	25 May 1990
45. Czech Republic	Succession	30 December 1993
46. Denmark	20 December 1988	19 December 1991
47. Djibouti	Accession	22 February 2001
48. Dominica	Accession	30 June 1993
49. Dominican Republic	Accession	21 September 1993
50. Ecuador	21 June 1989	23 March 1990
51. Egypt	20 December 1988	15 March 1991
52. El Salvador	Accession	21 May 1993
53. Eritrea	Accession	30 January 2002
54. Estonia	Accession	12 July 2000
55. Ethiopia	Accession	11 October 1994
56. European Economic Community	8 June 1989	31 December 1990
57. Fiji	Accession	25 March 1993
58. Finland	8 February 1989	15 February 1994
59. France	13 February 1989	31 December 1990
60. Gambia	Accession	23 April 1996
61. Georgia	Accession	8 January 1998
62. Germany	19 January 1989	30 November 1993
63. Ghana	20 December 1988	10 April 1990
64. Greece	23 February 1989	28 January 1992
65. Grenada	Accession	10 December 1990
66. Guatemala	20 December 1988	28 February 1991
67. Guinea	Accession	27 December 1990
68. Guinea-Bissau	Accession	27 October 1995
69. Guyana	Accession	19 March 1993
70. Haiti	Accession	18 September 1995
71. Honduras	20 December 1988	11 December 1991

Policy and Program Development

Country	Date Signed	Date Became a Party
72. Hungary	22 August 1989	15 November 1996
73. Iceland	Accession	2 September 1997
74. India	Accession	27 March 1990
75. Indonesia	27 March 1989	23 February 1999
76. Iran	20 December 1988	7 December 1992
77. Iraq	Accession	22 July 1998
78. Ireland	14 December 1989	3 September 1996
79. Israel	20 December 1988	20 May 2002
80. Italy	20 December 1988	31 December 1990
81. Jamaica	2 October 1989	29 December 1995
82. Japan	19 December 1989	12 June 1992
83. Jordan	20 December 1988	16 April 1990
84. Kazakhstan	Accession	29 April 1997
85. Kenya	Accession	19 October 1992
86. Korea	Accession	28 December 1998
87. Kuwait	2 October 1989	3 November 2000
88. Kyrgyz Republic	Accession	7 October 1994
89. Lao Peoples Democratic Republic	Accession	1 October 2004
90. Latvia	Accession	24 February 1994
91. Lebanon	Accession	11 March 1996
92. Lesotho	Accession	28 March 1995
93. Liberia	Accession	16 September 2005
94. Libyan Arab Jamahiriya	Accession	22 July 1996
95. Lithuania	Accession	8 June 1998
96. Luxembourg	26 September 1989	29 April 1992
97. Macedonia, Former Yugoslav Rep.	Accession	18 October 1993
98. Madagascar	Accession	12 March 1991
99. Malawi	Accession	12 October 1995
100. Malaysia	20 December 1988	11 May 1993
101. Maldives	5 December 1989	7 September 2000
102. Mali	Accession	31 October 1995
103. Malta	Accession	28 February 1996
104. Mauritania	20 December 1988	1 July 1993
105. Mauritius	20 December 1988	6 March 2001
106. Mexico	16 February 1989	11 April 1990

Country	Date Signed	Date Became a Party
107. Micronesia, Federal States of	Accession	6 July 2004
108. Moldova	Accession	15 February 1995
109. Monaco	24 February 1989	23 April 1991
110. Mongolia	Accession	25 June 2003
111. Morocco	28 December 1988	28 October 1992
112. Mozambique	Accession	8 June 1998
113. Myanmar (Burma)	Accession	11 June 1991
114. Nepal	Accession	24 July 1991
115. Netherlands	18 January 1989	8 September 1993
116. New Zealand	18 December 1989	16 December 1998
117. Nicaragua	20 December 1988	4 May 1990
118. Niger	Accession	10 November 1992
119. Nigeria	1 March 1989	1 November 1989
120. Norway	20 December 1988	14 November 1994
121. Oman	Accession	15 March 1991
122. Pakistan	20 December 1988	25 October 1991
123. Panama	20 December 1988	13 January 1994
124. Paraguay	20 December 1988	23 August 1990
125. Peru	20 December 1988	16 January 1992
126. Philippines	20 December 1988	7 June 1996
127. Poland	6 March 1989	26 May 1994
128. Portugal	13 December 1989	3 December 1991
129. Qatar	Accession	4 May 1990
130. Romania	Accession	21 January 1993
131. Russia	19 January 1989	17 December 1990
132. Rwanda	Accession	13 May 2002
133. St. Kitts and Nevis	Accession	19 April 1995
134. St. Lucia	Accession	21 August 1995
135. St. Vincent and the Grenadines	Accession	17 May 1994
136. Samoa	Accession	19 August 2005
137. San Marino	Accession	10 October 2000
138. Sao Tome and Principe	Accession	20 June 1996
139. Saudi Arabia	Accession	9 January 1992
140. Senegal	20 December 1988	27 November 1989
141. Seychelles	Accession	27 February 1992
142. Sierra Leone	9 June 1989	6 June 1994
143. Singapore	Accession	23 October 1997

Policy and Program Development

Country	Date Signed	Date Became a Party
144. Slovakia	Succession	28 May 1993
145. Slovenia	Succession	6 July 1992
146. South Africa	Accession	14 December 1998
147. Spain	20 December 1988	13 August 1990
148. Sri Lanka	Accession	6 June 1991
149. Sudan	30 January 1989	19 November 1993
150. Suriname	20 December 1988	28 October 1992
151. Swaziland	Accession	3 October 95
152. Sweden	20 December 1988	22 July 1991
153. Switzerland	16 November 1989	14 September 2005
154. Syria	Accession	3 September 1991
155. Tajikistan	Accession	6 May 1996
156. Thailand	Accession	3 May 2002
157. Tanzania	20 December 1988	17 April 1996
158. Togo	3 August 1989	1 August 1990
159. Tonga	Accession	29 April 1996
160. Trinidad and Tobago	7 December 1989	17 February 1995
161. Tunisia	19 December 1989	20 September 1990
162. Turkey	20 December 1988	2 April 1996
163. Turkmenistan	Accession	21 February 1996
164. UAE	Accession	12 April 1990
165. Uganda	Accession	20 August 1990
166. Ukraine	16 March 1989	28 August 1991
167. United Kingdom	20 December 1988	28 June 1991
168. United States	20 December 1988	20 February 1990
169. Uruguay	19 December 1989	10 March 1995
170. Uzbekistan	Accession	24 August 1995
171. Venezuela	20 December 1988	16 July 1991
172. Vietnam	Accession	4 November 1997
173. Yemen	20 December 1988	25 March 1996
174. Yugoslavia	20 December 1988	3 January 1991
175. Zambia	9 February 1989	28 May 1993
176. Zimbabwe	Accession	30 July 1993
Signed but Pending Ratification		
1. Gabon	20 December 1989	
2. Holy See	20 December 1988	Not UN member

3. Zaire	20 December 1988
Other	
1. Anguilla	Not UN member
2. Aruba	Not UN member
3. Bermuda	
4. BVI	Not UN member
5. Congo	
6. Djibouti	
7. DPR Korea	
8. Hong Kong	Not UN member
9. Liechtenstein	
10. Marshall Islands	
11. Namibia	
12. Papua New Guinea	
13. Taiwan	Not UN member
14. Turks & Caicos	Not UN member
15. Vanuatu	

USG ASSISTANCE

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

Andean Counterdrug Initiative (ACI)	FY 2005 Actual	FY 2006 Actual	FY 2007 Request
Bolivia Total	90,272	79,200	66,000
<i>Bolivia: Alternative Development/Institution Building</i>	41,664	36,630	31,000
<i>Bolivia: Interdiction</i>	48,608	42,570	35,000
Brazil Total	8,928	5,940	4,000
Colombia Total	462,767	464,781	465,000
<i>Colombia: Alternative Development/Institution Building</i>	124,694	129,920	125,000
<i>Colombia: Interdiction</i>	310,694	307,742	313,850
<i>Colombia: Rule of Law</i>	27,379	27,119	26,150
Ecuador Total	25,792	19,800	17,300
<i>Ecuador: Alternative Development/Institution Building</i>	14,880	11,425	8,400
<i>Ecuador: Interdiction/Eradication</i>	10,912	8,375	8,900
Guatemala Total	992	0	0
Nicaragua Total	992	0	0
Panama Total	5,952	4,455	4,000
Peru Total	115,370	106,920	98,500
<i>Peru: Alternative Development/Institution Building</i>	53,866	48,510	42,500
<i>Peru: Interdiction/Eradication</i>	61,504	58,410	56,000
Venezuela Total	2,976	2,229	1,000
Air Bridge Denial Program	11,111	13,860	0
Critical Flight Safety Program	0	29,970	65,700
Total Andean Counterdrug Initiative	725,152	727,155	721,500

Regional	FY 2005 Actual	FY 2006 Actual	FY 2007 Request
Africa			
Liberia	5,000	990	800
Nigeria	2,232	990	400
South Africa	1,756	594	500
Sudan	0	0	9,800
Africa Regional	1,512	594	500
Women's Justice Empowerment Initiative	1,200	0	9,500
<i>Subtotal Africa</i>	<i>11,700</i>	<i>3,168</i>	<i>21,500</i>

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

Regional (Continued)	FY 2005 Actual	FY 2006 Actual	FY 2007 Request
East Asia and the Pacific			
Indonesia	0	4,950	4,700
Laos	1,984	990	900
Philippines	3,968	1,980	1,900
Thailand	1,608	990	900
East Timor	0	1,485	0
East Asia and the Pacific Regional	0	0	0
<i>Subtotal East Asia and the Pacific</i>	<i>7,560</i>	<i>10,395</i>	<i>8,400</i>
Europe			
Malta	2,976	0	0
<i>Subtotal Europe</i>	<i>2,976</i>	<i>0</i>	<i>0</i>
Near East			
Iraq	0	0	254,600
Morocco	2,992	990	1,000
<i>Subtotal Near East</i>	<i>2,992</i>	<i>990</i>	<i>255,600</i>
South Asia			
Afghanistan	89,280	232,650	297,390
Afghanistan Supplemental	620,000	0	
Pakistan	32,150	37,620	25,500
<i>Subtotal South Asia</i>	<i>741,430</i>	<i>270,270</i>	<i>322,890</i>
Western Hemisphere			
Bahamas	992	495	500
Guatemala	2,820	2,475	2,200
Haiti	0	14,850	10,000
Jamaica	1,488	990	900
Mexico	39,680	39,600	39,000
Latin America Regional	3,224	2,475	0
Southern Cone	0	0	500
Caribbean and Central America (Transit Zone)	0	0	1,700
<i>Subtotal Western Hemisphere</i>	<i>48,204</i>	<i>60,885</i>	<i>54,800</i>

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

Global	FY 2005 Actual	FY 2006 Actual	FY 2007 Requested
Asia Regional	496	0	0
Interregional Aviation Support	66,620	62,865	65,500
Systems Support and Upgrades	694	0	0
International Organizations	5,000	3,960	5,400
United Nations Crime Center	496	0	0
Demand Reduction/Drug Awareness	9,920	9,900	1,900
Trafficking in Persons	4,960	4,950	7,000
INL Anticrime Programs	15,079	10,395	14,500
Civilian Police Program	2,678	1,980	2,000
ILEA Operations	12,734	15,840	17,000
PD&S	13,850	16,830	19,000
<i>Subtotal Global</i>	<i>132,527</i>	<i>126,720</i>	<i>132,300</i>
INCLE Total	947,389	472,428	795,490
<i>Total INL Programs</i>	<i>1,671,341</i>	<i>1,199,583</i>	<i>1,516,990</i>

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 ILEAs 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 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 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 17,000 officials from over 70 countries in Africa, Asia, Europe and Latin America. The ILEA budget averages approximately \$16-18 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, Zambia and Djibouti, Ethiopia, Kenya, Uganda in East Africa and Nigeria in West Africa. Planned country program expansion into sub-Saharan Africa was facilitated through a Training Needs Assessment/Program Expansion conference held in September 2005. As a result of this conference the sphere of influence for ILEA Gaborone was expanded to include the expansion countries Cameroon, Comoros, Congo, the Democratic Republic of Congo, Gabon and Madagascar.

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 Federal Law Enforcement Training Center). ILEA Gaborone trains approximately 500 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 about 18 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, 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 approximately 600.

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. 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 three-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 Caribbean, Central and South American countries. The students are drawn from pools of ILEA graduates from the Academies in Bangkok, Budapest, Gaborone and San Salvador. ILEA Roswell trains approximately 450 students annually.

Latin America. At the Organization of American States (OAS) General Assembly meeting in June 2005, Secretary Rice announced that the new ILEA for Latin America would be located in El Salvador. A Bilateral Agreement between El Salvador and the USG establishing the new ILEA was signed in September 2005 and was officially ratified by the Salvadoran National Assembly in November, 2005. The training program for the new ILEA in San Salvador will be similar to the ILEAs in Bangkok, Budapest and Gaborone and will offer a six-week Law Enforcement Management Development Program (LEMDP) for law enforcement and criminal justice officials as well as specialized courses for police, prosecutors, and judicial officials. In 2006, ILEA San Salvador will deliver one LEMDP session and about 10 Specialized courses that will concentrate on attacking international terrorism, illegal trafficking in drugs, alien smuggling, terrorist financing, financial crimes, culture of lawfulness and accountability in government. Components of the six-week LEMDP training session will focus on terrorist financing (presented by the FBI), international money laundering (presented by DHS/ICE/Immigration and Customs Enforcement) and financial evidence/money laundering application (presented by DHS/FLETC and IRS). The Specialized course schedule will include courses on financial crimes investigations (presented by DHS/ICE) and money laundering training (presented by IRS). During the initial phase of operation, participants from the

following countries are expected to attend: Argentina, Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

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 missions:

- 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 liaison discussions with host country law enforcement.

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 2005 to host nation counterparts in support of the four established mission components.

Bilateral Investigations

Historical Operations

Operation All Inclusive I-2005. Operation All Inclusive I-2005 targeted the Eastern Pacific and Western Caribbean transit zones of Central America and the Mexico and Central America land mass. DEA and the interagency community identified this transit zone due to the large volume of cocaine and suspect money moving within the region. By concentrating law enforcement efforts in the Central American corridor, bulk cocaine shipments, typically multi-ton in quantity, would be interdicted before they reached Mexico where the drugs are normally broken down into smaller quantities for transshipment north. From August 5 through October 8, 2005, Operation All Inclusive I-2005 attacked the drug trade's main arteries and support infrastructure in Central America with innovative, multi-faceted, and intelligence-driven operations. The Department of Defense, other U.S. government agencies, and host nation law enforcement and military supported both operational and intelligence aspects of the operation. Operational highlights include:

- Largest cocaine seizure in Belize – 2,376 kilograms;
- Largest currency seizure in Nicaragua – \$1.2 million;
- First judicially authorized wire intercept in Honduras that also provided intelligence on trafficker reactions and adaptations;

- First successful suspect aircraft interdiction in Guatemala since September 2003 which resulted in a cocaine seizure of 430 kilograms and the arrests of the Guatemalan pilot and three Mexican ground crew members;
- Significant currency and cocaine seizure in Panama – 3.9 metric tons and over \$5.7 million;
- Significant marijuana seizure in a Mexico road interdiction operation – 21 metric tons;
- Largest currency seizure in Mexico City – \$7.8 million;
- 46.55 metric tons of cocaine seized in this operation.

Operation Bahamas and Turks and Caicos (OPBAT). 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 DEA, the U.S. Army, U.S. Coast Guard, the Department of Homeland Security, and the Department of State and, on the Bahamian and Turks and Caicos side: counterparts from the Royal Bahamas and Turks and Caicos Police Forces. During 2005 (up to November), OPBAT seized 840 kilograms of cocaine and 9.033 metric tons of marijuana. 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 2005. During 2005, the DEU seized 1.01 metric tons of cocaine and 13 metric tons of marijuana. (Note: OPBAT seizures are included in DEU’s total).

Operation Cali Exchange. Operation Cali Exchange targeted a drug distribution and money laundering organization that operated networks in the United States, Colombia, Brazil, the Dominican Republic, Panama, and the Bahamas. This organization utilized various methods such as bulk cash deliveries, wire transfers, and the Colombian Black Market Peso Exchange (BMPE) to launder drug proceeds in Miami, New York, and Chicago and return drug profits to the drug suppliers based in Colombia. The investigation has revealed that 28 different bank accounts in the United States and abroad were utilized to launder drug proceeds and that over \$10.2 million was laundered through the U.S. banking system. Operation Cali Exchange resulted in 24 indictments, 18 arrests, the seizure of over \$7 million, 2,107 kilograms of cocaine, and 518 pounds of marijuana. Operation Cali Exchange marks the third round of success in DEA’s “Money Trail Initiative,” an innovative financial crime strategy that attacks the financing of the illegal drug trade in order to dismantle major drug trafficking organizations. To date, DEA’s “Money Trail Initiative” has resulted in the seizure of \$43.6 million.

Operation Cohesion (formerly Operation Purple and Operation Topaz). On October 3 through October 5, 2005, the International Narcotics Control Board (INCB) held a meeting to discuss both Operation Purple and Operation Topaz, to determine their future direction. The combined steering committee determined that Operations Purple and Topaz had been effective in their time, but that these successes had diminished to the point where changes must be made in order to reinvigorate them. For example, there were no seizure statistics for either operation in FY 2005. In summary, the attendees agreed to make the following changes:

- Combine both operations into a single project named Project Cohesion.
- Maintain the system of running the project with the Central National Authorities (CNAs), the combined steering committee currently running Projects Purple and Topaz. It was agreed that the committee would continue to govern Project Cohesion.
- Continue the use of the Pre-Export Notification (PEN) system.

- The new INCB online system, for the electronic exchange of PENS, should be put into use as soon as possible to ensure that export notification is timely. Adopt a regional approach utilizing “time limited” operations to increase arrests and chemical seizures.
- Increase the efficiency of sharing intelligence and enforcement activities so that real time exchange of information could be obtained.
- Conduct chemical backtracking investigations into seizures and stopped shipments and investigate each case to the highest level.
- Regularly evaluate operational activities to target the best areas to maximize chemical seizures, while ensuring that the Cohesion Task Force remains flexible with periodic rotation of the regional operation coordinators.
- Include new task force members in accordance with identified trends and based on participating country commitment and capacity.
- Closely coordinate with the Project Prism task force and their operational activities.

The European Commission, Interpol, and the World Customs Organization (WCO) agreed to support this project and meet with the Task Force as appropriate. The United States, Colombia and Mexico agreed to begin a regional project to focus on chemical diversion interdiction. Operation Seis Fronteras will provide a current focus for these activities initially. In addition, it will be necessary for the DEA to meet with Mexican and Colombian officials in order to identify suspect exports of acetic anhydride (AA) and potassium permanganate (PP) to South America. Many of these exports transit Mexico.

Prior to this meeting, DEA Office of Dangerous Drugs and Chemicals reviewed U.S. exports of AA and PP and determined that they have increased dramatically in the past two years. It is imperative that DEA begin to review with U.S. companies their exports to Central and South America in an effort to remind them that they must “know their customer.” If necessary, they should also know to whom their customers are shipping in order to prevent downstream diversion of these chemicals. The United States, China, Mexico, Colombia, Germany, and Turkey agreed to serve on the Task Force overseeing this project and to act as regional focal points for operations in their respective parts of the world. In addition, the INCB will serve as the international focal point for receiving and disseminating information.

Operation Cold Remedy/Aztec Flu, Seizure of 11.5 Million Pseudoephedrine Tablets in Mexico. On July 31, 2004, 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 four 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 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 Caucuses, the Middle East, Europe, and Russia. The following 19 countries are participating in Op Containment:

Afghanistan, Armenia, Azerbaijan, Bulgaria, Germany, Greece, India, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Romania, 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 utilizing a regional organizational attack strategy that targets the highest level heroin Drug Trafficking Organizations (DTOs) and their command and control structures 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 Country Office and works closely with various Afghan and USG agencies in a coordinated approach to enforcement efforts against the highest level DTOs.
- Further DEA office enhancements have already taken place with increased special agent positions at the Ankara, Turkey Country Office; Istanbul, Turkey Resident Office; London, England Country Office; and Moscow, Russia Country Office.
- 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.
- The Kabul Country Office's primary counterpart in Afghanistan is the Counter Narcotics Police-Afghanistan (CNP-A). DEA has assisted the Afghan Government in establishing the National Interdiction Unit (NIU), which are composed of CNP-A officers who have been selected to work narcotic enforcement operations with the Kabul Country Office and DEA's Foreign-deployed Advisory and Support Teams (FAST). DEA continues to advise, train, and mentor these NIU officers. To date, DEA has trained over 100 NIU officers and who are already operationally deployed and working with their DEA counterparts throughout Afghanistan.

On September 28 and 29, 2004, the DEA Ankara, Turkey Country Office and the Turkish National Police co-hosted delegates from the above 19 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 the major DTOs.
- Promotion of international money laundering investigations against regional DTOs.
- Participants agreed to identify DTOs actively involved in the illicit distribution of acetic anhydride (AA) and other precursor chemicals.
- All participants agreed on increased sharing of investigative leads and intelligence since DTOs operate across national boundaries. Participants want to deny DTOs with safe havens of operation.

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 chemicals, 498 arrests, the seizure and destruction of 11 clandestine heroin labs, and led to the dismantlement or disruption of major distribution and transportation organizations involved in the Southwest Asian heroin drug trade.

In FY 2005, Operation Containment resulted in the seizure of 11.5 metric tons of heroin, 1.3 metric tons of morphine base, 43.9 metric tons of opium gum, 168.8 metric tons of cannabis, approximately 14.2 metric tons of chemicals, 577 arrests, the seizure and destruction of 248 clandestine heroin labs, and led to the dismantlement or disruption of major distribution and transportation organizations involved in the Southwest Asian heroin drug trade.

Some of the noteworthy seizures are listed below:

- In November and December 2004, the Kabul Country Office and CNP-A arrested three Afghan National drug traffickers in Kabul, Afghanistan. All three defendants were part of a Kabul Country Office 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 United States. All three traffickers are in Afghan custody undergoing trial in the newly established Central Narcotics Tribunal.
- On December 4, 2004, the Istanbul, Turkey Resident Office 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 Country Office and the 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 Resident Office and TNP seized 110 kilograms of heroin in a stash location in Istanbul, Turkey. A total of eight 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 Resident Office and TNP seized 60 kilograms of heroin from a vehicle in Istanbul, Turkey. Five Turkish Nationals were arrested. The heroin originated in Afghanistan and was destined for markets in the Netherlands.
- On October 19, 2004, the Istanbul Resident Office and TNP seized 82 kilograms of heroin from the trunk of a vehicle in Istanbul, Turkey. Twelve Turkish Nationals

were arrested and nine illegal firearms seized. The heroin originated in Afghanistan and was destined for markets in Western Europe.

Operation High Step. Operation High Step is a Special Operations Division (SOD)-supported, multi-national, multi-jurisdictional, multi-agency investigation targeting the Carlos Alberto Bejarano-Ospina/Gonzalo Salazar-Oliveros DTO. Also known as Operation Isla de Sur by the Bogotá Country Office, which is coordinating this investigation with DEA New York, DEA JFK Airport Group, New York Strike Force, DEA New York Task Force, DEA Houston, DEA Chicago, DEA Miami, DEA Orlando, DEA Tampa, and the Colombian National Police (CNP) Direccion Antinarcoitics Control Precursores Quimicas (ANTIN). In November 2005, police and federal agents arrested 78 people and seized hundreds of pounds of heroin in near-simultaneous raids across Colombia and the United States. The ring brought heroin from labs in Colombia to Boston, New York, Chicago and Orlando. Seventeen people were arrested in Massachusetts, where the ring was selling heroin in Everett and Lynn, authorities said. Nineteen people were arrested in Colombia, including the alleged leaders of the drug ring Alberto Bejarano-Ospina and Gonzalo Salazar-Oliveros. They have been charged with distribution of and conspiracy to distribute heroin and are now subject to extradition to the United States. During the year-long investigation, authorities also seized \$1.4 million in cash and 20 weapons. To date, enforcement efforts during Operation High Step have resulted in 88 arrests and seizures totaling 86 kilograms of heroin, 45 kilograms of cocaine, and \$1.5 million in U.S. currency. The success of this wire intercept investigation exemplifies the cooperation between law enforcement entities throughout the U.S. and the Government of Colombia.

Operation Mallorca. A 27-month, multi-jurisdictional Organized Crime Drug Enforcement Task Force (OCDETF) money laundering operation that targeted the alleged money laundering activities of four Colombia-based money brokers who funneled drug proceeds through the Colombian BMPE. The BMPE is a system where drug traffickers sell drug proceeds in U.S. dollars to brokers for pesos. Brokers then sell the drug proceeds to Colombian importers who purchase goods in the U.S. and elsewhere. By purchasing the U.S. dollars on the BMPE and not through Colombia's regulated exchange system, the importers avoid Colombian taxes and tariffs, gaining significant profit and a competitive advantage over those who import legally. Targets in the investigation were arrested in Barranquilla, Colombia, Puerto Rico, New York, Miami, and California.

To date, there are 13 Colombian drug traffickers in custody and indictments were returned in the Southern District of New York against four businesses. The investigation has documented 68 separate transfers of drug money totaling over \$12 million in San Juan, Puerto Rico, New York, and Miami. Monies were laundered through approximately 300 wire transfers to 200 bank accounts, involving 170 separate account holders in 16 U.S. cities and 13 foreign countries. In addition, investigative efforts revealed 13 different trafficking groups in Colombia. Operation Mallorca resulted in the arrests of 36 individuals in two countries and the seizure of \$7.2 million, as well as 947 kilograms of cocaine, 7 kilograms of heroin, and 21,650 pounds of marijuana.

Operation Mapale. From November 21 through December 5, 2005, DEA's Bogotá Country Office, 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 included the seizure of 800 kilograms of cocaine HCl, 70 kilograms of cocaine base, 13 kilograms of heroin, 9,560 gallons of liquid precursor chemicals, 1,540 kilograms of precursor chemicals, \$40,454 in U.S. currency, the destruction of 22 cocaine laboratories and 103 hectares of coca plants, and 10 arrests. Combined results of Operation Mapale I and Operation Mapale II included 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 in U.S. currency, the destruction of 81 cocaine laboratories, 103 hectares of coca plants, and 16 arrests.

Operation Marble Palace I. *Consolidated Priority Organization Target (CPOT)* Haji Bashir Noorzai Arrested. In April of 2005, Afghan Heroin Warlord Haji Bashir Noorzai was arrested by DEA in New York City, New York for distributing hundreds of kilograms of heroin from the time period of 1990 to 2004 from Afghanistan and Pakistan to the United States. Noorzai had previously been designated by President Bush as a Drug Kingpin pursuant to the Foreign Narcotics Kingpin Designation Act. Noorzai is known by DEA to have been to the largest heroin trafficker in Southwest Asia. In addition, there is a \$50 million forfeiture allegation in the Southern District of New York federal indictment. Noorzai is pending trial in New York.

Operation Marble Palace II. In January of 2005, DEA Kabul Country Office agents and our Afghan NIU counterparts arrested Afghan Heroin Drug Kingpin Haji Baz Mohammad in Kandahar, Afghanistan. President Bush had previously designated Haji Baz Mohammad as a Drug Kingpin pursuant the Foreign Narcotics Kingpin Designation Act. Mohammad was indicted in the Southern District of New York for distributing hundreds of kilograms of heroin from the time period 1990 to 2005 from Afghanistan and Pakistan to the United States. In October of 2005 Mohammad was extradited from Afghanistan to the United States. This represented the first Afghan drug trafficker to be extradited from Afghanistan to the United States to face narcotics charges. Numerous co-defendants of Mohammad who were part of Mohammad's New York based cell have been prosecuted and sentenced to federal prison. In addition, there is a \$25 million forfeiture allegation in the Southern District of New York federal indictment. Mohammad is pending trial in New York.

Operation Mountain Mist. A SOD-supported multi-jurisdictional, multi-national OCDETF investigation targeting the communications of AUC paramilitary leaders, CPOT Hernan Giraldo-Serna, Rodrigo Tovar-Pupo, and their supporting lieutenants who are among the most feared and dangerous criminals in Colombia. Their groups, which have been designated as Terrorist Organizations by the Department of State, utilize violent means to maintain total control and to protect their significant sources and supplies of cocaine. Cumulative operational results through September 30, 2005, include 92 arrests and the seizure of 20 cocaine HCL labs, 19,339 kilograms of cocaine, 28,999 gallons of precursor chemicals, 4,000 pounds of marijuana, and \$2,730,583 in U.S. currency.

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). Since the February 2000 implementation of Operation Panama Express, 356 metric tons of cocaine have been seized, 109,164 kilograms of cocaine has been scuttled, and 1,107 individuals have been arrested.

Operation United Eagles. In August 2003, the Mexico City Country Office initiated Operation United Eagles, a fugitive apprehension effort targeting CPOTs operating or living in Mexico. A fugitive apprehension team was created and currently consists of 50 members of the Mexican Agencia Federal de Investigaciones (AFI), who were trained by DEA, the U.S. Marshals, and the FBI. Initially, Operation United Eagles focused on locating and apprehending key leaders of the Arrellano Felix Organization (AFO). As of July 15, 2005, 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. Additionally, as of September 30, 2005, the fugitive apprehension team was instrumental in the arrests of two Tier 1 associates of CPOT Oscar Arriola, five Tier 1 and Tier 2 associates of CPOT Joaquin "Chapo" Guzman, and two Tier 2 associates of CPOT Vicente Carrillo-Fuentes.

Operation Uprising. Operation Uprising is a SOD-supported, multi-jurisdictional, multi-national investigation targeting members of the FARC including CPOTs 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. The success of Operation Uprising has been the result of the joint efforts of the Bogotá, Panama, Brasilia, Caracas, Asuncion, Curacao, The Hague Country Offices, Sao Paulo Resident Office, Foreign Operations Group of the Caribbean Division operating in Suriname, and the BCG. As of December 31, 2005, Operation Uprising has resulted in 100 arrests and the seizure of approximately 9,834.5 kilograms of cocaine, and 547.5 kilograms of cocaine base.

Operation Windjammer. On May 19, 2005, based on information provided by the Cartagena Resident Office, the Kingston Country Office initiated a Title III Priority Target Investigation focusing on Gareth Lewis, a multi-ton Jamaica based cocaine distributor. Through a myriad of technical investigative resources, the Kingston Country Office, in conjunction with the Cartagena Resident Office, Panama Country Office, and SOD determined that Lewis distributed multi-ton quantities of cocaine to the U.S. and Europe via Panama and Mexico. On December 9, 2005, it was determined that evidence supporting the indictment of Gareth Lewis, his father Jeffrey Lewis, and other co-conspirators could be sought based on Judicial wire intercepts collected by both the Kingston Country Office and Cartagena Resident Office. On January 3, 2006, a two-count indictment was rendered by the U.S. District Court for the District of Columbia alleging that Gareth Lewis, Jeffrey Lewis, and five co-conspirators were in violation of Title 21, United States Code, Sections 863 and 959, conspiring to transport cocaine into the U.S. In support of the Caribbean Division's Operation Tradewinds Initiative, Operation Windjammer, the Kingston Country Office-sponsored Judicial Wire Intercept Program played a significant role in obtaining vital evidence that was utilized to implicate the Lewis' and members of their drug trafficking organization. Moreover, the indictment rendered was the first indictment secured as a result of the successful utilization of the Kingston Country Office's Title III Initiative. As evidenced by this indictment, Operation Windjammer was tailored to assist DEA via host nation counterparts in pursuing priority target and/or significant narcotics traffickers impacting the United States via Jamaica. Windjammer intercepts from this investigation, coupled with seizures in Colombia in excess of 1,400 kilograms of cocaine, attest to the value of this judicial wire intercept program.

Project Prism. This project, which began in June 2002, is an initiative sponsored by the INCB under the United Nations. The initiative is aimed at assisting governments in developing countries and implementing operating procedures to more effectively control and monitor the trade in Amphetamine Type Stimulants (ATS) precursors, which are used mainly in the production of methamphetamine and ecstasy, in order to prevent their diversion. A task force oversees the initiation of individual operations and ensures the sharing of information, intelligence, and resulting findings. Two working groups were formed: one targeting chemicals and the other group targeting materials and equipment used in illicit ATS production as well as the use of the Internet in preventing diversion of these chemicals.

As a member of the project, DEA has highlighted the problem of diversion of pharmaceutical preparations, which is fueling the clandestine production of methamphetamine in the Western Hemisphere. Canada and Mexico are very supportive of U.S. concerns over diverted pharmaceutical preparations. The countries that do not view these preparations as a problem are those countries that follow the literal reading of the 1988 United Nations Convention, which exempts pharmaceutical preparations (pseudoephedrine cold tablets) from control, or those countries that domestically control these preparations to a much greater extent than the United States and therefore are not seeing their diversion. Because of Project Prism, DEA in coordination with Hong Kong, has identified at least 67 million tablets of pharmaceutical preparations that were diverted to Mexico to fictitious companies.

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

Arrest of Financial CPOT Gabriel Puerta-Parra in Colombia. On October 8, 2004, the DEA Bogotá County Office reported the arrest of Financial CPOT Gabriel Puerta-Parra by the Colombian

National Police Sensitive Investigative Unit 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 and charged with 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 1980s 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 U.S., Mexico, Colombia, Ecuador, and Vanuatu. Extradition of Puerta-Parra to the U.S. is pending.

Arrest of AUC Lieutenant Alvaro Padilla-Redondo. 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 known as Operation Mountain Mist. This operation was 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 CPOT Hernan Giraldo-Serna drug trafficking organization, was indicted for conspiracy to import cocaine into the United States in the U.S. District Court for the 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 U.S. is pending.

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 was supplied by an Afghanistan source which had been identified and targeted in September as part of the Operation Containment targeting initiative.

Seizure of 2.2 Tons of Opium in Afghanistan. On October 25, 2004, the DEA Kabul Country Office 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 Kabul Country Office, Afghan Special Narcotics Force, British Drug Liaison Office, and the CNP-A. 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.

Arrest of Mexican CPOT Osiel Cardenas-Guillen's lieutenant. On October 29, 2004, the Mexican AFI arrested Rogelio Pizana-Gonzalez at a nightclub in Matamoros, Tamaulipas, Mexico. While the AFI was conducting enforcement operations, they unexpectedly encountered Pizana and several of his bodyguards inside a nightclub. A shootout ensued and, as a result, one AFI agent was killed, two Policia Federal Preventiva police officers were injured, and two of Pizana's bodyguards were killed. When Pizana attempted to flee the area in an armored-plated vehicle, a second shootout occurred. Pizana was subsequently taken into custody.

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 CNP-A 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 for the 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 and his two co-defendants Bahram Khan and Noor Ullah are currently being prosecuted by the Afghan Vertical Prosecution Task Force (VPTF) at the Central Narcotics Tribunal in Kabul, Afghanistan.

Shipment of 1,900 Pounds of Opium Seized in Afghanistan. On November 17, 2004, the DEA Kabul Country Office reported the seizure of 1,900 pounds of opium by CNP-A 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 Kabul Country Office is assisting CNP-A in developing investigative leads in an attempt to identify the organization responsible for shipping the opium.

Afghanistan Heroin Trafficker Arrested. On November 27, 2004, as the result of a four-month investigation conducted by the DEA Kabul Country Office, Haji Bahram Khan was arrested by the CNP-A. 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 for the 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 currently being prosecuted by the VPTF at the Central Narcotics Tribunal in Kabul, Afghanistan.

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 for the Southern District of Florida. According to intelligence information, Rosenstain 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 Rosenstain to a 2001 seizure in New York of 700,000 MDMA tablets and \$187,000 in U.S. currency. In December of 2005, the Israeli Justice Minister signed the extradition order allowing Rosenstain to be extradited to Miami, Florida. Rosenstain has up to 90 days to explore any new appeals before formal extradition to the U.S. for prosecution.

Financial CPOT Lino Antonio Sierra-Vargas Arrested in Colombia. On December 1, 2004, Financial CPOT Lino Antonio Sierra-Vargas was arrested by the Colombian National Police in Colombia as the result of an 18-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 laundering more than \$5 million in drug proceeds. Sierra-Vargas is awaiting extradition to the U.S.

Financial CPOT Gilberto Rodriguez-Orejuela Extradited to the U.S. On December 4, 2004, 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.

Arrest of North Valle Cartel (NVC) Target Dagoberto Florez-Rios. Dagoberto Florez-Rios was a member of NVC and is the brother-in-law of NVC member Arcangel De Jesus Henao-Montoya, who was arrested in Panama on January 10, 2004, and extradited to the United States on January 14, 2004. Florez-Rios was second-in-command to Henao-Montoya and responsible for the distribution of metric ton quantities of cocaine to the United States. On March 5, 2004, a Grand Jury in the U.S. District

Court for the Eastern District of New York, issued a superseding sealed indictment charging Florez-Rios on multiple counts of drug trafficking and money laundering. Florez-Rios was indicted for conspiracy to possess with intent to distribute cocaine (Title 21, USC 846, 841(a) (1), conspiracy to import a controlled substance into the U.S. (Title 21, USC 952 (a), 963, 960 (b) (1), conspiracy to distribute a controlled substance (Title 21, USC 959(c), and conspiracy to launder money (Title 18, USC 1956 (a) (1). On March 17, 2004, the Government of Colombia received a Provisional Arrest Warrant (PAW) for the purpose of arresting and extraditing Florez-Rios. On December 28, 2004, the Colombia National Police Sensitive Investigative Unit (CNP-SIU) executed a search and arrest warrant in Colombia that resulted in the arrest of Florez-Rios.

2nd & 3rd Quarter FY2005 (January 1, 2005-June 30, 2005)

Takedown of Operation Coastline I & II. In August 2003, the Bogotá Country Office and Colombian National Police (CNP) initiated an investigation targeting the activities of a group of heroin traffickers operating under the direction of James Dario Vives Repes. This investigation, named Operation COASTLINE, was based on information from a source of information via a telephone call during Operation FUENTE, the Bogotá Country Office's 800-number call-in program developed to counter heroin production and trafficking. Through the investigation, the Bogotá Country Office and the CNP learned that this group of traffickers employed a variety of means to transport heroin into the United States from the west coast of Colombia via Panama, such as the use of maritime cargo containers, go-fast boats, and mail courier services.

On October 26, 2004, the CNP conducted a successful takedown of Operation COASTLINE leading to the arrest of Vives Repes and 24 of his associates. Vives Repes was arrested under a PPAW from the Southern District of New York, for violation of Title 21, USC 952 & 841(A), importation and possession with intent to distribute heroin and cocaine. As a direct result of the success and disruption caused by Operation COASTLINE, the Bogotá Country Office implemented Operation Coastline II, which also targeted associates of the Vives Repes Organization. On January 25, 2005, the Bogotá Country Office and the CNP executed the arrest of four individuals in Cali and seven individuals in Colombia under Operation COASTLINE II. Since the commencement and investigations of Operations COASTLINE I & II there have been 62 arrests and seizure of 50 kilograms of heroin, 783 kilograms of cocaine, and 900 kilograms of Pegan, a cocaine/marijuana mixture.

Extradition of Agustin Vasquez Mendoza. On January 29, 2005, Agustin Vasquez Mendoza was extradited from Mexico to the United States to stand trial for his role in the murder of DEA Special Agent Richard Fass eleven years ago in Glendale, Arizona. Vasquez Mendoza was removed from Mexico City by DEA Agents and transported to Phoenix, Arizona, where he appeared before a Maricopa County judge to answer a July 5, 1994, Maricopa County Grand Jury indictment for First Degree Murder, Conspiracy/Armed Robbery, Attempted Murder, Attempted Armed Robbery, Kidnapping, and First Degree Burglary. On February 7, 2005, Vasquez-Mendoza was arraigned in the State Superior Court in Phoenix where he entered a plea of not guilty to all counts and will remain in custody pending trial. A trial date of February 16, 2006, has been set.

Murder/Attempted Murder of Potential Witnesses Against CPOT Fernando ZEVALLOS. On February 1, 2005, two potential witnesses in the ongoing Peruvian trial against CPOT and Office of Foreign Assets Control (OFAC) designated Kingpin Fernando Zevallos-Gonzales were attacked, one fatally and the other was severely wounded. Jose Maria Aguilar-Ruiz, aka Shushupe, a former drug trafficking associate of Zevallos-Gonzales, was killed while incarcerated at a Peruvian prison located in Pucallpa, Peru. Oscar Benites-Linares, also a former drug trafficking associate of Zevallos-Gonzales was stabbed by three fellow inmates while incarcerated in a Peruvian prison in Huaraz, Peru, but received superficial wounds. Aguilar-Ruiz and Benites-Linares had previously provided sworn

statements implicating Zevallos-Gonzales. Peruvian National Police are in the early stages of investigating the murder of Aguilar-Ruiz and the attempted murder of Benites-Linares.

Seizure of 1.2 Metric Tons of Cocaine in the Port of Callao, Peru. On February 9-10, 2005, DEA Lima and the Peruvian National Police (PNP) seized approximately 1.2 metric tons of cocaine HCl and subsequently arrested 12 Peruvian nationals at the Port of Callao. DEA Lima Country Office and the PNP had developed information that a suspected ISO-tank would be utilized to transport a large quantity of cocaine. Through assistance of the Narcotics Affairs Section (NAS), DEA Lima Country Office and the PNP conducted a search of the tank, which resulted in the discovery of the cocaine hidden in false compartments in the front and rear of the tank. During the search and seizure, retired U.S. Coast Guard Chief Petty Officer and NAS contractor Brian Tuttle was tragically killed following an explosion from inside the tanker. Subsequent to a search to ensure no explosive booby traps had been attached to the tanker, the opening of the false compartments continued until the cocaine had been retrieved.

Arrest of Archivaldo Ivan Guzman-Salazar, Son of CPOT Joaquin Guzman-Loera AKA Chapo. On February 14, 2005, Zapopan Municipal Police Officers (ZMP) (Zapopan is located in the metropolitan area of Guadalajara in the State of Jalisco) arrested Archivaldo Ivan Guzman-Salazar, Jorge Ozuna-Tovar, and Alfredo Gomez-Diaz – who was armed with a .45 caliber handgun –, as they were sitting in their vehicle waiting for another carload of associates. Prior to the arrest of Guzman-Salazar, ZMP had observed a man being thrown from a vehicle. ZMP pursued the vehicle and eventually detained five subjects later identified as associates of Guzman-Salazar.

Violent Heroin and Cocaine Trafficking Organization Dismantled. On February 21, 2005, 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. Ibarra was sentenced on May 26, 2005, to 262 months incarceration. 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 United States 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.

Seizure of One Metric Ton of Cocaine in Lima, Peru. On February 25, 2005, DEA Lima Country Office and PNP seized approximately one metric ton of cocaine HCl and arrested 25 individuals, consisting of Colombian, Mexican, and Peruvian nationals. DEA Lima Country Office and the PNP had initiated an investigation concerning Peruvian traffickers based in Colombia that were organizing shipments of cocaine HCl. Through development of investigative intelligence, the locations of the organization's drug stash houses were found. Pursuant to execution of search and arrest warrants, the PNP seized 200 kilograms and 800 kilograms of cocaine HCl in both houses respectively.

Financial CPOT Miguel Rodriguez-Orejuela Extradited to the United States. In March of 2005, Miguel Rodriguez-Orejuela was extradited from Colombia to the United States to face narcotics trafficking and money laundering charges. Additionally, on January 16, 2006, Miguel's son, William Rodriguez-Abadia, surrendered to DEA and Immigration and Customs Enforcement agents in Panama City, Panama. William Rodriguez-Abadia was indicted in a Miami Division Group 6 Priority Target investigation linked to CPOT Miguel Rodriguez-Orejuela. Miguel Rodriguez-Orejuela and his brother, Gilberto, are charged in an indictment returned by a federal grand jury in the Southern District of

Florida with conspiracy to import cocaine, conspiracy to possess with intent to distribute cocaine, and conspiracy to launder drug proceeds.

The Rodriguez-Orejuela brothers are also named in an indictment returned by a federal grand jury in the Southern District of New York, charging them with a separate money laundering conspiracy. In December 2004, 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 OCDEF 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.

Operation Alborada I. On March 8, 2005, the Bogotá Country Office and the Colombian National Police (CNP), SIJIN unit executed Operation Alborada I, which targeted a cocaine processing laboratory in the jungle outside of Medellin, Colombia. This operation was based on information received from a source of information during Operation Fuente, the Bogotá Country Office's 800-number call-in program developed to counter heroin production and trafficking. Operation Alborada I resulted in the seizure of approximately 400 kilograms of cocaine, 500 kilograms of potassium permanganate, 250 kilograms of sodium carbonate, 390 kilograms of ammonia, 4,500 kilograms of hexane, and no arrests (observation towers located at the laboratory suggest that everyone fled prior to CNP's arrival). Intelligence corroborated by the seizure suggests that this laboratory was producing 2,000 kilograms of cocaine each week. The Bogotá Country Office and CNP have not been able to link the seizure to any particular organization. Operation Alborada I is not part of an on-going investigation but a target of opportunity.

Malladi Investigation. The Malladi investigation, coordinated by DEA OED, targeted Malladi Inc. located in Edison, New Jersey, an importer of listed chemicals. Malladi imported over 87 tons of pseudoephedrine raw material into the United States in 2004 from India and was a large supplier of ephedrine and pseudoephedrine to manufacturers of "gray market" products. The investigation revealed Malladi provided inconsistent statements regarding the declared customers for the importation requests. As a result, in April 2005, OED Staff Coordinators served an Administrative Inspection Warrant at Malladi, Inc., located in Edison, New Jersey. The inspection revealed Malladi had intentionally imported and exported listed chemicals with the intent to evade the reporting requirements and violated numerous other civil and criminal violations. As a result of the findings, 5,200 kilograms of ephedrine and pseudoephedrine were seized from the location and an additional 46,000 kilograms of ephedrine was seized at the New Jersey and New York ports due to Malladi's failure to file the proper paperwork for the importations. Malladi, Inc. surrendered both their import and export registrations.

Arrest of Wenceslado Caicedo-Mosquera. On July 14, 2004, the Bogota Country Office, in conjunction with the Colombian Navy, Colombian National Police (CNP), Cali CNP DIJIN Sensitive Investigative Unit (SIU), Cuerpo Technico de Investigaciones (CTI), and other Embassy agencies initiated an investigation against the Wenceslado Caicedo-Mosquera (Priority Target) Drug Trafficking Organization. On March 21, 2005, the Bogotá Country Office received intelligence from the CNP DIJIN SIU that Caicedo-Mosquera was scheduled to travel to Guayaquil, Ecuador. The Bogotá Country Office, CNP DIJIN SIU, and the Guayaquil Resident Office coordinated their efforts and on March 24, 2005, Caicedo-Mosquera was surveilled by the Guayaquil Resident Office SIU in Manta, Ecuador. Upon identifying Caicedo-Mosquera, the Guayaquil Resident Office SIU detained him until identification could be confirmed. Based on surveillance photographs, Caicedo-Mosquera was positively identified. On March 25, 2005, the Ecuadorian Government expelled Caicedo-Mosquera to Colombia.

The CNP DIJIN SIU took custody of Caicedo-Mosquera and transported him via a CNP aircraft to the Colombian Prosecutor's Office in Cali, Colombia. Caicedo-Mosquera was arrested for human rights violations in Colombia and will face homicide charges as well. Based upon the arrest of Caicedo-Mosquera, the Bogotá Country Office and the CNP executed 25 arrest warrants and 26 search warrants at various residences and businesses in Colombia during the weekend of March 26, 2005, resulting in the arrest of 11 associates and seizure of 6 armored vehicles, 4 ATVs, various weapons, documents, and cellular telephones. The CNP are currently in the process of seizing various properties with an estimated value of \$3,000,000 U.S. currency. The Bogotá Country Office is currently coordinating with the DEA Tampa District Office and the SOD 959 Group in an effort to indict Caicedo-Mosquera and extradite him to the United States on conspiracy and smuggling charges.

Extradition of CPOT Elias Cobos Munoz. On April 15, 2005, CPOT Elias Cobos Munoz was extradited from Colombia to the Southern District of Florida to face cocaine conspiracy and money laundering conspiracy charges. On June 23, 2004, DEA announced the culmination of the Caribbean Initiative with the indictment and arrest of CPOT Elias Cobos Munoz, the reputed head of one of the largest Colombian north coast drug trafficking and drug transportation organizations based in Colombia and Jamaica, and 56 other high-level traffickers. CPOT Cobos Munoz has been responsible for importing more than three metric tons of cocaine per month from Colombia into 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. CPOT Cobos Munoz was extradited along with two co-defendants, Florentino Riviera-Farfan (aka "Tarzan"), and Jorge Ivan Lalinde-Lalinde (aka "El Mono").

Seizure of 1,095 Kilograms of Cocaine in Tacna, Peru. On April 15, 2005, DEA Lima Country Office-sponsored SIU seized approximately 1,095 kilograms of cocaine HCl and arrested 10 Peruvian nationals in Tacna. In addition, \$1,100 in U.S. currency and an estimated \$455 U.S. dollars in Peruvian currency were seized. This seizure was a result of developed electronic information indicating that an international drug trafficking organization was operating out of the Rio Apurimac valley. A clandestine cocaine lab (unknown location) is suspected to be operating somewhere within the valley; manufactured cocaine HCl is then transported to the southern Peruvian coastal region. The suspected transportation vehicle was placed under surveillance until its cargo had been off-loaded at the fish export company. The cocaine was found to be packed in frozen squid, similar to a November 2004 incident where the cocaine was similarly packed and off-loaded in a coastal port processing area. Review of documents and other developed information had identified containers of frozen squid from this company had been sent to locations in the United States and Europe. Leads were provided to the appropriate DEA offices in Los Angeles, Newark and Brussels.

Arrest/Surrender of CPOT Defendant Diego Fernando Murillo-Bejarano, AKA "Don Berna." On May 27, 2005, as a result of negotiations between the AUC and the Government of Colombia (GOC), CPOT Diego Fernando Murillo-Bejarano (aka "Don Berna," aka "Adolfo Paz") surrendered to Colombian CNP Director Jorge Daniel Castro-Castro in the AUC stronghold of Valencia, Cordoba Province of Colombia. Murillo-Bejarano was a major Colombian trafficker with extensive contacts among Mexico's organized crime and drug trafficking organizations. Murillo-Bejarano has been the subject of numerous DEA and OCDETF investigations, as well as SOD Operation Trident and Operation Panama Express. Murillo-Bejarano was originally associated with the Medellin Cartel under the leadership of Pablo Escobar, but has more recently been associated with the North Valley Cartel. Murillo-Bejarano is currently indicted in the Southern District of New York for Conspiracy to Import Cocaine and Money Laundering. Murillo-Bejarano is currently being held in Colombia on charges of ordering the murder of a Colombian Congressman, his sister, and driver.

First Major Trafficker Extradited to the U.S. by Paraguay. Following on last year's tremendous success in capturing Brazilian fugitive and accused arms/drug trafficker Ivan Carlos Mendes Mesquita, Paraguay extradited him to the United States in June 2005. The United States had initiated an

extradition request for Mendes Mesquita on charges of possession of cocaine and conspiracy to distribute; the Paraguayan Court of Appeals upheld the extradition in a timely manner and the Supreme Court rejected Mendes Mesquita's appeals. Mendes Mesquita is the first major trafficker extradited to the United States by Paraguay, representing an important step in the war against drug trafficking organizations with links to the FARC. Paraguay has been successful in either expelling or securing extradition orders for three additional drug traffickers. In December 2005, Paraguayan's Supreme Court approved the extradition of Jose Luis Gomez to the United States on charges of money laundering.

Seizure of 1.14 Tons of Cocaine and One Laboratory in Junin, Peru. On June 9, 2005, DEA Lima Country Office-sponsored PNP-OFINT (Operational Intelligence) unit located an operational cocaine conversion laboratory and seized approximately 1.14 tons of cocaine and seven tons of precursor chemicals. During May 2005, the Lima Country Office and PNP-OFINT initiated an investigation targeting a drug trafficking organization operating in Ayacucho, Peru. According to developed information, this organization consisted of Bolivians, Colombians, and Peruvians. According to the CS, the cocaine was to be transported to Bolivia for further shipment to the United States. It appears that the traffickers and clandestine laboratory personnel overheard the incoming helicopters and fled into the jungle. The seizure consisted of 113.5 kilograms of cocaine HCl, 706 kilograms of liquid cocaine, 330.45 of cocaine paste, along with a sundry of precursor chemicals totaling over 7 metric tons.

Arrest of 11 Individuals and Seizure of 65 Kilograms of Cocaine (Operation Triple Threat). On June 17, 2005, elements of the Brazilian Federal Police (DPF), Counter-Drug Unit, and Sensitive Investigative Unit (SIU), arrested 13 drug traffickers and served 18 search warrants associated with the Wahid Maziad Abou Karroum Priority Target Organization operating in Southern Brazil. Eleven members of the Arab drug trafficking organization were arrested in São Paulo, SP, Brazil and two in Ponta Porã, MS, Brazil. The takedown was pursuant to 15 arrest warrants and 18 search warrants issued by a Brazilian judge on June 13, 2005. The arrested defendants were transported to the DPF Headquarters where they were processed. In the course of affecting the search warrants the DPF seized approximately \$90,000 in U.S. currency, 65 kilograms of cocaine, and a 40-foot sailboat.

4th Quarter FY2005 (July 1, 2005-September 30, 2005)

Extradition of CPOT Fernando Gutierrez-Cancino. On July 28, 2005, Financial CPOT Fernando Gutierrez-Cancino was extradited from Spain to the United States to face charges including the money laundering and violation of Title 50 USC 1701 through 1706-conspiracy to violate the International Emergency Economic Powers Act. Gutierrez-Cancino had been jailed in Spain since February 17, 2004. Gutierrez-Cancino was the chief money launder and business partner of the Rodriguez-Orejuela brothers. Gutierrez-Cancini was a co-investor with the Rodriguez-Orejuela brothers in several OFAC listed businesses that were used as a means to launder drug proceeds.

Seizure of 21 Metric Tons of Marijuana in Mexico. During a roadblock drug interdiction initiative on August 24, 2005, Mexican AFI seized a tractor-trailer in Navajoa, Sonora containing 21.05 metric tons of marijuana. The marijuana, consisting of 6,217 packages, was concealed in two "hopper" tanker trailers and was allegedly being transported to Tijuana. The driver, a Mexican national, was arrested and charged with crimes against health.

Pseudoephedrine Seizure in Mazatlan, Mexico. Pursuant to an ongoing road interdiction initiative under Operation All Inclusive, on September 2, 2005, Mexican AFI Agents seized 622,800 tablets of pseudoephedrine from a vehicle at a road checkpoint on Mexico International Highway 15 just south of Mazatlan, Mexico. The pseudoephedrine tablets had purportedly originated in Guadalajara and had a final destination of Culiacan, Sinaloa, Mexico. Both occupants of the vehicle were arrested.

Largest Ever Cocaine Seizure in Belize. On September 12, 2005, the Belize City Country Office, the Belize Police Department Anti-Drug Unit, and the Belize Defense Force responded to an alleged cocaine stash location on Western Tobacco Caye Range, Belize. Subsequent to a search of the island, law enforcement personnel discovered in excess of 3,000 kilograms of cocaine buried on the island. No arrests were made.

Largest Seizure Ever of Cocaine and Heroin in the Netherlands Antilles. In September 2005, after law enforcement made the largest seizure ever of 2,345 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. Currently all individuals have been extradited to the United States and are awaiting trial.

Seizure of \$500 Million Pharmacy Chain Controlled by Financial CPOTs Miguel and Gilberto Rodriguez-Orejuela. On September 22, 2005, the DEA Bogotá Country Office reported the seizure in Colombia of 472 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 Bogotá Country Office, the DEA New York Division Strike Force, and the Office of Foreign Asset Control (OFAC). Seizures occurred simultaneously in 28 of 32 regions in Colombia and involved the coordination of 3,200 law enforcement officers countrywide. 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 Government of Colombia has replaced the company's top executives and future profits will be used to fund counternarcotics programs. Miguel and Gilberto Rodriguez-Orejuela are currently awaiting trial in Miami Florida as a result of drug-trafficking charges.

Seizure of 3.9 Metric Tons of Cocaine in Panama. On September 24, 2005, based on information received by the Panama Country Office, the Panama National Police discovered and seized a cache of cocaine was located in the area of Cocle Del Norte, located on the Caribbean side of Panama. A total of 3.9 metric tons of cocaine, two AK-47s, and eighty 55-gallon drums of gasoline were seized and nine defendants were arrested. The cocaine and gasoline were buried in the ground approximately two hundred meters from a beach area. The cocaine shipment was to be transported (at a rate of 2,000 kilograms per load) at a later date by go-fast vessels to larger fishing vessels for shipment onward to Mexico or Belize.

Seizure of 430 Kilograms of Cocaine in Guatemala. On September 28, 2005, a narcotics-laden Cessna 207 aircraft bearing false tail number N-571L was interdicted by Guatemalan narcotics agents and elements of the U.S. Army's JTF Bravo at a remote airstrip located in the northern Peten region of Guatemala and less than 25 miles from the Mexican border. U.S. Army aircraft came under small arms fire from several suspects on the ground attempting to unload the target aircraft. No injuries occurred and no return fire was reported from the military. Agents arrested four individuals including three Mexican nationals and one Guatemalan at the scene and seized approximately 430 kilograms of cocaine. This was the first successful suspect aircraft interdiction in Guatemala since September 2003.

1st Quarter FY2006 (October-December 2005)

Operation Furia. On October 8, 2005, the Bogotá Country Office, in conjunction with the Colombian Coast Guard and the Colombian Marines, received confidential source information regarding a drug caleta (underground storage facility) and go-fast launch site on the southwest coast of Colombia. According to informant information, this drug caleta and launch site was located along the Mira River approximately three hours south (by boat) of the city of Tumaco, Nariño, Colombia. On October 10, 2005, the above units executed Operation Furia, which resulted in the seizure of approximately nine

tons of cocaine HCL, four rifles with eight rifle magazines, five small fishing boats, one fiberglass go-fast boat, two 200-horsepower Yamaha motors, five 75-horsepower Yamaha motors and one communication radio, model ICON. Operation Furia resulted in no arrests. Intelligence, corroborated by military counterparts, confirms that this seizure is connected to the 29th Front of the FARC and the AUC. Operation Furia was not part of an on-going investigation, just a target of opportunity.

Extradition of North Valle Cartel Leader Jairo Aparicio-Lenis. On October 21, 2005, Jairo Aparicio-Lenis, a leader of the North Valley Cartel, one of Colombia's most powerful cocaine trafficking organizations, was extradited to the United States to face racketeering and drug charges. Aparicio-Lenis arrived in Florida and was transferred to Washington, D.C., where he has been charged by a federal grand jury along with eight other leaders of the North Valley Cartel. The April 29, 2004, indictment charges the cartel leaders with violations of the Racketeer Influenced and Corrupt Organizations Act (RICO) and with distributing cocaine knowing and intending that it would be unlawfully imported into the United States. The indictment alleges that the North Valley Cartel bribed and corrupted Colombian legislators. According to the indictment, Aparicio-Lenis was a member of the North Valley Cartel responsible for laundering the cartel's cocaine proceeds. The cartel operated in the Norte Valle del Cauca region of Colombia, the cities of Cali and Buenaventura, Colombia, as well as Mexico and the United States. If convicted, Aparicio-Lenis faces a maximum sentence of up to life imprisonment on the cocaine-importation charges and 20 years in prison for the RICO charge.

Seizure of One Metric Ton of Cocaine via Airport Interdiction. The Airport Interdiction Program at the Jorge Chavez International Airport (JCIA) in Lima, Peru has experienced a significant increase in the number of arrests and seizures. The Airport Interdiction unit has assisted many other countries besides the United States, including European, Far East, and South American nations, with critical investigative information, which has led to the arrest of numerous drug smugglers and couriers. Through the end of November 2005, this unit has affected the seizure of approximately 1000 kilograms of cocaine product. This quantity exceeds 900 kilograms seized in 2004.

Seizure of 2.2 Metric Tons of Cocaine in Chiclayo, Peru. On November 6, 2005, members of PNP DITID[BAP1] seized 2.2 metric tons of cocaine HCL and arrested 11 suspects consisting of Colombians, Peruvians, and Venezuelans. Investigative information developed by the PNP provided that a drug transportation group, headed by a Colombian, was organizing a multi-ton shipment of cocaine to Mexico. The cocaine discovered was to be stored in an underground location in a rural area approximate to Chiclayo.

Operation Gear Grinder. This operation, which culminated in December 2005, was a 21-month DEA, ODCETF investigation that targeted eight major steroid manufacturing companies, their owners, and their trafficking associates. A federal grand jury in San Diego indicted 23 individuals, including three U.S. citizens, and eight Mexican companies. It resulted in the arrest of the owner of three of the world's largest anabolic steroid manufacturers. DEA identified these eight companies, all located in Mexico, which produced 82 percent of all steroids submitted to DEA laboratories for analysis. These businesses conducted their sales primarily via the Internet and DEA estimated their total annual wholesale U.S. steroid sales at \$56 million. These Mexico-based businesses took notice of the demand for anabolic steroids and created a marketing strategy tailored to the needs of the U.S. consumer, including high-quality products and internet websites.

Communications via the Internet and parcel distributions were the core of these companies' operations. The websites showcased the products and offered an e-mail address to exchange prices and tracking numbers and provided ordering and payment instructions. They used U.S.-based e-mail addresses and listed each manufacturer utilizing a business website to place their products in the hands of American consumers. Some manufacturers provided direct referrals to distributors through the "Contact Us" section of the websites. The steroids were smuggled into the United States and shipped to customers. Additionally, steroids from the eight companies were shipped to U.S. traffickers, who

re-sold the products to their customers. Financial transactions were primarily done via Western Union wire transfers, as well as bank transfers and credit card payments. These groups also supplied numerous pharmacies along the U.S./Mexico border, where U.S. customers could purchase steroids and smuggle them back across the border into the United States.

Seizure of 257 Kilograms of Cocaine in Paraguay. In December 2005, the National Anti-Drug Secretariat (SENAD) of Paraguay seized 257 kilograms of cocaine destined for Spain; apprehended 7 members of a drug trafficking organization and confiscated the equivalent of \$34,000. The operation also directly facilitated further arrests of traffickers in Europe. This operation, conducted in close collaboration with DEA and Spanish police officials, represents the largest seizure ever made in Asuncion and reflects SENAD's ability to carry out a complicated operation in concert with foreign law enforcement authorities.

Conviction of CPOT Fernando Zevallos-Gonzales. On December 19, 2005, CPOT Fernando Zevallos-Gonzales was convicted on charges related to a 3.34-ton cocaine seizure in January 1995. Zevallos-Gonzales was sentenced to 20 years in prison and is currently in custody in Peru. On January 9, 1995, 3.34 tons of cocaine was seized by the Peruvian National Police (PNP) in Piura, Peru. PNP investigation identified Zevallos-Gonzales as the source of supply for the seized cocaine and, in 1997, an arrest warrant was issued for Zevallos-Gonzales for drug trafficking. Zevallos-Gonzales returned to Peru from the United States to face these charges. Zevallos-Gonzales was acquitted in March 2002; however, the acquittal was overturned in June 2003 by the Peruvian Supreme Court and a retrial was scheduled for September 2003. Due to a procedural technicality, the September 2003 retrial was suspended in January 2004 and a second retrial of this case began in June 2004. The Zevallos-Gonzales prosecution was marked by allegations of corruption, witness intimidation, and murder of significant witnesses. On November 19, 2005, with the trial in the closing argument stages, Zevallos-Gonzales was arrested on warrants issued in Lima for additional charges of Drug Trafficking, three counts of Murder, Attempted Murder, and three counts of Coercion of Witnesses. These charges were based on identification and arrest of individuals associated with "hit and kidnap" squads working for Zevallos-Gonzales. Search warrants were issued and served on Zevallos-Gonzales' residence and offices in Lima. The U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC) designated Zevallos-Gonzales as a Tier 1 Foreign Drug Kingpin in June 2004. Currently, there are no indictments of Zevallos-Gonzales in the United States.

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:

- First, denial of maritime drug smuggling routes by developing a dynamic interdiction presence in the transit and arrival zones through more actionable tactical intelligence and information, focusing our limited resources to maximize the removal of cocaine being smuggled via three major smuggling vectors: Eastern Caribbean, Western Caribbean and Eastern Pacific.
- Secondly, international engagement, primarily bilateral agreement sustainment and development, 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, and in support of coordinated local, state and federal interagency efforts to combat drug smuggling through joint planning and execution.
- Finally, fast track and implement the latest research and development (R&D) and off-the-shelf technologies available, to speed better equipment to the Coast Guard men and women who detect, monitor and interdict suspect vessels, locate contraband during boardings and searches, and to provide them with improved/more capable assets for interdiction. These pillars form the foundation for operational planning, cooperative efforts and regional engagement activities.

The keys to success of Steel Web 2005 have been 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 which occur at the tactical, theater and strategic levels; partnering with law enforcement officials of other nations, which helps develop indigenous interdiction forces and enhances the cumulative impact of interdiction efforts directed at drug traffickers in the region; and maintenance and training support through exportable training teams and the Caribbean Support Tender make for more effective counternarcotics partners.

Combined Operations

The Coast Guard conducted several maritime counternarcotics combined operations in 2005 in coordination and/or cooperation with military and law enforcement forces from: Colombia, Jamaica, the United Kingdom and its Overseas Territories, Netherlands and Netherlands Antilles, and France and its Overseas Territories. Recently a combined U.S. and Colombian surge operation featured a U.S. Coast Guard Communications Team deployed on Armada De Colombia Ship (ARC) INDEPENDENCIA, providing over-the-horizon communications with Joint Interagency Task Force South, coordinating the targeting of drug laden go-fast vessels.

International Agreements

By June 2005 the number of bilateral agreements in place between the U.S. and our Central, South American and Caribbean partner nations was 30, moving toward our goal of eliminating safe havens for drug smugglers.

International Cooperative Efforts

In FY 2005, the Coast Guard prosecuted 87 drug smuggling events, which resulted in the seizure of 66 vessels, the arrest of 364 suspected smugglers, and the seizure of 303,187 pounds of cocaine and 10,026 pounds of marijuana. Many of the 87 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.

International Training and Technical Assistance

In FY 2005, the USCG provided International Training and Technical Assistance in support of drug interdiction programs through a variety of support efforts. One delivery mechanism is the USCG Cutter GENTIAN operating as the Caribbean Support Tender (CST). The USCGC GENTIAN is a former Balsam class buoy tender built in 1942 and decommissioned in 1998. In September 1999 it was re-commissioned in Miami, Florida as a training vessel in response to an international commitment made by President Clinton at the May 1997 Caribbean/U.S. Summit in Bridgetown, Barbados. The CST is the United States' only maritime vessel solely dedicated to international engagement with the goal of strengthening cooperating nations' operational and maritime interdiction capabilities. The CST also provides OJT training for an international crew complement of 13 students from 7 countries. In 2005, 482 students from 17 countries received training in a variety of technical skills designed to build capabilities in military law enforcement including patrol, interdiction and boarding techniques. The CST supports an INL-funded program to refurbish go-fast boats seized as contraband. The go-fast refurbishment program resulted in the re-employment in FY 2005 of seven former trafficking boats as law enforcement vessels in five foreign maritime services from the region. At one-fourth the cost of a new go-fast purchase, this program offers a cost-effective means of enhancing host nation interdiction assets. In FY 05, the CST also assisted six countries to make repairs to thirteen small boat platforms. A dedicated three-person Technical Assistance Field Team also provides engineering skills, boat assessment and repair contracting services to the RSS nations' boats.

Students are also taught by the USCG's International Training Division's Mobile Training Teams who deliver one-to-two-weeklong courses to student groups in the host nation. Courses include Maritime Law Enforcement (MLE) Boarding and Advanced Boarding Officer, Joint MLE Boarding, Maritime Operations Planning and Management, MLE Instructor and Port Security/ Port Vulnerability and Small Boat Operations. Courses consist of formal classroom instruction and either on-board or on-locale hands-on skill training. In FY 2005, 647 students from 14 countries received instruction.

Individual students also receive instruction in USCG resident training programs. These students develop a broad range of skills from boat handling and boat and engine repair to senior officer leadership training. Approximately 250 students from 18 countries were enrolled in resident training in FY 2005.

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 crosses 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 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 Office Border Patrol. CBP responds to the nation’s terrorism priorities through strategic programs designed 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 on a global scale. These 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

In 2005, CBP provided technical training and assistance in support of the International Law Enforcement Academy (ILEA) programs, currently operating in Bangkok, Budapest, Gaborone, and Latin America. 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 supported ILEA programs by developing and conducting specialized training on topics which include “International Controlled Deliveries and Drug Investigations” (conducted jointly with the Drug Enforcement Administration); “Complex Financial Investigations” (conducted jointly with Immigration and Customs Enforcement); “Intellectual Property Rights Investigations” (conducted with the Federal Bureau of Investigation); and a “Customs Forensics Lab” course. In 2005, CBP provided assistance for twelve different ILEA programs.

In 2005, agents from the Border Patrol Tactical Unit (BORTAC), in coordination with the Department of State, conducted training and acted in an advisory capacity to law enforcement personnel in 2 Central American countries. Border Patrol Tactical Unit (BORTAC) is CBP’s national special response team which has a mission to respond to terrorist threats of all types—anywhere in the world—in order to protect our nation’s homeland. Since its inception in 1984, BORTAC has developed and maintained a motivated and well-trained tactical cadre able to meet a constantly evolving threat. The BORTAC Strategic Plan provides a blueprint for increases BORTAC’s capabilities, through training and personnel development, to support missions addressing various threats to national security.

BORTAC agents have been deployed to Honduras, to support the Honduras International Narcotics and Law Enforcement Office and the Policia De Fronteras (PDF). The PDF has minimal equipment, inadequate facilities, poor communications, and limited transportation support. BORTAC representatives have been deployed at remote stations along the Nicaraguan, El Salvadoran, and

Guatemalan borders, providing training in basic patrol, interdiction and checkpoint operations, as well as operational planning and maritime operations.

In October and November 2005, BORTAC provided the Government of Ecuador with a Mobile Training Team (MTT). The MTT provided basic tactical pistol and officer safety training to the Ecuadorian National Police (ENP). BORTAC agents also coordinated, developed, and implemented training sessions consisting of basic firearms skills, basic tactical weapons skills, personal protection tactics, and ground defense. Those training sessions were conducted in four geographic locations within Ecuador and the MTT successfully trained 156 ENP personnel, including members from four Ecuadorian special unit and counternarcotics teams.

In 2005, CBP officials also deployed Textile Production Verification Teams (TPVTs) to Kenya, South Africa, Namibia and Madagascar. While in Namibia, training was given to 30 Namibian Customs officials on the requirements of the African Growth and Opportunity Act (AGOA). The TPVT returned to South Africa to follow up on the transshipment of Chinese textiles, claiming South Africa origin for merchandise in which AGOA claims were not made. One individual, who was counterfeiting the South African certificates of origin, was arrested. The TPVT team also conducted verifications for AGOA claims in Kenya and Madagascar.

Port Security Initiatives

In response to increased threats of terrorism, CBP supported programs that seek to identify high-risk shipments to the United States—before they reach our ports. One important program was the Container Security Initiative (CSI). The Container Security Initiative (CSI) addresses the threat to border security and global trade posed by the potential for terrorist use of a maritime shipping container. CSI consists of security protocols that, if fully implemented, ensure that all maritime shipping containers, that pose a potential risk for terrorism, are identified, inspected and secured at foreign ports before they are placed on vessels destined for the United States. CBP is now stationing multidisciplinary teams, consisting of representatives from both CBP and ICE that work together with their host government counterparts. Their mission is to jointly target and pre-screen containers as well as to develop additional investigative leads related to the terrorist threat to cargo destined for the United States.

Through CSI, CBP officers work with host customs administrations to establish security criteria for identifying high-risk containers, using nonintrusive technology to quickly inspect high-risk containers before they are shipped to U.S. ports. Additional steps are taken to enhance the physical integrity of inspected containers while they are enrooted to the U.S. A total of 42 foreign ports were “CSI operational” at the end of 2005, with plans to further increase that number in 2006.

Plan Colombia

In support of the Government of Colombia’s plan to strengthen its counternarcotics and counterterrorism operations—Plan Colombia—CBP developed and implemented an initiative focusing on joint U.S.-Colombia narcotics interdiction efforts. As part of U.S. support to Plan Colombia, CBP provided Colombia with training and assistance on integrity, border interdiction, and industry partnership programs. Through this support, CBP has provided Colombia with basic tools, vehicles, high-tech equipment, training and technical assistance to the Colombian National Police, Colombian Customs, and other Colombian law enforcement agencies.

Customs Mutual Assistance Agreements

CBP provides a portion of U.S. support, provided to host nations under Customs Mutual Assistance Agreements (CMAAs). CMAAs provide for mutual assistance in the enforcement of customs-related

laws. Under CMAA protocols, CBP provides assistance to its foreign counterparts in the collection of evidence for criminal cases. U.S. courts have ruled that evidence—gathered via these executive agreements—is fully admissible in U.S. court cases.

Training in the United States

International Visitors Program (IVP). The IVP provides a venue for foreign officials to consult with their counterparts and appropriate high level managers in CBP Headquarters, as well as conduct on-site observational tours of selected U.S. ports and field operations. The focus includes narcotics enforcement, port security, counter terrorism and intelligence operations. In 2005, the IVP supported a total of 977 participants, 173 programs and 145 countries.

Canine Training. CBP's Canine Enforcement Training Center (CETC) continues to provide training courses, designed to assist foreign countries in the proper use of detector dogs. CETC provides each country a clear and logical framework for the initial training and employment of detector dog teams for the successful interdiction of smuggled narcotics, explosives, and currency. CETC provides support to countries in the initial development and evaluation of canine training programs, as well as the enhancement of existing canine interdiction and breeding programs. Training is provided to federal police and customs officers, trainers, and supervisors on all facets of canine training and utilization. Over the past 27 years, over 500 officers—representing over 50 countries—have been trained at the CETC in Front Royal, Virginia. Recently, canine training has been provided to Trinidad, Brazil, and Peru, with continuing support to canine programs being provided to Israel, Kazakhstan, and Trinidad.

Training in Host Countries

Overseas Enforcement Training. This training combines formal classroom training and field exercises for host nation border control personnel. The curriculum includes narcotics interdiction, identifying falsified/forged travel documents, effective targeting and search techniques, risk management and the identification of terrorist tools—all in a border context. In 2005, this training was provided to 1730 participants in 15 countries.

Short Term Advisory Training. This training allows on-site CBP experts to assist host government agencies with selected projects, such as building institutions and improving interdiction capabilities. These may focus on specific narcotics threats, port security initiatives and the counterproliferation of Weapons of Mass Destruction (WMD). CBP advisors are also deployed to help with host nation strategic planning, commercial processing, investigations, canine enforcement, automation and border/trade facilitation. In 2005, approximately 25 short term advisors were fielded to various countries in Latin America and the Caribbean.

Integrity/Anticorruption Training. This training is designed to promote professionalism and integrity within the workforce of those agencies that are particularly vulnerable to bribery and corruption. The focus is on integrity awareness and development of internal investigation capabilities and organizations. In 2005, this training was provided to 150 participants in five countries.

Looking Ahead

The Department of Homeland Security, which began operations in January 2003, consolidated several agencies with customs, immigration, and border enforcement experience. CBP, with its history of revenue collection and border protection, took its place in this consolidated grouping of agencies designated to combat terrorism. The long-standing mission of CBP in providing security to U.S. citizens—through targeted examination and interdiction—plays a major role in the new organizational concept. Port security functions continue to be on the forefront, focusing on enforcement activities, promoting domestic security, and fighting the threat of international terrorism.

In 2006, CBP's border security mission will be further strengthened, through initiatives that secure the supply chain of international cargo destined to the U.S. CBP's international missions will also focus on evaluating and prioritizing the needs of countries needing assistance in capacity building. CBP will place continued emphasis on evaluating the effectiveness of all its programs and CBP advisors will be deployed to assist countries in improving their border security operations and in meeting recognized international standards for security and reporting.

Click for [U.S. Immigration and Customs Enforcement \(ICE\)](#) section.

CHEMICAL CONTROLS

Summary

The unique challenges posed by the control of the precursor chemicals used in the manufacture of methamphetamine have become a major focus of chemical control efforts. Unlike cocaine and heroin, methamphetamine, amphetamine and other synthetic drugs require no plant material, they require relatively small amounts of chemicals, and they can be produced in crude labs located anywhere. The principal precursors required for methamphetamine and amphetamine are pseudoephedrine and ephedrine. Traffickers obtain them in bulk or extract them from pharmaceutical products, sold over-the-counter in many areas.

The pattern has been for small “mom and pop” labs to rely on pharmaceutical preparations bought locally and criminal “super” labs to rely on bulk chemicals. However, large traffickers are increasingly turning to pharmaceutical preparations traded internationally in large quantities. This is made possible because pharmaceutical preparations are excluded from the chemical control provisions of the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. We are working with the major countries producing the precursors and products containing them to develop mutually beneficial procedures to exchange production and sales data in order to identify diversion points and stop them. To be successful, these procedures must provide for confidentiality, since most of the information involves legitimate transactions and proprietary information.

The two voluntary operations to control better trade in the cocaine chemical potassium permanganate (Operation Purple) and the heroin chemical acetic anhydride (Operation Topaz) have been combined into one operation, Operation Cohesion, with the International Narcotics Control Board (INCB) serving as the focal point. This recognizes that the operations use essentially the same strategy in tracking their chemicals throughout the chain of a transaction. We believe Cohesion will continue as a valuable tool for monitoring trade and preventing diversion of these chemicals. Project Prism is the INCB program to better control synthetic drug precursors and equipment. The U.S. initiative on methamphetamine and amphetamine precursors outlined above will be coordinated within the scope of Project Prism.

Background

Chemicals are essential to the manufacture of narcotic drugs. They become an integral component in the case of synthetic drugs, and are required for the processing of coca and opium into heroin and cocaine. Only marijuana, of 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 often 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 requires the examination of proposed commercial chemical transactions, the large majority of which are legitimate, in order to identify and stop transactions vulnerable to diversion to illicit drug manufacture. Chemical producers and traders must provide transaction details to their national authorities. In the case of export transactions, some 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 and obtain the cooperation of industry, the information exchange and the decision-making must be rapid.

Many governments consider chemical control to be a law enforcement issue. 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 as well as law enforcement measures in support of chemical control, they may unwittingly undermine this effective counternarcotics strategy.

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 stopping those vulnerable to diversion. The law enforcement component provides the capability to detect diversion, identify and apprehend criminals diverting or seeking to divert chemicals, and to track back cases of successful diversion.

Information exchange to prevent chemical diversion must include all countries involved in chemical transactions, exporting, trading, transit, and importing. Backtracking operations on seized diverted chemicals require cooperation from the same countries. 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. One obstacle is a reluctance to share information on commercial transactions for fear 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. Nevertheless, the concern is genuine and chemical transaction information exchange procedures must provide assurances of confidentiality.

Informal, voluntary arrangements in law enforcement channels targeting specific chemicals or classes of chemicals have proved effective in gaining participation in multilateral chemical control operations. By focusing on “choke point” chemicals, these operations allow authorities to concentrate resources on denying traffickers chemicals that are difficult to substitute in the drug production process. In 2005, two of the major operations, Purple and Topaz, targeting respectively the cocaine precursor potassium permanganate and the heroin precursor acetic anhydride, were combined into one operation, Operation Cohesion. The INCB continues as the focal point. Project Prism is an INCB initiative concentrating on stricter tracking of trade in the chemicals and equipment required for synthetic drug manufacture.

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

Chemical control requires multilateral cooperation. Article 12 of the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988 UN Drug Convention) recognizes this and establishes the obligation and international standards for parties to the Convention to cooperate in controlling their chemical commerce to prevent diversion to illicit drug manufacture. 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 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 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. A CICAD experts group on chemical control meets annually to coordinate efforts in the hemisphere.

The 1988 UN Drug Convention, regional regulations and model legislation, and national legislation and regulations provide frameworks for chemical control, particularly domestic control regimes. They do not provide the mechanisms for the multilateral cooperation required for their successful implementation internationally. The United States and other governments use ad hoc arrangements and the more formal annual meetings of the UN Commission on Narcotic Drugs (CND) to forge agreement on information exchange mechanisms and to highlight emerging chemical control concerns.

Ad hoc multilateral arrangements have the advantage of developing cooperation among the countries most concerned with a particular diversion situation, for example the diversion of precursors to synthetic drug manufacture. Participation in the arrangements is voluntary and is most effective when done in law enforcement channels, because this approach eases the concern of many countries in sharing proprietary commercial information in more formal channels.

The CND can be used to forge consensus on more formal procedures. However, many governments resist more formal arrangements, particularly if they provide for multilateral information exchange beyond that required by the 1988 UN Convention. Moreover, any resolution calling for such arrangements must be approved by the consensus of the 53-member body. The result is resolutions weakened with caveats and nonobligatory language.

The CND is effective in highlighting emerging drug control concerns, advising CND members of ad hoc arrangements that have been established and inviting their participation, and alerting members to 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 Office of Drugs and Crime, 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 2003, the fifth anniversary of the UNGASS, CND members formally reviewed progress in achieving the ten-year goals and objectives established by the UNGASS. Progress is reviewed less formally at intervening CND meetings and a more formal review is planned for the tenth anniversary of the UNGASS.

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. As a result of this agreement and a natural confluence of interests, U.S./European cooperation in chemical control is strong.

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. Transshipment or smuggling from third countries into drug producing countries is increasing as the drug producing countries tighten their chemical controls, particularly in the case of synthetic drug precursors. The exploitation of nonprescription drugs containing easily extractable pseudoephedrine is a major source of that key chemical used in illicit manufacture of methamphetamine.

The following are some of the more common diversion and other methods used to obtain chemicals:

- Traffickers extract chemicals, particularly pseudoephedrine, from pharmaceutical preparations. Under prevailing international interpretations of the 1988 UN Drug Convention, it does not control pharmaceutical preparations, allowing them to be traded internationally without regard to legitimate requirements unless exporting and importing countries impose such controls.
- Chemicals are diverted from domestic chemical production to illicit in-country drug manufacture.
- Chemicals are imported legally into drug-producing countries with official import permits and subsequently diverted.
- Chemicals are manufactured in or imported by one country, diverted from domestic commerce, and smuggled into neighboring drug-producing countries.
- Chemicals are mislabeled or re-packaged and sold as noncontrolled chemicals.
- Chemicals are shipped to countries or regions where no systems exist for their control.
- New drugs (“designer drugs”) are developed that have physical and psychological effects similar to controlled drugs, but which can be manufactured with noncontrolled chemicals.
- Traffickers manufacture the controlled chemicals they require from unregulated raw materials, a costly and difficult process.

These tactics are masked by the use of front companies, false invoicing, multiple transshipments, use of free trade zones, and any other device that will conceal the true nature of the product, its ultimate recipient or its final end-use.

There is some recycling of the solvents used in illicit drug manufacture; recycling cannot be used for acids, alkaline materials or oxidizing agents. Since recycling requires some sophistication, and there is a loss of chemical with each recycling process, it is not a preferred method for unsophisticated heroin and cocaine laboratories. The precursor chemicals used in the manufacture of synthetic drugs such as methamphetamine and ecstasy cannot be recycled.

2005 Chemical Diversion Control Trends and Initiatives

The emergence of methamphetamine as a major drug of abuse and a significant domestic law enforcement problem in the United States was the most important factor impacting U.S. chemical control in 2005. Roughly thirty-five percent of the methamphetamine produced in the country comes from small toxic labs (“mom and pop labs”) using chemicals procured locally, most commonly pseudoephedrine extracted from nonprescription pharmaceutical preparations. The traffickers involved are usually addicts themselves and they are producing the product for their use, that of their friends and limited sales.

Professional traffickers operating “super labs” (those capable of producing ten pounds of methamphetamine in a single production cycle) rely on international sources for their chemicals. Since, depending on the efficiency of the lab, the ratio of pseudoephedrine to methamphetamine is approximately 1-1.6 to 1, and labs are easy to establish, traffickers can move their operations to where the chemicals are available. This occurred when many super labs moved from the U.S. West Coast to Mexico as tighter precursor controls in Canada and better interdiction on the border cut precursor smuggling from the north. Mexico is now tightening its controls on methamphetamine precursors and the concern is that they will be sold to countries with fewer controls and smuggled into Mexico, or the U.S., for drug production.

The 1988 UN Drug Convention includes pseudoephedrine and ephedrine as Table I chemicals, which are subject to stricter controls than those in Table II, but less strict than those for narcotic and psychotropic substances under the 1961 and 1971 UN Drug Conventions. The controls, however, are only as good as the ability of the countries concerned to implement them with national laws and regulations, and through effective procedures for multilateral cooperation. Furthermore, the Convention excludes pharmaceutical preparations. Traffickers are exploiting the exclusion to obtain pharmaceutical preparations from which pseudoephedrine can be easily extracted.

Afghanistan continues as the world’s largest opium producer. Conditions within the country make implementing effective chemical control difficult. In March 2005, the U.S., Germany and the European Commission proposed at the UN Commission on Narcotic Drugs adding a backtracking element to Operation Topaz, the multilateral acetic anhydride control initiative, to determine the sources of that chemical seized in Afghanistan. This would help authorities intercept shipments before they reached the country. However, it has been difficult to obtain chemical samples because there is not sufficient time to collect and label samples under the circumstances in which authorities make lab seizures.

The two voluntary multilateral initiatives to track shipments of acetic anhydride (Operation Topaz) and potassium permanganate (Operation Purple) have been combined into Operation Cohesion, recognizing that they involve many of the same countries, the major source countries and destination countries for the chemicals. However, traffickers continue to evade the reach of these initiatives by turning to nonparticipating 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.

The Road Ahead

A major focus will be on better control of the chemicals used to produce amphetamine and methamphetamine, primarily ephedrine and pseudoephedrine. A consensus needs to be developed to include pharmaceutical preparations, now being used as a source of the precursor pseudoephedrine, in these efforts.

The 1988 UN Drug Convention includes provisions for exchange of information on transactions involving controlled chemicals on a bilateral basis. Pharmaceutical preparations are excluded from the information exchange requirements. We need procedures for the multilateral exchange of information on bulk and pharmaceutical transactions in order to identify countries with excessive imports, or spikes in imports, that would indicate diversion. With this information, the countries involved can be approached and the excess imports stopped. Countries targeted by traffickers for this type of transshipment frequently lack the administrative structure to identify excess imports.

We have found a voluntary approach to information exchange in law enforcement channels works best in obtaining cooperation in chemical control beyond that required by the international drug conventions. This was the approach successfully used in establishing Operations Purple and Topaz. Information exchange in law enforcement channels offers assurances of confidentiality and provides that the information is directed to those who can most effectively act on it.

The Drug Enforcement Administration will be using this approach in a meeting it is hosting in late February 2006 in Hong Kong of the major pseudoephedrine and ephedrine producing countries, and the countries most affected by amphetamine and methamphetamine abuse. The purpose will be to review the problem and develop procedures for information exchange, including information on transactions involving pharmaceutical preparations.

The U.S. also intends to introduce a resolution in the March 2006 UN Commission on Narcotic Drugs requesting that countries provide to the International Narcotics Control Board annual estimates of their requirements for bulk ephedrine and pseudoephedrine and pharmaceutical products containing them. The Board would publish the results, as it does for estimated requirements for substances in the 1961 and 1971 UN Drug Conventions, to assist exporting countries in deciding the legitimacy of proposed exports of the products.

Chemical laws, regulations and cooperative multilateral chemical control operations require an administrative structure and trained personnel. The evolving methamphetamine situation makes this particularly important in Mexico where we are providing training and technical assistance to Mexican chemical control agencies on control mechanisms, information sharing, chemical shipments, enforcement, and prosecution. Mexico is also implementing a UN Office of Drugs and Crime (UNODC) National Data System to monitor importation and movement of precursor chemicals at a central site and 17 field sites. We also support UNODC chemical training programs in Central Asia, South Asia and Southeast Asia. To assist the INCB in its central role in multilateral chemical control operations, the U.S. has provided \$1.1 million since FY 2002 to INCB Data Bank for Precursor Control. We plan to continue supporting programs of this type in the future.

The two-way nature of information exchange will continue to be emphasized. In too many instances, 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.

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.

The list is reviewed annually. This year we looked carefully at countries that are major producers and/or traders of synthetic drug chemicals, and found that these countries are already included by virtue of their large chemical industries.

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.

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

Due to its advanced chemical industry, Argentina continues to be a source of chemicals liable for diversion to cocaine and heroin manufacture. Neighboring Bolivia is the major destination for these chemicals. Domestic cocaine manufacture in Argentina using smuggled cocaine base and locally diverted precursors continues. 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 the Secretariat for the Prevention of Drug Addiction and Narcotics Trafficking (SEDRONAR).

In 2005, legislation was passed giving SEDRONAR registry system the force of law. This increased its ability to regulate the distribution of precursors and impose fines on those who transport and sell unregistered chemicals.

The DEA-funded Northern Border Investigations Task Force seized 54,690 kilograms of diverted solid precursors and 88,020 liters of liquid precursors from January 2005 to September 2005. This is up from the previous year and indicates chemical diversion remains a serious problem.

Argentina participates in Operation Cohesion and the regional Operation Seis Fronteras. Argentine authorities willingly share chemical control information with U.S. authorities.

Brazil

Brazil has South America's largest chemical industry and also imports significant quantities of chemicals to meet its industrial needs. Brazilian law controls 146 substances that can be used for drug production. All companies that handle, import, export, manufacture, or distribute any of them must be registered with the Brazilian Federal Police. The registered companies are required to send monthly reports to the police on their usage, sales and inventory of any of the 146 substances they handle. Any person or company that is involved in the purchase, transportation or use of the substances must have a certificate of approval of operation, real estate registry, or special license issued by the police. Companies that handle the 22 most sensitive substances with regard to drug production are also regulated by the Ministry of Health's National Sanitary Vigilance Agency.

Brazil is a party to the 1988 UN Convention and these legislative provisions meet the chemical control requirements. The country also participates and supports the multilateral chemical control initiatives, Operation Cohesion, Project Prism and Operation Seis Fronteras. US/Brazilian cooperation in chemical control is good, and includes information exchange. The Brazilian Federal Police have recently agreed to work with DEA, in the context of Operation Cohesion, to perform a study of domestic use and exports of acetic anhydride. DEA has a Diversion Investigator assigned to its Brasilia office.

Canada

Canada remains a producer and transit country for precursor chemicals and over-the-counter pharmaceuticals used to produce synthetic drugs, particularly methamphetamine. Health Canada, the RCMP and the Canadian Border Services Agency are the agencies responsible for chemical control. Health Canada is the competent authority for managing the export of precursor chemicals listed in the 1988 UN Convention.

The Canadian Government continues to strengthen controls on precursor chemicals and their products. In August 2005, methamphetamine was moved from Schedule III to Schedule I of the Controlled Drugs and Substances Act to increase maximum penalties for its possession, trafficking, importing, exporting, and production. In November 2005, the 2003 Precursor Control Regulations were amended by adding six chemicals to the list of controlled chemicals and strengthening regulatory authorities to control chemicals. These measures follow others in recent years that have helped to significantly reduce the amount of Canadian-source pseudoephedrine discovered in clandestine U.S. methamphetamine laboratories.

Canada is a party to the 1988 UN Convention and complies with its record keeping requirements. Cooperation between U.S. and Canadian law enforcement agencies is excellent. Information sharing is part of this cooperation. Canada participates in Project Prism, targeting synthetic drug chemicals, its principal precursor concern, and is a member of the North American working group. Although it supports Operation Cohesion and contributes on an ad hoc basis, Canada is not actively engaged in it.

Mexico

Mexico has major chemical manufacturing and trading industries that produce, import and 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.

The Mexican Federal Commission for the Protection Against Sanitary Risks (CONEPRIS) strengthened chemical controls in 2005. Commission officials performed "no-notice"

inspections at the premises of chemical importers and prepared pre-export notifications messages on exports. With U.S. Government support, the UN Office of Drugs and Crime worked with CONFEPRIIS to establish a database for enhanced chemical control. CONFEPRIIS also began installing new computer equipment, procured by the Embassy's Narcotics Affairs Section, at 17 ports of entry to record the importation of precursor chemicals capable of producing synthetic drugs, particularly methamphetamine.

A series of laws and regulations have been passed to restrict precursor imports and regulate their sales, with an emphasis on pseudoephedrine. These include:

- Prohibiting import shipments weighing more than three tons;
- Restricting importation of pseudoephedrine to drug companies only, all other licenses were cancelled;
- Requiring shipments of pseudoephedrine to be transported in GPS-equipped, police-escorted armored vehicles to prevent hijacking and unauthorized drop offs;
- Limiting sales of pills containing pseudoephedrine to licensed pharmacies; and
- Restricting customer purchases to no more than three boxes of pills with a prescription required for larger doses.

U.S. and Mexican authorities cooperate in law enforcement. A formal mechanism for cooperation is the U.S-Mexico Bilateral Chemical Control Working Group, and day-to-day contact is handled by the DEA Country Office, notably by a group of Diversion Investigators and agents posted to Mexico City. The result is a good bilateral working relationship, involving information exchange and operational cooperation. Mexico also participates in the multilateral chemical control initiatives Operation Cohesion and Project Prism.

The United States

The United States manufactures and/or trades in all 23 chemicals listed in Tables I and II of 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. They 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. Persons and firms engaged in chemical diversion have been aggressively and routinely subjected to civil and criminal prosecution and revocation of DEA registration.

The U.S. has had a leadership role in the design, promotion and implementation of cooperative multilateral chemical control initiatives. It is actively working with other concerned countries to develop information sharing procedures to better control pseudoephedrine and ephedrine, the principal precursors for methamphetamine production. It is on the steering committee for Operation Cohesion 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 one of the world's largest chemical industries, producing large quantities of important precursors that can be used for illicit drug manufacture such as acetic anhydride (heroin), potassium permanganate (cocaine), PMK (ecstasy) and pseudoephedrine and ephedrine (methamphetamine). 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. In November 2005, China passed its first administrative law on precursor chemicals aimed at preventing the illicit use of precursors. It regulates the manufacture, distribution, purchase, transport, and import and exports of precursor chemicals. The law represents the first action by the Chinese Government to control domestic sales of precursors, previous laws and regulations focused solely on imports and exports. Several provinces, including Yunnan (which shares a border with Burma), have more stringent controls than called for in the Convention.

The Chinese Public Security Bureau maintains a 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's large chemical industry produces significant amounts of chemicals subject to diversion in countries around the world for the illicit production of cocaine, heroin, methamphetamine, and ecstasy. Although on paper China meets or exceeds the chemical control requirements of the 1988 UN Drug Convention, the size of its chemical industry is not matched by a law enforcement infrastructure adequate to effectively monitor its production and international trade.

U.S. and Chinese cooperation in chemical control is good, within the limits of Chinese capabilities. China is a participant in Operation Cohesion 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. The Chinese signed a memorandum of understanding with the Netherlands on October 22, 2004, governing the sharing of

information on precursor shipments to prevent diversion, and the Dutch assigned a law enforcement liaison officer to Beijing in July 2005.

India

India's large chemical industry manufactures a wide range of chemicals, including the precursor chemicals acetic anhydride, ephedrine, and 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-2-propanone, 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 Operation Cohesion and Project Prism. 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. The regulations have been updated to 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. The December 2005 meeting concentrated on coordinating actions to control better synthetic drug precursors.

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 Operation Cohesion 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 that may be used in illicit drug manufacture. It is one of the countries that produce large quantities of pseudoephedrine for licit pharmaceutical production. 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. In August 2005, three amendments to the chemical EU regulations to streamline control systems in the EU became effective, overriding many of the provisions of Germany's federal Precursor Control Act. The act is expected to be amended according to the provisions of the EU regulations.

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 Investigative Service and German Customs Police have a very active Joint Precursor Chemical Unit, based in Wiesbaden, devoted exclusively to chemical diversion investigations. They investigated a total of 66 cases involving precursors and prevented shipments totaling 700 tons in 2004 (up from 18 tons in 2003).

Germany is in the forefront of international cooperation in chemical control. It developed and promoted the concept that led to Operation Purple and was one of the leaders in the organization of Operation Topaz. It strongly supports the INCB's Project Prism that concentrates on stricter tracking of trade in chemicals and equipment required for synthetic drug manufacturer. 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 two days 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 has a large (legal) chemical sector making it an attractive location for criminals to attempt to obtain chemicals for illicit drug manufacture. There are large chemical storage facilities and Rotterdam is a major chemical shipping port.

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. The 1995 Act to Prevent Abuse of Chemical Substances is the most important piece of implementing legislation. The legislation provides for prison sentences up to six years, fines up to 50,000 Euros, and/or asset seizures. The Fiscal Information and Investigative Service and the Economic Control Service oversee implementation of the law.

The Netherlands participates in multilateral chemical control initiatives such as Operation Cohesion. It took an active role in the design of Project Prism, hosting an important organizational meeting December 2002. The Netherlands and the U.S. (DEA) have co-chaired Project Prism's Chemicals Working Group since its inception in 2002.

There is significant production of ecstasy and some production of amphetamines and other synthetic drugs in the Netherlands, indicating chemical diversion. The government has been proactive in meeting this threat. Many of the important ecstasy precursors originate in China and the government has increased cooperation with the Chinese. The joint Dutch/Chinese participation in Project Prism resulted in their signing a memorandum of understanding on October 22, 2004, governing the sharing of information on precursor shipments to prevent diversion. In July 2005, the Dutch assigned a law enforcement liaison officer to Beijing. One of the officer's primary missions is to coordinate the sharing of intelligence on precursor chemical investigations.

The Dutch and the U.S. have traditionally worked closely on precursor controls and investigations. There are formal and informal arrangements for information exchange. In addition to working together in multilateral operational initiatives, the U.S. and Dutch delegations to international meetings such as the Commission on Narcotic Drugs frequently coordinate positions. In November 2005, the Dutch hosted the second Synthetic Drug Enforcement Conference in Maastricht. Cooperation in precursor control and investigations was an important agenda item.

Major Drug Manufacturing Countries

Drug manufacturing requires significant quantities of chemicals. No major illicit drug manufacturing country produces all the required chemicals, and traffickers must meet their chemical requirements from external sources. This section summarizes the sources of chemicals and country initiatives to control them.

Asia

Afghanistan

Afghanistan produces nearly 90 percent of the world's opium. An increasingly large portion of the opium crop is being processed into heroin and morphine base by drug labs in Afghanistan. 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 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 most are smuggled in through the Central Asian states, the Persian Gulf and Pakistan, after being diverted elsewhere.

Afghanistan is a party to the 1988 UN Drug Convention. However, it lacks the administrative and regulatory infrastructure to comply with the Convention's record keeping and other requirements.

The same factors that adversely impact the interdiction of narcotics, the investigation of major trafficking organizations and the enforcement of the poppy ban hinder efforts to interdict precursor chemicals and processing equipment. While the Afghan Government understands the issue, progress in chemical control is primarily dependent upon establishment of specialized police and regulatory agencies. There currently are no registries or legal requirements for tracking, storing or owning precursor chemicals, although the new counternarcotics law adopted December 2005 requires the Ministry of Counternarcotics to develop a modern regulatory system.

Burma

Declining poppy cultivation in Burma has been matched by a sharp increase in the production and export of synthetic drugs. Burma does not have a significant chemical industry and does not manufacture ephedrine and pseudoephedrine used in synthetic drug manufacture, or acetic anhydride used in the remaining heroin manufacture. Most of the chemicals required for illicit drug manufacture are imported and diverted or smuggled into Burma from China, Thailand and India.

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 Drug Convention (caffeine and thionyl chloride) and prohibited their import, sale or use in Burma.

Burma is one of six countries (Burma, Cambodia, China, Laos, Thailand, and Vietnam) that are parties to the UN Office of Drugs and Crime sub-regional action plan for controlling precursor chemicals and reducing illicit narcotics production and trafficking in the highlands of Southeast Asia. In January 2003, Burma also held the 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.

During the first eleven months of 2005, Burmese seizures of precursor chemicals remained essentially the same as 2004. Over this period, authorities seized 112 kilograms of ephedrine and 14,143 liters of other precursor chemicals.

Latin America

Bolivia

Because Bolivia does not have a large chemical industry, most of the chemicals required for illicit drug manufacture come from abroad, either smuggled from neighboring countries or

imported and diverted. A priority for Bolivian counternarcotics policy is the interception of smuggled chemicals, the destruction of the smuggling organizations, and the prevention of diversion. In 2005, 583,490 liters of liquid chemicals used in drug manufacture (acetone, diesel, ether, etc.) 312,296 metric tons of solid chemicals (sulfuric acid, bicarbonate of soda, etc.) were seized.

Bolivia's professional chemical interdiction program is led by the Special Group for Investigations of Chemical Substances (GISUQ), an elite group within the Bolivian counternarcotics police. The weak Bolivian Directorate of Controlled Substances (DGSC), a civilian agency, is responsible for registering and tracking industrial chemicals, including drug precursors. In 2005, 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 has obtained real-time access to the system.

Bolivian traffickers have sought to adapt to GISUQ interdiction programs by substituting inferior chemicals and recycling. GISUQ's strategy now focuses more aggressively on sulfuric acid and sodium bicarbonate, which are difficult to substitute in Bolivia.

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

Some of the chemicals required for the illicit manufacture of cocaine and heroin in Colombia are domestically produced and diverted and the remainder must come from abroad. They 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 noncontrolled 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. These 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 both regulatory inspections and criminal investigations. 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 Operation Cohesion and Operation Seis Fronteras. DEA has a Diversion Investigator assigned to its Bogotá office.

Peru

Peru produces some precursor chemicals used in cocaine production and others are imported and diverted or smuggled into the country. Cocaine base was once considered the traditional form of coca product produced and trafficked in Peru. However, in 2005, as evidenced by multi-ton seizures, cocaine HCL rapidly became the principal product of Peruvian drug trafficking. This requires additional chemicals, particularly potassium permanganate.

In 2005, the Peruvian National Police (PNP) Chemical Investigations Unit successfully executed operations against Peruvian companies suspected of diverting chemicals from legitimate use. The PNP also participated with neighboring countries and the U.S. in the regional chemical control program, Operation Seis Fronteras, during which the PNP seized a record amount of 122 metric tons of various precursors. Peru, Colombia and Brazil also have 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. In addition to Operation Seis Fronteras, Peru also participates in Operation Cohesion.

SOUTH AMERICA

Argentina

I. Summary

Argentina is a transit country for cocaine from Bolivia, Peru and Colombia primarily to European destinations. Argentina is also a transit route for Colombian heroin en route to the U.S. (primarily New York). Due to its advanced chemical production facilities, Argentina is a source for precursor chemicals. According to Argentine Government (GOA) statistics, there was considerably more cocaine seized in the first three quarters of 2005 than during the same period in 2004. While the GOA secretariat in charge of prevention issues (SEDRONAR) reported a drop in marijuana seizures in 2005, seizures of coca leaf and precursor chemicals increased. Argentine law enforcement authorities have expressed concern that the potential for political turmoil in neighboring Bolivia or a weakening in that nation's commitment to combating narcotics trafficking could greatly increase the amount of narcotics transiting Argentina.

II. Status of Country

Argentina is not a major drug producing country, but law enforcement agencies continue to seize clandestine cocaine laboratories. Because of its advanced chemical production facilities, it is one of South America's largest producers of precursor chemicals. There have been several large seizures of cocaine in Europe that transited Argentina via shipping containers and commercial air carriers. Marijuana remains the most commonly smuggled and consumed drug, with cocaine (HCl) and inhalants ranked second and third. Bolivia is the primary source of narcotics entering Argentina, and narcotics also enter via Paraguay and Brazil. GOA law enforcement continues to intercept relatively small amounts of Colombian heroin destined for the United States. Seizures of amphetamine-type stimulants and ecstasy, a synthetic stimulant with hallucinogenic properties, are increasing.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The government targets the trafficking, sale, and use of illegal narcotics. In 2005, the GOA passed legislation enforcing SEDRONAR's registry system of precursor chemicals. This legislation increased SEDRONAR's ability to regulate the distribution of precursor chemicals and imposed fines on those who transport or sell unregistered chemicals. Additionally, SEDRONAR completed the nation's first national drug prevention plan, emphasizing youth education and public awareness. The plan is now with President Kirchner, prior to seeking approval of Argentina's Congress.

Accomplishments. From January 2005 to September 2005, the USG—funded Northern Border Task Force (NBTF) seized in excess of 54,690 kilograms of solid illicit chemicals and 88,020 liters of liquid illicit chemicals, a significant increase over the same period in 2004. The NBTF and Group Condor seized 732 kilograms of cocaine, including base, in the first three quarters of 2005 as compared with 565 kilograms of cocaine during the same period of 2004.

According to statistics provided by Argentine federal and provincial police forces, in the first ten months of 2005, GOA law enforcement seized ten cocaine laboratories. Local news sources indicate that a much greater number of laboratories have been seized in 2005, but government statistics for 2005 are incomplete as of this writing. Nevertheless, it is clear that the increase in domestic cocaine production that started in 2003 has continued.

According to SEDRONAR, 3,580 kilograms of cocaine were seized nationally in the first three quarters of 2005, compared to 2,155 kilograms of cocaine during the same period in 2004.

SEDRONAR reported only 21,618 kilograms of marijuana seized nationally in the first three quarters of 2005, compared to 43,920 kilograms during the same period in 2004. SEDRONAR also reports that 38.6 metric tons of coca leaf were seized nationally during the first three quarters of 2005, up from the 29.8 metric tons seized during the same period in 2004.

Law Enforcement Efforts. The Ministry of the Interior, in coordination with SEDRONAR, directs federal narcotics policy. The primary federal forces involved are the Federal Police, the Gendarmeria, Aduanas (Customs), the National Air Police (PSA), and the Prefectura Naval (Coast Guard). Provincial police forces also play an integral part in counternarcotics operations. Argentina's security forces face continuing budget limitations which have hampered investment in training and equipment. The delay between arrest and final judicial dispensation and a lack of judicial transparency undermines confidence in the legal system. Also, weak coordination between law enforcement agencies lessens GOA effectiveness.

Corruption. The GOA is publicly committed to fighting corruption and prosecuting those implicated in corruption investigations. Two cases involving GOA law enforcement and security officials will serve as opportunities for the Argentine Administration to demonstrate its commitment against both corruption and narcotics trafficking. One case involves four members of the Federal Police's counternarcotics unit stationed in Salta accused of smuggling 116 kilograms of cocaine in August, 2005. Another case, involving 60 kilograms of cocaine sent to Spain as unaccompanied baggage on an Argentine air carrier, highlighted a breakdown in airport security and caused the GOA to remove airport security from military control. As these cases work their way through the court system they will serve as indicators of the Administration's commitment to eliminating institutional corruption in its law enforcement agencies.

Agreements and Treaties. Argentina is a party to the UN Convention Against Transnational Organized Crime and two of its protocols (trafficking in persons and alien smuggling), and has signed but not yet ratified the third protocol (firearms). The GOA has bilateral narcotics cooperation agreements with many neighboring countries. The United Kingdom, Germany, Australia, France and Italy provide limited training and equipment support. 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 were several clandestine cocaine laboratories seized in 2005, but the amount of cocaine produced annually in Argentina is still small. However, there is evidence that shows that more organizations are moving to Argentina due to the traffickers' capability to better control final-product purity, precursor chemicals, and the decreased risk in shipping. With narcotics traffickers looking to raise the quality of Bolivian cocaine, Argentina is becoming a more appealing market to provide greater return.

Drug Flow/Transit. 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. GOA officials are becoming increasingly concerned about the use of small private aircraft to carry loads of narcotics into Argentina from Bolivia and Paraguay. The DEA Country Office believes the highest volume of narcotics transits Argentina via containers passing through Argentina's maritime port system. Narcotics also are shipped out of Argentina using commercial aircraft, and in some cases, by cruise ship passengers.

Demand Reduction Programs. SEDRONAR is charged with coordinating the GOA's demand reduction efforts. SEDRONAR recently completed work on Argentina's first national drug plan and hopes to see the plan passed into law in 2006. SEDRONAR recently completed a pilot drug education program targeting school children ages 10 to 14 in two provinces.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The cornerstone of the U.S. efforts in Argentina is the Northern Border Task Force (NBTF) in Salta and Jujuy Provinces. The NBTF fosters coordination between GOA law enforcement agencies and assist in disrupting the flow of narcotics entering the country from Bolivia. In addition to the NBTF, DEA and the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) provide equipment and training opportunities to increase the effectiveness of GOA law enforcement personnel.

The Road Ahead. Argentine law enforcement officials fear that the growing political instability in Bolivia will weaken counternarcotics operations in Bolivia and result in a major increase in trafficking of cocaine and coca leaf into Argentina. The GOA is taking concrete steps to combat both narcotics trafficking and drug use, and the U.S. will continue to assist and encourage the GOA in this process. 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 focus on maritime container traffic. The U.S. will also continue encouraging the GOA to work toward improving its radar system.

Bolivia

I. Summary

In 2005, Bolivia's coca cultivation increased eight percent overall—the fourth consecutive year of increase—while the Bolivian Government eradicated 6,000 hectares of coca and continued to increase seizures of drugs and precursor chemicals. Although the Bolivian Government under President Rodriguez (inaugurated in June 2005 for a six-month term) reaffirmed its commitment to long-standing counternarcotics policies, his administration maintained a holding action in the Chapare, while preparing to confront coca cultivation in the Yungas, where the present growth exceeds historic trends and what is allowed by Bolivian law. Alternative development (AD) programs, which significantly raised the income levels of farmers in the Chapare and enjoyed widespread acceptance, continued their shift to a more integrated approach, with an emphasis on sustainability and increased participation by municipalities in developing, implementing and monitoring programs. AD programs seek to complement coca reduction through increased competitiveness of licit enterprises, strengthened local democracy and state presence, and improved social services.

Recurring political challenges to democratic governance—over the last five years, Bolivia has had five presidents—have severely limited the ability of the Government of Bolivia (GOB) to curb continuing increases of coca cultivation in the Yungas. Successive governments have opted to resolve confrontations with coca growers (“coccaleros”) through negotiation and concessions than with law enforcement and forced eradication. They have also failed to support drug abuse prevention programs and been slow to undertake social communication programs to explain the dangers that excess coca production, drug production and consumption pose to Bolivian society.

II. Status of Country

Bolivia has produced coca leaf for traditional uses for centuries, and Bolivian law permits up to 12,000 hectares of legal coca cultivation (mostly in the Yungas) to supply this licit market. After a year's delay, the GOB has launched a study to gauge the current licit demand, which many suspect has declined as Bolivian society has urbanized. Many older Bolivians continue to use coca.

From the mid-1990s, when the Chapare region was a principal supplier of cocaine to the world market, and Bolivia had the potential to produce 255 metric tons of pure cocaine, the country has reduced its potential cocaine production down to 70 metric tons. This reduction was accomplished by former President Banzer (1997-2001), who combined forced eradication with strong law enforcement interdiction and provision of alternative development conditioned on coca reduction. However, from 2000 to 2005, there has been an increase in coca cultivation from 19,600 to 26,500 hectares, due partially to the inability of the GOB to conduct forced eradication in the Yungas, to which many Chapare coca growers have migrated, and partially to concessions that emboldened growers to plant more coca. Overall coca cultivation increased 8 percent from 2004 to 2005, to 26,500 hectares.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Despite the recent social and political crises that have resulted in the departure of two presidents before the end of their terms, the GOB has persisted in its policy of forced eradication in the Chapare and of aggressive interdiction of illicit drugs and precursors. However, the short-term agreements between the GOB and coccaleros to resolve violent confrontations in 2004 undercut the GOB's commitment to its forced eradication policy and resulted in less eradication in 2005. Interdiction, however, improved, with a 23 percent increase in cocaine seizures over 2004. A new,

integrated alternative development approach in the Chapare provides for participation by municipalities in GOB decisions on development, implementation and monitoring of programs; this has helped reduce coca-related conflict and strengthen local commitment to licit development.

The principal challenges facing Bolivia today are the expansion of coca cultivation in the Yungas and the need to develop new laws and regulations to control precursor chemicals. Violent cocalero opposition and extreme terrain greatly complicate the prospects for successful forced eradication in the Yungas. Consequently, the GOB's strategy for the Yungas has been to negotiate voluntary coca cultivation reduction and tighten interdiction. Alternative development has grown in some areas within the Yungas. However, none of these initiatives have reduced coca cultivation there.

Accomplishments. In 2005, forced manual eradication fell to just over 6,000 hectares, partly due to the increasing dispersion and decreasing size of cultivation plots in the Chapare, and partly due to allowing 3,200 hectares of coca to remain un-eradicated pending completion of a study to determine the need for licit coca. Interdiction statistics increased significantly from 2004 to 2005, with seizures of cocaine/base exceeding 11 metric tons.

Law Enforcement Efforts. The USG continues to support GOB efforts to develop the capabilities of the Bolivian Special Counternarcotics Police (FELCN) and its specialized units through training, upgrading of existing physical infrastructure and construction of new bases at strategic locations. The quality of the investigative work by FELCN units has improved as a result, as did the number of seizures.

Corruption. There is no evidence that Bolivia's narcotics traffickers exercise a major corruptive influence at the GOB's higher levels. Recent governments have neither condoned, encouraged nor facilitated any aspect of narcotics trafficking. The Offices of Professional Responsibility (DNRP) within the Bolivian National Police (BNP) and FELCN investigate allegations of insubordination and other forms of misconduct. Efforts to create and enforce an effective anticorruption policy have languished for lack of political will. In 2005, there were no prosecutions of narcotics-related cases involving senior level officials, although there were several cases of corruption within the public sector. Judges have been accused by the counternarcotics police of freeing people implicated in narcotics trafficking, despite evidence against them. USG assistance through the U.S. Embassy Narcotics Affairs Section (NAS) program requires polygraph tests for all prosecutors and other key players in the counternarcotics projects. This has greatly improved the credibility of their work.

Agreements and Treaties. Bolivia 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. Bolivia is a party to other multilateral law enforcement conventions: specifically, the UN Convention against Transnational Crime and the UN Convention against Corruption. Bolivia has signed, but has not yet ratified, the Inter-American Convention on Extradition, but has ratified the Inter-American Convention against Corruption.

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. No extraditions were sought by the U.S. from Bolivia in 2005.

Cultivation/Production. In 2005, the GOB continued the forced eradication of coca cultivation in the Chapare (including the national parks), as well as in minor areas of new cultivation in the Departments of Santa Cruz and in the Beni. In 2005, USG estimates suggest that overall coca cultivation increased by 8 percent from 2004 to 2005. Cultivation in the Yungas increased five percent. The Caranavi region, adjacent to the Yungas, and the area with the greatest potential for further increases in that region, saw 200 hectares of new cultivation since 2004 and an overall increase of 100 hectares. GOB interdiction results also suggest there was a significant rise in marijuana production, likely for internal consumption.

Drug Flow/Transit. The FELCN focuses on intercepting illicit drugs and chemicals, as well as on detecting and disrupting organizations that bring precursors into Bolivia or transfer cocaine through Bolivian territory. The FELCN's results for 2005 improved over those of 2004, with seizures of 11.5 metric tons of cocaine/base, 31.4 metric tons of cannabis, 540,774 liters of liquid precursors (acetone, diesel, ether, etc.) and 298,815 metric tons of solid precursor chemicals (sulfuric acid, bicarbonate of soda, etc.). It also destroyed 2,619 cocaine base labs and made 4,376 arrests in over 6,294 operations.

Significant quantities of cocaine from Peru and Colombia traverse Bolivia to enter Brazil, Paraguay and Argentina. An increasing proportion of the cocaine both transiting and produced within Bolivia is destined for Europe, Argentina, Brazil, Chile, Paraguay and Mexico (in the case of the last, likely for eventual sale in the United States). Bolivia's own consumption of cocaine products now approaches levels of use in the United States, when measured in terms of users as a percentage of population.

Alternative Development (AD). Funded under the Andean Counterdrug Initiative (ACI), USAID's AD assistance program strengthened the sustainability of the licit economy in the Chapare. Program efforts focused on increasing the competitiveness of rural enterprises, creating more effective, transparent, and responsive democratic institutions, and improving basic public services and social conditions. Average licit gross farm gate family income in the Cochabamba area continued to rise, reaching \$2,667 in 2005 (compared with \$2,390 in 2004). Estimated net licit family income in the Cochabamba area increased from \$1,865 in 2004 to \$1,958 in 2005, while in the Yungas, it increased from \$1,584 to \$1,711. In both areas average licit incomes are substantially above the national average.

Despite Bolivia's chronic political instability and social unrest, the licit economies in coca-growing regions expanded and consolidated in FY 2005, providing former coca growers with opportunities to live within the rule of law and make a decent living. In the Chapare, the value of private investment increased, reaching \$86.5 million. Chapare and Yungas high-value licit crop exports—such as bananas, coffee, pineapple, coffee, cocoa, and palm heart—increased from \$25.3 million in FY 2004 to \$35 million in FY 2005. Over 800 kilometers of improved roads helped farmers reach markets while providing collateral social benefits to thousands of families.

Weak state presence in far-flung areas facilitates coca cultivation. To address this, AD programs helped improve citizen participation and oversight of municipal governments, increase access to justice, and strengthen citizen rights to land. AD institutional strengthening and small-scale infrastructure co-investments with municipalities in coca growing regions (schools, water systems, and road maintenance) improved local government performance, accountability, and transparency. AD also helped strengthen a democratic culture of justice and rights in the Chapare and Yungas. Integrated Justice Centers became operational in FY 2005 in both regions, and have processed almost 2,500 cases. AD support enabled the GOB's Agrarian Reform Institute to deliver about 3,000 property titles to Chapare residents in FY 2005. AD will help title 30 percent of all 30,000 Chapare properties by the end of FY 2006. These efforts allow citizens to exercise their constitutional right to own land and increase legal security in places where the state has been absent.

Domestic Programs (Demand Reduction). The GOB's Drug Strategy includes demand reduction and rehabilitation as one of its four pillars. According to the most recent data from CELIN, the Latin American Center for Scientific Study, consumption rates of cocaine, both HCl and base, among urban populations in Bolivia more than doubled between 2000 and 2005. Consumption rates of all drugs rose from 1.7 percent of the urban population in 1992 to 4.55 percent in 2005. Yet, in 2005, the GOB again undertook few significant efforts to combat documented increases in drug consumption other than to expand the DARE program (financed by the USG).

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG promotes the institutional reform and strengthening of the GOB elements that address our shared counternarcotics objectives. These objectives 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; institutionalizing a professional law enforcement system; and better communicating the dangers of illicit drugs to the Bolivian population.

Bilateral Cooperation. The GOB and the U.S. Embassy meet routinely at all levels and across several functional entities to coordinate policy, implement programs/operations and to resolve issues. The State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL), through its NAS and Air Wing, supports and assists all interdiction and eradication forces. USAID represents the largest of all international donors in supporting GOB efforts at alternative development.

Road Ahead. The USG plans to continue to support existing eradication and integrated alternative development in the Chapare, push for initiation of eradication in the Yungas, strengthen efforts to interdict precursors and traffickers, continue training an effective corps of prosecutors and push for new anti-money laundering legislation.

Brazil

I. Summary

Improvements in intelligence gathering and investigative capabilities by the Brazilian Federal Police resulted in a higher number of drug seizures and arrests in 2005. Brazil's shutdown law, which authorizes the Brazilian Air Force to use lethal force in the interdiction of aircraft suspected of involvement in drug trafficking, was implemented in October 2004. While the Brazilian Air Force did not record any lethal force incidents during 2005, official Brazilian sources report that some aircraft were forced to land and the number of clandestine flights diminished from the previous year. Brazil's Council for the Monitoring of Financial Activities (COAF) added additional analysts and was active in assisting law enforcement task forces investigating money laundering.

Brazil is a major transit country for illicit drugs shipped to Europe and to a lesser extent, the United States. Brazil cooperates with its South American neighbors in an attempt to control the remote and expansive border areas where illicit drugs are transported. Brazil is a signatory to various counternarcotics agreements and treaties, including the 1988 UN Drug Convention, and the 1995 bilateral U.S.-Brazil counternarcotics agreement.

II. Status of Country

While not a significant drug-producing country, Brazil is a conduit for cocaine base and cocaine HCl moving to Europe, the Middle East and Brazilian urban centers, as well as a conduit for smaller amounts of heroin moving to the U.S. and Europe. Cocaine and marijuana are used among youth in the cities, particularly Sao Paulo and Rio de Janeiro. Organized drug gangs are involved in narcotics related arms trafficking.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Brazil has undertaken various bilateral and multilateral efforts to meet the objectives of the 1988 UN Drug Convention. The GOB has implemented laws permitting adequate law enforcement measures and achieved significant progress in the fight against illegal drugs.

The GOB has begun to institutionalize its National Strategy for Combating Money Laundering (ENCLA), holding its third annual high level planning session in December 2005. Also in 2005, the GOB drafted, but has not yet presented to Congress, a bill updating its money laundering legislation. If passed, this legislation would 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.

Brazil's first line of defense against drug smuggling is enforcement at its heavily transited border crossings. Drug traffickers exploit the expansive border in areas where Brazilian law enforcement has only a minimal presence. To more effectively combat trans-border trafficking organizations, Brazil is cooperating closely with its neighbors by establishing joint intelligence centers (JIC). The newest JIC is planned for the Brazilian/Bolivian border. In October 2005, representatives from the Drug Enforcement Administration (DEA) offices in La Paz and Brasilia, the U.S. Embassy's Narcotics Affairs Section (NAS) office, the Brazilian Federal Police, and the Bolivian National Police agreed to staff and operate the planned JIC in Brasilia jointly when it opens in 2006.

Brazil's Unified Public Safety System (SUSP), created in 2003, is now fully functional and showing results. SUSP, which is administered by the Brazilian National Public Safety Secretariat (SENASP), is

a national system to integrate diverse state, civil and military police forces. Collaboration between SENASP and the NAS was good in 2005. A number of courses including crisis management, training for counternarcotics SWAT teams, and training for dog handlers, were sponsored by the NAS and hosted by SENASP for state law enforcement officials throughout Brazil.

Accomplishments. In October, Brazil hosted the “Operation Seis Fronteras” (Six Borders) Phase VII regional meeting. Operation Seis Fronteras is a DEA-sponsored international chemical enforcement initiative, which targets the movement and diversion of chemicals used in the production of cocaine and heroin in South America.

Law Enforcement Efforts. In 2005, the Federal Police seized 15.8 metric tons of cocaine HCL (double the amount seized in 2004) and 126 kilograms of crack cocaine. Marijuana seizures totaled 146.6 metric tons in 2005. These numbers are incomplete, since only those of the Federal Police, and not those of local police forces, are reported on a national basis. Federal Police sources estimate they record 75 percent of Brazilian seizures and detentions.

Corruption. As a matter of government policy, Brazil does not condone, encourage, or facilitate production, shipment, or distribution of illicit drugs or laundering of drug money. 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. The fight against corruption remains a high priority for Brazilian law enforcement.

Agreements and Treaties. The United States and Brazil are parties to a bilateral mutual legal assistance treaty, which entered into force in 2001. Brazil became a party to the 1988 UN Drug Convention in 1991. Bilateral agreements based on the 1988 convention form the basis for counternarcotics cooperation between the U.S. and Brazil. Brazil also has a number of narcotics control agreements with its South American neighbors, several European countries, and South Africa. Brazil cooperates bilaterally with other countries and participates in the UN Drug Control Program (UNDCP) and the Organization of American States’ Anti-drug Abuse Control Commission (OAS/CICAD). Brazil and the U.S. are parties to a bilateral extradition treaty signed in 1961.

Cultivation/Production. With the exception of some cannabis grown primarily for domestic consumption in the northeast, there is no significant evidence of cultivation or production of illicit drugs in Brazil. Drugs for domestic consumption or transshipment originate in Colombia, Paraguay, or Bolivia.

Drug Flow/Transit. Marijuana from Paraguay and cocaine from Bolivia are smuggled into Brazil across remote border areas and are destined primarily for domestic consumption. Higher quality cocaine from Colombia for export to Europe, the Middle East, and Africa enters by boat and is placed in ships departing from Brazil’s northeastern ports. Traffickers have reduced the number of long flights over Brazilian territory due to Brazil’s shutdown law. However, they still make the short flight over Brazil en route to Venezuela and Suriname.

Distribution. As a result of improved intelligence capabilities, the Brazilian Federal Police have enjoyed increased success against international trafficking organizations that transship illicit drugs to Europe, Africa, and the Middle East. The distribution of drugs in Brazilian cities is carried out by domestic networks that operate in major urban areas.

Sale, Transport and Financing. Cocaine from Bolivia and marijuana from Paraguay are smuggled into Brazil. Organized groups based in Sao Paulo and Rio de Janeiro arrange for the transport of the contraband through contacts in the border areas. The drugs are purchased from criminal organizations that operate outside Brazil’s borders. Proceeds from the sale of narcotics are used to purchase weapons and to strengthen the groups’ control over the slums (favelas) of Rio and Sao Paulo.

Asset Seizure. Many assets, particularly motor vehicles, are seized during narcotics raids and put into immediate use by the Federal Police under a March 1999 Executive Decree. Other assets are auctioned and proceeds distributed based on court decisions. Federal Police records show that 2 airplanes, 634 motor vehicles, 58 motorcycles, 13 boats, 146 firearms, and 1,116 cell phones were seized in 2005.

Law Enforcement Cooperation. During 2005, various USG agencies and sections, including the U.S. Embassy's NAS, Public Diplomacy and Economic Offices, the Department of Homeland Security, DEA, and the Federal Bureau of Investigation provided training throughout Brazil in a wide variety of law enforcement areas, including combating money laundering, airport interdiction, community policing, container security, counternarcotics SWAT operations and demand reduction programs.

The Brazilian Federal Police (DPF) maintains excellent relations with their counterparts in neighboring countries such as Bolivia, Colombia and Peru as well as U.S. law enforcement. They are willing to share information as well as participate in joint operations. The DPF have attended training programs in the United States, including money laundering and investigative and crime prevention seminars.

In addition, Coordinated Intelligence Centers soon will be functioning on the borders with Colombia, Bolivia, Paraguay, and Argentina with representatives from each respective country. Brazilian counternarcotics interdiction forces participate in "Operation Alliance" with Paraguayan counterparts to counter the marijuana entering the Paraguayan-Brazilian border area. Brazil has Federal Police Attachés in Argentina and Paraguay and looks to expand the number of Attaché positions to other countries in the future.

Extradition. According to the Brazilian Constitution, no Brazilian can be extradited. Naturalized Brazilians may be extradited for common crimes committed before naturalization, or where there is sufficient evidence of participation in the illicit traffic of narcotics and related drugs. Brazil cooperates with other countries in the extradition of non-Brazilian nationals accused of narcotics-related crimes. Three extraditions were carried out during 2005, one of which was narcotics related. In 2005, eight extradition or provisional arrest requests were submitted to Brazil; six of those requests related to narcotics defendants.

Demand Reduction. The National Anti-Drug Secretariat (SENAD) is charged with oversight of demand reduction and treatment programs. Some of the larger NAS supported programs include a nationwide 800-number for counseling, a nationwide DARE program (Brazil has the largest DARE program outside of the U.S.) and a national household survey of drug use among teens. SENAD also supports drug councils that are located in each of the state capitals. These councils coordinate treatment and demand reduction programs throughout their respective states.

Precursor Chemical Control. In August 2004, the Brazilian Justice Ministry issued a decree to prevent the manufacture of illegal drugs; this regulation made Brazil's law pertaining to chemical control arguably the most stringent in South America. The decree established the control of 146 chemical substances that can be utilized in the production of drugs. All companies that handle, import, export, manufacture, or distribute any of these substances must be registered with the Brazilian Federal Police. The GOB has fulfilled the 1988 UN Drug Convention goals relating to chemicals and is a party to international agreements on a method for maintaining records of transactions of an established list of precursor and essential chemicals. In conjunction with Operation Topaz, the Brazilian Federal Police have recently agreed to work with the DEA to perform a study on the use of chemicals within Brazil and the exportation of acetic anhydride from Brazil.

VI. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. counternarcotics policy in Brazil focuses on working with Brazilian authorities in identifying and dismantling international narcotics trafficking organizations, reducing

money laundering, increasing awareness of the dangers of drug abuse and drug trafficking and addressing related issues such as organized crime and arms trafficking. Assisting Brazil to develop a strong legal structure for narcotics and money laundering control and enhancing cooperation at the policy level are key goals. Bilateral agreements provide cooperation between U.S. agencies, the National Anti-drug Secretariat and the Ministry of Justice.

Bilateral Cooperation. In 2005 the U.S. and Brazil coordinated on the northern border interdiction operation COBRA (COlombia-BRAzil) and the joint intelligence center located in Tabatinga. The U.S. provided equipment and computers for the coordinated intelligence center in Foz de Iguazu and training courses in airport interdiction and container security.

The Road Ahead. To build upon their successes in 2005 against organized narcotics trafficking organizations, the Brazilian Federal Police must continue to increase their investigative and intelligence capabilities, expand cooperation with neighboring law enforcement through joint intelligence centers, and augment the number of agents assigned to the Operation COBRA northern border posts.

At the state level, SENASP needs to maintain the support given to states most affected by criminal gangs that control the drug trade. Cities such as Sao Paulo and Rio de Janeiro must deal with powerful narcotics trafficking gangs that operate out of the shantytowns (favelas) that are located throughout the city of Rio de Janeiro and on the periphery of Sao Paulo. Federal aid for training and equipment as well as increased cooperation with the federal police will greatly assist the state police in their efforts to combat narcotics trafficking.

Chile

I. Summary

Chile is 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 increasing 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

Chile is a transshipment point for cocaine and heroin from the Andean region. Cocaine HCl consumption has increased, although cocaine base abuse is more prevalent. Chilean authorities discovered some cocaine and amphetamine labs three years ago, but Chile is not a major source of refined cocaine. Marijuana, primarily supplied by Paraguay and by a small cultivation industry in Chile, is consumed domestically.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Chilean Congress passed a revision of Chile's 1995 drug laws in February 2005. The National Drug Control Commission (CONACE) develops and coordinates the National Drug Control Strategy; the current strategy covers the years 2003-2008. CONACE also coordinates all demand reduction programs.

Accomplishments. In March 2005, the Chilean NGO "Citizen Peace Foundation," in coordination with the U.S. Embassy, launched the country's first pilot program for drug courts in the port town of Valparaiso. The program will be expanded to Santiago in 2006. In June 2005, eight Chilean officials traveled to Florida to observe U.S. drug courts and to participate in the annual U.S. conference of drug courts. Participants returned to Chile as strong proponents of incorporating drug courts into the new judicial system as well as adding an alternative dispute resolution program.

The Drug Enforcement Administration (DEA) Country Office in Santiago and the Policia de Investigaciones de Chile (PICH) hosted the 22th International Drug Enforcement Conference (IDEC XXII) in April 2005. DEA Administrator Karen Tandy met with Chilean President Ricardo Lagos and then-Minister of Interior José Miguel Insulza. Over 200 delegates from 73 countries attended. For the first time, the IDEC conference focused on forming working groups to identify mutually agreed-upon regional narcotics targets and to specify steps to disrupt or dismantle drug trafficking organizations. The conference received positive media coverage from Chilean and international press.

DEA Santiago invited six Chilean law enforcement representatives to the U.S. in June 2005 to observe DEA-supported drug task forces operating along the southwest border. The institutions represented included the Carabineros (uniformed police), the PICH (investigative police), the National and Regional Public Ministry Offices, the Chilean Customs Service, and DIRECTEMAR (Coast Guard). The visit exposed Chilean officials to the workings of interagency task forces dedicated to combating narcotics trafficking, with a focus towards implementing a similar task force in Chile.

In August 2005, Calvina Fay, Director of the Drug Free America Foundation, provided keynote remarks at a seminar on the impact of drug legalization, co-organized by the Network of Chilean Drug Prevention NGOs (CHIPRED), PRIDE-Chile and the Drug Commission of the National Association of Chilean Municipalities. More than 200 drug prevention experts attended.

In September 2005, the Chilean court system allowed the release of the results of the Arrestee Drug Abuse Monitoring (ADAM) test sponsored by the U.S. Embassy. Developed by the Citizen Peace Foundation and the National Institute of Drug Abuse, the test revealed that 73 percent of arrestees for violent crimes were using drugs at the time of their arrest in Santiago. This test was the first scientific test in Chile showing a link between drug use and crime. Until its release, Chilean officials traditionally believed that drugs did not play a significant role in crime.

Chile completed its multi-year, nationwide criminal justice reform project in June 2005. Chile's 12 regions, plus the Santiago Metropolitan region (comprising 40 percent of the population), have adopted the new adversarial judicial system. The new system is based on oral trials rather than document-based legal proceedings. Initial feedback suggests a wider trust in the new system, and cases are reportedly being resolved faster than before. Ongoing challenges include training judges, prosecutors and law enforcement on evidence collection and analysis, presentation in court and court administration (case loads, budget, scheduling, etc.).

Law Enforcement Efforts. In 2005, Chilean authorities seized 2777 kilograms of cocaine hydrochloride, 2173 kilograms of cocaine, 5.4 kilograms of heroin, 5846 kilograms of marijuana, and 122,740 marijuana plants. Law enforcement agencies arrested 12,878 persons for drug-related offenses, an increase from 9400 in 2004. 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 investigation of high-profile and on-going scandals related to Former President Augusto Pinochet's activities provide an example of the gravity and attention that Chile attaches to corrupt behavior by former and current government officials. Transparency International's Annual Corruption Perception Index consistently ranks Chile within the top 20 least corrupt countries in the world.

Agreements and Treaties. Efforts are underway to update the U.S.-Chile Extradition Treaty signed in 1900, under which no Chilean citizen has ever been extradited to the U.S. While the U.S. and Chile do not have a bilateral Mutual Legal Assistance Treaty (MLAT), both countries are party to the multilateral Inter-American Convention on Mutual Assistance in Criminal Matters. Chile is party to the Inter-American Convention Against Corruption.

Cultivation/Production. There is no known major cultivation or production of drugs in Chile. Very small amounts of marijuana are cultivated in Chile to meet domestic demand.

Drug Flow/Transit. Transshipment of drugs from Andean source countries to the U.S. and Europe increased in 2005. Though most of Bolivia's 95 metric tons of potential exportable quality cocaine is shipped to Brazil, a smaller but significant amount is smuggled to Chile. Chile's extensive and modern transportation system make it attractive to narcotics traffickers. Maritime and land route trafficking have 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 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 to intercept illicit narcotics 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. Small amounts of ecstasy enter the country primarily via couriers traveling by air.

Demand Reduction. 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. CONACE continues to work with NGOs, community organizations, and schools to develop demand reduction programs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. support to Chile in 2005 reinforced ongoing priorities in five areas: 1) training for prosecutors, police, judges, and public defenders in their roles in the new criminal justice system; 2) demand reduction; 3) enhanced police investigation capabilities; 4) police intelligence capability; and 5) money laundering.

Bilateral Cooperation. During 2005, the USG pursued numerous initiatives based on the above priorities. Examples include: 1) a seminar on Intellectual Property Rights targeted at judges; 2) a drug court pilot program in Valparaiso; 3) a UN-funded trip of eight officials to Florida for the annual drug court conference; 4) a DEA-sponsored visit to observe and evaluate counternarcotics task forces in action; 5) a Department of Justice-funded course on trafficking in persons for prosecutors, law enforcement and government officials; 6) publication of results of a public affairs grant to Fundacion Paz Ciudadana to implement ADAM (Arrestee Drug Abuse Monitoring), showing the link between crime and drugs; 7) Drug Free America participation in a Chilean seminar on the impact of drug legalization; and 8) DEA-funded course on tactical entries and 9) continued discussions towards updating the 1900 U.S./Chile extradition treaty.

The Road Ahead. In 2006, the USG will continue to support Chilean efforts to combat the narcotics-related problems. The U.S. plans to continue 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 U.S.-Chile bilateral letter of agreement will also continue.

Colombia

I. Summary

Colombia had a record year in 2005 for eradication, interdiction, and extradition. The country's public security forces prevented hundreds of tons of illicit drugs from reaching the world market through interdiction and eradication of coca and poppy crops. Colombia's police and military forces captured or shared in the capture of 223 metric tons of cocaine and cocaine base. The U.S.-supported Anti-Narcotics Police Directorate (DIRAN) sprayed 138,775 hectares of coca during the year and 1,624 hectares of poppy. The Government of Colombia (GOC) reports that manual eradication accounted for the destruction of an additional 31,285 hectares of coca and 497 hectares of poppy. According to preliminary reports these efforts may have led to an increase in the U.S. street price of cocaine and heroin and a reduction in purity for both.

Colombia's military forces are continuing the successful "Plan Patriota," a major campaign against the Revolutionary Armed Forces of Colombia (FARC), which uses the drug trade as its major financing source. Over 14,000 members of the paramilitary United Self Defense Forces (AUC) have demobilized, weakening its influence, although the AUC is still involved in the drug trade and continues to challenge the FARC for control of key coca and poppy cultivation areas. In addition, almost 3,000 members of the FARC, AUC, and the National Liberation Army (ELN) deserted in 2005, providing invaluable counternarcotics intelligence. Colombia is party to the 1988 UN Drug Convention.

II. Status of Country

Colombia is the source of over 90 percent of the cocaine entering the United States and a significant source of heroin. It is also a leading user of precursor chemicals and the focus of significant money laundering activity. Developed infrastructure—such as ports on both the Pacific and the Atlantic, multiple international airports, and a highway system—provides narcotics traffickers with many options. The presence of illegal armed groups who participate in the drug trade compounds the normal problems associated with narcotics trafficking. These groups include the FARC, the AUC, and the ELN. They control areas within Colombia with high concentrations of coca and opium poppy cultivation, and their involvement in narcotics continues to be a major source of violence and terrorism. Drug use in Colombia is increasing, even though there are very active demand reduction programs. The judicial system continues the transition to an oral accusatorial system. The system is now functioning in Bogota and three municipal areas, and is proving efficient and effective. Six new municipal areas will be added in 2006, including Medellin and Cali. Over 17,000 prosecutors, judges, and criminal investigators received intensive training in the new accusatory system in 2005, and the GOC plans to have the system installed nationwide by 2008.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Justice and Peace Law, passed in July of 2005, provides a legal mechanism for individuals in illegal armed groups to demobilize with certain legal protections and assurances. The new law has greatly accelerated the demobilization of AUC paramilitary groups enmeshed in narcotics trafficking; over 60 percent of the 14,000 paramilitary members who had demobilized since 2003 did so in the latter half of 2005. Paramilitary members who choose not to demobilize, as well as those who do not qualify for the demobilization program due to previous crimes, will continue to be investigated and prosecuted outside of the Justice and Peace Law framework. The GOC also began a program of Manual Eradication Groups (GMEs) in 2005 and increased the number of 30-member groups to 60 by

the end of the year. In January 2006, the GOC began a massive manual eradication operation in one of Colombia's largest national parks using these groups. The Colombian Congress has approved a "shock" reform package for the military justice system. This package will improve the long-term functioning of the military, which is critical to successful efforts against narcotics traffickers and narcotics terrorists.

Another important GOC policy initiative in 2005 was the establishment of the Coordination Center for Integrated Action (CCAI), an interagency organization to reestablish governance in previously ungoverned spaces of Colombia through synchronizing military operations with the operations of other ministries. The GOC also beefed up its riverine capability by launching a new gunboat in the interior to deter and attack traffickers; started operating its own go-fast Midnight Express boats on the North Coast against traffickers; established a government website to fight drug consumption and trafficking; contracted to buy more Blackhawks for mobility against narcotics terrorists; reorganized the National Narcotics Directorate (DNE); and expanded the Forest Ranger program (which pays families in rural communities a stipend to pull up any coca and maintain area coca-free primarily in important/fragile ecosystems) to 33,589 families who keep 1.25 million hectares free of coca and poppy and who have recovered 330,000 hectares of forest. Finally, notwithstanding the record levels of coca eradication, the GOC detected massive replanting and reconstitution efforts by traffickers in the Department of Nariño. It rapidly deployed forces to the region late in the year to increase eradication and assigned a Colombian military general officer as "regional drug czar" to coordinate efforts against cultivators, transporters and traffickers.

Law Enforcement Efforts. The CNP, led by DIRAN, interdicted over 94 metric tons of processed cocaine (HCl) and cocaine base and destroyed 107 HCl laboratories and 779 base labs. All security forces seized a record 223 metric tons of cocaine and cocaine base and destroyed 137 HCl laboratories. DIRAN also conducted numerous joint operations with the military against high-value narcotics terrorist targets. Asset seizures were up by more than 500 percent in 2005 and included the drugstore chain owned by the Rodriguez Orjuela brothers, valued at several hundred million dollars.

The CNP's Mobile Rural Police (Carabineros or EMCAR) captured 275 narcotics traffickers and 1,639 guerrillas. The squadrons also captured 3,127 common criminals. They seized 1,655 weapons, 8.5 metric tons of cocaine base, 46,600 gallons of liquid precursors and 142.5 metric tons of solid precursors. A total of 52 EMCAR squadrons have been trained and deployed, and their work along with the "Municipio" or hometown CNP units was largely responsible for the continued improvement in public security throughout rural Colombia.

DIRAN's Jungle Commandos (Junglas) are air mobile units that have received significant specialized USG training. The Junglas' primary mission is the destruction of HCl labs and interdiction missions. They were responsible for the destruction of over half of the HCl and base labs destroyed by the CNP and a significant quantity of the seizures.

The Colombian Army Counter Drug (CD) Brigade (BDE) seized over 3 metric tons of cocaine and destroyed 14 HCl labs and 209 base labs. The CD BDE destroyed over 168 tons of liquid precursors and 180 tons of solid precursors. They also dismantled 22 narcotics terrorist base camps and killed or captured 78 narcotics terrorists. Most importantly, they provided security to the aerial eradication efforts.

Corruption. Allegations of corruption within the Office of the Prosecutor General fell sharply in 2005. Widespread use of polygraph exams has been a constructive tool in the fight against corruption. Polygraphs were used extensively in a shakeup at the DAS (FBI-equivalent) at the end of 2005 that resulted in the removal of the top three DAS officers, along with other agents accused of collaborating with the AUC. A specialized Anti-Corruption Task Force Unit investigates and prosecutes public corruption. Corruption plays a major role in the continued diversion of precursor chemicals into the

black market. Colombia is party to the Inter-American Convention Against Corruption. Colombia has signed, but not ratified, the UN Convention against Corruption.

Culture of Lawfulness. The USG supports programs that promote respect for rule of law and civic responsibility in Colombia. The Culture of Lawfulness program has taught over 16,000 ninth-graders in 190 schools using over 320 teachers. The program is being integrated into Colombian National Police (CNP) basic training programs. Operating in ten cities, the program will train additional teacher trainers in 2006 to move the program closer to self-sufficiency.

Port Security. Various USG agencies work with DIRAN and private seaport operators to prevent narcotics trafficking in Colombia's ports. DIRAN provides police personnel, and the port authorities work to improve their own security and provide equipment and infrastructure support to the DIRAN units. The USG provides coordination, technical assistance, and training. In 2005, almost 5 metric tons of cocaine and 26 kilograms of heroin were seized and 36 persons arrested 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 2005, airport agents confiscated 862 kilograms of cocaine and 73 kilograms of heroin, resulting in 55 arrests.

Hundreds of Colombian companies participate in a USG Business Alliance for Secure Commerce (BASC) program. The program seeks to increase the effectiveness of law enforcement by deterring narcotics smuggling in commercial cargo shipments. All major port cities have an active BASC program.

Environmental Safeguards. The illicit crop eradication program follows strict environmental safeguards monitored permanently by several GOC agencies. The spray program adheres to all GOC laws and regulations, including the Colombian Environmental Management Plan. The USG also reviews the program on a yearly basis. The OAS published a study in 2005 positively assessing the chemicals and methodologies used in the aerial spray program.

Since the tracking of complaints began in 2001, the GOC has processed approximately 5,844 complaints of crop damage by spray planes, with some 3,069 complaints in 2005 alone. 28 complaints of accidental spraying of food crops or pastureland have been verified and compensation paid. To date, the program has paid approximately \$159,000 in compensation for damaged crops.

The GOC investigates all claims of human health damage alleged to have been caused by aerial spraying. Since the spraying began, the Colombian National Institute of Health has not verified a single case of adverse health effects.

Extradition and Mutual Legal Assistance. During President Uribe's administration, extraditions have increased, with 304 Colombian nationals and 11 nonnationals extradited by the end of 2005.

In early 2005, Colombia extradited FARC leader Nayibe Rojas Valderama (aka "Comandante Sonia") and other criminal associates. Colombia also extradited Cali Cartel leader Miguel Rodriguez Orejuela in 2005, and continued to arrest and extradite other significant drug traffickers wanted for prosecution in the U.S.

There is no bilateral mutual legal assistance treaty in force between the United States and Colombia, but the two countries cooperate via mutual legal assistance provisions in multilateral agreements and conventions, such as the OAS Convention on Mutual Legal Assistance and United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the 1988 UN Drug Convention). During 2005, the United States submitted more than 100 mutual legal assistance requests and received over 50 responses. The GOC also cooperates with U.S. investigations and prosecutions. Several specialized Colombian law enforcement units work closely with U.S. law enforcement agencies to investigate drug trafficking organizations as part of our bilateral case initiatives.

Demobilization. Colombia is home to three formally designated Foreign Terrorist Organizations. The Justice and Peace Law passed in 2005 accelerated the pace of demobilization of one of these organizations. Reportedly, over 14,000 AUC members had demobilized by the end of 2005, but the actual number may be higher. Diego Murillo Bejarano, also known as “Don Berna,” a prominent paramilitary commander who was part of the original demobilization negotiations with the Colombian government in late 2002, turned himself in during May 2005 to avoid arrest. Shortly afterwards, he ordered the demobilization of more than 2,000 of his troops. The USG has provided limited assistance for the collective demobilization process and is being asked to do more by the GOC. The ELN, with a little over 2,000 troops, has recently begun peace talks with the government.

Public Security. There are now police in all of Colombia’s 1,098 municipalities, limiting the influence of illegal armed groups and denying their sources of income. This increased government presence has contributed to increased desertions by terrorist group members. Other security indicators also were very positive in 2005: homicides down by 13 percent, kidnappings down by 51 percent, overall terrorist attacks down by 21 percent, and the number of Internally Displaced Persons (IDPs) down by 15 percent.

Kingpin Group. The DIRAN permanent task force, which targets the leadership of the narcotics terrorist organizations, continues to work towards capturing more than 300 Kingpins. The special police teams gather intelligence and the DIRAN intelligence fusion center analyzes the intelligence and participates in operational planning. Since the group was formed, numerous special operations have been conducted, resulting in the capture of several leadership targets.

Operation Knockout. In June of 2005, a multi-agency operation seized 10.7 metric tons of cocaine, 30 kilograms of heroin, and over \$142 million worth of properties and currency. This intelligence-driven operation, which attacked the source, transit, and target zones, was successful due to the leveraging of intelligence and operational resources from the USG and the GOC.

High-Value Targets. In 2005, three FARC commanders were killed, many other important leaders were either killed or captured, and other important narcotics traffickers were arrested and are now awaiting extradition to the United States.

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. The GOC is generally in 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 is party to the OAS Convention on Mutual Legal Assistance and the GOC and the U.S. concluded a Maritime Shipboarding Agreement, signed in 1997, a highly successful agreement that provides faster approval for shipboarding in international waters and has facilitated improved counternarcotics cooperation between the Colombian Navy and the U.S. Coast Guard. Colombia is also party to the UN Convention against Transnational Organized Crime, along with the protocol on trafficking in persons.

Cocaine. Based on USG estimates on coca yield and laboratory efficiency data, potential production of pure cocaine declined another 6.5 percent in 2004 to 430 metric tons (2005 cultivation estimates were not available as of publication date). This put estimated Colombian potential cocaine production at the lowest level in at least seven years, despite the fact that the Colombian coca crop size estimate remained statistically unchanged between 2003 and 2004. Based on average purities of bulk seizures in the United States, 430 metric tons of pure cocaine equates to approximately 515 metric tons of “export quality” cocaine. This is down 43 percent from 2001’s high of 905 metric tons of production

potential of export quality cocaine. This success may be reflected in preliminary reports of a 19 percent increase in the price of cocaine on U.S. streets between February and September of 2005.

Heroin. According to USG estimates, Colombia had the potential to produce 3.8 metric tons of 100 percent pure heroin in 2004. Eradication reduced Colombian opium poppy cultivation from 6,540 hectares in 2001 to 2,100 hectares in 2004—a 68 percent decline. (2005 cultivation estimates were not available at press time). Preliminary reports of a 30 percent increase in the U.S. street price of heroin may be a result of this decline.

Synthetic Drugs. Both availability and consumption of ecstasy in Colombia are rising. Most ecstasy found in Colombia enters from Europe in powder form and is locally pressed into pills. There has been no evidence of ecstasy being smuggled from Colombia to the United States, and it is believed that almost all ecstasy entering Colombia is for local consumption. Colombian production of ecstasy is believed to be limited. The Colombian National Police raided one ecstasy lab and one amphetamine pill press facility in 2005.

Drug Flow/Transit. Cocaine and heroin are 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 vessels can transport cocaine. Cocaine is also smuggled using small aircraft from clandestine airstrips in eastern and southeastern Colombia to Brazil, Suriname, Venezuela, or Guyana. From these countries the cocaine is either consumed domestically, 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. The majority of the drugs shipped from the coastal regions originate from production areas in the south-central portion of the country, as well as from less-prolific growing areas in the northern third of Colombia. Most shipments are organized by well-established trafficking organizations based in Cali, Medellin, Bogota, and elsewhere.

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

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 transported in this manner are relatively small.

Heroin is often concealed in the lining of clothing or luggage. There is also ingestion by airline passengers. 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. The trend of heroin shipments being combined with cocaine shipments on go-fast boats departing from the Atlantic coast continues, although such shipments have not been detected with the frequency that occurred in the past.

Colombian heroin transportation organizations use trafficking routes through Argentina, Ecuador, Guatemala, Mexico, Panama, and Venezuela 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.

Demand Reduction. The Colombian government is developing a national Demand Reduction Strategy. The Ministry of Social Protection completed a comprehensive survey of school age drug use that will serve as a baseline for the strategy. Many private entities and nongovernmental organizations (NGOs) work in the area of demand reduction, and the DIRAN has an active DARE program. The USG is currently coordinating with the National Directorate on Dangerous Drugs (DNE) to develop a registry of NGOs working in demand reduction. Once completed, the USG plans to sponsor a national demand reduction conference to synchronize efforts across the country and to assist in the formation of a demand reduction NGO network.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The aerial eradication program sprayed approximately 138,775 hectares of coca and 1,624 hectares of poppy in 2005, surpassing 2004's totals. Continued close intelligence coordination and more intensive utilization of Colombia's counternarcotics brigade has resulted in a lower number of incidents of hostile fire on spray aircraft. Fewer hostile fire impacts has in turn helped to sustain the operational tempo of aerial eradication by reducing time lost to repair damaged aircraft. One pilot was killed in 2005 during a spray operation, and the spray plane was also lost.

The Plan Colombia Helicopter Program (PCHP), consisting of UH-1N, UH-1H II, UH-60, and K-Max helicopters, supported the CD Brigade and, when available, provided support to human rights-certified Colombian military and public security forces. In 2005, PCHP aircraft flew 29,054 hours, carried 36,782 passengers, transported 1,788,400 pounds of cargo, and conducted 188 medical evacuations of military and civilian personnel. This year the program lost one UH-60 and one UH-1H II in crashes that were not the result of enemy fire. PCHP also participated in a number of high value target (HVT) missions. Nationalization of the PCHP continued, with more than 100 contract American pilots and mechanics replaced by Colombian Army (COLAR) personnel in 2005.

Immigration and Customs Enforcement (ICE) and Customs Border Patrol (CBP) continue to provide training and technical assistance to improve the ability of border control agencies in Colombia to combat money laundering, contraband smuggling, and commercial fraud. The emphasis has been on seaports and airports. The Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) provides technical assistance and training to numerous GOC entities to ensure that they can deal with the threat of explosive devices, and the Bureau of Prisons (BOP) has a small program that provided technical assistance and training to its GOC counterpart. In addition, the Colombian Coast Guard has benefited greatly from a number of U.S. Coast Guard (USCG) courses, including extensive Maritime Law Enforcement training. In August 2005, the U.S. Coast Guard conducted a Law Enforcement Curriculum Infusion Program in Cartagena.

The USCG and the Colombian Navy (COLNAV) in 2005 discussed how to further cooperation and field new initiatives to stop smugglers in the transit zone. USCG aircraft flew maritime patrol missions in support of COLNAV operations, and a USCG communications team deployed aboard a COLNAV frigate to facilitate operational communications with JIATF-S. The USG continues to support DIRAN's aviation unit (ARAVI), comprised of 19 fixed-wing and 61 rotary-wing aircraft. In addition to counternarcotics missions, ARAVI has, with Embassy approval, used USG-supported assets for humanitarian missions; targeted intelligence gathering; and antiterrorism, antikidnapping, high value target, and public order missions. As part of USG nationalization efforts, the USG continues to help ARAVI train more pilots and mechanics within Colombia and perform more maintenance and repairs in Colombia. USG funds financed a modern state-of-the-art maintenance hangar that allows ARAVI to perform depot-level maintenance on the 31 Huey IIs, reducing downtime due to shipment of aircraft back to the United States. In addition, two of seven American technical advisors have been replaced

with Colombians. With USG assistance, ARAVI began training for Night Vision Goggle (NVG) use in 2005.

The Air Bridge Denial (ABD) program completed 28 months of operations in 2005. ABD operations in 2005 contributed to the destruction of two aircraft, the capture of five aircraft in Colombia and three others in Central America, and the seizure of almost four metric tons of cocaine.

In addition to combating drug production and trafficking, the USG is assisting Colombians in the areas that have been most ravaged by the drug trade. For example, the USG helped improve the delivery of public services in 156 municipalities, including the delivery of potable water and sewage treatment. To date, the USG has provided nonemergency support for over two million Colombian internally displaced persons affected by narcotics-related terrorism and aided over 2,600 former child soldiers. Nine peaceful-coexistence centers have been created in small municipalities to provide administrative and legal assistance, educational opportunities, and a neutral space for community meetings, discussions, and events. In addition, the GOC's presence in rural areas was expanded by the creation of 40 Justice Houses, which offer access to justice and peaceful conflict resolution.

The USG is assisting the GOC in criminal justice system reform through the implementation of a new criminal procedure code, as the country moves from the written inquisitorial system to an oral accusatory system. The first year of implementation has demonstrated resolution of criminal cases in weeks or months rather than years. Over 60 percent of cases formally charged have resulted in convictions. Plea agreements have resolved large percentages of criminal cases. DOJ, USAID, and other USG agencies have provided training, technical assistance, and equipment. In 2005, the DOJ trained more than 11,300 police, prosecutors, forensic experts, and judges in the new accusatorial system and in specialized areas of money laundering, human rights, anticorruption, post-blast investigations, antikidnapping and judicial protection.

The Road Ahead. Challenges for 2006 include continuing transfer of greater responsibilities in counternarcotics funding and operations to the GOC, while maintaining operational results; countering the rapid replanting of coca in areas sprayed by the eradication program; dealing with increased illicit cultivation in Colombia's national parks; supporting the GOC's efforts to demobilize and reintegrate ex-combatants, while advancing reconciliation and victim reparations processes; increasing the number of police to deal with the power vacuum created by the demobilization of the AUC; gaining control of the vast Pacific coastal zones; maintaining an aging air fleet that is required to fly more hours every year; and maintaining the political will of the Colombian people to confront and defeat their internal enemies.

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. On Ecuador's northern border, the Revolutionary Armed Forces of Colombia (FARC), a narcotics terrorist organization based in Colombia, has extended its influence. The region has become a major transit point for cocaine, chemicals, and supplies for the FARC and other trafficking organizations based in Colombia. Most drugs leave Ecuador by sea and there has been a significant shift toward the use of Ecuadorian-flagged vessels for multi-ton shipments of cocaine to circumvent the USG success in stopping Colombian-flagged suspect vessels and prosecuting their crews. Cocaine seizures through November 2005 were substantially above previous years'. 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. Scanty government presence in a large portion of the country contributes to lawlessness. The Ecuadorian National Police (ENP) and military forces are inadequately equipped and trained to deal with international criminal or insurgent pressures.

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 transhipped internationally through Ecuador's seaports and airports in volumes ranging from a few hundred grams to multi-ton loads. Maritime cocaine shipments aboard Ecuadorian-flagged vessels and through Ecuadorian waters increased in 2005. Although Ecuador has no bilateral maritime agreement with the U.S., law enforcement operators improved their ability to work cooperatively in late 2005 to facilitate the boarding and search of suspect vessels by U.S. law enforcement personnel. Detected shipments of drugs via international mail and messenger services continued at a high level. In 2005, the number of Ecuadorian-flagged drug "motherships" seized by the U.S. Coast Guard exceeded, for the first time ever, the seizures of similar Colombian-flagged vessels. 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 2005

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 reorganization and re-staffing of CONSEP, which began in 2003, continued through 2005. Work began to revise the basic drug law, Law 108, to harmonize it with the new money laundering law. CONSEP activity against trafficking controlled precursor chemicals continued at a

high level in 2005. Military and police forces generally cooperated at the local level, conducting some joint operations in 2005 to destroy illicit crops and seize precursor chemicals.

New ENP Counternarcotics Directorate (DNA) bases and stations were opened with USG assistance in 2005 in San Lorenzo, Esmeraldas Province and at San Jeronimo, Imbabura Province. Construction of other DNA installations began in El Oro Province at Machala port and at Y de Jobo. Other USG-financed DNA infrastructure projects are in construction or design phases in Esmeraldas, Carchi, and Sucumbios provinces. Further improvements were made in the ENP intelligence data and voice communications networks. Advanced technical inspection equipment, including digital x-rays and ion scanners, began service in Ecuadorian international airports in 2004. The ENP budget for 2006 includes \$700,000 for DNA operational costs.

Law Enforcement. Total cocaine seizures in 2005 were over 44 metric tons. This compares with 5.8 metric tons in 2004 and 2.5 metric tons in 2003. In large measure, the increase is due to increased transit of cocaine from Colombia through Ecuador, mostly via maritime routes. Heroin seizures in 2005 totaled 230 kilograms. Cannabis seizures were 640 kilograms.

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 2001 revised law, was still in progress at the end of 2005.

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. However, there is no comprehensive anticorruption law. There were no known prosecutions for drug-related official corruption in 2005.

Law Enforcement Efforts. There are occasional delays in obtaining GOE permission to board and seize Ecuadorian vessels suspected of engaging in illicit activities at sea, due in large part to the lack of a maritime counternarcotics agreement. Ecuadorian law enforcement agencies improved procedures for cooperation with U.S. law enforcement agencies in the second half of 2005. Cooperation between the USG and the GOE in 2005 resulted in several successful drug interdiction operations and the dismantling of some international trafficking organizations.

Arrests and Prosecutions. A total of 2,438 Ecuadorians and 314 foreigners were arrested for drug trafficking from January through November 2005. Prosecutions are impeded by the dysfunctional judicial system and persistent confusion over proper implementation of the 2001 Code of Criminal Procedures.

Agreements and Treaties. The United States-Ecuador extradition treaty, which entered into force in 1873, and its supplement, which entered into force in 1941, 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 nonEcuadorian nationals. The Ecuadorian constitution prohibits the extradition of Ecuadorian nationals.

Ecuador is a party to the 1988 UN Drug Convention and has a narcotics law that incorporates its provisions. The UN Office on Drugs and Crime (UNODC) has conducted counternarcotics law enforcement projects in Ecuador for several years. Ecuador is also a party to the OAS Inter-American Convention on Mutual Assistance in Criminal Matters.

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

Cultivation/Production. Ecuadorian security forces located and destroyed about 36,160 cultivated coca plants in small, scattered sites in 2005. While not commercially significant, the extent of

cultivation was about double that of 2004. Together with the discovery of a small, partially harvested opium poppy plantation, they suggest that growers are testing the feasibility of drug crop cultivation in Ecuador.

Precursor Chemical Control. Law enforcement officials generally believe that the illicit traffic of chemicals in Ecuador is greater than indicated by the relatively small volume of chemicals seized. The USG, other cooperating governments, and the United Nations continue to work with the

Ecuadorian Government to correct deficiencies in the chemical control regime. Ecuador meets 1988 UN Drug Convention objectives regarding chemicals, and has signed a cooperative agreement with the European Union.

Petroleum ether or “white gas,” used in HCl processing, was declared a controlled substance by CONSEP in June 2003, but continues to be trafficked from Sucumbios Province (where it is produced as a byproduct of oil extraction) to neighboring Putumayo Department, Colombia. GOE security forces, primarily the Army, have closed down the principal diversion points but seized 116,480 liters of chemicals in 2005, as traffickers found other vulnerable points in more remote oil fields near the Colombian border.

In one major case in 2005, police and CONSEP seized 6,000 kilograms of methyl ethyl ketone; 1,620 kilograms of toluene; 355 kilograms of isopropyl alcohol; and 362 kilograms of ethyl acetate.

Demand Reduction. Prevention of domestic drug abuse is an important part of the Ecuadorian government’s drug strategy and received 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 with some USG support. All public institutions, including the armed forces, are required to have abuse prevention programs. The DNA conducts an abuse prevention program.

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 slow 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 have depreciated during the interim. The responsible governmental agency, CONSEP, is trying to curb this practice by enforcing new inventory controls. In 2005, CONSEP sold two forfeited real properties, the first in several years, as well as forfeited items of personal property.

Regional Coordination. 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.

Alternative Development. UDENOR, the Ecuadorian agency for northern border development established in 2000 to coordinate economic and social development programs in the country’s northern border region, continued its implementation of the government’s northern border development master plan. The \$400 million 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. The UDENOR master plan includes productive development, conservation of environmental resources, productive infrastructure, social infrastructure, and local economic development. Between 2000 and 2007, the USG, through USAID, has provided the bulk of funding, with agreements to finance some \$78 million. The USAID-funded elements of the plan seek 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

increase licit income and employment for small and medium farmers in Ecuador's northern border provinces.

IV. U.S. Policy Initiatives and Programs

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 2005 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.

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 programs administered by USAID and operated principally by the International Organization for Migration (IOM) and CARE contribute to the Ecuadorian Government's Northern Border plan. To increase citizen satisfaction and demonstrate the legitimacy of democratic institutions, a social and productive infrastructure program in 2005 built 47 water and sanitation systems and 11 bridges. CARE conducts a program to strengthen local government and citizen participation in 10 municipalities and parishes by providing training in participatory budgeting, ethics, accountability and financial management, sustainability of municipal services, and strategic planning at the municipal and parish levels.

A program component to promote licit income and jobs includes training and assistance in agricultural production and marketing, especially supporting farmers growing coffee, cacao and vegetables. Coffee and cacao are becoming the most successful crop clusters based on achievement of results, i.e., increasing family income and generating full time equivalent jobs.

The Road Ahead. The USG will continue to provide training and essential infrastructure and equipment to improve the effectiveness of military and police collaboration, seaport and coastal control, police intelligence and land route interdiction. 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.

Paraguay

I. Summary

Paraguay is a significant transit country for drugs. The National Anti-Drug Secretariat (SENAD) through its Major Violator Unit (MVU), disrupted cocaine trafficking networks, increasing cocaine seizures while assisting and coordinating with international law enforcement agencies. Paraguay extradited to the United States Ivan Carlos Mendes Mesquita, the leader of a major international drug trafficking organization, with connections to the Revolutionary Armed Forces of Colombia (FARC), on drug charges. In addition, three other major Brazilian drug traffickers were extradited to Brazil. Paraguay cooperates with its neighbors by patrolling remote border regions where illicit drugs are being transported. On a negative note, an allegedly corrupt official with strong ties to drug traffickers, Aristides Cabral, was named the Chief of Police of a department in northwest Paraguay that forms part of a corridor for illegal flights and ground transport for drugs. Paraguay is a party to the 1988 UN Drug Convention.

II. Status of Country

According to USG law enforcement sources, Paraguay remains a transit country for significant amounts of Colombian, Bolivian and Peruvian cocaine destined for Argentina, Brazil, Europe, Africa and the Middle East. Brazilian nationals, some of whom purchase cocaine from the FARC in exchange for currency and weapons, head most trafficking organizations in Paraguay. Paraguay is also a source country for high-quality marijuana which is not trafficked to the U.S. As part of a long-term effort to improve and strengthen SENAD's operational capabilities in the northeast region of Paraguay, in December 2005, construction began on a new office for SENAD in the city of Pedro Juan Caballero, in the Department of Amambay.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In May 2005, the GOP issued a decree approving modification of the organizational structure of the SENAD, which will enhance SENAD's ability to expand in a timely manner.

In June 2005, SENAD began appealing to the public for information related to drug traffickers operating in Paraguay through a public relations campaign. The campaign consisted of radio spots on local stations as well as large billboards with the photos of SENAD's "Most Wanted" drug traffickers. The program has generated helpful leads, putting traffickers on the defensive.

Accomplishments. The 2005 capture of Brazilian fugitive and accused arms and drug trafficker Ivan Carlos Mendes Mesquita, resulted in Paraguay's extraditing him to the United States in June 2005. The U.S. initiated an extradition request for Mendes Mesquita on charges of possession of cocaine and conspiracy to distribute; the Paraguayan Court of Appeals upheld the extradition in a timely manner, and the Supreme Court rejected Mendes Mesquita's appeals. During Mendes Mequita's detention, the GOP resisted significant pressure not to extradite, and took security precautions to ensure Mendes Mesquita was not released or otherwise freed. Mendes Mesquita is the first major trafficker extradited to the U.S. by Paraguay, representing an important step in the war against drug trafficking organizations with links to the FARC. Paraguay also expelled or extradited three additional drug traffickers. In December 2005, Paraguayan's Supreme Court approved the extradition of Jose Luis Gomez to the U.S. on charges of narcotics-related money laundering. Gomez was extradited to the U.S. on January 20, 2006.

In July 2005, SENAD, in cooperation with the Brazilian National Police, captured Brazilian national, Luis Alberto Da Cunha (aka “Barba”), who was on Brazil’s Ten Most Wanted List. During the operation, SENAD seized weapons, cars, cellular telephones and false documents. Brazil is seeking extradition of Da Cunha, who was one its principal drug traffickers and was connected to Mendes Mesquita.

Paraguay also carried out joint counternarcotics operations with countries in the region, the U.S., and Europe in 2005. In one case, Paraguayan, Chilean and Bolivian law enforcement officials conducted a series of joint operations, and used a controlled delivery to capture members of an international drug ring. Law enforcement officials in Chile apprehended 13 suspects and seized two (2) tons of marijuana, and SENAD arrested 11 drug traffickers in Paraguay—seizing a total of 708 kilograms (kg) of marijuana.

In December 2005, SENAD seized 257 kilograms of cocaine destined for Spain, apprehended seven members of a drug trafficking organization and confiscated the equivalent of \$34,000. The operation also directly facilitated further arrests of traffickers in Europe. This operation with the Drug Enforcement Administration (DEA) and Spanish police officials resulted in the largest seizure ever made in Asuncion and reflects SENAD’s ability to carry out a complicated operation in concert with foreign law enforcement authorities.

Throughout 2005, SENAD seized 489 kilograms of cocaine, 66,964 kilograms of marijuana, 43 weapons, 46 vehicles, and five planes. SENAD also destroyed 1,000 hectares of marijuana. All figures represent increases over 2004. According to SENAD, the total financial loss to narcotics traffickers in 2005 from these seizures was over \$94.7 million.

Law Enforcement Efforts. Since opening its first forensic laboratory, Paraguay continues to strengthen SENAD’s counternarcotics and investigative operational units. According to SENAD, 237 persons, including drug producers and distributors, have been arrested. The Attorney General’s office designated three prosecutors (two more than in 2004) for narcotics cases and the Supreme Court reaffirmed the assignment of two magistrates as special narcotics judges.

SENAD’s canine program, with a coordinator and 12 dog/handler teams, continued successful operations in 2005, enhancing the overall efforts of SENAD’s drug interdiction program. The canines are used in the international airport in Asuncion, checkpoints throughout the country, and along the Paraguayan-Brazilian border.

Asset Forfeiture. In 2005, the GOP received approximately \$37,000 in proceeds from the auction of a seized twin-engine aircraft. SENAD plans to allocate a portion of these proceeds to equip SENAD agents with new weapons and tactical equipment.

Corruption. There is no evidence that the government or any senior official facilitates the distribution or production of narcotics or other controlled substances. Nevertheless, Corruption within the Paraguayan National Police (PNP) and corruption and inefficiency within the judicial system negatively affects SENAD operations. There is evidence that high-ranking PNP officials have compromised counternarcotics operations and provide protection to narcotics traffickers.

In March, convicted Brazilian drug trafficker Fabricio Silveira Machado escaped from Asuncion’s Tacumbu Prison, where he was serving a 25-years sentence. The day before his escape, a Paraguayan judge had signed an extradition order to send Machado to Brazil. Press reports indicate Machado bribed prison guards with payment of \$3,200 for his release. Authorities located one of the prison guards and discovered Machado’s bribe money in his possession.

In 2004, the GOP submitted to the Senate a list of police officials recommended for promotion, including that of Aristides Cabral. There are strong allegations of corruption and ties to drug trafficking organizations surrounding Cabral. In October 2005, the Senate narrowly voted to reject

Cabral's promotion notwithstanding the support of most Senators of the governing Colorado Party. Nevertheless, in November 2005, Cabral was named Police Chief of the Department of Presidente Hayes. This department, northwest of the capital, is part of a vast under-populated region in Paraguay forming part of a corridor used by traffickers to move drugs across Paraguay. Cabral's near-promotion and appointment set back the GOP's efforts against corruption.

Agreements and Treaties. Paraguay 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 GOP is also party to the UN Convention against Transnational Organized Crime, Inter-American Convention against Corruption and the Inter-American Convention against Terrorism. Paraguay also signed the OAS/CICAD Hemispheric Drug Strategy. In 2004, the OAS Inter-American Convention on Mutual Assistance in Criminal Matters entered into force for Paraguay. Paraguay has law enforcement agreements with Brazil, Argentina, Chile, Venezuela, and Colombia. An extradition treaty is in force between the U.S. and Paraguay. The 1987 bilateral letter of agreement under which the U.S. provides counternarcotics assistance to Paraguay was extended in 2005.

Cultivation/Production. Marijuana is the only illicit crop cultivated in Paraguay, and it is harvested throughout the year. Marijuana production has increased, spreading to nontraditional areas of the country. SENAD destroyed 1,000 hectares of marijuana plants in 2005 (enough to produce 3 metric tons of marijuana) out of an estimated 5,500 hectares under cultivation.

Drug Flow/Transit. According to estimates by U.S. law enforcement officials, a significant amount of cocaine transits Paraguay annually enroute to Brazil, Argentina, Europe, Africa and the Middle East. There is also evidence from seizures and law enforcement operations that the Brazil Air Bridge Denial Program is driving more traffickers to use Paraguay as a staging area for smaller shipments of cocaine via land into Brazil.

The marijuana produced in Paraguay is not 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 2-3 percent is consumed domestically.

Domestic Programs/Demand Reduction. The SENAD's Office of Demand Reduction does significant 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. From September 2004 to September 2005 the drug awareness program reached a total of 44,710 students and formal training was provided to 1,068 school teachers in 219 public educational institutions.

According to a 2004 national study on drug consumption, carried out by SENAD in partnership with OAS/CICAD, marijuana continues to be the most commonly abused drug by adults (alcohol excepted). 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 is the most abused substance and its use is increasing. In 2005, a judicial decree was issued providing for greater control over the in-country sale of chemical substances such as glue and other derived products.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. USG priorities in Paraguay focus on the disruption of narcotics trafficking through building an effective investigative and interdiction force by providing training equipment and technical assistance; supporting a strong GOP institutional effort against money laundering; and encouraging a decrease in public corruption. The USG will continue to support professional development and institutionalization of SENAD to promote more effective counternarcotics and organized crime investigative and operational capability. The USG will encourage SENAD to

incorporate greater focus on shipping containers and greater prevention measures against precursor chemical diversion.

The U.S. Treasury Department's Office of Technical Assistance (OTA) provided basic economic crime investigation training to select members of SENAD, SEPRELAD, and the Ministries of Hacienda, Tributacin and Customs in 2005, in areas such as money laundering, trademark and copyright violations, piracy, tax evasion and corruption. The State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) provided logistical and financial support for their law enforcement operations.

DEA continued to work with SENAD, providing guidance on operations and investigations. INL provided commodities and training support to SENAD, including the purchases of detection canines, computer-related items, uniforms, laboratory and other equipment. In 2005, SENAD agents participated for the first time in joint U.S.-Paraguayan counternarcotics/counterterrorism training courses. Separately, the U.S. has refurbished two helicopters dedicated to drug operations. In March 2005, INL sponsored a training course conducted by Alcohol, Tobacco and Firearms (ATF) officials from the U.S. Embassy in Bogota, Colombia on firearms identification, and in May 2005, INL sponsored participation by two SENAD agents in a management training course held in Guatemala.

The Road Ahead. The USG will continue to support Paraguayan efforts to fight drug trafficking. When the new SENAD office in Pedro Juan Caballero is completed in July 2006, the GOP's enforcement capabilities will be greatly enhanced in the northeast region. The GOP is in the process of approving a 2006 budget that could incorporate up to 50 new drug agents. This augmented capability, along with SENAD's legislative and operational tools will enable the GOP to expand its efforts to track, arrest and prosecute major drug trafficking organizations and corrupt officials who protect them. Combating official corruption remains a considerable challenge for the GOP.

In 2006, INL will continue to support improvements to the technical and operational abilities of SENAD. The planned development of a centralized database for storing and sharing intelligence data will greatly enhance SENAD's ability to conduct investigations. SENAD's ability to conduct complex investigations has improved, as evidenced by the December 2005 joint operation with Spanish police to dismantle a drug trafficking organization. DEA will continue to work with SENAD to enhance its skills—providing guidance on operations and investigations.

Despite low ratings on corruption and other indices that prevented Paraguay from qualifying to participate fully in the Millennium Challenge Account (MCA) program, it was again invited to participate in the MCA's Threshold program. If Paraguay's most recent proposal is accepted, Paraguay could be eligible to receive significant USG funding to assist it in addressing the problems of corruption and impunity that hamper law enforcement efforts.

Peru

I. Summary

In 2005, the Government of Peru (GOP) surpassed its coca eradication goals and conducted operations on land and sea to disrupt the production and transshipment of cocaine. Despite these efforts, the price of coca leaf has risen steadily and the number of hectares under cultivation has grown, especially in areas not under the GOP's control. Coca farmers (cocaleros) have become more violent and better organized. Groups claiming to be affiliated with the Shining Path (Sendero Luminoso—SL) terrorist organization have also openly identified with coca growers and drug traffickers and engaged in violent ambushes of police and intimidation of alternative development teams in coca growing areas. Public understanding of the linkage between illicit coca cultivation and the negative impact of narcotics trafficking on Peru increased in 2005.

The GOP eradicated almost 9,000 hectares of coca in key producing zones of the Huallaga Valley and San Gaban in Puno Department, and over 3,000 hectares more in voluntary eradication linked to alternative development. Port programs directed at interdicting maritime drug shipments contributed to the seizure of over 11 metric tons of cocaine in 2005.

Peru is a party to the United Nations counternarcotics conventions, including the 1988 United Nations Convention Against Illicit Traffic in Narcotics Drugs and Psychotropic Substances (1988 UN Drug Convention).

II. Status of Country

The USG estimates there are 38,000 hectares of coca cultivation in Peru, including 4,000 hectares in new areas. This could potentially produce 62,500 metric tons of air-dried leaf (only 9,000 tons of leaf is consumed for traditional licit uses). Less than one percent of the 27 million population, approximately (45,000 families), are involved in growing, processing and trafficking coca.

Attacks on helicopters supporting eradication in April, kidnapping of, and threats to, alternative development workers in November, and two deadly ambushes of police in the Upper Huallaga and Apurimac/Ene (VRAE) in December, point to growing links between the Sendero Luminoso and cocaleros. Cocalero organizations are aggressively active but remain divided.

Trafficking organizations move coca products out of Peru via air, river, land and maritime routes to Mexico, Bolivia, Brazil, Colombia, Ecuador and Chile. Opium latex and morphine move overland north into Ecuador and/or Colombia. Maritime smuggling of larger cocaine shipments is one of the primary methods of transporting multi-ton loads of cocaine base and HCl.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Peruvian counternarcotics coordinating and policy agency, DEVIDA, strategy includes supply reduction (interdiction and eradication) alternative development, demand reduction and policy initiatives such as legislation and regulation of coca supply for traditional use. DEVIDA works closely with the U.S. and other bilateral and international organizations to implement the strategy.

In 2005, the GOP challenged the constitutionality of two regional ordinances that sought to liberalize coca production. The Constitutional Tribunal declared the ordinances unconstitutional, but also criticized the GOP's coca policies and their implementation. The decision ended pro-coca regional

ordinance efforts. The GOP is working on new legislation defining limited traditional coca and targeting drug-related cultivation, processing and trafficking.

Alternative Development. The USAID alternative development programs aim to make coca reduction sustainable through improving local governance, strengthening rule of law and increasing the economic competitiveness of coca-growing areas. Over 9,000 more families joined the voluntary eradication program in 2005. Approximately 3,000 hectares of coca were voluntarily eradicated in 2005, and over 11,000 hectares since it began in October 2002.

The program accelerated the implementation of infrastructure and productive activities in communities participating in voluntary eradication in 2005, resulting in the completion of 231 infrastructure projects and the delivery of technical assistance to 26,469 family farmers on over 31,000 hectares of licit crops. Assistance in increasing licit business activity in alternative development areas resulted in \$4.4 M of additional sales in districts where voluntary eradication is taking place. In addition, USAID completed the \$30 M rehabilitation of the Fernando Belaunde Terry highway, which is expected to improve legal productivity in the former cocalero stronghold of the Central Huallaga Valley.

The implementation of community agreements is challenged by organized, well-funded and often violent opposition from politically active cocalero groups as well as by insurgent groups. Strikes and threats of violence slowed program implementation in 2005, forcing the program implementer to close regional offices for nearly a third of the year.

Law Enforcement Efforts. Four hundred police specialized in counternarcotics graduated from the NAS-supported police academies in 2005. Their entry on duty allowed the Peruvian National Police (PNP) to sustain interdiction and eradicate illicit crops where farmers have violently resisted forced eradication. In 2005, the GOP investigated and dismantled major drug trafficking organizations and attacked drug-processing sites in the Monzon and Apurimac/Ene River Valleys (VRAE). In the Monzon, they destroyed over 621 metric tons of coca leaf and 522 cocaine base laboratories, and over 767 cocaine base laboratories and 1,200 metric tons of coca leaf in the VRAE. To disrupt drug trafficking in the Ayacucho region adjacent to the VRAE, the PNP deployed a mobile road interdiction group trained to detect precursor chemicals and drugs using x-ray technology to deter truckers from transporting cocaine production chemicals into the area.

Eradication of Illicit Coca Cultivation. In 2005, the GOP also planned and mounted interdiction and eradication campaigns in the Huallaga Valley and in San Gaban in Puno Department. Success in eradication campaigns despite violent resistance is due to full GOP commitment. The Ministry of Interior's coca eradication group (CORAH, its acronym in Spanish) eradicated almost 9,000 hectares of coca, plus an additional 3,200 hectares through voluntary eradication. They destroyed coca nurseries that would have planted 3,558 hectares more. The PNP eradicated 92 hectares of opium fields in 2005.

Maritime/Airport Interdiction Programs. An estimated 70 percent of all illicit drugs exported from Peru are hidden in legitimate maritime cargo. The USG and GOP increased investigative and intelligence resources targeting the transportation of cocaine to the coastal regions for maritime smuggling and will enhance the GOP's capability to identify and inspect suspect cargo shipments passing through Peruvian maritime ports and its international airports. The Peruvian drug police (DIRANDRO) and Peruvian Customs have established a joint interdiction group at the Port of Callao to review all export documents of containerized-freight and identify suspect cargo for further inspection. The GOP has made many arrests and multi-ton/multi-kilogram seizures totaling over 11 metric tons of cocaine HCl in 2005. Examples include 1.2 metric tons of cocaine HCl hidden in a chemicals tanker at the Port of Callao and cocaine found packed in frozen squid (follow up produced multiple seizures in the U.S. and Europe).

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 substances, 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. Agreements and Treaties. Peru 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. Peru is a party to the UN Convention Against Transnational Organized Crime and its three protocols. Peru is also a part to the Inter-American MLAT Convention and the Inter-American Corruption Convention.

The United States and Peru are parties to an extradition treaty that entered into force on August 25, 2003. The treaty mandates extradition of nationals, and Peru is cooperating with extradition requests. Peru extradited one fugitive, a nonnarcotics defendant, in 2005.

Cultivation/Production. Peru's coca cultivation has been spreading to new areas over the past few years, a response to high prices and perceived impunity after initial GOP concessions in the face of cocalero protests. The USG estimated there were 38,000 hectares of coca cultivation in 2005, including 4,000 in areas new to the 2005 survey. This is a rise of 23 percent in the traditional cultivation areas and 38 percent overall. Opium poppy cultivation is difficult to quantify. The GOP estimates that there might be as much as 1,500 hectares based on the amount of hectares eradicated and opium latex seized in 2004, but an aerial survey of suspected growing areas in northern Peru found little cultivation. The USG detected minor cultivation: 229 tiny fields averaging 0.1 hectares each. Additional efforts to quantify the opium poppy crop are underway.

Drug Flow/Transit. Mexican drug traffickers are appearing as key players in directing the shipment of multi-kilogram and multi-ton loads to Mexico and the Caribbean. Colombian drug trafficking organizations are present to a lesser degree. DIRANDRO successfully identified and disrupted major international cocaine trafficking organizations responsible for maritime and air shipment of tons of cocaine to U.S., South American and European markets.

Although most opium latex and morphine base is transported overland from Peru to Ecuador and Colombia, "mules" carrying opium latex have been intercepted at the Lima's international airport and latex has been found in packages sent through the Peruvian postal system to destinations in Europe. DIRANDRO seized 501 kilograms of opium latex in 2005, up from 383 kilograms in all of 2004.

Fernando Zevallos-Gonzales, a USG-designated drug kingpin, was taken into custody by the GOP on November 19, 2005. Zevallos was sentenced by a Peruvian court to 20 years in jail in December. Two of his key lieutenants were arrested separately on charges including drug trafficking and witness intimidation.

Domestic Programs/Demand Reduction. A policy of proactive public information campaigns to inform the public, opinion leaders and decision makers about the narcotics trafficking industry and its impact has shown positive results. Public opinion poll conducted in Lima and five cities in coca-growing regions show that the Peruvian public is greatly concerned about the extent of influence of narcotics traffickers over public institutions and authorities, recognizes the complicity of coca farmers in drug trafficking, and realizes that drug trafficking is not a problem only for foreigners.

The U.S. Embassy is funding the development of "community anti-drug coalitions" (CAC) in lower-class communities in Lima with technical assistance from the US-based NGO Community Anti-Drug Coalitions of America (CADCA). The CACs will involve people from all sectors of the community in long-term, community financed, and sustainable activities to reduce drug use and abuse.

IV. U.S. Policy Initiatives and Programs

Bilateral and Multi-Lateral Cooperation. Peru's law enforcement organizations have participated in joint operations and shared drug intelligence with neighboring countries. In Operation Amazonas, the PNP conducted a joint operation with the Ecuadorian National Police. Operation Northern Border began with a conference to address drug trafficking along Peru's borders with Brazil, Colombia, and Ecuador. Peru is actively participating in a counternarcotics officer exchange program with Bolivia, Brazil and Ecuador to enhance cross-border drug enforcement efforts.

Regional Aerial Interdiction Program. In September 2005, the GOP signed a Cooperating Nation Information Exchange System agreement (CNIES) that will enable the USG and other cooperating nations to share intelligence about trafficking of drugs by air. The Peruvian Air Force formed a counternarcotics squadron and accepted two aircraft, one specially equipped, donated to the Peruvian Air Force (Fuerza Aerea del Peru—FAP) by the USG. The aircraft will be dedicated to counternarcotics missions.

The Road Ahead. The GOP will continue eradication and interdiction operations during 2006 within a more dangerous security environment in the major coca-growing valleys, as well as in the transit zones. DEVIDA's eradication plan for 2006 will create coca-free zones in the Departments of San Martin and Ucayali that will consolidate alternative development program gains, encourage more voluntary eradication, and eradicate any replanted fields. This action should dissuade farmers of the notion that their crops are safe between eradication campaigns and encourage them to sign compacts for alternative development.

A long-term goal is to assure the PNP has the manpower to carry out counternarcotics law enforcement efforts east of the Andes. Three NAS-supported basic police training academies and new preparatory academies will increase police numbers and capacity.

Progress has been achieved in 2005 to strengthen the capabilities of the Ministry of Transportation and Communications, the Peruvian Coast Guard, the National Port Authority, Peruvian Customs and the Peruvian National Police to carry out operations against drug trafficking and related crimes at Peru's seaports and airports. In 2006, the Peruvian Customs Service will introduce x-ray technology at several ports to conduct more extensive examinations of cargo containers suspected of containing contraband.

Uruguay

I. Summary

Uruguay is not a major narcotics producing or transit country. Current areas of concern include increased trafficking of marijuana, heroin, and cocaine and increasing domestic consumption of highly addictive, cheap cocaine base 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. Colombian, Argentine, and Brazilian traffickers increasingly smuggle heroin through the international airport, while European traffickers use 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 base, and Uruguayans are used as couriers.

Since 2004, Uruguayan counternarcotics police units have identified and targeted clandestine laboratories designed to process Bolivian coca and ship refined cocaine north. The number of confiscated vehicles concealing narcotics and contraband increased substantially in 2005.

The triborder area of Paraguay, Argentina and Brazil, which has long been a haven for narcotics traffickers, affects Uruguay, and the porous border with Brazil lends itself to infiltration. Limited inspection of airport and port cargo continues to be a problem, with Uruguay serving as a transit point for contraband and precursor chemicals, to Paraguay and elsewhere. Although precursor chemical 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 base, smuggled through Argentina and Brazil, is available cheaply in the marginal neighborhoods of Montevideo.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The GOU continues to make counternarcotics policy a priority. President Tabaré Vázquez has maintained the former administration's counternarcotics policy and enhanced drug rehabilitation and treatment programs. 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.

Accomplishments. In 2005, Uruguayan authorities seized more than 15kg of heroin at the Carrasco International Airport and dismantled numerous cocaine reprocessing laboratories in Montevideo. The Uruguayan legislature was also considering a new initiative that would allow the GOU to confiscate and immediately sell a drug trafficker's vehicle, providing additional resources for Uruguayan counternarcotics efforts. According to the current law, all impounded vehicles must be kept until the suspect is indicted.

Law Enforcement Efforts. The agencies responsible for narcotics-related law enforcement including, 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 are increasingly competent and effective. Coordination remains difficult, however, since most report to different ministries.

In 2005, 945.6 kilograms of marijuana was seized, while the amount of cocaine seized more than doubled from 2004 to 76.3 kilograms. The total amount of LSD seized decreased from 100 doses in 2004 to only one dose in 2005. In 2005, 15.5 kilograms of heroin were confiscated. In 2005, the total number of drug-related arrests decreased significantly to 962 from 1,526 in 2004, while the number of prosecutions remained nearly unchanged with 298 convictions in 2005 and 296 in 2004. In 2005, only one person was imprisoned for drug trafficking, in contrast to 13 in 2004.

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 officials 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. There is no information to suggest that senior Uruguayan government officials engage in, encourage, or facilitate the illicit production or distribution of narcotics.

Agreements and Treaties. Uruguay is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs and the 1972 Protocol amending the Single Convention. It is also a member of the OAS Inter-American Drug Abuse Control Commission (CICAD). The United States and Uruguay have signed an Extradition Treaty (1973), which entered into force in 1984, a Mutual Legal Assistance Treaty (1991), which entered into force in 1994, and annual Letters of Agreement under which the U.S. funds counternarcotics and law enforcement programs. Uruguay has signed drug-related bilateral agreements with Brazil, Paraguay, Bolivia, Chile, Mexico, Panama, Peru, Venezuela and Romania. Uruguay is a member of the regional financial action taskforce, Grupo de Acción Financiera de Sudamerica (GAFISUD).

Cultivation/Production. There is no known large-scale cultivation or production of drugs in Uruguay. However, several small marijuana plots were discovered in 2004 and 2005, as well as small reprocessing laboratories.

Drug Flow/Transit. Uruguay is a minor drug-transit country. Limited law enforcement presence along the Brazilian border and increased pressure on traffickers in Colombia, Bolivia and Peru is shifting some smuggling routes south—by private vehicle, bus, and small airplanes.

Demand Reduction. The GOU remains committed to education and prevention. In 2005, the Ministry of Public Health launched a new publicity campaign aimed at adolescents and young adults to stop the abuse of both illegal and legal substances. The Ministry has created a series of informative posters about drug use and prevention, started sports programs to provide a positive social alternative to drug use, and placed local police at concerts and sporting events. In 2005, to improve its tracking of illicit drug consumption, the GOU funded studies on the social costs of drug abuse, drug abuse in prisons, and the links between drug abuse and emergency room visits. It also continued monitoring drug offenses in the prison population.

In 2005, the National Drug Secretariat funded a program, augmented with USG funding, to establish a drug rehabilitation clinic specifically for cocaine base addicts in a northern Montevideo suburb. The program, known locally as the “Portal Amarillo,” is scheduled to open in February 2006 and will be staffed by recent graduates of Uruguay’s largest nursing school.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. support complements GOU counternarcotics efforts. In 2005, funding provided by the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) was used for demand reduction programs, narcotics interdiction and police training, police and counternarcotics canine training, anti-money laundering training, and upgrades to immigration controls at the Carrasco International Airport.

The Road Ahead. The 2005 INL Letter of Agreement (LOA) was one of the first bilateral initiatives accepted by the Vázquez administration after assuming power in March 2005. The LOA illustrates Uruguay's commitment to fighting the illegal use and trafficking of narcotics. Although Uruguay's narcotics strategy is focused heavily on demand reduction and rehabilitation, GOU authorities are generally receptive to USG counternarcotics priorities and support the global fight against narcotics trafficking. In the coming year, the USG will continue working with the GOU to interdict U.S.-bound narcotics smuggling and support Uruguayan efforts to fight the increased use of "pasta base" among the country's poor. The U.S. will also support GOU efforts to strengthen immigration controls and improve law enforcement coordination.

Venezuela

I. Summary

Venezuela is a key transit point for drugs leaving Colombia. Two key factors have contributed to an increase in trafficking during 2005: rampant corruption at the highest levels of law enforcement and a weak judicial system. As a result, organized crime flourishes, with seizures and arrests of underlings more an annoyance than a threat. Government of Venezuela (GOV) senior political leaders have withdrawn regular bilateral law enforcement cooperation with the U.S. Drug Enforcement Administration (DEA) Country Office in Caracas and have terminated Venezuelan participation in several counternarcotics programs. Given the Venezuelan government's refusal to cooperate and its obstructionist behavior throughout much of 2005, the U.S. Government, under U.S. domestic law, determined that Venezuela had failed demonstrably to meet its counternarcotics obligations and that the Government of Venezuela (GOV) could no longer be certified as an ally in the war on drugs.

In spite of the political tensions, DEA continued working with its law enforcement contacts, developing information and leads that have contributed to record seizures by Venezuelan law enforcement. After decertification, political sniping faded and government officials expressed renewed willingness to cooperate. GOV officials have linked cooperation to the signing of a new bilateral counternarcotics working arrangement. 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.

Realizing that it is more profitable to purchase cocaine and heroin from Colombia and sell it to customers in other countries, organized crime in Venezuela has begun to set up operations in foreign countries to receive and distribute drugs in addition to providing transportation services. As a result, Venezuelan traffickers have been arrested in Holland, Spain, Ghana, Dominican Republic and several other countries.

On the outbound side, cocaine is smuggled from Venezuela to the U.S. and Europe in multi-hundred kilogram to multi-ton lots via maritime cargo containers, fishing vessels, and go-fast boats. Amounts of cocaine and heroin routinely smuggled through Venezuela's commercial airports increases in 2005. Multi-kilo shipments of cocaine and heroin are mailed through express delivery services to the United States. Colombian guerrilla organizations, such as the Revolutionary Armed Forces of Colombia (FARC), National Liberation Army (ELN), and United Self-Defense Forces of Colombia (AUC), move through parts of Venezuela without significant interference by the Venezuelan security forces. These groups in turn are responsible for much of the drug trade through Venezuela.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Two important laws were promulgated in October 2005: the "Law against Organized Crime" and the "Law against the Trafficking and Consumption of Narcotics and Psychotropic Substances." The long-awaited Organized Crime Bill was weakened considerably in the days just prior to its passage. On the positive side, money laundering was made a predicate offense and police powers were enhanced to allow controlled deliveries of narcotics. Unfortunately, an

independent Financial Intelligence Unit was not established and the criminalization of “conspiracy to traffic in drugs” was not developed sufficiently. The latter is important if Venezuela is to apprehend the criminal organizations and senior government officials involved in trafficking, rather than just catching and prosecuting the lower-level movers of drugs.

The “Law against the Trafficking and Consumption of Narcotics and Psychotropic Substances” went into effect October 26, 2005. In addition to regulating the consumption, cultivation and production of illicit drugs, the law establishes a National Registrar to better monitor precursor chemicals.

With the passage of these two laws, Venezuelan law is now in line with the 1988 UN Drug Convention. It is not certain, however, whether Venezuela’s political and judicial institutions are up to the task of vigorous and impartial implementation.

Extradition. The Venezuelan constitution precludes the extradition of its citizens. nonVenezuelans can be extradited, but Venezuelan judges historically attach conditions that preclude the actual extradition. Venezuelan authorities have been able to work around the extradition process by occasionally deporting nonVenezuelan criminals to a third country—usually Colombia—from where they can more easily be extradited. Furthermore, extradition is hampered by the corruption that permeates the system and often allows criminals to “escape” or be released for lack of evidence. The escape from a maximum security prison by known Colombian trafficker “Boyaco”, while awaiting extradition to Colombia, is emblematic of this problem. The United States and Venezuela are parties to an extradition treaty that entered into force in 1923.

Law Enforcement Efforts. In general Venezuelan police and prosecutors do not have adequate training or tools to complete or supervise an investigation. The public has no faith in prosecutors due to ineffective criminal prosecutions, politicization and corruption. Prosecutors sometimes shrink from taking new cases, wary that cases are politically motivated or otherwise corrupt. At the judicial level, prisoners miss their hearings if unable or unwilling 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 given the lack of effective oversight.

Cooperation in 2005 diminished as a result of political tensions and corruption within Venezuelan law enforcement at the highest levels. In January 2005, the government refused to renew its participation in the Cooperating Nations Information Exchange System (CNIES), which is designed to track suspect aircraft. In March, the Venezuelan National Guard withdrew from the USG-sponsored vetted unit and senior government officials made baseless accusations against DEA. Counternarcotics cooperation subsequently declined on all fronts. In July, President Hugo Chavez accused the DEA of spying and planning a coup and announced that DEA personnel in Venezuela would be asked to leave. As a result of these acts, President Bush decertified Venezuela in September for having failed demonstrably to make substantial efforts in the war on drugs. Despite noncooperation in several other areas, Venezuelan authorities have continued to comply fully with the provisions of the maritime counternarcotics agreement, rapidly approving requests to board Venezuelan-flagged vessels suspected of engaging in drug smuggling, and allowing the USG to take law enforcement action when appropriate.

Subsequent to decertification, President Chavez signed the long-delayed “Law against Organized Crime” and the “Law against the Trafficking and Consumption of Narcotics and Psychotropic Substances” important steps to bring Venezuela’s penal code in line with the 1988 UN Convention on Drugs. The Commander of the National Guard Counternarcotics Unit, the source of much of the anti-DEA rhetoric, was relieved in late September and subsequently placed under investigation. The Venezuelan government has linked renewed formal cooperation to the signing of a bilateral counternarcotics agreement.

Precursor Chemical Control. The GOV participated in Operation Seis Fronteras VI in 2005 and, with assistance from DEA, audited several companies for possible diversion of precursor chemicals.

Demand Reduction. This year President Chavez and other senior political leaders acknowledged that domestic consumption of narcotics was a serious problem. The government's role is typically limited to oversight of the dozens of NGO demand reduction and rehabilitation programs that have been approved by CONACUID. The number and strength of these programs is a direct result of the statutory requirement that all private companies, employing more than 200 workers, must donate one percent of their profit to promote demand reduction. Companies may donate to their choice of the dozens of CONACUID-approved programs in existence.

Corruption. Public corruption continued to plague Venezuela in 2005.

Two aspects of this problem were particularly damaging to the GOV's counternarcotics efforts. First, the commanders of the National Guard and the Anti-Drug Unit of the Federal Investigative Police (CICPC) units, responsible for counternarcotics operations, were themselves linked to drug trafficking. Both are now under investigation by Venezuelan authorities. Second is the complicity of mid-level military officers that were involved 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 reportedly take bribes in exchange for facilitating drug shipments. Seizures are most likely to occur when pay-offs have not been made. Also, there is evidence that even when seizures do occur, the drugs are not always turned over intact for disposal—often, hundreds of kilograms of cocaine are never reported as having been diverted by authorities back to drug traffickers. There have been cases of known traffickers or members of Foreign Terrorist Organizations (FTOs), such as Rodrigo Granda from the FARC, who trafficked drugs or conducted operations against neighboring Colombia from safehavens inside Venezuela with complicity by GOV authorities who turned a blind eye, or facilitated false documents.

In 2004, National Guard officers were implicated in drug smuggling. In 2005, information developed by DEA exposed a major trafficking organization within the CICPC. In another case, 14 CICPC officers were detained while transporting drugs. One of them was the son of the Anti-Drug unit's commander, who is also suspected of involvement in drug trafficking.

Agreements and Treaties. Venezuela 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. Venezuela ratified the Mutual Legal Assistance Treaty with the U.S. in 2003, but the treaty has not entered into force. Venezuela is party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and 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 only had a statutory bar to the extradition of nationals. Given the current political environment, this is unlikely to change in the foreseeable future.

Cultivation/Production. In November 2005, the GOV carried out an 8-day eradication operation in the Serrania de Perija mountain range on Venezuela's northwestern border with Colombia. The Minister of the Interior reported that 132 hectares of illicit coca, marijuana and poppy cultivations were manually eradicated. Based on historic cultivation patterns and current illicit cultivation on the Colombian side of the Perija, total Venezuelan coca and poppy cultivation does not exceed a few hundred hectares.

During this eradication operation, 18 small cocaine base processing labs were identified and destroyed. While production in Venezuela has not historically been significant, there is increasing evidence that at least some production is shifting from Colombia to Venezuela.

Drug Flow/Transit. The GOV reports having seized 54 metric tons of cocaine during the first eight months of 2005. This number includes seizures made by third countries in international waters that are subsequently returned to Venezuela, as the country of origin. However, DEA Caracas, which does not tally seizures made by third countries, estimates total cocaine seizures at approximately 30 metric tons, still well ahead of 2004 seizures at a similar point in time. In 2005, 240 kilograms of heroin were seized during the first eight months.

Demand Reduction. 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 \$90,000,000 of airtime have been provided free of charge by the private sector since 1996.

In 2005, a new Communications Law mandated that the broadcast media pay taxes on donated airtime. This effectively dried up the pool of donated airtime for eight months, until the law was revised in October to exempt donations made to promote demand reduction.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Political differences between the U.S. and Venezuela hampered official bilateral cooperation. Notwithstanding, working level cooperation continued, with most of the tonnage seized by Venezuelan authorities the direct result of information developed, jointly with or unilaterally, by U.S. law enforcement. Working level cooperation continued, but at a lower level than in previous years.

The U.S. 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, airport, 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 has been under construction at Puerto Cabello and should be fully operational in early 2006. Two permanent U.S. Customs and Border Protection inspectors were assigned as advisors to the interdiction project in 2004.

The interdiction project also focuses on reducing the flow of heroin and cocaine through Maiquetia International Airport to the U.S. and Europe. In addition to providing nonintrusive detection equipment, training centers have been set up at Maiquetia and Maracaibo International airports in order to train airport security in their use.

The Road Ahead. In 2006, the USG is committed to renewing cooperation with its Venezuelan counterparts at all levels in the war on drugs. In addition to restarting stalled projects—e.g., development of a drug intelligence fusion and analysis center, initiation of riverine interdiction operations on the Orinoco River, and construction of a centralized storage and incineration facility—added emphasis will be placed on disrupting the transit of drugs entering Venezuela and raising public awareness regarding the dangers of organized crime and narcotics trafficking.

To demonstrate success in adhering to its international counternarcotics agreements, Venezuela needs to make substantial efforts to improve in attacking corruption and enhancing transparency and international cooperation.

CANADA, MEXICO AND CENTRAL AMERICA

Belize

I. Summary

The Government of Belize (GOB) recognizes that the transit of cocaine and other illicit drugs is a serious problem. Its police units and the Belize National Coast Guard (BNCG) are tasked with narcotics operations and investigations. The GOB works closely with the U.S. on international crime issues and has been helpful over the last two years in the extradition of U.S. fugitives wanted for prosecution in the U.S.

II. Status of Country

Geographically, Belize is a significant transshipment point for illicit drugs between Colombia and Mexico. Contiguous borders with Guatemala and Mexico, large tracts of unpopulated jungles and forested areas, a lengthy unprotected coastline, hundreds of small islands and numerous navigable inland waterways, combined with the country's undeveloped infrastructure, add to its vulnerability to drug trafficking. A small amount of marijuana is cultivated in Belize, primarily for local consumption. There is no evidence of trafficking in precursor chemicals in Belize.

Law enforcement units—the Belize Police Department (BPD), the Belize Defence Force (BDF) and the International Airport Security Division—engage in counternarcotics efforts. For example, the Anti-Drug Unit (ADU) is a branch of the BPD responsible for counternarcotics operations and investigations. However, personnel shortages preclude forming a dedicated team to handle Money Laundering investigations. The Belize National Forensic Science Services (NFSS) laboratory is under the Ministry of Home Affairs; it is receiving technical assistance from the U.S.

III. Country Actions Against Drugs in 2005

Policy Initiatives/Accomplishments. Belize inaugurated the BNCG on November 28, 2005. The new coast guard has 58 members; the majority were previously members of the BDF Maritime Wing and BPD. The BNCG will play a vital role in the interdiction of illicit drugs at sea, and it will be a major collaborator with the BPD.

Law Enforcement Efforts. Authorities seized 2,386 kilograms of cocaine in 2005, 354 kilograms of processed cannabis, and minor quantities of other drugs. There was a significant seizure of 2,376 kilograms of cocaine in September 2005. The DEA and Regional Security Office assisted the BPD in this operation. From January through October 2005, there were 1,414 arrests and 765 drug related convictions or sentences.

The GOB's most serious internal drug problem is rooted in drug-associated criminality. Obtaining convictions remains difficult, as the Office of the Public Prosecutor remains under-trained and under-funded. The GOB has refurbished its fingerprinting program with the Panamanian government and the FBI. This is thought to be the key factor in obtaining convictions.

Corruption. The GOB does not facilitate the production, processing, or shipment of narcotic and psychotropic drugs or other controlled substances, and does not discourage the investigation or prosecution of such acts. The GOB takes legal and law enforcement measures to prevent and punish public corruption. There are no laws in Belize that specifically cover narcotics-related public corruption. While there is no direct evidence of narcotics-related corruption within the government, other kinds of corruption are suspected in several areas of the government. For example, laws against bribery are rarely enforced and solicitations are reported.

Agreements and Treaties. Belize is a party to the 1988 UN Drug Convention. The U.S.-Belize extradition treaty entered into force in 2001, and the U.S.-Belize Mutual Legal Assistance Treaty (MLAT) in 2003. The GOB has completed enactment of implementing legislation to fulfill its obligations under the MLAT. Belize has not signed the UN Convention Against Corruption but is a party to the UN Conventional Against Transnational Organized Crime and its Trafficking in Persons protocol.

Cultivation/Production. The GOB conducted several successful marijuana eradication operations in 2005. By October 2005, 119,736 marijuana plants had been eradicated. There is no evidence that Belizean marijuana cultivation has any significant effect on the U.S. The BDF and BPD continue to conduct manual marijuana eradication missions on a regular basis using their own aerial reconnaissance program.

Asset Seizure. GOB law permits the seizure of assets connected to drug trafficking. In 2005 Belize seized six boats and currency worth US\$120,000. One quarter of the proceeds of sales of seized assets are returned to the police, but little is dedicated to counternarcotics.

International Law Enforcement Cooperation. Belize has joined other Central American countries participating in the Cooperating Nations Information Exchange System (CNIES). The CNIES assists in locating, identifying, tracking and intercepting civil aircraft in Belize's airspace in order to facilitate the interruption of illicit drug trafficking routes and the arrest of illicit drug traffickers, which has resulted in several significant seizures in coordinated interdiction operations, particularly with Guatemala.

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. The primary means for smuggling drugs are go-fast boats transiting the reef system. Armed cargo guards protect shipments of cocaine. Often the drugs are off-loaded on the ocean side near the barrier reef to smaller vessels. The vessels freely transit inside Belize waters due to numerous hiding spots and the lack of adequate host nation resources and interdiction capabilities, including intelligence information. Colombian and Mexican drug traffickers have established partnerships leading to increased Mexican drug trafficking in Belize. These Mexicans have been masterminding clandestine aircraft and sea vessel drug operations within Belize.

Domestic Program/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 discourage youths from using drugs.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives and Bilateral Cooperation. The U.S. strategy in Belize is to assist the GOB in developing a sustainable infrastructure to combat its drug problems effectively. In 2005, the U.S. sponsored the travel of personnel from the FBI's Criminal Justice Information Service Division (CJIS) to Belize to conduct advanced certification in fingerprinting training. The U.S. also funded a Machine Readable Passport System (MRP) for the Belize Immigration and Nationality office, inaugurated in February 2005. The USG is supporting the Belizean Forensic Laboratory through training, equipment and technical assistance in the analysis of firearms exhibits and crime scene techniques. Improved capabilities will increase the justice system's successful investigations and prosecution of crimes. The U.S. assisted the Belize National Drug Abuse Control Council (NDACC) with programs for at-risk

school youth. The Belize National Coast Guard received two refurbished go-fast boats for counternarcotics operations.

The Road Ahead. Traffickers will continue to exploit Belize as a transshipment for cocaine. Support should focus on supporting police counternarcotics units, Belize National Coast Guard, units involved with crime scene investigations and chain of custody, the Department of Public Prosecutions, and the Financial Investigation Unit. Projects should include providing training and equipment to all law enforcement branches, and providing equipment to the BNFSS to better handle a wide range of analysis from and crime scene processing to drug and DNA. Improvements in communication, collection of crime scene evidence and forensic examination, and increased training within the Prosecutions Office are currently being pursued in an effort to strengthen the criminal justice system in Belize.

Canada

I. Summary

In 2005, the Government of Canada (GoC) promulgated counternarcotics legislation and expanded law enforcement cooperation and programs. Canada's Health Ministry, Health Canada, released the first edition of the National Framework for Action to Reduce the Harms Associated with Alcohol and Other Drugs and Substances in Canada in November 2005.

The growth of organized crime groups is of continuing concern to Canadian law enforcement. The Criminal Intelligence Service Canada reports that foreign organized crime significantly influences all aspects of the illicit drug industry. In March 2005, four RCMP officials were killed while assisting local police in a car repossession case during which law enforcement discovered a marijuana grow operation in rural Alberta.

Canada is party to the 1988 UN Drug Convention. In 2005, Canada was elected as a member of the UN Commission on Narcotic Drugs.

II. Status of Country

Canada is primarily a drug-consuming country, but remains a significant producer of high quality marijuana and transit point for precursor chemicals and over-the-counter pharmaceuticals used to produce synthetic drugs (notably MDMA/ecstasy and methamphetamine). Canada is a source country for marijuana and MDMA, and a transit or diversion point for precursor chemicals and pharmaceuticals used to produce illicit synthetic drugs.

Canada's Renewed Drug Strategy (2003) provides a federal policy response to the harmful use of substances.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The GoC issued the 2005 National Framework for Action to Reduce the Harms Associated with the Use of Alcohol and Other Drugs and Substances in Canada. The Framework is meant to generate dialogue by articulating a vision, setting strategic priorities, defining and clarifying roles, providing a coordinating mechanism and providing funding.

New legislation strengthened the GoC's ability to seize assets from those convicted of financially benefiting from illegal activities and enhanced cross-border intelligence sharing. In November 2005, the Parliament passed a Proceeds of Crime Bill that targets the illicit proceeds of organized crime, including serious drug offenses, and authorizes the courts to order the forfeiture of property of those convicted of either membership in a criminal organization or certain drug-related offenses.

In August, the GoC increased the maximum penalties for possession, trafficking, importation, exportation and production (ten years to life in prison) of methamphetamine. In November, the GoC implemented the Precursor Control Amendments which: strengthen verification of import and export licensing procedures, require that companies requesting those licenses provide additional detail in their initial requests, provide guidelines on the suspension and revocation of licenses for abusers and add controls of six chemicals that can be used to produce GHB and/or methamphetamine. It also authorizes pre-registration inspections of applicants for licensure, and permits Health Canada to consider adverse law enforcement information in licensure and renewal decisions.

The National Drug Manufacturers Association of Canada (NDMAC), a nonprofit industry association of health care product and over-the-counter medicine manufacturers, implemented MethWatch in early 2005. This voluntary program trains retailers to monitor and identify irregular sales of various methamphetamine precursors. It was developed in conjunction with the Royal Canadian Mounted Police (RCMP) and Health Canada and modeled after a public-private partnership program in Kansas.

Law Enforcement Efforts. During 2005, the RCMP conducted 430 marijuana investigations, raided 570 marijuana operations, seized nearly 250,000 marijuana plants and arrested 283 suspects. The RCMP conducted 87 clandestine laboratory investigations and 36 lab raids; over a third of the raids involved MDMA production and resulted in the seizure of 64,000 dosage units of illicit or harmful substances.

One example of many Canadian efforts against MDMA trafficking was Operation “Sweet Tooth” was a two year investigation on international MDMA and marijuana trafficking rings with drug smuggling and money laundering operations. It ranged from the Far East to North America and resulted in 291 arrests in the U.S. and Canada, and the seizure of 931,300 MDMA tablets, 1,777 pounds of marijuana, and \$7.75 million in U.S. assets. DEA, the RCMP and the Canada Border Services Agency (CBSA) dismantled two major drug transportation rings. These criminal organizations were responsible for distributing 1.5 million MDMA tablets per month.

In September, Canadian authorities uncovered in rural New Brunswick one of the largest outdoor marijuana cultivations found to date. Over 20,000 plants were destroyed. Five traffickers with Asian organized crime connections were arrested. Working with the DEA and Spanish authorities, the RCMP assisted in the seizure of a yacht containing one ton of cocaine off the coast of Spain. Four of Canada’s largest drug kingpins were arrested in connection with earlier seizures in the Atlantic Ocean of 1.5 metric tons of cocaine from various yachts.

Corruption. Canada holds its officials and law enforcement personnel to a high standard of conduct and has strong anticorruption controls in place. Civil servants 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 civil servants are thorough and credible. No senior government officials are known to engage in, 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. 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.

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 as amended by the 1972 Protocol. Canada is also a party to the Inter-American Convention on Mutual Legal Assistance in Criminal Matters; the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials; and the Inter-American Convention Against Corruption. Canada actively cooperates with international partners. The GoC has signed 30 bilateral mutual legal assistance treaties and 87 extradition treaties.

Judicial assistance and extradition matters between the U.S. and Canada are made through a Mutual Legal Assistance Treaty (MLAT) and an extradition treaty and protocols. The USG and GoC exchange forfeited assets through a bilateral asset sharing agreement.

Cultivation/Production. Marijuana cultivation is a thriving industry in Canada. It has also been a relatively minimum-risk activity due to low sentences meted out by Canadian courts. A September 2005 seizure of 20,000 marijuana plants in rural New Brunswick indicates that marijuana operations are moving into nontraditional areas. Though outdoor cultivation continues, the use of large and more sophisticated indoor grow operations is increasing because it allows year-round production. The

RCMP reports the involvement of ethnic Chinese and Vietnamese organized crime organizations in technologically-advanced organic grow methods that produce marijuana with elevated THC levels.

The demand for, and production of, synthetic drugs also appears to be on the rise in Canada, particularly methamphetamine and MDMA. Clandestine laboratories—traditionally located in rural areas but expanding into urban, residential neighborhoods—are becoming larger and more sophisticated. Reports of Gamma-hydroxybutyrate (GHB) use are increasing.

Drug Flow/Transit. Marijuana is smuggled primarily from British Columbia, Ontario and Quebec into the U.S. by all modes of conveyance. Significant seizures of MDMA from clandestine laboratories indicate they are larger and more sophisticated organized crime operations. Prior to 2004, MDMA arrived mainly in tablet or powder form from Europe. Shipments of MDMA powder and tablets were intercepted at Canadian ports of entry, notably Montreal, Toronto and Vancouver. The CBSA reported that (as of September 30) it had seized 54,194 doses of MDMA at the border.

Methamphetamine trafficking and availability rose during 2005. Most of the domestic supply is produced in clandestine laboratories which have, over time, spread eastward across the country. Approximately 95 percent of the methamphetamine sold originates from multi-kilogram operations. Most methamphetamine labs seized in Ontario, however, were small labs operated by individuals in rural areas. In Quebec, methamphetamine traffickers manufacture and market most of the product in tablet form.

The RCMP's strategic intelligence assessment "Drug Situation in Canada—2004," (issued in September 2005) noted that Canada was a source to Japan for MDMA, methamphetamine and marijuana.

The Caribbean islands of St. Lucia, St. Maartin, Trinidad, Haiti, Jamaica and Antigua are the most common transit points for cocaine en route to Canada, followed by the U.S. Cocaine seizures at the British Columbia land border decreased in number, but increased substantially in size in 2005. Outlaw motorcycle groups, Italian and Caribbean crime groups in addition to Canadian-based independent organized groups are the principal smugglers of large cocaine shipments into Canada. Colombian brokers serve as intermediaries between Canadian organizations and Colombian producers. The CBSA reported that (as of September 30, 2005) it had seized 1.66 metric tons of cocaine at the border.

Opium and heroin seizures in Canada have risen steadily. The RCMP strategic assessment indicates that opium and heroin, originating in Afghanistan, Pakistan, Iran and India, are usually routed through a European country or the U.S., often by Southeast Asian and Southwest Asian traffickers. The CBSA reported that (as of September 30) it had seized 159.4 kilograms of opium and heroin.

Domestic Programs. While delivery of demand reduction, education, treatment and rehabilitation is primarily the responsibility of the provincial and territorial governments, Health Canada provides funding for these services. Canada has embarked on a number of harm reduction programs at the federal and local levels. A government-sponsored heroin injection site has been operating in Vancouver since 2003. In February 2005 the North American Opiate Medication Initiative (NAOMI) began recruiting addicts for a study to determine if addicts can live better lives if the drug is readily available. Several cities have also approved programs to distribute drug paraphernalia, including crack pipes, to chronic users.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Canada cooperate closely at the federal, state/provincial, and local levels. 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, U.S. and Canadian agencies collaborated on a joint cross-border drug threat assessment. These assessments also address one of the initiatives developed as part of the Security and Prosperity Partnership (SPP) action plan. Project North Star is an ongoing mechanism for law enforcement operational coordination at the state and local level. The successful joint Integrated Border Enforcement Teams (IBETs) have become a primary tool in ensuring that criminals cannot exploit the international border to evade justice. Currently, there are 15 IBET regions supported by 25 IBET teams, in which U.S. and Canadian law enforcement routinely work in tandem on border security matters.

The recently concluded shiprider agreement provides a new tool for law enforcement cooperation by providing trans-border law enforcement authority to Canadian law enforcement operating along and across the border. During the trial operation in September 2005, the U.S. Coast Guard (USCG) and RCMP officers worked together on maritime law enforcement issues in the Great Lakes.

A second related initiative is geographic maritime inhibitors, which require officers from both countries to transit each other's waters while staying in the channel. The Great Lakes has many areas where both countries need this framework. In July 2005, the GoC requested, and the USG granted, blanket diplomatic clearance for Canadian law enforcement officers to carry their weapons while transiting in and out U.S. waters on the Great Lakes aboard Canadian government vessels. The USG is seeking reciprocal treatment for U.S. federal maritime law enforcement officers.

Canada has recently expanded cooperative efforts with the United States against illicit trafficking in the transit zone from South America to North America by deploying Maritime Patrol Assets in support of Joint Interagency Task Force South.

Road Ahead. The RCMP will host the 2006 International Drug Enforcement Conference (IDEC) in May in Montreal. This annual, DEA-sponsored conference brings together high-ranking law enforcement officials from over 70 countries to share drug-related information and to develop a coordinated approach to combat criminal threats. The conference will identify emerging global trends and legislative needs in developing countries, and develop strategies to better equip those countries to target international drug organizations.

In 2006, the United States and Canada will continue to pursue joint operations against drug trafficking organizations.

The USG will look to Canada for cooperation in monitoring and tracking precursor chemical activity and interception of suspicious shipments; and in addressing the rise in MDMA production in Canada. The GoC should continue to look for ways to improve its regulatory and enforcement capacity—as well as to encourage industry compliance—to prevent diversion of precursor chemicals for criminal use. Canada should also continue its efforts to identify, disrupt and prosecute money laundering operations.

In the area of interdiction, the USG seeks reciprocal treatment with respect to transit of USG vessels and personnel in and out of Canadian waters on the Great Lakes. The U.S. further encourages Canada to take steps to improve its ability to expedite investigations and prosecutions. Strengthening judicial deterrents in Canada would also be useful.

The U.S. supports Canada's efforts to increase the availability of science-based treatment programs to reduce drug use, as opposed to measures which facilitate drug abuse in the hopes of reducing some of its harmful consequences.

Costa Rica

I. Summary

Costa Rica is one of the countries straddling the critical drug transit corridor between South American suppliers and the U.S. market and has become a major transshipment point for narcotics to the United States, as well as Europe. The Government of Costa Rica (GOCR) demonstrated professionalism and reliability as a hemispheric partner in combating the ever-changing and growing drug trafficking trade, seizing a record 6,749 kilograms of cocaine and 49.38 kilograms of heroin in 2005. Costa Ricans face the threat of increasing domestic drug consumption, particularly crack cocaine, along with the violence associated with drug use and trafficking. The GOCR continued to implement its 2002 law that criminalized money laundering and to support the 1998 bilateral Maritime Counterdrug Cooperation Agreement to improve its maritime security. The Counternarcotics Institute, created in 2003, enhanced its efforts in criminal intelligence, demand reduction, asset seizure, and precursor chemical licensing. Costa Rica is a party to the 1988 UN Drug Convention.

II. Status of Country

Several of the primary maritime drug smuggling routes from Colombia to the U.S. cross Costa Rica's territorial waters, an area ten times larger than its land mass. On both the Pacific and Caribbean sides, large amounts of drugs pass through its waters in small go-fast boats and larger vessels disguised as fishing boats or arrive by air to transit north by land.

Costa Rica stringently licenses the importation and distribution of controlled precursor chemicals. The GOCR cooperates with the USG in combating narcotics trafficking, but budgetary limitations constrain the capabilities of its law enforcement agencies.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The 1999 bilateral Maritime Counterdrug Cooperation Agreement and the 2000 Coast Guard Professionalization Law are the foundation for continuing professional development of the Costa Rican Coast Guard and improving maritime security. The Costa Rican Coast Guard Academy graduated 28 officers in 2005, bringing the total to 150 officials since it was established in 2002. Costa Rica is the depository country 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. The Costa Rican Counternarcotics Institute coordinates an annual counternarcotics country strategy. However, budget and resource limitations impede the full implementation of this plan.

Accomplishments. Close relations between U.S. law enforcement agencies and GOCR counterparts led to regular information-sharing and joint operations. As a result, Costa Rican authorities seized a record amount of illicit narcotics in 2005 and complied fully with its obligations under the 1988 UN Drug Convention. To promote regional counternarcotics cooperation, a major goal of Central American countries, the GOCR Mobile Enforcement Team (MET—an interagency team consisting of canine units, drug control police, customs police and specialized vehicles) coordinated eight cross-border operations with authorities in Nicaragua and Panama in 2005.

Law Enforcement Efforts. The primary counternarcotics agencies in Costa Rica are the Supreme Court's Judicial Investigative Police (OIJ—which includes a small, but highly-professional counternarcotics section) and the Ministry of Public Security's Drug Control Police (PCD). The OIJ investigates cases involving international narcotics trafficking. The PCD has responsibility for all drug

smuggling and drug interdiction at ports of entry. Other authorities include the Costa Rican Coast Guard, the Air Surveillance Section, and the 10,000-member police force.

In 2005, the GOCCR seized a record 6,749 kilograms of cocaine (increasing seizures of crack by 30 percent), 881 kilograms of processed marijuana and 49.38 kilograms of heroin. It nearly doubled the eradication of marijuana to over one million plants. Costa Rica also confiscated almost \$800,000 in currency, 51 vehicles and 41 firearms. Drug-related arrests increased dramatically to 6,251 from 1,024 in 2004.

Corruption. Costa Rica signed the Inter-American Convention Against Corruption in 1996 and ratified it in 1997. Unprecedented corruption scandals during the two previous administrations involving apparent kickbacks to officials at the highest levels were exposed in 2004 and tested Costa Rica's legal system throughout 2005. Although the cases have not yet gone to trial, this challenge to the GOCCR has strengthened its commitment to combating public corruption.

The GOCCR aggressively investigates allegations of official corruption or abuse. During 2005, the GOCCR arrested six public security officers and four OIJ investigators on suspicion of involvement with narcotics traffickers. In addition, a judge and a prosecutor were fired along with 23 other judicial branch employees for nondrug related offenses. U.S. law enforcement agencies have no credible evidence of senior GOCCR officials engaging in, encouraging, or facilitating the production and distribution of illicit drugs or the laundering of proceeds from illegal criminal transactions.

Agreements and Treaties. The 1998 Maritime Counterdrug Cooperation Agreement continues to serve as the model maritime agreement for Central America and the Caribbean. The United States-Costa Rican extradition treaty, in force since 1991, has been actively used. Costa Rica ratified the Inter-American Convention Against Corruption and signed the UN Convention Against Corruption. Costa Rica ratified a bilateral stolen vehicles treaty in 2002. Costa Rica is a party to the 1988 UN Drug Convention, the 1961 Single Convention 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 a member of the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD). Costa Rica is party to 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.

Cultivation/Production. Marijuana cultivation is extensive, but confined to remote areas. It is not exported to U.S. markets due to its low quality. Costa Rican authorities' eradication operations, which are independent of USG assistance, destroyed over a million marijuana plants in 2005. Costa Rica does not produce other illicit drug crops or synthetic drugs.

Drug Flow/Transit. Traffickers resort to frequent, smaller (50-500 kilograms) shipments of cocaine through Costa Rica in truck and passenger car compartments. Seizures of such shipments increased in southern Costa Rica. The trend toward increased trafficking of narcotics by maritime routes has also continued with 11 incidents and a total of 3,620 kilograms of cocaine seized at sea in 2005. Traffickers used Costa Rican-flagged fishing boats to smuggle drugs and to provide fuel for other go-fast boats.

Domestic Programs (Demand Reduction). Costa Ricans are increasingly concerned over growing domestic drug abuse, especially of crack cocaine. In 2005, the Prevention Unit of the Costa Rican Counternarcotics Institute, which coordinates drug prevention efforts and educational programs throughout the country, continued demand reduction campaigns with posters in schools, universities, and pharmacies. In addition, the Institute and the Ministry of Education distributed demand reduction materials to all school children. The MET team often visits local schools in the wake of a deployment.

The team's canines and specialized vehicles have proven effective emissaries for demand-reduction messages.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. Costa Rica contributes to the U.S. goal of disrupting the hemispheric illicit drug trade and targeting the threat of international criminal organizations. Specific Costa Rican initiatives include: continuing to implement the bilateral Maritime Counterdrug Cooperation Agreement; 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 training and equipment to the OIJ Narcotics Section, the PCD, the Intelligence Unit of the Costa Rica Counter Narcotics Institute, the National Police Academy, and the Customs Control Police; and increasing public awareness by providing assistance to Costa Rican demand-reduction programs.

Bilateral Cooperation. Under the terms of the bilateral Maritime Agreement, the U.S. has invested \$2.3 million to enhance mutual maritime security through the development of a professional Costa Rican Coast Guard. In addition, in 2005 the U.S. provided training, computer equipment, software and other equipment to the Ministry of Public Security, the Judicial Branch, the Costa Rican Counternarcotics Institute's Financial Intelligence Unit, and the inter-agency MET unit. Total U.S. investment in Costa Rican law enforcement agencies was \$414,000 for 2005. USG assistance programs have contributed to the seizure of over 6.7 metric tons of cocaine in 2005.

The Road Ahead. The U.S. will continue to provide technical expertise, training, and funding to professionalize Costa Rica's Coast Guard and enhance its capabilities to conduct maritime law enforcement operations in support of the bilateral Maritime Counterdrug Cooperation Agreement. The U.S. will also build upon the on-going successful maritime operations by devoting more attention and resources to land interdiction strategies, including expanded coverage of airports, seaports and border checkpoints. The U.S. 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 2005, the National Police (PNC) seized 33 kilograms of cocaine and 24 kilograms of heroin. Salvadoran law enforcement agencies cooperated with U.S. authorities on cases that led to the U.S. conviction of 711 drug traffickers. Although El Salvador is not a major financial center, assets forfeited and seized as the result of drug-related crimes amounted to US\$521,151.

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 trafficking. Cocaine and heroin are the most commonly trafficked drugs. Precursor chemical production, trading, and transit are not significant problems.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In 2005, the Government of El Salvador (GOES), in cooperation with other Central American countries, implemented Operation Controlled (Operacion Controlado) to interdict narcotics trafficking through Central America. The operation established joint patrols by the counternarcotics police of each country along the unmonitored areas in Central American border regions.

Accomplishments. Several significant developments during the year demonstrated the GOES commitment to achieving compliance with the objectives of the 1988 UN Drug Convention. The Embassy-supported Containerized Freight Tracking System (CFTS) at the Amatillo border crossing with Honduras has been in operation for a year and a half. The facility permits the GOES to inspect commercial and passenger vehicles arriving from Honduras. In 2005, police at the CFTS seized 5kg of marijuana, 8kg of cocaine, and 15kg of heroin, and arrested 16 individuals for trafficking offenses.

USG 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 2005, cooperation between the FOL, the Embassy, the Salvadoran Air Force, and the police resulted in the seizure of 46mt 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 youth gang violence. Although the plan addresses all gang related activity, it also aims to disrupt narcotics trafficking and distribution controlled by gangs. During the year, the police arrested 973 gang members and convicted 778 gang members for drug trafficking and distribution offenses.

Law Enforcement Efforts. Salvadoran law enforcement efforts are hindered by constitutional prohibitions against investigative tools such as wiretapping. Investigations were further hampered by a lack of cooperation between the Attorney General and the police. Although the Attorney General did not impede investigations, his failure to seek arrest and search warrants in a timely manner severely restricted police operations against narcotics trafficking.

Law enforcement efforts in 2005 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 to share intelligence and coordinate operations. Joint cooperation led to the conviction of William Eliu Martinez, a former Salvadoran federal legislator extradited to the United States on drug charges. Apart from joint operations, the PNC seized 480

kilograms of marijuana, 33 kilograms of cocaine, and 25 kilograms of heroin. PNC officers arrested 2696 individuals for drug related offenses, 711 of which resulted in convictions.

Corruption. As a matter of policy, the GOES does not encourage or facilitate illicit production or distribution of narcotics or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. 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 investigate and prosecute GOES officials for corruption and abuse of authority.

In 2005, the INL-supported and U.S.-based National Strategic Information Center, in cooperation with the Salvadoran Ministry of Education, continued implementing the Culture of Lawfulness program in Salvadoran schools. The program focuses upon the advantages, to the individual and society, of a culture of lawfulness. Special emphasis is placed on the social costs of corruption and bribery. In 2005, 15 teachers were trained in the mechanics of presenting the program.

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. El Salvador is also a party to the UN Convention Against Corruption.

Agreements and Treaties. El Salvador is a party to the 1971 UN Convention on Psychotropic Substances; 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; the UN Convention against Transnational Organized Crime and its three protocols. The current extradition treaty between the United States and El Salvador does not mandate the extradition of Salvadoran nationals. Negotiation of a new treaty has stalled in light of a Salvadoran constitutional ban on life imprisonment, which may prove an obstacle to extradition in some cases. Narcotics offenses are covered as extraditable crimes by virtue of the 1988 UN Drug Convention.

Cultivation/Production. Small quantities of poor quality marijuana are produced in the mountainous regions along the border with Guatemala and Honduras for domestic consumption. The small quantity and poor quality of the crop does not justify the expenditure of a systematic campaign against it. There is no evidence of poppy cultivation.

Drug Flow/Transit. Cocaine and heroin from Colombia typically transits El Salvador via the Pan-American Highway and maritime routes off the country's Pacific coast. Most drugs transiting terrestrially are carried by commercial bus passengers in their luggage. Both heroin and cocaine also transit by go-fast boats and commercial vessels off the Salvadoran coast.

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. The Ministries of Governance and Transportation have 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 Embassy-supported Salvadoran NGO FundaSalva works with the GOES to provide substance abuse awareness, counseling, rehabilitation, and reinsertion services (job training) to the public. In 2005, FundaSalva provided demand reduction services to over 60 individuals. The Embassy also sponsors the U.S.-based "Second Step" program. Second Step is taught in first grade and assists teachers to identify antisocial behavior that later leads to substance abuse and violence. Other less

comprehensive demand reduction programs exist, and they are usually faith-based and run by recovering addicts or religious leaders.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. assistance primarily 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. From August 5 to October 8, 2005, USG agencies and Central American police forces conducted Operation All Inclusive to gather intelligence on and take enforcement actions against regional narcotics trafficking operations. The successful operation netted 43mt of cocaine, 88 kilograms of heroin, 27mt of marijuana, and 372 arrests.

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. DEA and INL officers work closely with the PNC counternarcotics unit, the PNC financial crimes unit, the Financial Investigations Unit of the federal prosecutor's 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. Together with the U.S. Department of Treasury, the U.S. Embassy in El Salvador plans to provide a secure communication link and database to be shared by the police, the Attorney General's office, and the banking regulators to facilitate money laundering and narcotics investigations.

Guatemala

I. Summary

Guatemala is a major drug-transit country for cocaine and heroin enroute to the United States and Europe. In spite of substantial counternarcotics efforts by the Government of Guatemala (GOG) in 2005, large shipments of cocaine continue to move through Guatemala by air, road, and sea. A limited amount of opium poppy has been detected and eradicated. The government is committed to attacking corruption. Insufficient resources, weak GOG middle management, and widespread corruption hamper the GOG's ability to deal with narcotics trafficking and organized crime.

II. Status of Country

Guatemala is a preferred transit point in Central America for onward shipment of cocaine to the United States. Most cocaine destined for the United States transits the Mexico/Central America corridor. Guatemalan law enforcement agencies interdicted 4.2 metric tons of cocaine in 2005, about the same as the previous year's 4.5 metric tons. Although USG assistance enabled the refurbishment of two of Guatemala's A-37 interceptor aircraft, Guatemala has limited capability to project force into the extreme northern area of the country where traffickers operate clandestine airstrips. Narcotics traffickers pay for transportation services with drugs, which enter into local markets leading to increased domestic consumption and crime.

In 2005, 48 hectares of opium plants were eradicated in Guatemala. Marijuana is also grown, but only for local consumption. During 2005, the Ministry of Health was able to inspect all drug manufacturers and distributors for compliance to rules related to pseudoephedrine.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The GOG uses a multi agency-working group to focus their counternarcotics efforts. This mechanism allowed Guatemala to make progress on thirteen 2005 benchmarks for counternarcotics certification. In December, the Berger government obtained congressional reauthorization for three years of the law permitting joint U.S./Guatemalan military and law enforcement operations to take place in Guatemala. Five such operations (known as "Mayan Jaguar") were held in 2005 under the Central Skies operational framework (an operation involving Central American countries and DOD's Joint Interagency Task Force South), including two operations to implement the bilateral maritime agreement. Likewise, the GOG agreed to two Mayan Jaguar operations designed to support DEA's region-wide Operation All Inclusive.

Accomplishments. In 2005, the GOG, in a joint operation with DEA, cooperated in the investigation and arrest of three corrupt Guatemalan police officials, among them the chief and deputy of Guatemala's drug police (SAIA—the Anti-Narcotics Analysis and Information Services). Guatemala also pursued numerous public corruption cases against former public officials, army officers and police. The money-laundering law is also being used as an anticorruption tool.

During 2005, the GOG agreed to seven transfers of third country alien prisoners through Guatemalan territory under the terms of the maritime agreement. A total of 67 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. SAIA seized 4.2 tons of cocaine in 2005. The GOG also eradicated 48 hectares of opium poppy.

Law Enforcement Efforts. 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. Aging aircraft and lack of money for fuel continue to be constraints.

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. The GOG wants to change this record and has been working closely with NAS and DEA to obtain passage of legislation that will authorize wiretapping, controlled deliveries and undercover operations, and strengthen conspiracy laws.

Corruption. Corruption remains a large obstacle for GOG counternarcotics programs. There are frequent allegations against police, prosecutors, and judges. Close cooperation with Guatemalan authorities enabled DEA to successfully investigate and arrest in the United States three corrupt Guatemalan police officials; the chief and the deputy chief of the SAIA, and the SAIA official in charge of operations at the Santo Tomas seaport. The SAIA is now under the direct supervision of the PNC Inspector General, who is working to purge all corrupt officers. Numerous management changes are being made and SAIA's investigators and all officers will be scrutinized through a detailed background and financial questionnaire, a background investigation, polygraph exam, and urinalysis testing.

The Director General of the police has established a "zero tolerance" policy on corruption. During 2005, there were 1428 cases opened against police officers, including 27 command-level and 133 mid-level officers. One hundred more officers were fired from the criminal investigation division. In 2005, the 11 police arrested in 2003 for attempting to steal 10 kilograms of cocaine from the drug warehouse were convicted and all received prison sentences. However, the convictions were reversed on appeal.

The attorney general opened 147 corruption cases during 2005. Additionally, an extradition request is pending in Mexico against the former president, the former vice president is awaiting trial, and the former finance minister was convicted and sentenced to three years in prison, commutable by fine.

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.

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 2005, the GOG consolidated 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.

Cultivation/ Production. Opium poppy cultivation is a re-emerging problem. During the spring 2005 poppy cultivation season, Guatemala manually eradicated 48 hectares of poppy. The GOG allowed a U.S.-funded Regional Aerial Reconnaissance and Eradication (RARE) deployment in November. This overflight reconnaissance mission observed poppy cultivation in numerous small fields, totaling about 11 to 12 hectares, and it is believed that additional poppy exists. Target packages developed from this mission will be incorporated into the next major GOG manual poppy eradication operation. Guatemala

has significant marijuana cultivation, all of which is consumed locally. The GOG eradicated 66 hectares of poppy in 2005.

Drug Flow/Transit. This year, the trend for drug delivery to Guatemala shifted to increased use of go-fast boats and commercial fishing vessels. Commercial containers continue as major land and sea avenues for smuggling larger quantities of drugs through Guatemala's ports of entry. Other than one major seizure (997 kilograms in Puerto Santo Tomas), there have been few successful interdictions of this nature. Guatemala's Port Security Program (PSP) is trying to improve counternarcotics interdiction at the seaports. The 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 low due to continuing corruption in the seaports.

Cocaine loads are broken down into smaller loads in Guatemala, then transit Mexico enroute to the U.S. DEA information suggests that Guatemalan opium gum is shipped into Mexico, then processed in Mexico for distribution.

Domestic Programs/Demand Reduction. Guatemala's demand reduction agency, SECCATID, continued to implement the National Program of Preventive Education and trained 2,037 teachers using the "train the trainer" concept with the participation of the Ministries of Health and Education. SECCATID also provided drug prevention seminars to youth groups, public and private companies, security forces and medical associations. Public awareness efforts also included distribution of drug prevention pamphlets, brochures and educational materials around the country.

In coordination with NAS, the Organization of American States/CICAD and the Guatemala Statistics Institute, a general household study on drug usage is being conducted to determine the degree of drug accessibility, use and abuse in the local population. The results of the survey will allow Guatemala to focus prevention efforts where the risk is highest. Guatemala also implemented a 16-week drug prevention pilot program called Second Step in six preschools in the capital. Recent research indicates that the combination of social, emotional and academic skills must be reinforced with pre-school children to ensure they remain in school and avoid violent behavior and substance abuse.

IV. U.S. Policy Initiatives and Programs

U.S. strategy in Guatemala focuses on strengthening GOG law enforcement and judicial sector through training, technical assistance, and the provision of equipment and infrastructure, especially for the units directly involved in combating narcotics trafficking and other international organized criminal activity that directly affects the U.S. Special emphasis is placed on management skills, leadership, human rights, investigative techniques, and case management issues. The U.S. strategy also is aimed at reducing the level of corruption in Guatemala by implementing training, education, and public awareness programs.

Bilateral Cooperation. Working with the office of the Vice President to support Guatemala's demand reduction agency, SECCATID, the USG provides 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. The USG provides support for the specialized drug police, the SAIA, through an agreement with the Ministry of Government. An important part of this program is the Regional Counternarcotics Training Center. 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 students participated from Argentina, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, Santo Domingo, Trinidad and all of Central America except Costa Rica.

The Law Enforcement Development Unit (NAS-LED) supports the development of a model precinct in Villa Nueva (a suburb of Guatemala City). In 2005, the model precinct arrested 300 gang members, many of whom were involved in street level drug distribution. As a result, many crime indices declined in Villa Nueva during 2005, including homicides, auto theft, and robberies of homes and businesses. This work also includes community policing.

The Road Ahead. Future efforts will focus on investigations, interdiction, corruption, money laundering, task force development, and restructuring the SAIA so that it can be an effective drug enforcement partner. 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.

Honduras

I. Summary

Honduras is a transit country for shipments of cocaine going from the source zone to the U.S. Traffickers transport drugs over land, by sea, and through Honduran airspace. The Government of Honduras (GOH) faces significant obstacles in terms of funding, a weak judicial system with heavy caseloads, lack of coordination, and inadequate leadership. The newly elected president has vowed to attack corruption, and new measures have been implemented to polygraph special investigative units within the Honduran Public Ministry. Honduras is a party to the 1988 UN Drug Convention.

II. Status of Country

Honduras is a transit country for drug trafficking, and recent reports indicate increased trafficking. The transshipment of drugs through the country via air, land, and sea routes is actively monitored by USG and Honduran counternarcotics police and military units.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Presidential elections took place in Honduras in November 2005 and the new government has vowed to take stronger measures against crime and the fight against drugs. The new president has also promised stronger international cooperation and increased numbers of the national police.

Accomplishments. Counternarcotics forces seized 269 kilograms of cocaine; 2.5 kilograms of heroine, approximately 1.3 metric tons of marijuana, and arrested 800 people during 2005. A total amount of USD\$4,319,031 in assets were seized.

The Frontier Police Special Investigative Unit has been working closely with the Public Ministry Organized Crime Unit in drug investigations which have led to arrests with substantial seizures primarily along the north coast. They are also investigating money laundering with logistical assistance from the USG. The USG-supported counternarcotics Special Vetted Unit is responsible for the gathering of sensitive narcotics intelligence. Working with the Frontier Police and the Public Ministry it has been instrumental in the disbanding of major international organized drug rings and the arrest of high profile drug dealers.

Law Enforcement Efforts. The number of arrests related to drug activities continues to rise as a result of interdiction operations by the Frontier Police and other forces. A criminal database to organize information is under development and has already given positive results. Prosecution is less successful. Funding constraints hamper Public Ministry counternarcotics agencies charged with the investigations and prosecution of drug cases. Police must also meet the challenge of criminal behavior that often includes drug dealing associated with youth gangs.

Corruption. As a matter of policy, the GOH does not facilitate the production, processing, or shipment of narcotic and psychotropic drugs or other controlled substances. The GOH takes legal and law enforcement measures to prevent and punish public corruption. Honduras is a party to the OAS Inter-American Convention Against Corruption and the UN Convention Against Corruption.

The USG is strongly supporting anticorruption concerns within the Ministry of Public Security and the Public Ministry by providing funding and logistical support to the newly-formed Internal Affairs Office within the National Police.

Agreement 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 and the UN Convention Against Transnational Organized Crime. 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 a bilateral Caribbean Maritime Counterdrug Agreement with the U.S., but has not yet ratified it.

Border container security efforts have been beefed up and a Declaration of Principle was signed between the U.S. and Honduras on December 15, 2005 as part of the Container Security Initiative (CSI) for the inspection of sea-going cargo destined to the U.S. and other countries. Countries such as the U.S., Belize, Colombia, Jamaica, Mexico, Venezuela, and Spain have all signed counternarcotics agreements with the country of Honduras.

Cultivation/Production. Small number of marijuana plants has been discovered around the Copan area, but they are not considered a major drug cultivation by either USG agencies or the GOH counternarcotics forces.

Drug Flow/Transit. It is widely believed that the flow of drugs through Honduras has increased. Remote areas, such as the Department of Gracias A Dios, are heavily affected. The USG, in conjunction with GOH maritime interdiction efforts, has been successful in apprehensions and arrests of persons and ships involved in drug trafficking. Several ships have been detained and decommissioned as a result, with considerable amounts of illegal drugs captured along the northern coast of Honduras.

Gang members are being utilized by organized crime rings to guard drug shipments in exchange for drugs and weapons. Several major loads of weapons for drugs shipments have been intercepted in combined operations conducted by the GOH Ministry of Public Security and the Public Ministry Organized Crime Unit. It has been established that these transactions were being conducted between Honduran gun runners and Colombian drug dealers.

The Declaration of Principal Agreement (DOP) initiated the Container Security Initiative (CSI) shared by the U.S. Customs & Border Protection with participating countries. This will be a major deterrent to target drug smuggling, weapons trafficking, and terrorism utilizing ocean-going, containerized cargo.

Domestic Programs/Demand Reduction. Public perception attributes drug usage, especially among the youth, to lack of economic development, poverty, and unemployment. A growing concern is the increased drug trafficking and use by gang members, which target young school children. The Honduran Government is conscious that drug trafficking and usage pose security threats as well as social problems. Programs to deal with these problems include the cooperation of numerous church and NGO groups dealing with proactive drug awareness and rehabilitation programs. Job skills, family counseling, Demand Reduction, and pro-active projects are also included in these efforts to assist in counternarcotics activities. The USG sponsors an umbrella NGO project—known as the Institute for the Prevention of Alcoholism and Drug Abuse (IHADFA) and Ministries of Public Health (CIHSA)—which provides assistance to approximately seventy such groups that deal directly with public assistance in all of these efforts.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. Honduras has pledged to increase its counternarcotics initiatives. These initiatives include the expansion of maritime interdiction, especially along the north coast where most of the drug trafficking occurs. The new GOH administration ran on an anticorruption platform, and has made combating drug activities one of its major priorities. The government plans to strengthen international cooperation to confront these illegal activities.

Bilateral Cooperation. The USG continues to support and work closely with Honduran Law Enforcement counternarcotics entities in investigations and operations against drug trafficking. Additional training, such as Basic and Advanced Criminal Investigative, Money Laundering, Drug Handling & Identification, and Questionable Documents courses have been added to existing assistance programs for both the Ministry of Public Security and Public Ministry offices.

In 2005, the U.S. Customs & Border Protection Special Tactics Unit (BORTAC) provided equipment and tactical training to the Internal Affairs investigators charged with the arrest and detention of corrupt officers. Cases investigated and turned over for Administrative and Legal actions against officers charged with alleged misconduct and illegal activities continue to grow. Entire Special Operations Units with the National Police and the Public Ministry, which deal directly with U.S. Embassy agencies, have been submitted to polygraph testing and fully vetted to increase security and confidentiality in the handling of sensitive information. Several GOH officials have been charged in corrupt practices and are awaiting prosecution.

The Road Ahead. Drug interdiction operations will be strengthened along the north coast, along with more concentrated enforcement in other areas of the country. Stronger law enforcement and judicial efforts are expected to result in continued GOH cooperation against drug trafficking. A strong stand must be taken on corruption.

Mexico

I. Summary

During 2005, Mexican authorities arrested numerous drug traffickers in an attempt to dismantle major drug cartels operating in Mexico. According to the Government of Mexico (GOM), law enforcement authorities seized over 30 metric tons of cocaine, 330 kilograms of heroin, 887 kilograms of methamphetamine, 1,760 metric tons of marijuana, and 280 kilograms of opium gum. The Office of the Attorney General (PGR) and the Secretariat of National Defense (SEDENA) acted against personnel who engaged in corrupt practices and eradicated poppy and marijuana crops. According to the GOM, 30,885 hectares of cannabis and 20,803 hectares of opium poppy—a 30 percent increase over 2004—were eradicated in 2005. 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, established professional cadres of investigators, analysts, and technicians.

President Fox and other cabinet officials pressed forward with reforms aimed at establishing more professional police institutions and promoting greater accountability and transparency. Extraditions reached an all-time high, with the Government of Mexico (GOM) extraditing 41 fugitives to the United States in 2005, compared with 34 during the previous year. In November, the Mexican Supreme Court ruled that imposition of sentences of life imprisonment did not violate the Mexican constitution, thus eliminating another obstacle to extradition.

Mexico is a party to the 1988 UN Drug Convention.

II. Status of Country

Mexico continued to be the principal transit country for cocaine entering the United States, with 70 to 90 percent of the cocaine destined for the U.S. passing through the Mexican mainland or the country's periphery. Mexico also served as the main foreign source of marijuana consumed in the U.S. as well as a major supplier of heroin. Most cocaine smuggled into Mexico from Colombia for distribution in the United States arrived via Eastern Pacific and Western Caribbean maritime routes in ocean vessels or go-fast boats. The eastern coast of the Yucatan was used less frequently than the Eastern Pacific route, although some increase in activity occurred. Traffickers also used air cargo, couriers, and mail parcels through Mexico and Central America, particularly for Colombian heroin. Air traffic from South America remained high, particularly to the tri-border region of Mexico, Belize, and Guatemala.

Geographic proximity contributed to Mexico's status as a principal supplier of heroin, accounting for about 30 percent of the U.S. market, despite Mexico's relatively small percentage of worldwide production. Mexican marijuana cultivators provided the largest foreign source of marijuana for the U.S. market. Cannabis and opium poppy growers employed small, widely dispersed plots in remote, hard-to-access areas, particularly in the Sierra Madre Mountains. This tactic allowed cultivators to hinder detection and eradication of crops. During 2005, favorable climate and terrain permitted two-to-three opium poppy harvests and two cannabis harvests in the major cultivation areas.

Mexico continues to be the largest foreign source of methamphetamine distributed in the United States. While there are no reliable estimates, the annual increase in methamphetamine seizures along the U.S. southwest border since 2001 suggest that Mexican trafficking organizations have significantly increased methamphetamine production in Mexico for distribution into the United States. Trafficking organizations established clandestine methamphetamine laboratories in western and northwestern Mexico. Methamphetamine is smuggled along the entire southwest border. Mexican traffickers

continued to dominate operations in the United States, controlling most of the primary distribution centers. U.S. and Mexican authorities worked closely to dismantle these operations on both sides of the border. Violence erupted in various border cities, particularly Nuevo Laredo, as rival cartels fought for control of smuggling routes. In response, Mexican authorities initiated Operation “Secure Mexico” and deployed federal police units to Nuevo Laredo to counter such violence, while U.S. law enforcement entities shared information with Mexican counterparts on drug groups operating near the border. In addition, the GOM and the U.S. conducted Operation Border Unity, a bi-lateral, multi-agency effort to address violence on both sides of the border in the Laredo/Nuevo Laredo area.

The GOM has made progress in the regulation of precursor chemicals. In 2005, the Federal Commission Against Sanitary Risks reduced the importation of precursor chemicals by 40 percent by limiting pseudoephedrine imports to pharmaceutical manufacturers. It also revoked the import licenses of chemical distributors, placed pseudoephedrine combination products behind the counter in pharmacies, and limited retail transactions.

III. Country Actions Against Drugs in 2005

Policy Initiatives. President Fox named Daniel Cabeza de Vaca as Attorney General in late April. He also named Center for National Security Research (CISEN) Director Eduardo Medina Mora as Secretary of Public Security after Secretary Ramon Martin Huerta died in a helicopter crash in September.

During 2005, AFI agents and investigators played a central role in the investigation and arrest of drug traffickers, violent kidnapers, and corrupt officials. AFI has developed into the centerpiece of GOM efforts to promote more professional, honest, and effective law enforcement institutions. AFI leaders established a career path for all investigators, characterized by job stability, upward mobility, periodic salary increases, clear guidance on requirements for advancement, and promotions based on merit and seniority. Additionally, AFI personnel deployed in November 2005 sophisticated vehicle and cargo inspection system mobile units to conduct inspections of vehicles for drugs, explosives, and other contraband in strategic locations throughout Mexico. An AFI chemical response team also received a specially equipped clandestine laboratory vehicle and training to conduct raids of clandestine laboratories that produce methamphetamine and other controlled substances. Officials at the Federal Commission Against Sanitary Risks of the Secretariat of Health also received computer equipment and software to help track imports of precursor chemicals and controlled substances in the legal market.

Accomplishments. In 2005, there were 28 separate major actions in which the GOM made arrests of key traffickers and prosecuted corrupt officials associated with major trafficking groups. These major actions also led to several major interdiction successes by GOM law enforcement and military units resulting in the seizure of over 18.5 metric tons of cocaine, 14.5 metric tons of marijuana and the recovery of over \$18 million in illicit proceeds.

Law Enforcement Efforts. According to the GOM, in 2005 Mexican authorities seized over 30 metric tons of cocaine HCl, over 1,760 metric tons of marijuana, 330 kilograms of heroin, 280 kilograms of opium gum, and 887 kilograms of methamphetamine. They also seized 1,643 vehicles, 60 maritime vessels, and eight aircraft. Authorities arrested 14,762 persons on drug-related charges during the first eleven months of 2005, including 14,633 Mexicans and 129 foreigners, according to statistics from CENAPI. Cumulatively, Mexican officials arrested over 50,000 drug traffickers during the first five years of the Fox Administration, including 2005.

Despite these efforts, drug interdiction remains a challenge: drug trafficking organizations rapidly replace arrested members, some of which continue to operate from prison; quickly adjust market share between rival narcotics organizations; and recruit the services of corrupt officials.

Corruption. Efforts against corruption remained one of the top priorities of the GOM during 2005. President Fox and other senior officials have demanded that all agencies, departments, and government institutions, including Mexican military services, adhere to strict enforcement of anticorruption measures to detect and punish corrupt personnel. Aggressive investigations, provision of better pay and benefits for employees, enactment of civil service coverage for selected agencies and institutions, as well as better selection criteria for potential candidates for employment within the government, have all promoted efforts to deter corruption.

Fox Administration officials recognize the importance of changing public attitudes regarding transparency and the rule of law. Secretariat of Public Education (SEP) officials have worked with the National Strategy Information Center (NSIC) to expand “Culture of Lawfulness” curriculum in Mexican schools designed to teach about the adverse effects of corruption and promote greater respect for the rule of law. During 2005, over 106,000 students attended “Culture of Lawfulness” courses at middle schools in ten states, while another 10,000 pupils attended a new course for high-school students in Baja California. Various federal, state, and local governments have initiated “rule of law” training for police personnel.

From January through October 2005, SFP officials conducted more than 4,512 investigations into possible misconduct by federal officers and government employees. These investigations resulted in the issuance of 68 warnings, 1,296 reprimands, suspensions of 918 employees, dismissals of 284 federal employees, dismissals of another 1,058 employees with re-employment sanctions or restrictions for service within the government sector, and 905 economic sanctions resulting in over 3 billion pesos (about \$300 million) in fines and recoveries. Most sanctions resulted from violation of laws or abuse of authority by public servants.

Agreements and Treaties. Mexico is a party to the 1961 United Nations Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and the 1971 United Nations 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. In April 2003, Mexico ratified the Protocol against the Illicit Manufacturing of and Trafficking in Firearms that supplements the United Nations Convention Against Transnational Organized Crime (The Palermo Convention).

Mexico is a party to the Inter-American Convention Against Corruption and, in July 2004, ratified the United Nations Convention Against Corruption. This Convention, which entered into force on December 14, 2005, obligates parties to criminalize corrupt acts such as bribery, extend mutual legal assistance to help prosecute suspected offenders, aid in the identification and recovery of assets resulting from corruption, and aid in the detection and prevention of financial crimes.

The current U.S.-Mexico Extradition Treaty entered into force in 1980. A Protocol to the Extradition Treaty that would permit the temporary surrender for trial of fugitives serving a sentence in one country but who are wanted on criminal charges in the other, entered into force in 2001, but still lacks implementing legislation in Mexico. Legislation is pending before the Mexican Congress, as part of broader reforms to Mexico’s domestic extradition law. Also, the United States and Mexico are parties to a bilateral Mutual Legal Assistance Treaty (MLAT), which entered into force in 1991 and is used regularly.

Extradition and Mutual Legal Assistance. Mexican authorities extradited a record 41 fugitives to the United States in 2005—up from 34 in 2004. The fugitives included Mexican citizens and defendants accused of narcotics trafficking, money laundering, and other serious crimes.

In November 2005, the Mexican Supreme Court ruled that sentences of life in prison without the possibility of parole do not violate the Mexican Constitution’s prohibition on cruel and unusual

punishments. This decision is a major breakthrough in the U.S.-Mexico extradition relationship and will facilitate the extradition of fugitives facing life imprisonment in the United States for major drug trafficking and violent crimes. In many major narcotics cases, defendants must face pending criminal charges in Mexico before they can undergo extradition. The U.S. and Mexican governments held a seminar in March 2005 to provide training and guidance to facilitate extraditions from the United States to Mexico.

In addition to extraditions, Mexican law enforcement agencies have continued to coordinate closely with the U.S. Marshals Service (USMS) and FBI in the deportation or expulsion of numerous fugitives to the United States. In 2005, Mexican police and immigration authorities deported or expelled over 190 fugitives, who were wanted to stand trial or serve sentences in the United States.

Cultivation and Production. PGR and military personnel conducted ambitious eradication missions. SEDENA deployed up to 35,000 troops at any one time to destroy drug crops manually, while the PGR flew helicopters to spray paraquat, a widely used herbicide, on crops. The army accounted for about 80 percent of the eradication totals, while the PGR Air Services Section accounted for the remaining 20 percent, often in the most difficult-to-reach areas. As of November 2005, preliminary GOM data indicated that overall eradication of marijuana remained at the 2004 level, amounting to 30,882 hectares, while destruction of opium poppy crops increased to 20,464 hectares, a 28-percent increase over the previous year.

Drug Flow and Transit. Between 70 and 90 percent of cocaine entering the United States from South America passed through mainland Mexico or its waters. Mexico remained a major transit and production zone for marijuana, heroin, and methamphetamine destined for the United States. These illegal drugs are smuggled along the entire southwest border. Drug traffickers have established numerous clandestine laboratories in northwestern Mexico for production of methamphetamine. Mexican traffickers continued to dominate drug distribution in the United States, controlling most of the primary distribution centers.

Domestic Programs. The National Council Against Addictions (CONADIC) of the Secretariat of Health reported that 1.68 percent of the population between 12 and 65 years of age (some 911,000 persons) admitted to using illegal drugs during the past year, and some 550,000 admitted to such drug use during the previous thirty days, according to the most recent national household survey in 2002. The incidence of use has continued at about the same rate it did between the national surveys of 1993 and 1998. Among the cities included in the study, the highest rates occurred in two cities on the border with the United States, Tijuana and Ciudad Juarez, and the country's two major cities, Mexico City (Federal District) and Guadalajara (Jalisco). During the United States—Mexico Binational Demand Reduction Conference held in Mexico City from November 30 to December 1, participants focused on ways to help community-based organizations in poor areas marshal resources and efforts to confront the burgeoning use of methamphetamine.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and GOM cooperated on major institution-building initiatives that will promote the well-being of the citizens of both countries for decades. In 2005, U.S. Embassy Narcotics Affairs Section (NAS) officials helped renovate the building that will house SIEDO prosecutors by arranging for procurement and installation of work stations and necessary air-conditioning units for the roof, as well as cabling of computer centers. NAS also procured computers and arranged for renovation of the offices of the Financial Intelligence Unit (FIU) of the Secretariat of Finance and Public Credit (SHCP) to assist with investigations of money laundering activities. NAS arranged for extensive cabling of the new building for the Operations Unit at AFI Headquarters to enhance PGR air interdiction and eradication capabilities. From November 2004 to December 2005, the USG also delivered eight Schweizer helicopters equipped with Forward Looking Infrared Radar

(FLIR) to perform police and border surveillance missions. Additionally, NAS arranged for refurbishment of eight UH-1H helicopters, which serve as the transportation “work horse” of the PGR Air Services Section.

The Attorneys General of both countries met in March 2005 in Mexico City and in September in Houston to discuss bilateral cooperation and border violence. The Senior Law Enforcement Plenary (SLEP) of the Law Enforcement Working Group met twice during 2005 to evaluate and guide bilateral actions at the operational level. The SLEP is comprised of several working groups, including those dealing with major drug trafficking organizations, money laundering, demand reduction, arms trafficking, extradition, interdiction, training, precursor chemicals, migrant smuggling, and trafficking in persons.

Embassy Information Analysis Center (IAC) officials coordinated closely with the Mexican Navy to assist in the location and seizure of over 20.5 metric tons of cocaine from maritime vessels. The largest seizure involved 6.8 metric tons from a go-fast boat on December 2.

Close bilateral cooperation resulted in the implementation of vital border security projects during 2005, which not only helped protect the United States and Mexico against potential terrorist attacks, but permitted the detection and seizure of illegal migrants, drugs, and other contraband and facilitated the cross-border movement of legitimate visitors, goods, and services. In 2005, NAS officials arranged for the procurement and installation of five Portal 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 arranged for the installation of a Railroad VACIS at Mexicali and a Pallet VACIS at Mexico City’s International Airport. Mexico City airport inspectors used training, technical assistance, and donated nonintrusive inspection equipment (NIIE) to detect and seize over \$20 million in drug proceeds during 2005.

In 2005, three SENTRI (Secure Electronic Network for Traveler’s Rapid Inspection) lanes opened at San Ysidro (CA), Calexico (CA), and El Paso (TX). These expedited border-crossing lanes for pre-cleared, low-risk commuters will allow U.S. officials to concentrate more resources on high-risk travelers coming into the United States. Three more NAS-funded lanes—at Nogales (AZ), Laredo (TX), and Brownsville (TX)—are scheduled to open in mid-2006.

Institutional Development. In 2005, the Embassy’s Law Enforcement Professionalization and Training Program arranged training courses for over 2,800 law enforcement personnel and prosecutors at federal, state, and local levels. The Embassy initiated a five-week Criminal Investigations School (EIP) for all new AFI candidates, as well as current investigators. Since its inception, over 800 AFI personnel attended and graduated from the EIP. In 2005, the PGR Police Training Academy took over full responsibility for the EIP. Embassy personnel continued to support PGR efforts through donation of equipment and other developmental innovations. Training in 2005 also included 75 courses for 340 information technology engineers from nine different PGR entities.

The Road Ahead. Opportunities remain during the last year of the Fox Administration to enhance the close cooperation that both governments enjoy and to institutionalize close personal relationships. The U.S. and Mexico must strive to solidify this unprecedented level of cooperation during the remaining year of the Fox Administration. Prosecutors and police investigators need better equipment, training, and investigative tools. Both governments must continue to share intelligence and promote teamwork to deter drug-related violence along our mutual border, prevent diversion of precursor chemicals, dismantle clandestine laboratories producing methamphetamine, fight money laundering, and ensure successful prosecutions. Both prosecutorial and judicial reform is needed to match advances in the quality and ability of law enforcement.

Nicaragua

I. Summary

Nicaragua is a significant transshipment point for South American cocaine and heroin destined for the U.S. and, to a lesser degree, for Europe. International criminal organizations move illicit drugs through Nicaragua by land, sea, and air with major trafficking routes on both coasts and along the Pan American Highway. The Government of Nicaragua (GON) is making a determined effort to fight both domestic drug abuse and the international narcotics trade. The Nicaraguan National Police (NNP) and the Nicaraguan Armed Forces (primarily the Navy) demonstrated their commitment to disrupting the flow of drugs with continued significant interdiction results. However, limited resources and an ineffectual, corrupt and politicized judicial system hamper these efforts. USG assistance provided to the NNP, the Nicaraguan Armed Forces, the legal system, and the banking system has been instrumental in the GON's progress in countering well-financed and well-armed drug traffickers.

The 2001 bilateral maritime counternarcotics agreement with the U.S. enabled several GON/USG joint maritime counternarcotics operations in 2005, including seizures netting thousands of kilograms of cocaine. In previous years, a number of high-seas prisoner transfers took place under the accord, but the U.S. Coast Guard (USCG) did not request any transfers in 2005. The U.S. continued to assist the NNP's counternarcotics efforts during 2005, and, in close cooperation with the U.S. DEA office in Managua, the NNP made significant cocaine and heroin seizures.

The Nicaraguan National Assembly still has not passed new legislation on money laundering that would establish an operational, technically-capable Financial Analysis Unit to help the banking sector identify and track suspicious deposits. The current Financial Analysis Commission (CAF) is ineffective due to a lack of budget, trained personnel, equipment and strategic goals. The CAF is headed by the Prosecutor General, who receives reports of suspicious financial transactions from banks and decides whether to refer them to the NNP for investigation. The current Prosecutor General uses a narrow interpretation of the money laundering law and has not prosecuted corruption or narcotics offenders for money laundering. Two separate proposed bills that would create a Financial Analysis Unit have been submitted to the National Assembly and have been pending for two years. Nicaragua is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug traffickers move illegal narcotics through Nicaragua by land, sea, and air. The Atlantic coast is a primary transit route for drugs being smuggled principally to the U.S., but also to European markets. Nicaragua's Atlantic coast is a remote area that many Nicaraguans consider almost a separate country, physically and culturally isolated from the rest of Nicaragua; this region has been granted a degree of political autonomy by the national government. Unemployment on the Atlantic coast is high, with legitimate job opportunities limited to fishing, mining, forestry and small-scale tourism. The depressed regional economy makes the illicit drug trade extremely attractive to local residents, and Nicaraguan law enforcement points to the surprising number of new homes and hardware stores appearing in the region as evidence that more people are being lured into the drug business. Nicaragua seizes large amounts of narcotics on the Atlantic, from the Honduran to the Costa Rican border. Another key area for Nicaraguan law enforcement is the Penas Blancas land crossing on the Costa Rican border that has more than 200 trucks transiting daily. The NNP inspects about 10 percent of the total number of trucks crossing into Nicaragua and routinely seizes significant amounts of drugs.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The GON continues efforts to revamp the country's legal system. It has proposed legislation to make money laundering a stand-alone crime, but this legislation continues to be stalled in the National Assembly. Such a law would settle the legal ambiguity of whether individuals engaged in financial transactions with proceeds resulting from illegal activities are engaged in money laundering. The current law (Law No. 285) is not effective against money laundering crimes committed by organized criminal organizations.

Accomplishments. In 2005, the GON carried out major seizures of transshipped South American cocaine and heroin headed for U.S. markets. During the year, the Nicaraguan military, the NNP, and U.S. law enforcement vessels effected several joint maritime operations, including DEA-assisted operations on the Pacific and Atlantic Coasts. The NNP has conducted operations against local drug distribution centers and large shipments transiting the country, gathering intelligence on their locations and making arrests. The GON continued to eradicate marijuana crops.

Law Enforcement Efforts. The DEA and U.S. Military Group (USMILGP) provided training, planning and logistical support for numerous counternarcotics operations. The NNP and Nicaraguan Navy are committed partners and have participated in many regional efforts. In August 2005, Nicaragua seized \$1.2 million from a southbound vehicle at the Penas Blancas checkpoint during one such regional operation. The driver had smuggled at least twelve similar bulk currency loads over a three-month period. Besides numerous seizures of drugs, money and weapons, the regional operation also shut down a popular smuggling route, forcing traffickers to postpone or cancel shipments, change or modify their method of conveyance, vary their smuggling routes or jettison drug loads. The operation also served to enhance operational ties and unify Central American law enforcement—it was the first time that the Nicaraguan Navy, Nicaraguan Police and Honduran authorities worked together.

In April, the Nicaraguan Navy, NNP and DEA agents seized 2,143 kilograms of cocaine in Tasbapauni that were cached for a boat to pick up. In September, the NNP seized 1,793 kilograms of cocaine on a go-fast boat that had stopped to refuel on Little Corn Island en route to Honduras. In November, the Navy (jointly with the NNP and intelligence from DEA) seized 871 kilograms of cocaine on board a Honduran fishing vessel. In August, the Nicaraguan police found 27 kilograms of heroin concealed in a hidden compartment in a tractor-trailer and \$1.2 million in cash at Penas Blancas.

DEA reports that Nicaraguan authorities seized a total of 54.3 kilograms heroin and 6,947 kilograms of cocaine in FY 2005, compared to 53.8 kilograms of heroin and 3,703 kilograms of cocaine in FY 2004. Most was seized either on the Atlantic coast or at the border with Costa Rica. In FY 2005, DEA reported that Nicaragua arrested 69 international traffickers. The Nicaraguans also seized six go-fast boats, some of which had already jettisoned or delivered their cargo. The GON's counternarcotics efforts have also uncovered related arms trafficking. According to law enforcement sources, most weapons cases in Nicaragua have a link to terrorist organizations like the United Self-Defense Forces of Colombia (AUC).

Despite these positive interdiction results, both the NNP and the Navy efforts are acutely limited by scarce resources. The police counternarcotics unit has only 116 officers, including administrative support, to cover all of Nicaragua. The 850-man Nicaraguan Navy, with assistance from the USMILGP and INL, is in the process of 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 and also issues numbered badges so that the public can easily identify abusive police officials. The police 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 and poor law enforcement

infrastructure make it difficult to eliminate corruption. A new NNP officer earns under \$200 a month. Judges' official salaries average about \$500 a month. Corrupt judges often let detained drug suspects go free after a short detention, a practice that puts them quickly back on the streets and undercuts police morale. In a recent high-profile case, judges released over \$600,000 of funds belonging to a suspected narcotics trafficker. There are serious allegations that a number of judges involved in the case may have received pay-offs. One of those judges was also connected to another scandal involving the acquittal of two Mexican citizens and an order to return to them over \$300,000 in undeclared currency seized by Nicaraguan Customs. The Nicaraguan Attorney General has been publicly critical of the inactivity and ineffectiveness of the CAF, controlled by the Prosecutor General (his judicial counterpart). He claimed that of the CAF's 354 suspicious activity reports received in the first part of 2005, not a single money laundering investigation had been initiated by the Prosecutor General. The Nicaraguan Navy has not been tainted by corruption. Nevertheless, naval personnel are rotated and personal effects are searched to deter corruption. Additionally, the Nicaraguan Army requested and received approval from the National Assembly to strengthen military justice regulations, which now impose strict penalties for corruption and treason.

The USG plans, as part of the new Resident Legal Advisor program, to provide 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 sharing of legal information between countries. Nicaragua was one of the first countries to sign the Caribbean regional maritime counternarcotics agreement when it opened for signature in April 2003, but has not yet taken the necessary internal steps to bring it into force.

Cultivation/Production. With the exception of marijuana, illegal drugs are not cultivated in Nicaragua. The marijuana grown in Nicaragua is consumed locally.

Drug Flow/Transit. The isolation of the country's Atlantic coast, its vulnerable banking system, endemic poverty, widespread availability of firearms and societal effects of the civil war of the 1980s combine to make Nicaragua a rich target for drug traffickers. The increase in narcotics transshipment during recent years has generated a rise in local drug abuse, particularly on the Atlantic coast. This region's many islands and inlets provide way stations for drug smugglers moving between Colombia and points farther north. Many Atlantic residents 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.

Domestic Programs (Demand Reduction). Drug consumption in Nicaragua is a growing problem, particularly on the Atlantic coast. 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.

Between 2001 and 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. The NNP has translated D.A.R.E. materials into the Miskito language and will be distributing them to indigenous populations on the Atlantic coast. Both the NNP and USG are exploring other demand-reduction efforts that focus on at-risk populations.

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 in the last ten years. The NNP established formal relations with the DEA in 1997 that has fostered growing and effective cooperation. During 2005, the U.S. continued to provide significant counternarcotics and law enforcement assistance to the NNP through the DEA, State/INL, U.S. Coast Guard, and the U.S. Department of Justice. The Nicaraguan Navy is an effective and reliable partner in the counternarcotics field. INL is refurbishing three large naval boats and numerous smaller patrol boats for maritime interdiction on both the Atlantic and Pacific coasts. The USMILGP is funding spare parts and outboard motor replacement for the Nicaraguan Navy patrol boats. The USMILGP is also refurbishing a captured fishing vessel to act as a Nicaraguan naval “Mother Ship” to support long-term maritime interdiction operations. Nicaragua is cooperating with U.S. efforts to disrupt international terrorist financing. The USG shares information with the Superintendent of Banks as well as the Ministry of Finance and the Foreign Ministry on suspect persons or organizations whose assets should be frozen. The GON has been cooperative in sharing this information with local banks. 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 the country’s sovereignty. The Nicaraguan military and the NNP are committed to the counternarcotics effort. However, Nicaragua does not possess the resources to wage this war alone and will require continued and increased assistance—especially in confronting the massive resources of organized drug and criminal organizations. Traditionally, the NNP and the Navy have not always worked together effectively on counternarcotics efforts. However, USG-fostered joint operations have promoted inter-agency cooperation, and the U.S. will continue to encourage even greater cooperation between the NNP and the Navy. If Nicaragua is to become a full and successful partner with the U.S. in fighting international crime (especially the illegal drug trade and terrorism), it will need more resources as well as urgent internal reforms—especially in the professionalization of the judiciary and the passage and application of stronger statutes to combat corruption and money laundering.

Panama

I. Summary

As the only Pacific/Atlantic maritime and North/South America land connector, and a principal hemispheric air, financial, and communications hub, Panama is a major nexus for international crime and an important transshipment point for drugs destined for the United States and Europe. U.S. bilateral counternarcotics and law enforcement cooperation with the Torrijos Administration continues to improve. With USG assistance, the Government of Panama's (GOP) law enforcement agencies are being restructured to enhance their ability to fulfill their missions. Assistance provided by the United States remains crucial to ensuring effective Panamanian law enforcement. Panama is a party to the 1988 UN Drug Convention.

II. Status of Country

Panama's central geographic position and role as a regional transportation, communication and financial hub makes it a natural hemispheric locus for international crime and transshipment point for drugs, precursor chemicals and trafficking proceeds. The security situation in the Darien region bordering Colombia has become more stable, but drug and arms smuggling between Panama and Colombia continues. Last year, Panama expanded its efforts to increase control of its border with Costa Rica. The huge volume of commercial traffic flowing through the canal, along the Pan-American Highway and by way of Panama's international airports provides the means for smuggling tons of drugs and other contraband. Panama's numerous uncontrolled airfields and vast unguarded coastlines on both the Atlantic and Pacific Oceans are used for noncommercial smuggling routes. The availability and acceptability of illicit drugs, combined with money from smuggling, have increased domestic drug abuse, particularly among young people. The use of bribery and coercion in the drug trade contribute to pervasive public corruption and undermines the GOP's criminal justice system. Panama is not a significant producer of drugs or precursor chemicals. However, cannabis is cultivated for only for national consumption, primarily on the Pearl Islands in the Gulf of Panama.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Since taking office in 2004, the Torrijos Administration has adopted a broad policy of enhanced inter-agency coordination related to narcotics interdiction and law enforcement activities. This "integrated security" policy has led the government to look at ways of restructuring the security forces to enhance their effectiveness in countering narcotics trafficking and other transnational crime.

Accomplishments. Initiated in 2001, Panama's model chemical control legislation was approved in April 2005 (details in "Precursor Chemicals" section). Panama actively participated in the Central American International Drug Enforcement Conference (IDEC) sponsored by the U.S. DEA to coordinate counternarcotics operations among different states. It participated in the DEA-organized "Operation Contralado" between August and October 2005. In the most significant operation of the year, Panama's National Police (PNP) seized four tons of cocaine in September 2005 along the Atlantic coast.

Law Enforcement Efforts. Bilateral policy and operational coordination in law enforcement continues to be good on all narcotics-related issues. DEA-monitored statistics through mid-November 2005 indicate seizures of 10,284.5 kilograms of cocaine, 37.6 kilograms of heroin, 9,547.9 kilograms of cannabis, \$10,316,148 in currency seizures, and 259 arrests for international drug-related offenses. Heroin seizures in 2005 declined slightly since last year. However, seizures of cocaine, cannabis and

currency have risen considerably, and international drug-related arrests have increased slightly since last year. 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) is the principal coordinator of Panama's Public Forces' counternarcotics investigative resources. DPO's extensive cooperation with USG agencies continues to be excellent. The PNP's Directorate of Information and Intelligence (DIIP) and its Anti-Drug Sub-Directorate (DAD) are effective drug investigative units.

Funded by the Embassy's Narcotics Affairs Section (NAS) and supported by the DEA country office, the Public Ministry's Judicial Police (PTJ) sensitive investigative unit has conducted investigations of major drug and money laundering organizations. It continues to expand, carrying out improved operations at a higher frequency. The USG provides support to the PNP Mobile Inspection Unit and Paso Canoas Interdiction Enhancements, the International Airport Drug Task Force, and the Canine Unit. These units continue to effect major arrests and seizures.

The professional and capable National Maritime Service (SMN) maintains good bilateral relationships, and cooperatively 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 U.S. The lack of resources, particularly fuel, is threatening this invaluable cooperation and the SMN's operational successes. USG assistance is critical to maintaining the SMN operational status at this high and effective level. The SMN and National Air Service (SAN) have positive relations and annually partner to eradicate cannabis fields in the Pearl Islands.

Despite limited air assets, the SAN provides excellent support for counternarcotics operations, when resources are available. This was evident in the SAN's participation in Operation Sombra III (that identified clandestine airstrips) and the October seizure of 1,880 kilograms of cocaine near Porvenir, Colon. Modeled on USCG procedures, SAN aircraft use warning and disabling shots to immobilize suspect go-fast smuggling boats until the arrival of maritime forces. The SAN responds cooperatively to U.S. law enforcement requests to photograph suspect aircraft in flight or on the ground. The SAN also provides critical logistical support to transfer detainees and drug evidence to U.S. jurisdiction.

The SAN-SMN relationship continues to grow in a positive direction, and the GOP is exploring the possibility of merging the two into a Coast Guard. The PNP is also developing a specialized border patrol force. Panama's Public Forces are slated to receive modest budgetary increases in 2006.

Corruption. President Torrijos won the 2004 election on a platform that promised to purge corruption from the government. Since September 2004 (when the new administration took office) the GOP has audited government accounts and launched investigations into major public corruption cases. Panama's national anticorruption commission coordinates the government's anticorruption activities and, with USG assistance, developed a strategic plan in 2005. Through the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL), the USG is also funding the development of a "Culture of Lawfulness" program with the Ministry of Education, the National Police, and PTJ. In 2005, the head of the PTJ counternarcotics unit was arrested and charged with corruption.

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. The USG and Panama also have a mutual legal assistance treaty and an extradition treaty in force. The USG and GOP have a Customs Mutual Assistance Agreement and a stolen vehicles treaty. In 2002, the USG and GOP concluded a comprehensive maritime interdiction agreement. 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 protocols against trafficking in women, migrant smuggling and illegal manufacturing

and trafficking in firearms, and 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.

Cultivation and Production. Joint DEA-SAN aerial reconnaissance shows some small-scale coca cultivation, but there have been no confirmed reports of cocaine laboratories in Panama since 1993. The GOP has not been able to implement drug crop eradication in the Darien due to resource constraints, triple-canopy jungle, and the presence of heavily armed Colombian insurgents in the region. There is limited cannabis cultivation, principally for domestic consumption, in the Pearl Islands. The GOP effectively eradicates these crops.

Precursor Chemicals. Panama does not produce or consume precursor chemicals used in processing illegal drugs. There is clear evidence that a significant volume of precursor chemicals transits the Colon Free Zone destined for other countries, including to Mexico where they are processed into illicit drugs for the U.S. market. The USG provided technical advice and assistance in Panama's effort to strengthen its chemical control legal regime. This was signed into law in April 2005. With the new precursor chemical control legislation in place, the USG will shift the focus of its assistance to capacity building for implementing the new laws.

Drug Flow/Transit. Panama is frequently used as a transit country for cocaine, heroin, synthetic drugs and precursor chemicals. Criminal organizations use fishing vessels, cargo ships, small aircraft, go-fast boats, commercial containers and human mules to move this contraband through Panamanian waters, airspace and territory to the U.S. Cocaine and heroin may be offloaded from boats onto trucks traveling the Pan-American Highway, placed in sea-freight containers for cargo vessels, moved by private airplanes utilizing hundreds of unmonitored airstrips, or carried by couriers on commercial air flights. European law enforcement agencies have detected an increase in cocaine trafficking via direct flights from Panama City to Madrid.

Domestic Programs (Demand Reduction). The USG-supported Panamanian Commission for the Study and Prevention of Drug-Related Crimes (CONAPRED) has a five-year (2002-2007) counternarcotics strategy that identifies 29 demand reduction, drug education and drug treatment projects at a cost of \$6.5 million. In 2005, CONAPRED funded seven demand reduction projects at \$924,000 as well as law enforcement projects with the Drug Prosecutors' Office, SMN and training for the Joint Informational Coordination Center (JICC) budgeted at \$49,890. The USG funded Ministry of Education and CONAPRED teacher training and information programs to promote drug abuse awareness in public schools as part a 2003 law that created a national drug prevention education program. The USG also supported the Ministry of Education's National Drug Information Center (CENAID) and the PNP Juvenile Police D.A.R.E. Program in Panama City public schools.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. 2005 assistance (equipment, training, coordination and intelligence) was critical to improving the professionalism and efficiency of Panamanian law enforcement and enhancing the GOP's counternarcotics efforts. These U.S.-supported programs are improving Panama's ability to disrupt illegal drug trafficking and other transnational crimes, strengthening its judicial system, encouraging stronger regulation of precursor chemicals, fighting public corruption, improving Panama's international border security and ensuring strict enforcement of existing Panamanian laws.

The NAS continues to modernize and professionalize the Panamanian National Police. Key components include implementing a community police project, expanding and upgrading crime analysis technology, and promoting managerial change to allow greater autonomy and accountability to develop best practices among local police commanders. In addition, the U.S. Coast Guard provides

training in maritime law enforcement boarding procedures for the SMN at its Maritime Law Enforcement Academy in Charleston, S.C.

As a result of USG support (equipment, training, technical assistance, equipping and refurbishing boats) the SMN accounted for approximately 18 percent of Panama's total cocaine seizures in 2005.

The USG has supported Panamanian Customs with advanced training, operational tools, and a dog detector program that has become a linchpin of the Tocumen International Airport Drug Interdiction Law Enforcement Team. During 2005, the canine program was dramatically expanded, allowing it to operate outside the confines of the airport.

In 2005 the USG, through the NAS and the Department of Homeland Security's Immigration and Customs Enforcement Agency, assisted the GOP in upgrading the Public Ministry's Anti-Corruption prosecutor's office. NAS supplied training, computers, office equipment, and other necessary equipment.

Bilateral Cooperation. The USG and GOP continued close and cooperative strategic and operational collaboration on joint counternarcotics efforts. In recognition of Panama's key importance to fighting drug trafficking and its continued law enforcement improvement, DEA Administrator Karen Tandy visited Panama in June and FBI Director Robert Mueller visited in October. The maritime interdiction agreement is proving its worth by enhancing cooperation. Panama continues playing a vital role in facilitating the transfer of prisoners and evidence to the United States.

The Road Ahead. The GOP has demonstrated its continuing commitment to building strong law enforcement institutions and disrupting the flow of illegal drugs northward. The USG will encourage Panama to provide sufficient resources for its law enforcement to control the land borders, the coast, and the territorial waters and airspace—making Panama inhospitable to international criminal activity. The U.S. is promoting the development of a risk assessment group within Panamanian Customs, which should begin operation in 2006.

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

The Bahamas is 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 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. The Bahamas is a party to the 1988 UN Drug Convention.

II. Status of Country

The Bahamas, a country of 700 islands and cays distributed over an area the size of California maritime and aerial routes between Colombia and the U.S., is an attractive location for drug transshipments of cocaine, marijuana and other illegal drugs. The Bahamas is not considered 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. As of November 2005, OPBAT seized 840 kilograms of cocaine and 9.0 metric tons of marijuana.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The GCOB’s comprehensive National Anti-Drug Plan, published in 2004, calls for the establishment of a National Drug Secretariat with responsibility for its implementation. The GCOB announced its intention in late 2005 to headquarter the Secretariat in the Ministry of National Security. In 2005, 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 2005. Marijuana seizures doubled in 2005, while cocaine seizures decreased as a result of previous years’ break up of the largest drug trafficking organization in The Bahamas. The extradition of Samuel “Ninety” Knowles remains pending.

Law Enforcement Efforts. The RBPF participated actively in OPBAT. Alerted by U.S. Department of Homeland Security surveillance aircraft, and on some occasions by the Cuban Border Guard, U.S. Army and Coast Guard helicopters intercept maritime drug smugglers and seize airdrops of drugs into Bahamian territory. Law enforcement officers have noted that Haitian traffickers are concealing their drugs in hidden compartments in sailing vessels, commingling of drug trafficking networks with illegal migrant smuggling organizations.

During 2005, the DEU seized 1.01 metric tons of cocaine and 13 metric tons of marijuana. (Note: OPBAT seizures are included in DEU’s total). The DEU arrested 1,382 persons on drug-related offenses and seized drug-related assets, including five boats and five vehicles. Cocaine seizures decreased compared to 2004 levels. This decrease is the result of the continued vigilance and precise targeting actions by law enforcement agencies and the 2005 hurricane season.

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 to conduct contraband searches on short notice. In 2005, the

Rapid Response Team conducted more than ten operations. While these operations did not result in drug seizures or arrests, they point to the increased capabilities of the Rapid Response Team. During 2005, the RBDF assigned two marines to the Caribbean Support Tender (the U.S. Coast Guard cutter “Gentian”) and three ship-riders each month to Coast Guard Cutters. The ship-riders extend the capability of the U.S. Coast Guard into the territorial seas of The Bahamas.

Corruption. As a matter of government policy, The Bahamas does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, nor the laundering of proceeds from illegal drug transactions. No senior official in the GCOB was convicted of drug-related offenses in 2005. The RBPF anticorruption unit reported that during 2005 there were eight allegations of corruption brought against officers, three pending prosecutions and five ongoing investigations. The RBPF uses an internal committee to investigate allegations of corruption involving police officers instead of an independent entity.

Agreements and Treaties. The Bahamas is a party to the 1961 UN Single Convention as amended by the 1972 Protocol, and is party to 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. The GCOB is also a party to the Inter-American Convention Against Corruption.

The U.S. and the Bahamas cooperate in law enforcement matters under an extradition treaty and a mutual legal assistance treaty (MLAT). The MLAT facilitates the bilateral exchange of information and evidence for use in criminal proceedings. There are currently 31 U.S. extraditions pending in the Bahamas. 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.

Drug Flow/Transit. Most of the cocaine flow originates in Colombia and arrives in The Bahamas via go-fast boats or small aircraft from Jamaica and Haiti. During 2005, law enforcement officials identified 41 suspicious go-fast type boats on Bahamian waters. In addition, there were 16 drug smuggling aircraft detected over Bahamian territory. Small amounts of drugs were found on individuals transiting through the international airports in Nassau and Grand Bahamas Island and the transatlantic cruise ship ports.

In 2005 Bahamian law enforcement officials identified shipments of drugs in Haitian sloops, fishing boats, small aircraft and pleasure vessels. Sport fishing vessels and pleasure crafts transport the cocaine from The Bahamas to Florida, blending into the legitimate vessel traffic that moves daily between these locations. Larger go-fast and sport fishing vessels regularly transport between 1000 to 3000 pounds of marijuana shipments from Jamaica to The Bahamas. These shipments are moved to Florida in the same manner as cocaine. 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.

Domestic Programs. 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. A National Drug Council survey of drug use by students in The Bahamas was published in 2005, providing a baseline against which to measure the results of demand reduction programs. The study indicates that 14.4 percent of school-aged Bahamians have used marijuana at least once in their lifetime, while 8.3 percent smoked marijuana during the past year. The survey measured the use of the powdered form of cocaine and crack cocaine separately. 1.1 percent of school aged children have used each of these

forms of cocaine at least once, while 0.4 percent admit to having used powdered cocaine during the past year and 0.3 percent have used crack cocaine in the past year.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The goals of USG assistance to The Bahamas are to dismantle drug trafficking organizations, stem the flow of illegal drugs through The Bahamas to the United States, and strengthen Bahamian law enforcement and judicial institutions to make them more effective and self-sufficient in combating drug trafficking and money laundering.

Bilateral Cooperation. During 2005, INL in coordination with 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 2005, the U.S. and the CGOB began negotiations to include the Freeport Container Port as part of the Department of Homeland Security's Container Security Agreement (CSI). 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. NAS funds continued to be used to cover urgent operational expenses, such as utilities, repairs and maintenance for three OPBAT bases in George Town, Great Exuma, Matthew Town, Great Inagua, and at the Atlantic Undersea Test and Evaluation Center (AUTEC), Andros Island. NAS also provided funding to The National Drug Council and the Drug Action Service to extend their demand reduction 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 transshipment and other criminal activity. New trafficking organizations will seek to fill the void left by the recent dismantling of long-standing major trafficking organizations. The Bahamian Government is expected to continue its strong commitment to joint counternarcotics efforts. The U.S. anticipates that the GCOB will continue to work closely with the U.S. to extradite drug traffickers to the U.S. We expect The Bahamas will become a party to the Container Security Initiative in 2006. The U.S. looks forward to the establishment of the National Drug Secretariat and the introduction to Parliament of precursor chemical control legislation. NAS will continue to support RBPF efforts to convert seized boats for use in interdiction operations. NAS plans to assist the Bahamians in identifying innovative technologies to obtain important intelligence to thwart the flow of drugs.

Cuba

I. Summary

Cuban territorial waters and airspace are an attractive transshipment corridor for narcotics trafficking in the Caribbean. The Government of Cuba (GOC) intercepts and destroys drug contraband, but Cuba's geographical position and the GOC's refusal to implement an effective use-of-force policy encourage drug traffickers to risk transiting through the island's territorial water and airspace. The primary factor exposing Cuba to the dangers of narcotics trafficking is residual shipments of drugs that wash ashore. Other factors include: extensive foreign tourism, foreign investment, and increased commerce with Venezuela.

The GOC has a coordinated national strategy for maritime and aerial interdiction. However, the effectiveness of Cuba's drug prevention and interdiction stems primarily from its tyrannical and coercive policing methods, which facilitate the regime's ability to infiltrate drug production and trafficking networks, and to thwart them, whenever the regime decides it wants to crack down. The regime consistently seeks to engage the U.S., including in law enforcement areas, for reasons that are largely political, in order to garner a false sense of legitimacy and to project an aura of normalization with the United States. Cuba is a party to the 1988 UN Drug Convention.

The GOC pursues an aggressive internal enforcement, investigation and prevention program against its incipient drug market. Under the direction of the National Anti-Drug Commission, the GOC continues to pay special attention to international drug trafficking trends. The Cubans dedicate resources, adopt methods and techniques to improve detection, and work to obtain better results in the area of prevention. The GOC continued Operation Hatchet III, a multi-agency counternarcotics interdiction operation, and Operation Popular Shield, a multi-agency counternarcotics investigation combined with a nationwide drug awareness campaign. Enforcement activities during 2005 were limited. Although there was a slight increase in the total number of aerial and maritime sightings in Cuban territory in 2005 compared to 2004, drug seizures declined to the lowest level in 10 years.

II. Status of Country

Cuba is not a major drug-producing country and its level of internal consumption is believed to be minimal, although Cuban officials indicate that low quality marijuana is cultivated for a growing tourist market. 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, youth affairs and education organizations. The governing body for prevention, rehabilitation, and policy issues is the National Drug Commission, formed in 1989 after the GOC contrived a 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 is headed by the Minister of Justice, and includes the Ministries of 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 2005

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. This became the GOC's "legal framework" for a nation-wide security crack down, cast as a "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." The Ministry of Interior continues to investigate suspected narcotics traffickers, and works with the rest of the drug commission to carry out a nation-wide public awareness campaign. In an effort to demonstrate international collaboration, the GOC hosted the Third Regional Conference on Drug Control in the Caribbean. Over 30 delegates from 20 Caribbean, European and Latin American countries attended.

Law Enforcement Efforts. Cuba is completing its fifth year of Operation Hatchet, which has as its goal the disruption of maritime and air trafficking routes, recovering washed-up narcotics, and denying drug smugglers shelter within the territory and waters of Cuba. In addition to using Cuba's fleet of Cuban Border Guard regular patrols, Operation Hatchet uses a combination of shore-based patrols, visual and radar observation posts, and encourages its civilian fishing auxiliary force and civilians ashore to report all suspected contacts and contraband. Operation Hatchet 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.

Cuba maintains a strict non-use-of-force policy when dealing with suspected narcotics trafficking vessels transiting its territorial seas and low flying planes violating its air space. Cuban law enforcement authorities reported to U.S. authorities sightings of 31 suspect targets (7 aircraft and 24 go-fasts) in 2005 transiting their airspace or territorial waters, a slight increase over the 28 total sightings (14 aircraft and 14 go-fast) in 2004. The Cuban Border Guard has reported suspect drug laden go-fast vessels transiting within their territorial waters to U.S. Coast Guard authorities. They have also provided, albeit with occasional impediments, investigative criminal information on drug trafficking cases. As a result of information passed by the Cuban Border Guard in March, the U.S. Coast Guard seized one go-fast vessel that was reported departing Cuban territorial waters after discarding over half a ton of marijuana.

Cuban Customs and DNA maintain an active counternarcotics inspection program at the island's maritime ports and airports. In 2004, Cuba INTERPOL re-established its office in Havana and commenced operations with five Cuban officials. In 2005, the GOC established an integrated container examining facility in the port of Havana to house a large x-ray system it purchased from China. If the x-ray reveals that cargo being processed requires further investigation, the container is unloaded for detailed physical examination. Neither the extent nor the effectiveness of these programs can be verified. It is unclear whether the x-ray machines are exclusively devoted to counternarcotics activity; the regime maintains an active program to maintain a blockade on informational material.

Drug Seizures/Arrests. Drug seizures declined during 2005 to their lowest level in ten years. The GOC reported the seizure of 2,477 kilograms of illicit narcotics, which included 2,194 kilograms of marijuana, 282 kilograms of cocaine, 2,579 plants of marijuana and 19,197 marijuana seeds. Operation Popular Shield has resulted in the seizure of 29 kilograms of narcotics: 24 kilograms of marijuana; 4 kilograms of cocaine; and 1 kilogram of hash or other psychedelic drugs. The majority of GOC confiscations came from the recovery of washed-up narcotics by Cuban Border Guard troops and coastal watch stations along the Cuban coastline. Since Operation Popular Shield began in January 2003, the GOC has reported the detention of over 3,000 people, of whom 65 percent were sentenced to six or more years of imprisonment for trafficking drugs in the internal market.

The GOC reported seven separate airport cases with a total seizure of 6 kilograms of cocaine and 1 kilogram of marijuana. All seven of the cases were at Jose Marti International Airport in Havana. The GOC reported 2 cases of postal shipments of drugs in 2005. The GOC also reported a total of 283

foreign tourists detected with narcotics for personal consumption at Cuban international airports in 2005. In almost all cases, the GOC reported the narcotics were confiscated and destroyed, and the tourists were allowed to continue their visit.

Corruption. The U.S. government 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. Some anecdotal reports extend to the Cuban Border Guard. No mention of GOC complicity in narcotics trafficking or narcotics-related corruption was made in the media in 2005; however, 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. 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 marijuana are grown around Havana and Eastern Cuba for domestic use.

Drug Flow/Transit. As a likely result of increased U.S. law enforcement presence in the Windward Passage, narcotics trafficking through Cuban territory decreased measurably in 2005. 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. 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 seven reported cases, the destination countries were England and Italy.

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 2005.

Domestic Programs. The National Commission on Drugs (CND), created in 1989, has taken the lead on drug prevention programs. With the support of law enforcement authorities from Canada, France and the United Kingdom, Cuba has participated in highly structured competent counternarcotics training. 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 a 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 150 social, educational and cultural programs 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, primarily through the U.S. Coast Guard Drug Interdiction Specialist (DIS) assigned to the U.S. Interests Section in Havana. The Cuban DNA and Border Guard have provided the DIS increased exposure to Cuban counternarcotics efforts, including a visit to the Port of Havana to observe customs container inspection program, and a visit to the Cuban national canine training center in Havana. DIS was also taken for a site visit in December and given an operational synopsis of Cuba's largest drug seizure of the year, a go-fast vessel with 1.3 tons of marijuana. GOC also allowed DIS to witness the chain of custody and process detailing the incineration of all contraband seized for the year 2005. In addition, the Cuban DNA provided investigative information on narcotics trafficking cases and the Border Guard provided information on suspect vessels and aircraft to the U.S. Coast Guard on 44 narcotics-related events. Given the nature of the Cuban regime, cooperation with the U.S. by the Cuban authorities is predicated on political motivations that serve the regime's political interests.

The Road Ahead. Exchanges of information between the U.S. and Cuba help prevent drugs from entering the U.S. The Cuban government, perhaps out of genuine concern for stopping narcotics trafficking but undoubtedly because of a calculated desire to cultivate the perception that it is acting in an internationally responsible manner, understands that the best strategy to fight drugs involves multinational cooperation, even with the United States. For the GOC, managing narcotics corruption may serve the regime's broader objective, of using the coercive nature of its counternarcotics efforts to obtain financial gain for the regime. The GOC also recognizes that success requires a strong and enforceable penal code that covers drug-related offenses, and adequate resources dedicated to fighting drug trafficking and all other drug related crimes. Cuba could do significantly more. Cuba's geographic position and the regime's refusal to implement an effective use-of-force policy consistent with its detection and intelligence capabilities continue to encourage narcotics smugglers to use Cuban territorial waters and airspace to transport their shipments from South America and the Caribbean. Cuba has not demonstrated any interest in signing the Caribbean Regional Agreement, hampering its ability to take more effective action against narcotics trafficking through its territory. The Cuban government has consistently sought to engage with U.S. counterparts for reasons that are largely political, including its desire to project a false sense of legitimacy and normalization with the United States. To that end, Cuban officials profess their interest in developing with the U.S. government bilateral agreements to combat drug trafficking, terrorism and the trafficking of migrants; however, such agreements are not possible until the Cuban regime abandons its totalitarian character and its role as a state sponsor of terrorism.

Dominican Republic

I. Summary

The Dominican Republic (DR) is a major drug transit country from South America, with cocaine transiting to Europe, and both cocaine and heroin to the United States. During 2005, the DR increased seizures of large quantities of heroin, cocaine and MDMA; increased extraditions; advanced in domestic law enforcement capacity, institution building and interagency networking; and made progress in criminal proceedings in major bank fraud cases. Although the GODR strengthened its efforts to combat corruption in 2005, corruption and weak governmental institutions remained an impediment to controlling the flow of illegal narcotics. The Dominican Republic is a party to the 1988 UN Drug Convention.

II. Status of Country

There is no significant cultivation, refining, or manufacturing of illicit drugs in the Dominican Republic. Dominican criminal organizations are involved in international drug trafficking operations, with the country's primary role being a transshipment hub. Interdicted MDMA (ecstasy) was most often being transported from Europe to the United States. Fishing and "go-fast" crews involved in drug trafficking in the Caribbean include Dominican nationals.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Intelligence-sharing plays an important part in interdiction efforts. The DEA Center for Drug Information (CDI), housed in the DR National Drug Control Directorate (DNCD), served as a clearinghouse for intelligence within the Caribbean. The DNCD, the law enforcement arm responsible for counternarcotics measures, and the National Drug Council (CND), the GODR's policy and planning unit, have adopted a computerized system that tracks seizures of drug-related assets. The GODR continues to struggle to implement anti-money laundering legislation passed in 2002. In support of this effort, the GODR created a Financial Analysis Unit under the CND which became operational during 2005.

Law Enforcement Efforts. In 2005, the DNCD increased its seizure rate and netted record single seizures of both heroin (39 kilograms) and MDMA (259,627 units) with the cooperation and assistance of the DEA. The October record seizure of heroin was based on intelligence concerning the Colombian owners' search for buyers. The November record seizure of MDMA was discovered in three abandoned bags from Amsterdam at the Gregorio Luperon International Airport in Puerto Plata. The DNCD netted several other multi-hundred kilogram seizures including 128 kilograms of cocaine hidden in a container of denim jeans bound for New York and 442 kilograms of cocaine from a Colombian trafficking organization operating in the Dominican Republic. Through December, overall seizures totaled 2,230 kilograms of cocaine, 121.5 kilograms of heroin, 280,627 units of MDMA, and 551.9 kilograms of marijuana.

The DNCD made 3,330 drug-related arrests in 2005; of these, 3,206 were Dominican nationals and 124 were foreigners. 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. The DNCD and their DEA counterparts concentrated increasingly on investigations leading to the takedown of large criminal organizations.

In 2005, the GODR expanded its counternarcotics and explosive detection canine units with U.S., Dutch and international assistance, increasing coverage to all international airports and major sea

ports. The DNCD continued to upgrade its equipment, train technicians, and develop new software in furtherance of a multi-year, USG-supported effort to share data among Dominican law enforcement agencies and to make information available on demand to field officers. The Dominican Navy and the DNCD participated in two combined operations with the U.S. Coast Guard (USCG), CBP and DEA in January-February (Op MANGU) and September (Op IGUANA) 2005 to combat the regional threat of narcotics trafficking in the approaches to Puerto Rico. Operation MANGU succeeded in interdicting 2,000 kilograms of cocaine. Both operations were conducted pursuant to existing 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. There is no definitive evidence of in-country manufacture of MDMA.

Drug Flow/Transit. In 2005, the DNCD focused interdiction operations on the drug-transit routes in Dominican territorial waters along the northern border and on its land border crossings with Haiti, while attempting to prevent air drops and maritime delivery of illicit narcotics to remote areas. The majority of air tracks in 2005 originated in Venezuela. During the year, drugs were easily accessible for local consumption in most metropolitan areas.

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 nationals. In 1998, President Fernandez signed legislation permitting such extraditions and subsequent administrations have been responsive to U.S. requests. During 2005, judicial review was added to the procedure for extradition, making extraditions more objective and transparent. The U.S. Marshals continued to receive excellent cooperation from the DNCD's Fugitive Surveillance/Apprehension Unit and other relevant Dominican authorities in arresting fugitives and returning them to the United States to face justice. The GODR extradited 33 Dominicans and arrested and deported 22 U.S. and third-country national fugitives back to the U.S. for prosecution purposes. Of these 55 cases, 42 were narcotics-related.

Mutual Legal Assistance. The GODR cooperates with USG agencies, including the DEA, FBI, U.S. Customs and Border Protection (CBP), ICE, Department of Defense and U.S. Marshals Service, on counternarcotics and fugitive matters.

The DNCD housed and manned the DEA-sponsored CDI at its facilities in Santo Domingo. Caribbean countries found the CDI's intelligence analysis services useful and are now both frequent contributors and beneficiaries of new information. In 2005, the Dominican Navy focused efforts on shore patrol operations. 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 kilograms 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 narcotics traffickers. The GODR has not convicted any senior government official for engaging in, encouraging, or facilitating the illicit production or distribution of illicit drugs or controlled substances, or for the laundering of proceeds from illegal drug transactions.

The Attorney General pursued several anticorruption investigations and implemented competitive civil service recruitment of prosecutors (as opposed to political appointees). A financial disclosure law for senior appointed, civil service and elected officials has been implemented in the Dominican Republic, but lack of auditing controls and applicable sanctions have weakened the effectiveness of this measure. The GODR is a party to the Inter-American Convention Against Corruption.

Precursor Chemical Control. The Secretariat of Health is responsible for the control of chemicals entering and departing the Dominican Republic. The CND has prohibited the re-exportation of certain chemicals.

Demand Reduction. The DNCD conducted over 135 youth events in various cities and neighborhoods reaching over 120,000 young people with the message that competitive and recreational activities are better choices than drug abuse.

Agreements and Treaties. The DR is a party to the 1988 UN Drug Convention. In 1984, the USG and the GODR entered into an agreement on international narcotics control cooperation. In May 2003 the Dominican Republic entered into three comprehensive bilateral agreements on Cooperation in Maritime Migration Law Enforcement, Maritime Counter-Drug Operations, and Search and Rescue, granting permanent over-flight provisions in all three agreements for the respective operations. The three agreements secured permanent over-flight provisions. In addition, the Maritime Counter-Drug Agreement broadened the scope of operations. The GODR signed, but has not yet ratified, the Caribbean Regional Maritime Agreement.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During 2005, the USG provided equipment and training to expand the counternarcotics canine units, support the DNCD's vetted special investigation unit, assess border security, and enhance DNCD computer training, database expansion and systems maintenance support. The USG assisted the Dominican Navy with its equipment maintenance and training programs and participated in joint counternarcotics and illegal migration operations as noted above. In addition, the Dominican Navy benefited from numerous USCG courses in Maritime Law Enforcement (MLE) and is working towards a self sustaining law enforcement program. The USG also provided training and equipment to enhance the capabilities of specialized airport and port security forces. The Dominican Navy and Air Force have a direct communications agreement with the USCG regional operations center in San Juan, Puerto Rico. Dominican Navy vessels have participated in a few maritime drug seizures and joint exercises.

The USAID criminal justice and transparency program emphasizes training for judicial personnel in new criminal procedures and the investigation and prosecution of complex crimes. The result has been faster case processing, decreased pre-trial detention, availability of public defenders and prosecutors 24 hours per day, and positive change in the justice sector's attitudes toward presumption of innocence of the accused.

In 2005, USAID assisted the Public Prosecutor's office in developing and implementing policies and procedures for evidence preservation and asset seizure and maintenance, given recent policy changes transferring these authorities from judges to prosecutors. A law enforcement development program targeting the National Police, including training in the code of criminal procedure, reforming the basic and in-service training, planning capacity-building and internal affairs office restructuring and reform has been implemented by the Embassy Narcotics Affairs Section (NAS).

The Dominican chapter of the Business Alliance for Secure Commerce (BASC), a voluntary alliance of manufacturers, transport companies, and related private sector entities, expanded its training program and was cited by CBP officials as one of the most effective BASC chapters worldwide. In 2005, the BASC DR chapter expanded to 20 the number of companies who met the strict criteria for certification. The DNCD counternarcotics canine program expanded to 31 canine units, and the airport security explosives detection canine unit, started in 2004, expanded to 15 canine units, with U.S., Dutch and international assistance. A 2004-2005 security upgrade project to bring the terminal into compliance with International Ship and Port Security (ISPS) standards and to ensure consistent use of

a USG X-ray machine has improved departure processing and established controls to detect and prevent smuggling of drugs and other contraband to Puerto Rico.

The Road Ahead. The immediate goal remains helping to institutionalize judicial reform and good governance. The GODR and USG are working to build coherent counternarcotics programs that can resist the pressures of corruption and can address new challenges presented 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 USG 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 training, equipping and re-certification of the counternarcotics and explosives detection canine units will continue. The USG will provide further training to prosecutors, investigators, and national police, increasing their professionalism and ensuring that they are prepared to continue to implement the new Criminal Procedure Code.

Dutch Caribbean

I. Summary

Aruba, the Netherlands Antilles, and the Netherlands 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 the entire 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), which include Curacao and Bonaire off the coast of Venezuela and Saba, Saint Eustatius, and Sint Maarten east of the U.S. Virgin Islands, serve as transshipment points for cocaine and 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. Drugs entering the United States from the Netherlands Antilles are not in sufficient an amount to have a significant effect on the United States.

Traffickers reduced loads on go-fast boats in 2005, because of potential exposure to law enforcement. This shift was attributed to successful investigations along with investments by the Antilles in border security such as the new ground based radar system capable of identifying inbound vessels. With lower Antilles investments and hardening of their borders, drug traffic increased to Sint Maarten. These shipments were generally en route to Puerto Rico or the U.S. Virgin Islands. In addition to go-fast boat activity and smuggling via commercial airlines, large quantities of narcotics continued to be moved in containers. Officials at Sint Maarten initiated joint investigations with U.S. law enforcement and adopted new law enforcement strategies. Sailing vessels and larger vessels moved multi-hundred kilogram shipments of cocaine under the guise of recreational maritime traffic.

The crackdown at Curacao’s Hato International Airport on “mules,”—travelers who either ingest or conceal on their bodies illegal drugs—which began in 2002 continued during 2005. Historically, most of the courier traffic (current estimate is 95 percent) has been destined for Europe. During October 2005, the Antillean authorities reported a significant reduction in courier traffic, from between eighty and one hundred couriers a day to approximately ten couriers per month according to local court statistics as of October 2005. These results were directly attributed to aggressive law enforcement tactics employed by Antillean authorities, in conjunction with their Dutch partners, that led to significant seizures and the dismantling of responsible organizations coupled with innovative legislative tactics like passport removal which ultimately amounted to the removal of more than 850 passports from would-be couriers. As Hato airport maintained tightened control during the year, traffickers turned their attention to other regional airports, challenging law enforcement control at those locations as well. Sint Maarten, to a lesser extent, continued to detect increasing numbers of “mules.” Consistent with the continued smuggling ventures, arrests were frequent in 2005.

The crime and homelessness stemming from drug abuse remained important concerns for the GONA. During 2005, reporting continued to indicate reductions in drug related homicides to below levels prior to a 2002 spike. This was attributed to successful regional enforcement operations and legislative action. The GONA continued its policy of requiring visas of Colombians and several other countries. Peru, the Dominican Republic, Cuba, and other European markets topped the noteworthy list. The GONA's "Zero Tolerance" teams whose primary mission is to identify illegal immigrants to the islands and deport them remained active during 2005.

During 2005, the joint Antillean/Dutch Hit and Run Money Laundering Team (HARM) conducted successful investigations. In September, the HARM team announced the arrest of an individual responsible for laundering drug proceeds which amounted to millions of U.S. dollars from the United States back to Venezuela via the Netherlands Antilles. The investigation was the culmination of a multi-jurisdictional money laundering investigation of a drug-trafficking organization operating between the United States and South America highlights the abilities of the HARM to operate in the region with its partners.

The specialized Dutch police units (RSTs) that support law enforcement in the NA included local officers in the development of investigative strategies to ensure exchange of expertise and information. During the year, the RST improved their place in the regional scheme of enforcement as a viable international partner for law enforcement matters. In January 2005, the RST participated in a joint international operation which netted the seizure of 385 kilograms of cocaine and 21 arrests as a result of a multi-jurisdictional investigation in a conglomerate of seven countries. In March 2005, RST seized 21 kilograms of MDMA, the largest seizure of ecstasy in the Caribbean region to date, during a controlled delivery operation between The Netherlands, Sint Maarten, and the United States. The RST also seized an operating LSD laboratory, the first of its type, in Sint Maarten. These successes highlight the RST's ability to perform and its viability as a regional partner in sensitive and highly technical investigations.

The Coast Guard of the Netherlands Antilles and Aruba (CGNAA) scored a number of impressive successes in 2005. The CGNAA was responsible for several seizures of cocaine, heroin, and marijuana. In July, the CGNAA, for the first time, detained a vessel in international waters and escorted it back to territorial waters where a search resulted in the seizure of approximately 800 kilograms of cocaine. In August, the CGNAA supported a controlled delivery in international waters where approximately 300 kilograms of cocaine were seized. The CGNAA's three cutters, outfitted with rigid-hull inflatable boats (RHIBs) and new 'super' RHIBs designed especially for counternarcotics work in the Caribbean, demonstrated their utility against "go-fast" boats and other targets.

The CGNAA has developed an 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 2005.

The Dutch Navy also operates in the Netherlands Antilles under the auspices of Component Task Group 4.4 (CTG 4.4) which operates in international waters under the oversight of the Joint Inter Agency Task Force (JIATF) South. The U.S. Coast Guard deploys Law Enforcement Detachments (LEDETS) on all Dutch naval vessels conducting counternarcotics patrols in the Caribbean. Over the past two years, particularly during 2005, the CTG 4.4 has become a close and essential ally of the DEA and other U.S. agencies. The most impressive seizure during 2005 was a three-week surveillance

operation on a shipping vessel which ultimately netted 2040 kilograms of cocaine. The operation was conducted as a joint effort between three countries including the United States.

Aruba. Aruba is a transshipment point for 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. U.S. agencies reported more than 100 kilograms of heroin seized in the U.S. that had originated in Aruba. Drugs entering the U.S. from Aruba were not in sufficient an amount to have a significant effect on the U.S. As a result of the successes in Curacao during 2005, traffickers looked for other transit points in the region which included Aruba.

While Aruba enjoys a low crime rate, reporting during 2005 indicates that some prominent drug traffickers are established 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.

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. In 2005, Aruban law enforcement officials investigated and prosecuted mid-level drug traffickers. During the year, 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.

The GOA continued to permit both U.S. military and Department of Homeland Security (DHS) aircraft to use the Forward Operating Location (FOL) at Reina Beatrix International Airport to conduct aerial counternarcotics detection and monitoring missions. Further development of the FOL facilities on Aruba is underway. The GOA hosts the 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 2005.

III. Actions Against Drugs in 2005

Agreements and Treaties. The Netherlands extended the 1988 UN Drug Convention to the Netherlands Antilles 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 2003 the NA and Aruba each signed a Tax Information Exchange Agreements with the U.S. Following passage of enabling legislation in Aruba, its TIEA went into effect in 2004; enabling legislation remains pending in the Netherlands Antilles. 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, and cooperates in efforts to identify and destroy chemicals.

Cultivation/Production. There is no cultivation and production of illicit drugs.

Seizures. Available drug seizure statistics for calendar year 2005 as of 12/12/2005 are as follows: Aruba seized 2752.265 kilograms of cocaine (this includes a single maritime seizure event involving 2040 kilograms from the MV Sea Atlantic during October 2005); 68.645 kilograms of heroin; 526.605 kilograms of marijuana; and 38 tablets of MDMA (ecstasy). Arrests: 123. The NA seized 2595.803 kilograms of cocaine; 51.610 kilograms of heroin; 682.438 kilograms of marijuana; and 270 tablets of MDMA (ecstasy). Arrests: 509.

Corruption. During 2005, the NA identified links from prominent traffickers in the region to law enforcement officials, which prompted additional investigations. 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. The judiciary system 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 demand reduction programs. The Korps Politie of Curacao completed final training during February 2004 of its well-trained Demand Reduction staff to do presentations at local schools. Sint 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 USG-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 2005, the DEA directly sponsored law enforcement initiatives worth more than \$500,000 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, going from South America to U.S., Europe and other markets. 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 on the beach or offload their illicit cargo to smaller local vessels at sea. 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.

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, the 1988 UN Drug Convention, and the 1971 UN Convention on Psychotropic Substances.

In 2005, the seven Eastern Caribbean countries continued to support the treaty-based Regional Security System (RSS). Barbados pays 40 percent of the RSS's budget. The U.S. provided partial assistance to the RSS for its twice-yearly basic training course for marijuana eradication exercises for police special services units. The RSS continued to operate a maritime training facility in Antigua for member-nation forces.

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.

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. Secluded beaches and uncontrolled marinas provide excellent areas to conduct drug transfer operations. Marijuana cultivation in Antigua and Barbuda is not significant. Marijuana imported for domestic consumption primarily comes from St. Vincent. According to GOAB agencies, approximately 60 percent of the cocaine that transits

Antigua and Barbuda is destined for the UK, 25 percent to the U.S, and 10 percent to the island of St. Martin/Sint Maarten.

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. Through November 2005, GOAB forces seized 12.12 kilograms of cocaine and 2.7 metric tons of marijuana, arrested 119 persons on drug-related charges and eradicated 500 marijuana plants. Antigua and Barbuda have both conviction-based and civil forfeiture legislation; it is the only Caribbean country with the latter.

The police operate a D.A.R.E. program, and lecture church groups and other civic organizations on the dangers of drugs. Local organizations such as the Optimist Club and Project Hope conduct their own school programs or assist groups that work with drug addicts.

Barbados. Barbados is a transit country for cocaine and marijuana products entering by sea and by air. 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 Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. Barbados has signed, but not ratified, the Inter-American Convention against Corruption, and 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.

In 2005, GOB agencies reported seizing 57 kilograms of cocaine, 750 milliliters of liquid cocaine, 3,400 kilograms of marijuana, and for the first time confiscated 2,445 ecstasy tablets through November 30, 2005. The GOB brought drug charges against 2551 persons during that same period and eliminated 841 cannabis plants. There has been a general increase in drugs transiting Barbados since 2004. The Barbados Police Force estimates 59 percent of the cocaine that transits Barbados is destined for the UK, 20 percent to Canada, and 20 percent to the U.S. The majority of cannabis that enters Barbados is consumed locally. Currently, there is no legislation that imposes record keeping on precursor chemicals.

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.

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 round-based marijuana eradication missions in rugged, mountainous areas.

From January through November 2005, Dominican law enforcement agencies reported seizing 23 grams of cocaine, and 411 kilograms of marijuana. They eradicated 230,485 marijuana plants (trees and seedlings), a 38 percent increase from 2004.

Dominica police arrested 160 persons on drug-related charges and prosecuted three major drug traffickers. According to the GCOD Police, most of the drugs that transit through Dominica are intended for foreign markets and not the U.S.

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. The GCOD initiated a National Drug Prevention Program with a national master plan starting in 2005 through 2009. There are no public sector drug rehabilitation facilities in Dominica; the psychiatric hospital provides limited detoxification services.

Dominica is a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. 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.

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.

The police drug squad continues to collaborate closely with DEA officials in the targeting and investigation of a local cocaine trafficking organization associated 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. The GOG estimates that 70 percent of the cocaine that transits Grenada is destined for European markets, 20 percent is headed to the U.S., and 10 percent is consumed locally.

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.

An extradition treaty and a Mutual Legal Assistance Treaty (MLAT) are in force between the U.S. and Grenada.

The Drug Control Secretariat of the National Council on Drug Control is active and effective. 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. Living Drug Free, a one-hour television program aired on the public access channel, sensitizes the public about the dangers of drugs. Guest speakers include police, doctors, and lawyers to cover the range of issues. Through November 2005, Grenadian authorities reported seizing approximately 16.17 kilograms of cocaine; 513 cocaine balls; 5,090 marijuana plants; and 76.07 kilograms of marijuana. During that period, they arrested 285 persons on drug-related charges and two major drug traffickers. Approximately two acres of cannabis was eradicated. Grenadian law enforcement authorities seized nearly ECD 417,312 (U.S.\$153,648) 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.

The Government of St. Kitts and Nevis (GOSKN) 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 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. GOSKN officials reported seizing 5368 kilograms of cocaine, and approximately 61 kilograms of marijuana from January through November 2005. They arrested 37 people on drug charges and eradicated approximately 6,243 marijuana plants.

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 Government of St Lucia (GOSL) police reported seizing 99 kilograms of cocaine and 875 kilograms of marijuana from January through November 2005. They arrested 361 persons on drug charges and eradicated approximately 71,393 marijuana plants. The USG and the GOSL cooperate extensively on law enforcement matters. St. Lucia law permits asset forfeiture after conviction. The law directs the forfeited proceeds to be applied to treatment, rehabilitation, education and preventive measures related to drug abuse. In 2005, the GOSL adopted wiretap legislation and is working on 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, 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. 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. Boats off-loading cocaine and weapons in St. Vincent and the Grenadines will return to their point of origin carrying back marijuana.

From January through November 2005, Government of St. Vincent and the Grenadines (GOSVG) officials reported seizing 57 kilograms of cocaine and approximately 1,260,207 grams of marijuana. They arrested 272 persons on drug-related charges and prosecuted two major drug traffickers. Approximately 15,366 marijuana plants were eradicated. 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.

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 2005. In the past, St. Vincent police have been cooperative in executing search warrants pursuant to U.S. MLATs.

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. The OAS is assisting the GOSVG develop a drug demand reduction program for St. Vincent's prison.

French Caribbean

I. Summary

French Guiana, Martinique, Guadeloupe, the French side of St. Martin, and St. Barthelemy are all overseas departments of France and therefore subject to French law, including all international conventions signed by France. With the resources of France behind them, the French Caribbean Departments and French Guiana are meeting the goals and objectives of the 1988 UN Drug Convention. The 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. Cocaine moves through the French Caribbean and from French Guiana to Europe, and to a lesser extent, to the United States.

II. Status

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, and have therefore created the Martinique Task Force in response.

III. Actions Against Drugs in 2005

On January 17, 2005, French authorities at Orly arrested two Dutch nationals arriving in Paris from Cayenne, French Guiana, en route to Amsterdam, the Netherlands. They were found in possession of 4,424 grams of cocaine concealed in their luggage. On March 8, 2005, nearly 9 kilograms of cocaine were seized by Charles de Gaulle airport customs from pieces of dry-clay pottery specially designed for that purpose. The drugs, the value of which has been estimated at 719,680 euros, were found in two parcels, each containing two pieces of pottery, which were sent by postal freight from French Guiana to an individual in the Netherlands. On September 28, 2005, French authorities at Orly arrested a French national arriving in Paris from Cayenne, French Guiana, enroute to Amsterdam, the Netherlands. He was found in possession of a total of 1,083 grams of cocaine packaged in pellets that he had ingested.

On October 21, 2005, eight people suspected of trafficking of cocaine originating in Martinique were arrested and 23 kilograms of cocaine was seized at Saint-Ouen (Paris region). During the arrests, which came after several weeks of surveillance, the drug squad seized 23 kilograms of cocaine and 264,000 euros. On November 4, 2005, French authorities at Orly arrested a French national arriving in Paris from Cayenne, French Guiana, who had swallowed 600 grams of cocaine packaged in 48 pellets. On November 21, 2005, French authorities at Orly arrested two French nationals arriving in Paris from Saint Martin, French West Indies. One was found in possession of a total of 4,797 grams of cocaine in three rum bottles in her luggage. On July 15, 2005, 1.5 tons of cocaine were seized from a sailing ship flying the Canadian flag by a French naval sloop. The drugs were seized around 600 nautical miles to the northeast of Porto Rico, on the authority of the prefect of the Martinique region. The seizure and subsequent arrest of three people aboard the ship were conducted "in coordination with the Canadian and American services who suspected that the ship was involved in drug trafficking," according to a statement issued by the prefecture.

Agreements and Treaties. In addition to the agreements and treaties discussed in the report on France, USG and Government of France (GOF) 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 GOF explored a possible counternarcotics maritime agreement for the Caribbean for several years and one was drafted in November 2001 on Cooperation in Suppressing Illicit Maritime and Aeronautical Trafficking in Drugs and Psychotropic Substances in the Caribbean Area.

In Martinique, the French inter-ministerial Drug Control Training Center (CIFAD) offers training in French, Spanish and English to officials in the Caribbean and Central and South America, covering such subjects as money laundering, 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 European Union 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 cocaine destined for North America, Europe, and the Caribbean. Interdictions and seizures of drugs in Guyana decreased from 2004 to 2005. Poor economic, social, and political conditions make Guyana a prime target for narcotics traffickers to exploit as a transit point. The Government of Guyana (GoG) launched its National Drug Strategy Master Plan (NDSMP) for 2005-2009 in June 2005. However, the GoG has yet to implement any of the NDSMP's substantive initiatives. Guyana is a party to the 1988 UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (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

The United Nations Office on Drugs and Crime last estimated the quantity of cocaine transiting Guyana in 2000-2001 at 20-25 metric tons annually. Using those figures, the U.S. Embassy in Guyana estimates that narcotics traffickers earn US\$150 million annually, and possibly much more, by trafficking cocaine through Guyana. This amount is equivalent to twenty percent or more of Guyana's reported gross domestic product. Accurately determining the trend in drug transit is difficult given the wide yearly swings in seizures. There have not been any large domestic seizures since a 1998 joint Guyanese/U.S. operation seized 3,154 kilograms of cocaine from a ship docked in Georgetown. Publicly reported seizures for 2005 totaled approximately 43kgs.

Drug traffickers appear to be gaining a significant foothold in Guyana's timber industry. In 2005, The Guyana Forestry Commission granted a State Forest Exploratory Permit for a large tract of land in Guyana's interior to Aurelius Inc., a company controlled by known drug trafficker Shaheed 'Roger' Khan. Such concessions in the remote interior may allow drug traffickers to establish autonomous outposts beyond the reach of Guyanese law enforcement.

Government counternarcotics efforts are undermined by the lack of adequate resources for law enforcement, poor coordination among law enforcement agencies, and a weak judicial system. The Guyanese media regularly report murders, kidnappings, and other violent crimes commonly believed to be linked with narcotics trafficking. Guyana produces cannabis but not coca leaf or cocaine. Guyana is not known to produce, trade, or transit precursor chemicals on a large scale.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Guyana launched its ambitious 2005-2009 NDSMP in June. The NDSMP's programs are divided into Supply Reduction and Demand Reduction. The Supply Reduction agenda calls for improving the justice system's ability to handle drug cases, making the Joint Intelligence Coordination Center (JICC) operational, closer cooperation between and better technology for law enforcement agencies, and tighter control of border posts and airstrips. The Demand Reduction agenda includes developing rehabilitation capabilities as well as media and education programs. The government estimates that implementing the 2005-2009 NDSMP will cost approximately US\$3.3 million. The FIU, established in 2003 with material support from the U.S., is handicapped by the lack of effective legislation to deal with money laundering, such as the lack of an amendment to allow for seizing assets.

Accomplishments. The launch of the 2005-2009 NDSMP after a five-year gap was significant. However, the government has not completed any of the short-term milestones mentioned in the plan.

Guyana made no other significant progress in achieving or maintaining compliance with the goals and objectives of the 1988 UN Drug Convention. In 2005, Guyanese law enforcement agencies did not make a single publicly reported cocaine seizure in excess of 10 kilograms. Nor have Guyanese authorities brought to justice a single important member of a drug trafficking organization.

Law Enforcement Efforts. The GoG's counternarcotics efforts suffer from a lack of adequate law enforcement resources, poor inter-agency coordination, and endemic corruption. Several agencies share responsibility for counternarcotics activities: the Customs Anti-Narcotics Unit (CANU) is tasked with conducting enforcement activities mainly at ports of entry; the Guyana Police Force (GPF) Narcotics Branch is the principal element in the police responsible for enforcement of drug laws domestically; the Guyana Defense Force Coast Guard (GDFCG) has the lead for maritime counternarcotics operations. There is little productive interaction or intelligence sharing among these organizations. For example, according to the 2005-2009 NDSMP, the JICC is supposed "to bring together various counternarcotics agencies in a single work environment, encourage the sharing of information and intelligence", but "has not met for some time."

In 2005, the GPF Narcotics Branch and CANU arrested drug couriers at Guyana's international airport en route to the Caribbean, North America, and Europe. However, the arrests were limited to individuals with small amounts of marijuana, crack cocaine or powder cocaine, usually on charges of possession for the purpose of trafficking. For example, a 16 year-old-girl was arrested in February with 1.3 kilograms of cocaine in her suitcase. In October, a player on the Guyanese national soccer team died when one of the cocaine-filled bags he had swallowed burst in his stomach after he had smuggled the drugs to Barbados. Authorities have not successfully acted against major traffickers and their organizations. According to publicly reported arrests, authorities recovered only 43 kilograms of cocaine in 2005. This represents a significant decrease from 2004 and 2003, when authorities recovered 269 kilograms and 277 kilograms of cocaine, respectively. Government and DEA officials believe that counternarcotics agencies interdict only a small percentage of the cocaine that transits Guyana. The U.S. donated a fast interceptor boat to the GDFCG in May 2005. The GDFCG conducts patrols with the interceptor boat, but has not yet interdicted any narcotics shipments. The discovery in March at a remote airstrip of an abandoned Cessna aircraft, which had probably been used to smuggle drugs into Guyana, underscored the GoG's inability to monitor such locations.

Corruption. The GOG does not facilitate the production, processing, or shipment of narcotic and psychotropic drugs or other controlled substances, and does not discourage the investigation or prosecution of such acts. The GOG takes legal and law enforcement measure to prevent and punish public corruption. Guyana is party to the Inter-American Convention Against Corruption (IACAC) but has yet to fully implement its provisions, such as seizure of property obtained through corruption. News media routinely report on instances of corruption reaching to high levels of government that go uninvestigated and unpunished. The former Minister of Home Affairs, who had been implicated with an extra-judicial killing squad and who had improperly issued firearm licenses to known criminals, resigned in 2005. The new Minister of Home Affairs has shown greater commitment to fighting drug trafficking and corruption. The Police Commissioner is making strong efforts to reduce corruption within the GPF. Guyana is not a party to the UN Convention Against Corruption.

Agreements and Treaties. Guyana 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. Guyana also is a party to the UN Convention Against Transnational Organized Crime and its protocol on trafficking in persons. The 1931 Extradition Treaty between the United States and the United Kingdom is applicable to the U.S. and Guyana. Guyana signed a bilateral agreement with the U.S. on maritime counternarcotics cooperation in 2001, but has not yet taken the necessary internal steps to bring the agreement into force. Guyana has bilateral agreements to cooperate on drug trafficking issues with its neighbors and with the United Kingdom. Guyana is also a

member of the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD).

Cultivation and Production. Cannabis cultivation occurs in Guyana on a limited scale, primarily in the intermediate savannahs. Police regularly discover and eradicate cannabis cultivation sites when conducting area sweeps. The 2005-2009 NDSMP reported that authorities destroyed a total of 68.5 hectares and over 63,000 kilograms of cannabis plants during the 1999-2003 period.

Drug Flow/Transit. Cocaine flows through Guyana's remote, uncontrolled borders and coastline. Light aircraft land at numerous isolated airstrips or make airdrops into rivers where operatives on the ground retrieve the drugs. Smugglers use small boats and freighters to enter Guyana's many remote but navigable rivers. Smugglers also take direct routes, such as driving or boating across the uncontrolled borders with Brazil, Suriname, and Venezuela. Inside the country, narcotics are normally transported to Georgetown by road, water, or air and then sent on to the Caribbean, North America, or Europe via commercial air carriers or cargo ships. "Go-fast" speed boats may also carry cocaine from Guyana's rivers to mother-ships in the Atlantic. Authorities have arrested drug mules attempting to smuggle cocaine on virtually every northbound route out of the international airport.

In April 2005, a U.S. Immigration and Customs Enforcement investigation led to arrests of 27 members of a Guyana-based drug importation and distribution ring responsible for bringing in hundreds of kilograms of cocaine from Guyana on board flights arriving in New York. They concealed the drugs inside frozen fish and chowmein containers.

Drug traffickers also use cargo ships to export narcotics from Guyana either directly to North America and Europe or through intermediate Caribbean ports. In March 2005, British authorities arrested a man who attempted to smuggle 572 kilograms of cocaine into the UK in bags of coconuts from Guyana. In November, Barbadian authorities discovered 120 kilograms of cocaine in a shipment of lumber from Guyana. Drug traffickers have used virtually every commodity that Guyana exports as a cover for shipping cocaine out of the country.

Demand Reduction (Domestic Programs). Marijuana is sold and consumed openly in Guyana, despite frequent arrests for possessing small amounts of cannabis. CANU and the 2005-2009 NDSMP both note that consumption of cocaine powder, crack cocaine, ecstasy, and heroin has risen—and the latter two have appeared on Guyana's streets in the past year. This increase in domestic drug use is occurring despite the high cost of the drugs relative to local incomes. A survey cited in the 2005-2009 NDSMP reported that 27 percent of the 11-19 year-old children interviewed nationwide had seen cocaine. The same survey reported that 60 percent of children in Region 1 (on the border with Venezuela) said they had seen cocaine. The 2005-2009 NDSMP includes several measures to reduce demand for narcotics. The strategy includes safe lifestyle programs, stronger health and family life education, targeted surveys and compilation of social statistics, and a media strategy to promote drug awareness. The Ministry of Health and the Office of the President will administer most of these plans. As with the 2005-2009 NDSMP's other components, the government has yet to take concrete action to reduce demand for illegal drugs. Guyana's ability to deal with drug abusers is severely limited by a lack of financial resources to support rehabilitation programs.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. policy focuses on strengthening Guyana's law enforcement agencies and promoting good governance. U.S. funded training and technical support are key components of this strategy. U.S. officials continued to encourage Guyanese participation in bilateral and multilateral counternarcotics initiatives. USAID is funding projects to improve governance in Guyana, which includes much needed parliamentary and judicial reform.

Bilateral Cooperation. The DEA works closely with Guyana's government and law enforcement agencies to develop initiatives that will significantly enhance their counternarcotics activities. High-ranking representatives from the GPF and the GDF attended the International Drug Enforcement Conference in 2005. The U.S. government also funded the vetting of selected officers in counternarcotics agencies. U.S. officials continue to work closely with the FIU in its fledgling efforts to curb money laundering.

The Road Ahead. Guyana's contentious and inefficient political system and lack of resources significantly hamper its ability to mount an effective counternarcotics campaign. Legitimate businesses are suffering because money launderers associated with narcotics traffickers distort the domestic economy by pricing their goods and services below sustainable market rates. The drug trade generates violent armed groups who act as if they are above the law and who threaten Guyana's fragile democracy, and drug traffickers may use their ill-gotten gains to acquire political influence. Lastly, the drug trade is corrupting Guyanese society on a dangerous scale. The U.S. will channel future assistance to initiatives that demonstrate success in interdicting drug flows and prosecuting drug traffickers. Efforts in this area include strengthening Guyana's judicial system, law enforcement infrastructure, and counternarcotics legislation. 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 is a key conduit for drug traffickers transporting cocaine from South America to the United States and, to a smaller degree, Europe. The Haitian National Police (HNP), which is undergoing extensive USG-supported reform, is tarnished by a long-history of corruption. The judicial system is dysfunctional, its prosecutors and judges susceptible to bribes and intimidation. Corruption, lack of judicial infrastructure and the ongoing political and economic crises have caused the Interim Government of Haiti (IGOH) to focus its limited resources on maintaining civil order and organizing fair, democratic elections, rather than on counternarcotics. Haiti did not pursue any drug-related prosecutions in 2005. Haitian officials cooperated with requests from the Haiti South Florida Task Force (DEA, IRS, U.S. Attorney's Office, and DOJ Criminal Division Asset Forfeiture and Money Laundering Section), which is charged with drug-related investigations, as well as requests for removal of suspects and fugitives.

The IGOH appointed a reform-minded Haitian National Police Director General in 2005 who has taken a proactive stance in countering drug-related crime and police corruption. In a public demonstration of this policy, 15 officers implicated in the August killings of civilians at a soccer stadium in Martissant, were arrested. Though Haiti remains highly susceptible to money laundering due to its weak legal system and pervasive corruption, the IGOH has made progress in investigating and preparing for prosecution several money laundering cases involving official corruption. Haiti is a party to the 1988 UN Drug Convention.

II. Status of Country

Haiti has approximately 1,125 miles of unprotected shoreline, numerous uncontrolled seaports and clandestine airstrips, a thriving contraband trade, weak democratic institutions, a renascent police force that has a history of cooperating with drug traffickers, a dysfunctional judiciary system and official corruption. These factors contribute to the frequent use of Haiti by drug traffickers as a strategic transshipment area.

III. Country Actions Against Drugs in 2005

By the end of 2005, the HNP had trained 1256 new recruits (among them former members of the disbanded military) and retrained 240 existing uniformed officers. Academy training consisted of 16 weeks basic police tactics, traffic management, less-than-lethal tactics and weapons training. In-service training consisted of a week-long course in basic police tactics, crime scene management, and traffic management. On December 18, 33,192 Haitians took the police entrance exam. Thirteen thousand are expected to pass, at which point they will receive further screening and rigorous UN vetting before being admitted to the police academy in 2006. The HNP, the UN troops and the UN Civilian Police (UNPol) currently in Haiti have made limited progress toward disarming gangs that support and provide security to established drug trafficking organizations.

Supported by DEA and Narcotics Affairs Section (NAS), the HNP expanded the Counter-Narcotics Trafficking Office (French acronym BLTS) of the HNP to over 50 agents by the end of 2005. The HNP permitted the DEA to establish a Sensitive Investigative Unit (SIU) within BLTS, which has facilitated closer collaboration on counternarcotics matters. The Haitian Coast Guard (HCG) re-established operations in Cap Haitien in 2005, an important milestone in the HCG's effort to patrol Haiti's territorial waters and to interdict narcotics, illegal migrants and other illegal activities.

The IGOH reorganized the Central Financial Intelligence Unit (FIU, French acronym UCREF) and the Financial Crimes Task Force, two units involved in prosecuting financial crimes. Although the UCREF had launched approximately 400 investigations since 2004, it had achieved little success in bringing cases to trial. Data provided by the UCREF and to a lesser extent the task force in 2005 resulted in the freezing of \$17.6 million in assets of convicted drug trafficker Serge Edouard.

Law Enforcement Efforts. Drug trafficking organizations operate with impunity, exploiting the instability and the weak institutions in the country. The lack of country infrastructure and governmental support leaves the BLTS and the HCG without the necessary equipment, maintenance, logistical support or incentive to effectively combat drug trafficking in Haiti.

In spite of these limitations, the BLTS continued daily patrols including inspection of inbound and outbound passenger baggage and airfreight. The BLTS also apprehended three fugitives wanted in the United States for drug-related crimes. The BLTS Maritime Interdiction Task Force (MITF) also conducted random daily searches and assisted in identifying vessels and individuals associated with drug trafficking at the local seaports. The Joint Information Coordination Center (JICC) continued to provide useful intelligence and to coordinate with the BLTS at the airport and the MITF.

The HCG conducted limited operations during 2005, supporting a UN security intervention in the Cite Soleil neighborhood of Port au Prince and participating in a joint counternarcotics operation with DEA and the BLTS.

Corruption. In October 2005, Transparency International designated Haiti as one of the most corrupt countries in the world. Corruption is endemic in almost all public institutions. The HNP Director General estimated that 25 percent of active duty HNP were involved in serious illegal activities. Intelligence confirms that the HNP continue to support drug traffickers by providing security and offloading drug-laden aircraft and vessels in Haiti. The IGOH responded by re-establishing a HNP Inspector General's office.

Cultivation/Production. There is no known cultivation or production of illicit drugs in Haiti, with the exception of cannabis, which is grown on a small scale for local consumption.

Drug Flow/Transit. The southern coast of Haiti is one of the preferred destinations for go-fast boats laden with cocaine traveling directly from the north coast of Colombia. The go-fasts typically meet Haitian fishing vessels that remain offshore at coastal towns. Near the end of 2005, the DEA noted a significant spike in suspected drug-laden airplanes landing in the border region with the Dominican Republic at Malpasse. Cocaine airdrops and sea cargo shipments from Colombia, Venezuela, and Panama were also reportedly on the rise.

Sea cargo cocaine shipments are concealed in legitimate cargo or inside the vessel structure itself. Smuggled drug shipments arriving at seaports are often transported overland to Port-au-Prince where they are broken down into smaller loads and concealed on cargo and coastal freighters. Smaller vessels carry loads of cocaine from Haiti's northern coast to the Bahamas for onward transport to Florida via fishing or pleasure boats. Multi-kilogram loads of cocaine are transported by commercial aircraft in checked luggage, strapped to bodies or hidden in food service or air cargo luggage carts. Large quantities of cocaine are also driven over the land to the Dominican Republic for eventual shipment to Puerto Rico or other destinations. Some drug planes arriving in Haiti with cocaine cargo also carry smaller amounts of heroin.

Marijuana is transported from Jamaica via go-fast boats to waiting fishing vessels and via cargo freighters to Haitian seaports along Haiti's southern coast. It is then shipped directly to the United States or transshipped through the Dominican Republic or Puerto Rico. Cocaine, crack, and marijuana are readily available and consumed in Haiti. Heroin usage for personal consumption is virtually nonexistent in Haiti.

Asset Seizure. Under the 2001 Anti-Money Laundering Law, forfeiture and seizure of assets are contingent upon convictions. Though the IGOH is supportive of a stronger, more proactive asset seizure law, its temporary governmental mandate does not allow for the passage of new laws. The inability to seize or freeze assets early in the judicial process limits the government's authority and resources to pursue cases.

Extradition. There is a U.S. and Haiti extradition treaty, signed in 1905; however, Haitian law prohibits the extradition of its nationals. The IGOH has, however, continued to cooperate with specific requests for expulsion. In 2005, three drug fugitives and six fugitives involved in other international crimes were returned to the U.S. by nonextradition means.

Demand Reduction. Widespread media coverage of high-profile suspects expelled from Haiti to face charges on drug-related crimes in the United States has helped to temper domestic demand. In addition, a public awareness campaign to discourage drug use was launched in 2005. Two radio jingles jointly sponsored by the IGOH and the USG, were broadcast free by all major radio stations in Haiti, and a public launching of the jingles attracted over 200 participants from the government, international and nongovernmental organizations, media and the general public.

Agreements and Treaties. Haiti is a party to the 1988 UN Drug Convention. A U.S.-Haiti maritime counternarcotics agreement and a bilateral maritime agreement entered into force in 2002. Haiti 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.

IV. U.S. Policy Initiatives and Programs

Reform of the HNP is a major cornerstone of USG support for combating illegal drug trafficking in Haiti. The USG provided 8.2 million USD in FY 2005 to this effort through INL. Forty-five vans and trucks, 75 motorcycles, one wrecker and two armored SWAT trucks were deployed to increase the HNP's operational effectiveness and visibility. A wide array of essential police equipment was also provided in conjunction with training from INL police advisors and UNPOL. Five high-profile model police stations were rehabilitated and inaugurated in 2005 in Bicentenaire, Fort National, Delmas 33, Cap Haitian and Gonaives. The model police station project provided professional facilities with essential equipment to enable the UNPOL and HNP officers to collocate and operate jointly. INL augmented communications by installing permanent, solar-powered base radio stations and portable radios at 80 commissariats throughout Haiti.

In addition, the USG provided the Haitian Coast Guard with maritime interdiction capability, including interceptor craft, infrastructure improvements, operational support, and training and equipment. A major accomplishment in this area included a joint U.S.-UN effort to renovate the HCG station in Cap Haitien, which permitted the HCG to re-establish operations there in December 2005. Significant Military Liaison Office projects included the overhaul of four boats, USCG boat maintenance and boat operations courses funded by Federal Military Funding (FMF) and International Military Education and Training (IMET). The USCG Caribbean Support Tender (CST) cutter GENTIAN made four visits to the HCG Admiral Killick Base in Carrefour to provide supplies, conduct training, repair boats and generators, install a communications battery backup system, and inspect weapons. The USCG also supported the HCG with numerous Mobile Training Team missions. Under a SOUTHCOM humanitarian project, the medical clinic at Killick was renovated for the HCG and the community.

The DEA and NAS also worked closely with the BLTS to establish a Sensitive Investigative Unit. A site was identified, and a working plan for procurement and operations was established in 2005. The U.S. Treasury Office of Technical Assistance (OTA), in cooperation with NAS, provided on-the-job

investigative training to the Financial Crimes Task Force and to a lesser extent UCREF. In addition, NAS provided 25 computers to UCREF and four laptops and office equipment to the Task Force to support their work on prosecuting financial crimes.

The Road Ahead. Stemming the flow of illegal narcotics through Haiti remains a cornerstone of U.S. counternarcotics policy. Key preconditions to accomplishing of this goal are more effective law enforcement and judicial institutions, a government commitment to providing resources for these institutions through budgetary means and an effective asset seizure mechanism. Continued social disorder and political violence will only obstruct the road ahead. Following democratic elections, the new government should continue the IGOH's focus on fighting corruption and reforming the police and the judicial system.

Jamaica

I. Summary

Jamaica is a major transit point for cocaine enroute to the United States and also the largest Caribbean producer and exporter of marijuana. Cooperation between U.S. and the Government of Jamaica (GOJ) law enforcement agencies is considered excellent in most areas. During 2005, the GOJ sustained its counternarcotics law enforcement programs, including Operation Kingfish, which has led to the arrest of key traffickers and criminal gang leaders and the dismantling of their organizations.

The Jamaica Constabulary Force (JCF) made concerted efforts in 2005 to modernize its force. The JCF employed the services of two British law enforcement officers who are responsible for crime and operational matters and also acquired an integrated ballistic information system. Jamaica is a party to the 1988 UN Drug Convention and during 2005 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 marijuana in the Caribbean. Although Jamaica is not a significant regional financial center, tax haven or offshore banking center, money laundering does occur, primarily through the purchase of real assets, such as houses and cars. The U.S. Customs Enforcement Team (CET) has reported that in 2005, cash couriers have become a significant concern with regards to money laundering. The GOJ made slow progress against money laundering as it remains hampered by the lack of effective legislation. The Financial Investigation Division was able to seize over \$500,000 cash, from drug related proceeds.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The GOJ expanded and modernized Jamaica's ports including improvements in security. During 2005, systematic scanning of high-density cargo resulted in the seizure of over two thousand pounds of marijuana, a large quantity of weapons and other contraband. However, plans to expand and modernize CET stalled due to high staff attrition. In 2005, the GOJ began the renovation of an existing building at the Norman Manley International Airport in Kingston to house the Airport Interdiction Task Force, which will be comprised of Jamaican, U.S., UK and Canadian law enforcement personnel. The task force will focus on combating the trafficking of narcotics and illegal migrants and will become operational in early 2006. The GOJ continued to fund the operating expenses for the Caribbean Regional Drug Law Enforcement Training Center.

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 works closely with DEA in investigating significant narcotics trafficking and money laundering organizations in Jamaica.

In 2005, the GOJ seized 142.38 kilograms of cocaine, 17,654 kilograms of cannabis, 13,070 ecstasy tablets and destroyed 391 hectares of cannabis. The appearance of ecstasy on the local illicit narcotics scene is a new phenomenon. Cocaine seizures were significantly lower in 2005 when compared to 2004. Local law enforcement officers together with international law enforcement officers continued to aggressively target major drug trafficking organizations. The JDF continued to work with USG's Joint Interagency Task Force-South (JIATF-S) to successfully disrupt a number of planned go-fast

deliveries. The JCF arrested a total of 6,215 persons on drug related charges including 220 foreigners in 2005.

The ion scan machine located at the Norman Manley International airport in Kingston and operated by the British played a major role in identifying passengers transporting drugs. During 2005, Operation Kingfish resulted in the successful seizure of 56 vehicles, seven boats, one aircraft, 131 firearms, and two containers conveying drugs. Operation Kingfish alone was also responsible for the seizure of over nine metric tons of cocaine, four pounds of hash oil, and over 5,117 pounds of compressed marijuana.

The employment of British law enforcement officers and the acquisition of the integrated ballistic information system have led to a more concerted effort by the JCF to identify and dismantle high profile drug traffickers. Highlights of these efforts include the capture, conviction and sentencing of one of Jamaica's Most Wanted fugitives, the arrest of two other prominent criminals. Collaborative efforts between the JDF and the JCF intensified and the JDF played a significant role in developing intelligence, security and the apprehension of major drug dealers. Despite these changes, Jamaica's homicide rate was 1,669 for 2005 compared to 1,471 in 2004.

Corruption. Corruption continues to undermine law enforcement and judicial efforts against drug-related and other types of crime in Jamaica, and is a major barrier to more effective counternarcotics actions. The GOJ has a policy of investigating credible reports of public corruption; however, there were no prosecutions of high profile individuals for corruption or who are linked by reliable evidence to drug-related activity. The JDF has a "zero tolerance" policy on involvement in drug-related activity by its members.

Agreements and Treaties. Jamaica has a mutual legal assistance treaty (MLAT) and an extradition treaty with the U.S. Both countries utilize the MLAT to combat illegal narcotics trafficking and other crimes. The U.S. and Jamaica have a reciprocal asset sharing agreement. The U.S. and Jamaica also have a bilateral law enforcement agreement governing cooperation on stopping the flow of illegal drugs by maritime means. Jamaica is a party to the Inter-American Convention on Mutual Legal Assistance in Criminal Matters. In 2005, the GOJ agreed to the Cooperating Nation Information Exchange System. The GOJ signed the Caribbean Regional Maritime Counterdrug Agreement.

Cultivation/Production. Jamaica is the largest Caribbean producer and exporter of marijuana. There is no accurate estimate of the amount of cannabis cultivated. A 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 inaccessible to vehicular traffic. Highly sophisticated cultivation methods, including portable irrigation systems, generators, floodlights, etc., speeds up the cultivation process. Jamaica does not use herbicides to eradicate marijuana. Manual cutting is the primary eradication method.

Drug Flow/Transit. Cocaine is smuggled/transshipped from Colombia's north coast by major Colombian and Jamaican trafficking groups into and out of Jamaica primarily via 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. Smugglers also use concealment in commercial shipments, and couriers who board airlines or cruise ships with ingested or concealed drugs.

Domestic Programs. Consumption of cocaine, heroin and marijuana is illegal in Jamaica. Marijuana is the drug most frequently abused, and consumption of both powder cocaine and crack cocaine are on the rise, despite limited availability. 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, RISE, Life Management Services 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 JDF Coast Guard (JDFCG) engages in cooperative operational planning with the U.S. Coast Guard for joint operations on an intermittent basis. During 2005, Jamaica participated in six 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 2005. In February, the U.S. and Jamaica signed an additional protocol to the Shiprider Agreement to allow U.S. and JDFCG personnel to enforce Jamaican law from third party vessels (British, French, Dutch, Canadian, and Belgian).

Between 2004 and 2005 the JDFCG assigned two crewmembers to the Coast Guard Caribbean Support Tender and in addition, embarked the first officer for training. In 2005, two new CG ratings were attached for a yearlong tour aboard the USCGC *Gentian*.

In 2005, the U.S. continued 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 the U.S. Marshals, received specialized training, equipment and operational support. The JFAT is actively working on over 213 fugitive cases. Since January 2005, twelve arrests have been made. There have been 5 cases of extradition and 3 persons have been deported to the United States. There are 18 defendants in custody awaiting extradition to the U.S.

The U.S.-funded International Organization for 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 in November 2004 and became fully functional in 2005. Use of the system resulted in the detection of over 30 fraudulent Jamaican passports, and enabled Jamaican authorities to identify a number of individuals of various nationalities involved in immigration violations and other illicit activities. 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 combat drug trafficking and other types of organized crime. However, the GOJ needs to further intensify its law enforcement efforts and enhance international cooperation. In 2006, the U.S. will concentrate its efforts on assisting the GOJ with tackling corruption; modernize its judicial system; lobby the GOJ to expedite crime fighting legislation; and 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.

The GOJ needs to implement legislation similar to the U.S. RICO statute and add amendments to enhance the effectiveness of the Interception of its Communications (wiretap) Act.

Suriname

I. Summary

Suriname is a transit point for South American cocaine enroute to Europe and, to a lesser extent, the United States, and has been a transit country for MDMA (ecstasy) from Europe to the U.S. market in the past. The Government of Suriname's (GOS) inability to control its borders, lack of a law enforcement presence in the interior, and lack of aircraft or patrol boats allow traffickers to move drug shipments via sea, river, and air with little resistance. Nevertheless, in 2005, GOS law enforcement improved on its past counternarcotics performance, demonstrating the capacity to arrest and convict high-profile narcotics traffickers. The principal obstacles to effective counternarcotics law enforcement efforts are inadequate resources and limited training 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 destined primarily for Europe and, to a lesser extent, the United States. Evidence available in 2005 did not indicate that a significant amount of drugs entered the U.S. from Suriname. 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' ability to identify, apprehend, and prosecute narcotics traffickers. In addition, sparsely populated parts of its coastal region and the country's isolated jungle interior together with weak border controls and infrastructure make narcotics detection and interdiction efforts difficult.

III. Country Actions Against Drugs in 2005

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. Suriname's National Drugs Master Plan (2006-2010) is pending final approval. The plan covers both supply and demand reduction and includes calls for new legislation to control precursor chemicals. The development of the plan through multisectoral consultation was a significant step in fostering national coordination to address Suriname's drug problem.

Law Enforcement Efforts. In 2005, Surinamese law enforcement focused more attention on dismantling large criminal organizations than in the past and showed an increased capacity to arrest and secure convictions of high-profile, well-connected narcotics traffickers. In 2005, GOS law enforcement arrested numerous people carrying drugs on their bodies or in luggage at the international airport, primarily passengers on the three to six weekly flights (varying seasonally) to Amsterdam; 125 of these people had ingested cocaine. Many who evade detection in Suriname are arrested at the airport in Amsterdam, which since 2004 has implemented a 100 percent inspection of all passengers and baggage arriving on inbound flights from Suriname.

In 2005, a special police unit cooperated closely with Dutch law enforcement to investigate criminal organizations smuggling drugs and laundering money between Suriname and the Netherlands. The cooperation culminated in the investigation and arrest of two long-suspected major drug traffickers and several of their associates during an operation named "Ficus." One suspect, who heads a

Suriname-based holding company with stakes in casinos, car dealerships, and money transfer/exchange offices, is now on trial in the Netherlands for narcotics trafficking and money laundering. The other suspect, who owns a prominent rice export business, is on trial in Suriname; he was arrested in connection with the December 2003 confiscation of 296 kilograms of cocaine from one of his vessels that was en route to Portugal and for being a suspected member of a criminal organization. Over the first nine months of 2005, the Narcotics Brigade of the Surinamese police force (KPS) seized 1,436 kilograms of cocaine and 78 kilograms of cannabis and arrested 540 people for drug-related offenses.

In April 2005, a joint operation of the police SWAT team (A-Team) and the Narcotics Brigade, led to the arrest of two men and the confiscation of 334 kilograms of cocaine, 274 cartridges and four hand grenades from a residence in Paramaribo. In July, police seized 289 kilograms of cocaine found packed in 700 one-kg bags of frozen root vegetable awaiting export to the Netherlands. The suspects arrested in these cases are on trial. In May, police seized 438 kilograms of cocaine from a Cessna airplane that made an emergency landing approximately 60 miles west of Paramaribo. Two Colombian men on board, whose final destination was apparently a clandestine airstrip located on an unpopulated band of the Surinamese coast, were subsequently arrested and, in November, sentenced to 16 years imprisonment for importing cocaine. There are criminal organizations operating arms-for-drugs activities in Suriname that may have connections to the Colombian terrorist group the Revolutionary Armed Forces of Colombia (FARC).

In 2005, the judiciary handed down several stiff sentences in three other high-profile drug cases. In August, Dino Bouterse, son of former military strongman and convicted narcotics trafficker Desi Bouterse, was sentenced to eight years in prison for participating in a criminal organization. Bouterse was the leader of a criminal ring involved in the trafficking of cocaine, weapons and vehicles. In September, 23 suspects, including three Colombians, were sentenced for trafficking cocaine from Colombia into Suriname based on the February 2004 police seizure of 379 kilograms of cocaine and 800 liters of airplane fuel. In October 2005, a major narcotics trafficker received a 15-year sentence for masterminding the Maratakka drugs case, in which 341 kilograms of cocaine, aircrafts, airplane fuel, weapons and ammunition were seized in November 2003.

In 2005, the GOS seized 1507 kilograms of cocaine and 169 kilograms of cannabis. A total of 734 people were arrested for drug-related offenses; 178 of these were arrested at the international airport, after having ingested cocaine.

Corruption. The GPS does not facilitate the production, processing, or shipment of narcotic and psychotropic drugs or other controlled substances, and does not discourage the investigation or prosecution of such acts. The GOS takes legal and law enforcement measures to prevent and punish public corruption. Public corruption is considered a problem in Suriname. Reports of money laundering, drug trafficking and associated criminal activity involving current and former government and military officials continue to circulate, but the government has a record of action in prosecuting or terminating corrupt officials. According to Customs reports, the GOS loses roughly \$45 million annually in uncollected Customs revenues due to corruption and false invoicing. Investigations show that false invoicing occurs daily, despite heavy fines. Former military strongman Desi Bouterse and former rebel leader Ronnie Brunswijk served in the National Assembly in 2005, despite having convictions in absentia in the Netherlands for narcotics trafficking. Brunswijk was also convicted in a French court in absentia for the same crime.

Agreements and Treaties. Suriname is party to the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Suriname is also a party to the 1988 UN Drug Convention and has accordingly passed legislation that conforms to a majority of the convention's articles, but has failed to pass legislation complying with precursor chemical control provisions. The GOS ratified the Inter-American Convention on Mutual Assistance in Criminal

Matters. Since 1976, the GOS has been sharing narcotics information with the Netherlands pursuant to a Mutual Legal Assistance Agreement. In August 1999, a comprehensive six-part bilateral maritime counternarcotics enforcement agreement with the U.S. entered into force. The U.S.-Netherlands Extradition Treaty of 1904 is applicable to Suriname, but Suriname's Constitution prohibits the extradition of its nationals. The extradition relationship between the United States and Suriname is inactive. In November 2005, Suriname signed a Mutual Legal Assistance Agreement with the Netherlands Antilles allowing for direct law enforcement cooperation between the two, no longer requiring the process to be first routed through The Hague. Suriname has also signed bilateral agreements to combat drug trafficking with neighboring countries Brazil and Guyana, as well as with Venezuela. Suriname is an active member of the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD), to which it reports regularly. Suriname is not a party to the UN Convention Against Transnational Organized Crime.

Cultivation and Production. Suriname is not a producer of cocaine or opium poppy. While cannabis is cultivated in Suriname, there is little specific data on the number of hectares under cultivation or evidence that it is exported in significant quantities.

Drug Flow/Transit. Much of the cocaine entering Suriname is delivered by small aircraft, which land on clandestine airstrips in the dense jungle interior and in sparsely populated coastal districts where the lack of resources, infrastructure, law enforcement personnel and equipment makes detection and interdiction difficult. Following drug deliveries along interior roads, to clandestine airstrips, or by sea drops the drugs are shipped to seaports via numerous river routes to the sea or overland for onward shipment to Caribbean islands, Europe and the United States. Drugs exit Suriname via commercial air flights (by drug couriers or concealed in planes) and by commercial sea cargo. European-produced MDMA is transported via three to six weekly flights (varying seasonally) from the Netherlands to Suriname; in the past drug couriers have transported the drugs to the United States.

Domestic Programs. During 2005, the National Drug Demand Reduction Office (DDR) conducted training sessions for specialists on primary prevention strategies and minimum standards for drug treatment centers. In August, the Bureau for Alcohol and Drugs (BAD) and the police conducted DDR-sponsored drug prevention training for ten youth organizations in Suriname. The National Drugs Information System, created to collect and distribute data to support policy formation, has been largely ineffective.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The principle obstacles in Suriname to effective counternarcotics law enforcement efforts are inadequate resources and limited training for law enforcement. Therefore, the U.S. aims to reduce the trafficking of narcotics through Suriname through a mix of training and material to strengthen the GOS law enforcement institutions and their capabilities to detect and interdict narcotics trafficking activities.

Bilateral Cooperation. A high level of cooperation exists between U.S. and GOS law enforcement officials. In 2005, 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. USG funding went towards the purchase of hardware and software for a criminal records database, radio equipment, vehicles, renovation of police academy classrooms, and computer systems, and training.

The Road Ahead. The U.S. will continue to encourage the GOS to pursue large narcotics traffickers and to dismantle their organizations rather than focusing 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. The DEA intends to intensify its cooperation with Surinamese law enforcement in 2006 by establishing an office in Suriname. 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. Marijuana is grown in Trinidad and Tobago, but it is not a major drug-producing country. 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 2005 focused on the provision of technical assistance, training, and materiel to help the GOTT strengthen all facets of its counternarcotics efforts. The GOTT is party to the 1988 UN Drug Convention.

II. Status of Country

Trinidad and Tobago is situated seven miles off the coast of Venezuela, directly between the major cocaine producing countries of South America and the major consumers of North America and Western Europe. It is a transshipment point for illicit drugs, primarily cocaine and marijuana but also heroin.

Trinidad and Tobago does not produce coca or opium poppy. Marijuana is grown, but not on a scale to make Trinidad and Tobago a major drug-producing country as defined in the 1961 Foreign Assistance Act. Trinidad and Tobago has an advanced petrochemical sector, which requires the import and export of 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. U.S.-donated computers now give the GOTT Ministry of Health the capability to track chemical shipments through the country, with the aim of preventing future diversion to narcotics producers.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In 2005, the GOTT National Drug Council implemented elements of the country's counternarcotics master plan. This plan addresses both supply and demand reduction. In addition, the GOTT supported the Special Anti-Crime Unit (SAUTT), commissioned in 2004, and enhanced its capabilities. The SAUTT has responsibility for both counternarcotics and antiskidnapping operations. During 2005, the GOTT hired an American criminal justice specialist to evaluate Trinidad and Tobago's law enforcement structures. His report recommended changes in the structure, training regime and culture of the police service. To implement the recommendations, the GOTT sent its elite officers to numerous drug and crime training courses in the U.S and the UK.

In 2005, the GOTT upgraded its coastal radar assets, and acquired two armed helicopters, an aerial surveillance system outfitted with radar and imaging systems, a forward-looking infrared camera, twenty-four mobile police units, and several sky watch units. Anticrime legislation under discussion as a result of negotiations between the two major parties at the end of November 2005 aims at enhancing counternarcotics enforcement.

Accomplishments. The GOTT funds 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 enhancing enforcement of the customs law. The GOTT also funds an IRS Tax Assistance and Advisory Team that is working with the Board 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 Trinidad and Tobago Coast Guard's (TTCG) Air Guard (formerly the TTCG Air Wing) conducts drug interdiction operations using two C-26 sensor aircraft it purchased from the U.S. These aircraft have maritime surveillance and drug interdiction capabilities. The GOTT has financially supported the maintenance of these aircraft since May 2005.

Law Enforcement Efforts. In 2005, the GOTT seized 3,000 kilograms of cocaine, including liquid cocaine, 15.58 kilograms of heroin, and over 100,000 kilograms of cannabis in various forms. The GOTT also eradicated 1,116,500 cannabis plants and seedlings during the year. One particularly noteworthy seizure occurred on Monos Island, located off the northwest coast of Trinidad. This joint exercise by the SAUTT, the police and the TTCG netted 1,750 kilograms of cocaine. Reports speculate that the drugs originated in Colombia and transited Venezuela, indicating involvement by a major organized crime operation. Eight persons were charged: five Venezuelans, one Antiguan and two Trinidadians.

The GOTT purchased an additional five drug detection dogs for use by the TTPS. The U.S. and UK are assisting the GOTT with the purchase of a "drugloo," a device that facilitates recovery of contraband items concealed in a smuggler's gastro-intestinal tract. In CY 2005, four people were extradited to the U.S.; three were extradited on drug-related charges.

Corruption. Trinidad and Tobago is a party to the Inter-American Convention Against Corruption and has signed the UN Convention Against Corruption. During 2005, there were no charges of drug-related corruption filed against GOTT senior officials, and the U.S. Embassy in Trinidad and Tobago has no information indicating that any senior government officials encourage or facilitate the illicit production or distribution of drugs or the laundering of drug money. 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 are 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. The GOTT continued to comply with U.S. requests under the extradition and mutual legal assistance treaties and updated its extradition treaty with the USG in April 2004. 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. Marijuana, 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. Eradication takes place by cutting and burning plants manually as opposed to aerial herbicide application.

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 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 in New York and other intelligence indicate that Guyanese-based smuggling organizations and other South American operations, are increasingly using Trinidad and Tobago as a transshipment point for

cocaine. In addition, the DEA believes there has been an increase in the amount of heroin transiting the country. Reportedly, some shipments are bypassing Trinidad and Tobago in favor of other islands because of the counternarcotics efforts of GOTT security forces. There is little or 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, Culture 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. 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 counternarcotics-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 Trinidadian law enforcement organizations with training, technical assistance, equipment and vehicles in support of their counternarcotics/crime efforts. The U.S. provided equipment and vehicles to the OCNU, drug and bomb detection dogs to the TTPS and the Customs and Excise Division, and fast interceptor boats and shallow draft interdiction boats for the TTCG and Customs and Excise Division. The U.S. continues to cooperate 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. A GOTT-funded IRS Tax Assistance and Advisory Team is helping the Board of Inland Revenue detect and prosecute financial crimes.

The Road Ahead. The U.S. will work closely with the GOTT's law enforcement agencies to strengthen their counternarcotics/crime capabilities. The U.S. will provide training and operational support to the TTCG to enhance the GOTT's maritime interdiction capabilities. The U.S. will support and assist the Criminal Investigation Unit in fulfilling its five-year plan of integrating with other law enforcement agencies and conducting money laundering and illegal source of income investigations. The U.S. will continue efforts to improve the rule of law by encouraging legal reforms, including improving evidentiary laws, and providing assistance aimed at reducing judicial delays. In addition, the U.S. will seek to engage GOTT officials, the Caribbean Financial Action Task Force, and Caribbean Anti-Money Laundering Programme in the enactment and implementation of effective asset forfeiture and anti-money laundering laws.

SOUTHWEST ASIA

Afghanistan

I. Summary

The political and economic situation in Afghanistan is improving, but opium production and the resultant trafficking of opium and its derivatives still accounts for roughly one third of Afghanistan's total (combined licit and illicit) GDP. Afghanistan's huge drug trade severely impacts efforts to rebuild the economy, develop a strong democratic government based on rule of law, and threatens regional stability. Dangerous security conditions and corruption constrain government and international efforts to combat the drug trade and provide alternative incomes. However, there was some cause for guarded optimism in 2005. The number of hectares under poppy cultivation dropped 48 percent, from 2004's record crop of 206,700 to 107,400, according to USG statistics. Opium production, however, dropped only 10 percent because yields rose sharply due to favorable weather. The reduction in planting may be credited to a number of factors, including surplus crop from 2004, public information efforts against poppy cultivation, (including President Karzai's public statements), promised alternative livelihoods assistance, and the threat of forced eradication and arrest. President Karzai pledged an additional 20 percent reduction in cultivation for 2006. In a significant positive legal development, the GOA extradited a major drug trafficker to the U.S. in October, the first time Afghanistan permitted the extradition of a citizen for drug trafficking.

The Government of Afghanistan (GOA) continues to pursue an eight pillar counternarcotics (CN) strategy focused on: Public Information, Alternative Livelihoods, Law Enforcement, Criminal Justice, Eradication, Institutional Development, Regional Cooperation and Demand Reduction. In 2005, the GOA adopted the Poppy Elimination Program (PEP), a multi-faceted program working with provincial governments to reduce poppy production in the seven major poppy producing provinces. The GOA also focused on building capacity within its nascent law enforcement and justice sector institutions to increase arrests, prosecutions and convictions of drug traffickers. The international community actively assists the GOA in its CN efforts and to help build its capacity. International counternarcotics activities remain under a multilateral mandate with the UK in the lead. U.S. government assistance focuses on the five pillars of Alternative Livelihoods, Public Information, Criminal Justice (Justice Reform), Law Enforcement, and Eradication in close coordination with the GOA. Although this year saw some encouraging developments, the GOA will need sustained international assistance and political support over many years to achieve its counternarcotics goals.

II. Status of Country

Afghanistan produces nearly 90 percent of the world's opium poppy and is also the world's largest heroin producing and trafficking country. Trafficking activities include refining and traffic in all forms of unrefined (opium), refined (heroin) and semi-refined (morphine base) opiates. The IMF estimated licit GDP for the Afghan fiscal year ending on March 21, 2005 at \$5.9 billion. UNODC estimated illicit opium GDP at \$2.8 billion for the same period, which indicates that illicit opium GDP accounts for roughly one-third of total GDP. Criminal financiers and narcotics traffickers exploit the government's weakness and corruption. Reconstruction efforts which began in 2002 are improving Afghanistan's infrastructure, laying the necessary groundwork to combat the cultivation and trafficking of drugs throughout the country.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The U.S.—in concert with the UK, designated the international lead-nation on counternarcotics—has worked to ensure that counternarcotics is at the forefront of Afghan policy

initiatives. President Karzai has expressed his clear commitment to stemming drug production and trade in Afghanistan and has set the goal of a 20 percent reduction in opium cultivation in 2006. To accomplish this goal the GOA took the following key actions against narcotics in 2005:

- **Illicit Crop Control.** With U.S. and UK support, the GOA established the Poppy Elimination Program (PEP) in May 2005. PEP is designed to reduce poppy cultivation through year-round targeted public information campaigns to dissuade poppy planting, alternative livelihood programs to spur rural development, and governor-led eradication (GLE) of poppy crops. PEP teams have been deployed to the seven key poppy producing provinces. These teams, comprised of public information, alternative livelihoods and monitoring/verification officers, work with the governors to prevent opium planting and support governor-led eradication by providing monitoring and verification of eradication efforts. The GOA reconfigured the Central Poppy Eradication Force (CPEF) into the Afghan Eradication Force (AEF), a more flexible and mobile force with air support that will broaden the central government's eradication capabilities.
- **Legislation.** The U.S. Department of Justice Senior Federal Prosecutors Program in Afghanistan, working with their Afghan counterparts, drafted a counternarcotics law, which was adopted in December 2005. This legislation was the first step in supporting Amendment 7 of the Constitution prohibiting the cultivation and smuggling of narcotic drugs and provides the legal and investigative authority foundations for high-level investigations and prosecutions. The counternarcotics law also codified the use of the 1988 UN Drug Convention as a legal basis for extradition. This comprehensive counternarcotics law will substantially enhance the GOA's ability to arrest, prosecute and convict drug traffickers.
- **Justice Reform.** In 2004, the U.S., U.K. and other donors established the Vertical Prosecution Task Force (VPTF) and in 2005 established the Central Narcotics Tribunal (CNT); the U.S. Department of Justice Prosecutors helped the GOA craft the legal mechanism to establish this court, designed to move expeditiously against narcotics criminals. The VPTF consists of teams of investigators and prosecutors who will work together in developing and prosecuting narcotics cases. The U.K., Norway, and the U.S. have all dispatched mentors to work with the VPTF. The CNT, established by decree, has exclusive national jurisdiction over mid- to high-level narcotics cases in Afghanistan; and the Supreme Court has now authorized automatic transfer of eligible cases from other courts. The Misri Khan trial, which began in November 2005, has been transferred to the CNT and is the first to rely upon Western-style investigative techniques in Afghanistan. The Misri Khan case involves the investigation, arrest and prosecution of mid-level Afghan drug traffickers for conspiracy to export heroin to the United States.

Once completed, the Counternarcotics Justice Center (CNJC) will provide secure facilities for the VPTF and CNT to operate. It will contain secure courtrooms, and a detention facility to house defendants undergoing trial. The United Nations Office on Drugs and Crime (UNODC) is refurbishing a section of the Pol-e Charkhi prison to securely house convicted narcotics traffickers after they have been prosecuted in the CNT.

Law Enforcement Efforts. Drug law enforcement efforts have been hampered by the continuing insurgency and lack of GOA police and legal capacity. In 2003, the Ministry of Interior (MOI) established a Counter Narcotics Police Department (CNPA), which is divided into three units: investigation, intelligence and interdiction. Development of the CNPA will be the focus of efforts to create an Afghan enforcement institution capable of investigating and developing narcotics cases.

Progress has been slow, given the difficulty of the unit's mission. Developing MOI capacity and capability for the CNPA continues to be a high priority for Afghanistan itself and its major foreign donors.

To get action on enforcement now, while the longer term effort at creating the CNPA continues, DEA and the Afghan Government created the National Interdiction Unit (NIU) of the CNPA in 2005. This unit is a specially trained group of approximately 110 CNPA police officers who are supported and mentored by the DEA. The NIU conducts interdiction and investigative activities designed to attack the command and control structure of mid-value and high-value drug trafficking organizations (DTOs) in Afghanistan. To develop and support the NIU, the DEA established the Foreign Advisory Support Teams (FAST) in 2005. FAST teams are rotational deployments of specially trained DEA Special Agents and Intelligence Research Specialists who are assigned to Afghanistan for 120 day periods to support the Kabul Country office of the DEA and the NIU in furthering DEA intelligence and law enforcement operations. The NIU also works with the Afghan Special Narcotics Force (ASNF), a trained paramilitary interdiction unit used to attack large, hard targets to create a highly-specialized narcotics interdiction and investigative entity capable of disrupting and dismantling major trafficking organizations. NIU operations began in October 2004. From October 2004—October 2005 NIU seized 42.9 metric tons of opium, 5.5 metric tons of heroin, and 220 kilograms of morphine base from 247 clandestine conversion labs and made 32 arrests. NIU's activities were severely limited by the lack of dedicated air support, which would permit access to hard targets.

Efforts to interdict precursor substances and processing equipment also suffer from limited police and judicial capacity. There are currently no registries or legal requirements for tracking, storing or owning precursor substances, although the new drug law requires the Ministry of Counter-Narcotics to develop a modern regulatory system. Progress in this regard depends on passing new laws, establishing a system for distinguishing between licit/potentially illicit uses of dual-use chemicals, and then establishing a specialized police force to enforce the new system.

Corruption. Drug-related corruption is a problem at all levels of government and remains pervasive at the provincial and district levels. Corruption ranges from facilitating drug activities to benefiting from revenue streams generated by the drug trade. The national government officially condemns the drug trade, but lacks the capability to control it at the local level. In 2005, President Karzai removed from office a few police and provincial officials whom he deemed corrupt. His ability to move vigorously against corruption in provincial governments and in the central government is severely constrained by the practical political considerations of a nascent central government. The GOA realizes it must take more meaningful action against corruption in 2006 to facilitate good governance and assist in implementing its National Drug Control Strategy (NDCS).

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 formal extradition or legal assistance arrangements with the U.S., although drug offenders may now be extradited under the 1988 UN Drug Convention based on recent Afghan counternarcotics legislation. In close cooperation with U.S. Department of Justice Senior Federal Prosecutors, a major drug trafficker was extradited to the U.S. in October 2005 under the 1988 UN Drug Convention to stand trial on narcotics charges. This marked the first time Afghanistan permitted the extradition of one of its citizens for drug trafficking to a foreign country. Afghanistan is not a party to any bilateral treaties that provide mutual legal assistance with any nation, including the U.S. Afghanistan is a party to the UN Convention against Transnational Organized Crime. Afghanistan has signed, but has not yet ratified, the UN Convention Against Corruption.

Illicit Cultivation/Production. The number of hectares under poppy cultivation dropped 48 percent, from 2004's record crop of 206,700 to 107,000 in 2005. Afghanistan still remains the largest cultivator of illicit opium poppy in the world, accounting for approximately 87 percent of illicit opium

worldwide, according to the UNODC. Despite the sharp decrease in hectares planted, opium production fell by only 10 percent (4,475 metric tons in 2005 from 4,950 metric tons in 2004) because favorable weather increased yield per hectare. Poppy is grown at varying levels of intensity in all of Afghanistan's 34 provinces, comprising 2.3 percent of all arable land and, up to 10 percent in poppy growing villages. Poppy cultivation provides regular employment for some 8.7 percent of the population and a much larger proportion benefits from linkages to the drug trade. As noted previously, poppy production amounts to one-third of GDP in Afghanistan. It is the principal source of livelihood in several areas, as the decision to plant poppy determines access to land and credit. There are strong linkages to all aspects of Afghanistan's still profoundly underdeveloped economy. Because of the limited reach of law enforcement, corruption, some lack of government will, and weak judicial institutions, the GOA has not been able to enforce its decree banning opium production. The GOA will not likely have the capacity to enforce the decree for some years.

The 48 percent decrease in hectares planted in 2005 is encouraging, though it was not consistent across the country. Some 55 percent of the total reduction took place in only two provinces, Nangarhar and Helmand, where provincial governments were willing to crack down on growers. In some provinces reductions were more modest and in others planting increased from 2004. Factors influencing farmers' decisions not to plant poppy likely included market forces following 2004's record crop, appeals from President Karzai and other public information efforts, the threat of eradication and arrest, and promised alternative livelihood assistance. In 2005, the ANP and provincial government forces conducted limited eradication. The CPEF was able to eradicate only a little over 200 hectares because of local resistance, obstruction by local officials and lack of needed GOA support. 200 hectares represents less than two-tenths (.002 percent) of one percent of the area planted to opium.

Understanding from 2005 experience that cooperation from provincial governments is critical to poppy elimination, President Karzai called for increased engagement by local leaders in 2006. PEP was created to focus elimination/eradication efforts at the provincial level. CPEF has been reshaped into the Afghan Eradication Force (AEF), a more nimble ready-response eradication force with air support comprised of four eradication teams that will be deployed to conduct eradication in the various provinces of Afghanistan. The Afghan Ministry of Interior has committed 1,300 policemen to support governor-led eradication.

In addition to improved law enforcement, rebuilding the rural economy to provide viable alternatives to poppy growing is critical to reducing opium poppy cultivation. USAID developed a comprehensive alternative livelihoods (AL) program that allocated and obligated some \$175 million dollars to AL projects in the major opium cultivation areas of Afghanistan. These projects are focused on accelerating economic growth in rural areas to create long-term sustainable jobs. However, the full effects of these projects are realized over years and are not likely to result in a massive shift away from poppy cultivation in the near term.

Drug Flow/Transit. Drug cultivation in Afghanistan is facilitated by traffickers who lend money to Afghan farmers, and subsequently buy their crop at previously set prices, or accept repayment of loans with deliveries of raw opium. In many provinces opium markets exist. Under the control of regional gangsters (frequently warlords who also control the illicit arms trade and trafficking in persons) opium is traded freely to the highest bidder and is subject to taxation by the gangster. 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 prominent role in all aspects of the drug trade. Distribution networks frequently are organized along regional and ethnic lines and other organized criminal groups are 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 growing domestic drug use problem, particularly with opium and increasingly with heroin. In 2005, the GOA conducted its first nationwide survey on drug use. The survey conducted by the Afghan ministries of health and counternarcotics revealed there were 920,000 drug users in Afghanistan, including an estimated 150,000 users of opium and 50,000 heroin addicts.

The Afghan National Drug Control Strategy includes demand reduction and rehabilitation programs for existing and potential drug abusers. However, Afghanistan has a shortage of general medical services and only limited GOA resources are being directed to these programs. The UK, Germany and—to a lesser degree—the U.S. have funded specific demand reduction and rehabilitation programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United Kingdom was designated as the international lead nation on counternarcotics activities in Afghanistan in 2002. As the drug problem grew out of control and evidence mounted that drug proceeds were supporting Taliban remnants and terrorist groups, the U.S. expanded its counternarcotics programs. Counternarcotics activities remains among the U.S.'s top priorities for Afghanistan, as solving the narcotics problem is critical to reconstruction, effective governance and rule of law in Afghanistan. The U.S., in coordination with the GOA and the UK, has crafted a comprehensive and integrated strategy and is providing substantial resources to achieve the following aims:

- Win popular support for the government's CN program through a broad public affairs campaign.
- Develop alternative sources of income to poppy in rural areas.
- Enhance the GOA's capacity to arrest, prosecute and incarcerate drug offenders.
- Destroy drug labs and stockpiles.
- Dismantle the drug trafficking/refining networks.
- Enforce the poppy ban through a strong eradication campaign.

The Road Ahead. Afghanistan's difficult security and economic environment and political fragility limit the GOA's ability to counternarcotics production and trade. The 48 percent reduction in the poppy crop in 2005 and the GOA's commitment to reducing cultivation by an additional 20 percent in 2006 are encouraging developments. However, sustained progress against the drug trade will require continued commitment to the comprehensive counternarcotics implementation plan by the GOA and its international partners over years. Until Afghanistan has a stable security environment with a rebounding rural sector, and its law enforcement capacity is strengthened, drug production and trafficking will continue. Sustained assistance and political support by the international community, over many years, will be necessary to ensure that the Afghan Government can achieve its objectives.

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 successfully 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, also 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. There are no reports of production, trading or transit of precursor chemicals in Bangladesh.

III. Country Actions Against Drugs in 2005

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 counternarcotics policy agency, 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 up of 11 ministers, seven appointed members, and the DNC Director General, is charged to meet quarterly, but only a single meeting was held in 2005, the first since 2003. There is still 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. This training and technical assistance was largely completed in 2005. The LOA also provided for training, conducted by the U.S. Department of Justice, for law enforcement personnel involved in counternarcotics activities. An amendment to the LOA providing for an increase in funds for training and equipment was signed in 2004. Other initiatives under consideration include the modernization of law enforcement training facilities in Bangladesh and further development of anticorruption programs within the government.

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 an acting Director General who has been in office for less than a year. The organization is chronically under-funded, understaffed, under-trained, and suffers from frequent personnel turnover. In 2005, the BDG completed construction of the first drug treatment and rehabilitation facility—a 250-bed hospital funded entirely by the BDG. A 2005 law introduced

quality of care requirements governing staffing and facilities for addiction treatment centers. The BDG also targeted demand reduction, increasing counternarcotics public service messages.

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. Bangladesh's borders are generally considered porous. Elements of the BDR, responsible for land border security within twelve-miles of the boarder, are widely believed to abet the smuggling of goods, including narcotics, into Bangladesh. Customs, the navy, the coast guard and the DNC are under-funded, poorly equipped and staffed, and lack training. Customs officials also lack arrest authority. At ports of entry where customs officials are not stationed with police units, the Customs officers themselves have no capacity to detain suspected traffickers. Instead, they can only seize 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 oversights significantly undermine overall BDG counternarcotics efforts.

The Rapid Action Battalion (RAB), established in 2004, targets organized criminal activity, including narcotics offenses. Increased narcotics seizures, principally attributed to the RAB, have resulted in higher street prices for popular diverted legal opiates like phensidyl and pathedine. Seizures in 2005 included 3,000 bottles of phensidyl. There is no centralized record of narcotics seizures by law enforcement agencies. The most current figures available are compiled by the Criminal Investigation Division (CID). These records vary significantly from the DNC data included in the 2005 report. These data indicate that drug quantities seized by Bangladesh authorities from January through July 2005 are as follows: 36.8 kilograms of heroin; 3.3 metric tons of marijuana; 7387.5 liters of phensidyl; and 1,902 ampoules of pathedine injection. It is important to note that these statistics do not reflect all seizures made by all agencies in Bangladesh, but they are reflective of general trends in Bangladesh. In developing countries, data is simply unreliable in detail, but even when incomplete, frequently reflective of reliable trends.

Corruption. Corruption is endemic at all levels of society and government in Bangladesh. An Anti-Corruption Commission ("ACC") was officially formed in November 2004 with a mandate to investigate corruption and file cases against government officials. The ACC has been hampered by disputes over staffing and organization and has yet to operate effectively or demonstrate the ability to act independently. 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. Nevertheless, many long-term observers believe that authorities involved in jobs that have an affect on the drug trade facilitate the smuggling of narcotics, and corrupt officials can be found throughout the chain of command. While there is no "proof" as such for this belief, it is based on the pervasiveness of the culture of corruption and the evidence that narcotics are indeed moving in Bangladesh and surrounding area. If caught, prosecuted, and convicted, most officials receive a reprimand at best and termination from government service at worst. Adjudicating authorities do not take these cases seriously.

Agreements and Treaties. Bangladesh is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention, and the 1972 Protocol amending the Single Convention. Bangladesh has a memorandum of understanding on narcotics cooperation with Iran, an extradition treaty with Thailand, and is negotiating a bilateral narcotics agreement with India. Bangladesh participates in information sharing with the government of Burma, and is a signatory to the 1990 SAARC Convention on Narcotic Drugs and Psychotropic Substances.

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. The DNC reports, however, that it has destroyed a few “small” poppy crops in the hill tracts near Chittagong and in the northwest it says were cultivated for seeds cooking spices for local consumption. The DNC also reports limited amounts of cannabis are cultivated for local consumption in the hill tracts in the North, in the southern silt islands, and in the northeastern region. The DNC, working with law enforcement agencies, reportedly destroys any cannabis crops it discovers

Drug Flow/Transit. Bangladesh is situated between the Golden Crescent to the west and the Golden Triangle to the east. Porous borders, weak law enforcement institutions, and widespread corruption at all levels of government leave Bangladesh vulnerable to smuggling of opium based pharmaceuticals and other medicinal drugs from India and white (injectable) heroin 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, while BDG estimates put the figure as low as 250,000. 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, and increasingly among educated, well-off young women, some of whom are turning to prostitution to support their habits. The BDG sponsors rudimentary educational programs aimed at youth in schools and mosques, and has modestly increased funding for these programs in 2005, although there is no clear indication of their impact. NGOs have expressed concerns about the quality of these messages. The BDG currently runs outpatient and detoxification centers in Dhaka, Chittagong, Khulna, and Rajshahi. These are not treatment centers and thus have limited success addressing the underlying addiction. The BDG opened the first 250 bed drug treatment and rehabilitation facility in 2005. There are other, nongovernmental 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. There is, however, a drug addicts’ rehabilitation organization, APON, that operates five long-term residential rehabilitation centers, including the first center in Bangladesh for the rehabilitation of female drug-users, which opened in 2005. These are the only such facilities in Bangladesh.

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. Equipment and law enforcement courses were provided in 2005, primarily to the police, but also to DNC laboratory technicians and officers, and members of the BDR, under the authority of a 2002 LOA implemented through INL by USDOJ officers. U.S. technical assistance in 2005 identified significant management issues at a DNC lab, which the DNC has addressed. Long years of neglect had left the office filing system in disorder, and chemical supplies needed to be replaced, since many chemicals had expired. Once U.S. advisor pointed out these difficulties, and worked with BDG staff, the issues were gradually resolved. Other initiatives under consideration include the modernization of law enforcement training facilities in Bangladesh and further development of anticorruption programs within the government, and training to assist counternarcotics enforcement efforts and develop their newly formed coast guard.

The Road Ahead. The USG will continue to provide law enforcement training for BDG officials and work with the BDG to construct a comprehensive strategic plan to develop, professionalize, and institutionalize Bangladesh counternarcotics efforts. 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 Narcotics Control Board (INCB) to produce opium gum for pharmaceutical use, rather than from concentrate of poppy straw (CPS), the processing method used by the other producers of licit opiate raw materials. This matters, as gum opium is intrinsically easier to divert to illicit uses, but India does a commendable job to avoid diversion. India's strategic location, between Southeast and Southwest Asia, the two main sources of illicit opium, make it a heroin transshipment area. Over the last several years, the northwestern state of Himachal Pradesh has seen an increase in illegal drug trafficking activities, including international hashish trafficking and illicit opium cultivation. Much of the hashish and cannabis intended for international markets is smuggled into India from Nepal. India produces heroin from diverted licit opium for its own illicit domestic addict market; India is also a modest but growing producer of entirely illicit heroin destined for the international market. In the past two years, Indian law enforcement authorities have dismantled two major laboratories—one set to produce methamphetamine in Calcutta and the other, ecstasy, in Mumbai. 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 sugar" heroin) and opiate pharmaceuticals continues to be a concern, 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 (JLOPS) 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. This year (2005-06), the GOI and the U.S. Embassy will conduct another opium study. In an effort to get better results, this survey will focus on limiting the area and number of plots where the data will be collected. The JLOPS study is crucial to India's plans to control diversion of licitly grown opium into the illicit market.

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 tries to monitor 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 offense under the Narcotics Drugs and Psychotropic Substances Act (NDPSA)—the GOI's key counternarcotics law—and punishable with imprisonment of up to 10 years. Intentional diversion of any substance (whether it is listed or not as a controlled substance in Indian law) for illicit manufacture of narcotic drugs and psychotropic substances (e.g., an unlisted replacement chemical for listed precursors) is also punishable under the NDPSA.

The GOI, in partnership with the Indian Chemical Manufacturing Association, imposes strict access controls on AA (acetic anhydride), which is used to process opium into heroin. These controls include the requirement that AA be transported in specially fabricated sealing systems (which make it very difficult to tamper with the transportation and storage tankers' inlet and outlet valves), 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. The objective of this requirement is to avoid excessive production and stockpiling, which could be diverted into illicit markets. India has complied with this requirement and succeeded in rebuilding stocks over the past three years from below-recommended levels. Opium stocks now exceed minimum requirements, almost tripling between 1999 and 2003, from a stock of 509 metric tons in 1999/2000 to 1,776 metric tons in 2004/05. Licensed farmers are allowed to cultivate a maximum of 10 “ares” (one tenth of a hectare). This is a reduction from last year’s 20 ares approved for the last opium growing season. “Opium years” straddle two calendar years. All licensed farmers must deliver all the opium they produce to the government alone, meeting a minimum qualifying yield (MQY) that specifies the number of kilograms of opium to be produced per hectare (HA) per state. The MQY is established yearly by the CBN prior to licensing. At the time Central Bureau of Narcotics (CBN) establishes the MQY, it also publishes the price per kilogram 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 crop years. 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 2002/03-crop year, CBN began to estimate the actual acreage under licit opium poppy cultivation by using satellite imagery and then comparing it with exact field measurements. Since licit poppy cultivation is not confined to an enclosed area, many of the farmers integrate fields with other agricultural crops like soybean, wheat, garlic and sugarcane. This technology has also been 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. CBN ensures that each cultivated area doesn’t exceed the prescribed size by measuring each one individually. Any cultivation in excess of five percent of the allotted cultivation area was uprooted, with the cultivator 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 for diversion.

In 2005, the CBN continued issuing microprocessor chip-based cards (Smart Identity Cards) for its licensed 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 also stores the previous years’ data. The information stored on the card is read with handheld terminal/read-write machines that are provided to field divisions. CBN personnel will enter cultivation data into the cultivators’ cards and the data will be uploaded to computers at CBN HQs and regional offices. The cards are delivered to cultivators at the time of licensing. The use of smart cards for the 2004/2005-crop year was successfully tested in two opium divisions. For crop year 2005/2006, the project will be expanded to include all of the 17 Opium Divisions, the three State Unit Headquarters and the Central Headquarters in Gwalior. The GOI periodically raises the official price per kilogram of

opium, but illicit market prices are anywhere from four to five to ten 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 2005/2006 opium harvest year, CBN has decreased the number of hectares licensed (from 8,771 in 2004/2005 to 7,833 in 2005/2006) and the number of farmers licensed (from 87,682 in 2004/2005 to 79,016 in 2005/2006). The estimated yield for the 2005/06-crop year is 403 metric tons of opium.

Although there is no reliable estimate of diversion from India's licit opium industry, clearly, some diversion does take place. It is estimated that between 20-30 percent of the opium crop is diverted. 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. at all. In 2005, the GOI closed down one morphine base laboratory and one heroin processing facility.

India does not use the same production method as other legal producers of opium alkaloids, including Turkey, France, and Australia, which 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. The difference between India and other producers has certain implications. 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 (India's means of production) 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.

Once the gum reaches consumers, processing it is difficult because a residue remains after the narcotic alkaloids have been extracted. This residue must be disposed of with appropriate environmental safeguards. Because of this, pharmaceutical opiate processing companies prefer using CPS for ease of extracting the opiate alkaloids, but some in the U.S. have adapted their systems to use gum opium, since India has proven to be a reliable supplier. For its part, the GOI has explored the possibility of converting some of its opium crop to the CPS method. The GOI is also examining ways to expand India's opiate pharmaceutical processing industry and the availability of opiate pharmaceutical drugs to Indian consumers (and to benefit from vertical integration of an industry in which India produces the key input, namely opium) through ventures with the private sector. Nevertheless, the financial and social costs of the transfer to CPS and the difficulty of purchasing appropriate technology to implement the change are daunting. Poppy straw technology is complicated. There are only a few countries that need it and have the most experience with it. But those countries-the natural source, should India be in the market for poppy straw technology-are India's direct competitors in the market for its products!

Morphine base ("brown sugar" 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 sugar" heroin comes from diverted licit Indian opium and is locally manufactured. Indian "brown sugar" heroin is also increasingly available in Nepal, Bangladesh, Sri Lanka, and the Maldives. 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.

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. There has been considerable amount of reporting in the local newspapers indicating that use of cocaine and ecstasy are on the rise. While smoking "brown sugar" heroin (morphine base) and cannabis remain India's principal means of ingesting

recreational drugs, intravenous drug use of licit opiate/psychotropic pharmaceuticals (LOPPS) diverted for abuse is rising in India, replacing, almost completely, “white” heroin. In parts of India where intravenous drug users (IDUs) have been denied access to LOPPS, IDUs have turned to injecting “brown sugar” heroin. Drug users in Mumbai have discovered that injecting “brown sugar” heroin is much cheaper than “chasing,” leading to an explosion of “brown sugar” heroin IDUs in Mumbai. Various licitly produced psychotropic drugs and opiate painkillers, cough medicines, and codeine are just some of the substances that have emerged as new drugs of choice.

III. Country Actions Against Drugs in 2005

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, since unrealistic minimum sentences in the prior law discouraged magistrates from returning convictions. From January 2005 through October 31, 2005, 8,544 people were prosecuted, resulting in 3,817 convictions. The total number of prosecutions/convictions may be larger when the complete 2005 statistics become available. In certain cases involving repeat offenders, who are dealing in commercial quantities of illegal drugs, the law allows for the death penalty. However, to date, no person has been given the death penalty for drug trafficking in India.

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 2005, Indian law enforcement authorities seized 620 kilograms of heroin in 2,833 cases. Indian law enforcement agencies also seized 778 kilograms of opium in 511 cases, 2,863 kilograms of hashish in 1,136 cases and 33 kilograms of morphine base in 79 cases. This is a significant quantity of seizures, placing India high on the list of countries with the largest seizures of opiates. Cocaine seizures, while small, have been increasing each year since 2003 (no figures available). Cocaine is available in India on the wealthy “party circuit,” particularly in Mumbai and New Delhi.

In a joint investigation by the DEA and NCB, a major international illicit pharmaceutical drug internet marketing organization, which operated in the United States, India, Costa Rica and Australia, was disrupted and dismantled in April 2005. A total of 23 individuals were arrested—18 in the United States and five in India. This organization distributed controlled pharmaceutical drugs via the Internet, including bulk ephedrine, a controlled precursor chemical, and ketamine (a veterinary pain killer, frequently abused in Asia). Internet websites used to distribute these pharmaceuticals were operated by multiple individuals located in the U.S. and throughout the world. The takedown of this drug organization resulted in the seizure of a large quantity of pharmaceutical drugs, including 108 kilograms of Indian ketamine seized in the U.S. The U.S. street value of the ketamine was estimated to be approximately \$1.62 million. The total amount of controlled and noncontrolled pharmaceutical drugs seized in the U.S. alone was 4 million dosage units. The amount of controlled pharmaceutical drugs seized in India was approximately 3.6 million dosage units. This drug organization had an estimated 100,000 Internet retail customers, of which approximately 80 percent were located in the

U.S. The total amount of money and property seized from this investigation was approximately \$3.5 million dollars in India and \$4 million in the United States.

In another Internet-related investigation in 2004/2005, DEA and India's NCB arrested three Indian nationals and one U.S. citizen for the illegal distribution of controlled pharmaceuticals. In addition to the arrests, a large quantity of controlled pharmaceuticals was seized, including Schedule II, III and IV controlled substance pharmaceuticals (U.S. designations). The investigation revealed that the pharmaceuticals were being ordered through a U.S. company that was operating an Internet online pharmacy. The arrest and break up of this illegal international pharmaceutical drug organization resulted in the seizure of 23,379 tablets of various controlled pharmaceuticals in India. The total amount of money seized from this investigation was approximately \$350,000 in India and \$400,000 in the United States.

From September to November 2005, Indian Customs seized five international mail packages that were found to contain a kilogram or more of Southwest Asian heroin destined for individuals in the United States. DEA New Delhi worked closely with Indian Customs and the NCB and conducted 3 international controlled deliveries of the seized heroin to the recipients in the United States. All three controlled deliveries were successful, leading to the arrest of five individuals in the United States. The related investigations continue, with efforts being made to identify co-conspirators in India and the United States.

These investigations are significant for a number of reasons. DEA New Delhi has seen an increase in the amount of heroin being smuggled into India from Afghanistan and Pakistan over the third and fourth quarters of 2005. In recent months, Indian Customs has arrested a number of West Africans flying from Kabul to New Delhi with heroin. In addition, the Indian Directorate of Revenue Intelligence (DRI) recently arrested three Nigerians and seized approximately 36 kilograms of heroin. Post-arrest statements indicated the 36 kilograms of heroin was of Afghan origin. This trend may continue, as the border between Pakistan and India is opening up to commerce and travel as cooperation between the two countries has increased. A contributing factor in the increase in seizures may be the result of Indian Customs' recent strategy to aggressively monitor and profile suspicious mail packages. The increased enforcement activities may also be a sign of Indian Customs' goal to be more proactive in drug law enforcement and its desire to widen the scope of its investigations to include international drug trafficking.

Recent intelligence provided by DHS Immigration and Customs Enforcement (ICE) indicates that during FY 2005, U.S. Customs seized 433 packages containing heroin that had been shipped to the United States from India. It should be noted that most of the individual packages contained 50 grams or less of heroin. Interestingly, there were no recorded DHS/ICE seizures of heroin packages from India during FY 2004.

In 2005, Indian Customs made 51 drug seizures in India including 3.5 kilograms of cocaine, 8.5 kilograms of heroin, 3,000 tablets of codeine sulphate, and 18 kilograms of hashish, destined for various international locations. Approximately 5.4 kilograms of heroin that was seized was intended for the United States.

Corruption. The Indian media regularly reports allegations of corruption against law enforcement personnel, elected politicians, and cabinet-level ministers of the GOI. The United States receives reports of narcotics-related corruption, but lacks the corroborating 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 developing 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 its methods for 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 for them to ensure that each farmer under their jurisdiction turns in the largest possible crop. India has signed, but has not yet ratified, the UN Convention Against Corruption.

Agreements and Treaties. India is a party to the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. Both an MLAT and extradition treaty are in force 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 a mountainous, isolated jungle that would require significant material and human resources to conduct crop eradication campaigns. 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 three 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 heroin from Southwest Asia (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 of the heroin, seized in South India and apparently destined for Sri Lanka, is of domestic origin). Trafficking groups operating in India fall into four categories: Most 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/Burmese border.

Indian-produced methaqualone (Mandrax) trafficking to Southern and Eastern Africa continues. Although South Africa has increased methaqualone production, and there is also significant production and trafficking from China, India is still believed to be among the world's largest clandestine methaqualone producers. Seizures of methaqualone, which is trafficked in both pill and bulk form, have varied significantly, from 1,614 kilograms in 2004 to 468 kilograms through October 2005. Cannabis smuggled from Nepal is mainly consumed within India, but some makes its way to western destinations. India is also increasingly emerging as a supplier of licit opiate/psychotropic pharmaceuticals (LOPPS), both organic and synthetic, to the Middle East, Pakistan, Bangladesh 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. Thousands of illegal "personal use" shipments are being intercepted in the mail system in the United States each year by Customs and Border Protection. These "personal use" quantity shipments are usually too small to garner much interest by themselves, and most appear to be the result of illegal Internet sales. Codeine-based cough remedies are a prominent example.

Domestic Programs (Demand Reduction). 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 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, and 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 IDU's. 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 is more expensive than what LOPPS usually cost.) 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 produce shorter periods of intoxication, users must inject them more often, leading to more opportunities to spread diseases associated with IDU, such as HIV/AIDS and hepatitis. It is not uncommon for IDUs to share needles and other drug paraphernalia with as many as eight to 15 people a day. 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, consisting of 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 ongoing 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. In the Indian context, the best efforts of an energetic government and NGO community are always in danger of being swamped by the simple scale of the problem.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States has a close and cooperative relationship with the GOI on counternarcotics issues. In September 2003, the United States and India signed Letter of Agreement (LOA) amendments providing for the State Department to make available drug assistance funding worth \$2.184 million for counternarcotics law enforcement. In 2004, another \$40,000 was added to the LOA. While some funds have already been spent, a share remains to be spent, and efforts continue to identify new activities. A separate grant of \$50,000 directly to NGO Navjyoti of the Delhi Police Foundation funded 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. This project was concluded in July 2005. Each year since 2003, and planned through 2007, the U.S. Coast Guard provides the Indian Coast Guard boarding officer training.

The Road Ahead. The GOI continues to tighten controls over licit opium cultivation. The NCB's move to the Ministry of Home Affairs in 2004 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 and 2005 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 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.

Nepal

I. Summary

Although Nepal is neither a significant producer of, nor a major transit route for, narcotic drugs, domestically-produced 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 500 kilograms at a time. Nepal's Maoist guerrillas are most likely involved in drug smuggling to finance their insurgency. NDCLEU reports that Maoists are known to have called upon farmers in certain areas to increase cannabis production and levy a 40 percent tax on cannabis production. 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 2005

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 is actively implementing a National Drug Abuse Control Plan (NDACP).

Legislative action on mutual legal assistance and witness protection, developed as part of the NDACP, remained stalled for a fourth 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 United Nations Office on Drugs and Crime assistance and is under the review of the Ministry of Law and Justice. Legislation on criminal conspiracy has not yet been drafted.

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, are 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 2004 and data through November 2005 indicate that destruction of cannabis plants continues to decline. In 2004, the Nepal Police arrested 45 foreigners on the basis of drug trafficking charges. From January-October 2005, police arrested 23 foreigner. In this same time period the NDCLEU reportedly seized 5,864 kilograms of cannabis—triple the amount of cannabis seized in all of 2004 (1,790 kilograms), and further reported the seizure of 64.8 kilograms of hashish and 1.6 kilograms of heroin at Kathmandu's Tribhuvan International Airport (TIA). No opium was seized in 2005. Seizures of heroin remained constant, and the absolute quantity (a total of approximately 7 kilograms) remained small. Most seizures of heroin and hashish in 2005 occurred along the Nepal-Indian border, within Kathmandu, or at Nepal's international airport as passengers departed Nepal. Seizures of illicit and licit, but illegally abused, pharmaceuticals were similar to 2004 levels.

Corruption. Nepal continues to have no laws specifically targeting public narcotics-related corruption by senior government officials, although both provisions in the Narcotics (Control) Drug Act of 1976 and Nepal's anticorruption legislation can readily be employed to prosecute any narcotics-related corruption. As a matter of government policy, Nepal neither encourages nor facilitates illicit production or distribution of narcotics or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

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 and the UN Convention against Corruption.

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 dual-use precursor chemicals.

Drug Flow/Transit. Narcotics seizures suggest that narcotics transit Nepal from India, Pakistan, and Afghanistan to other countries in the region and to Europe, the U.S. and Japan. 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 essentially 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 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

Pakistan is on the frontline of the war against drugs as a major transit country for opiates and hashish from neighboring Afghanistan. Increased law enforcement pressure in Afghanistan threatens to shift drug trafficking operations across the border. Aiming to return to poppy-free status, Pakistan saw a 58 percent decrease in opium poppy cultivation in 2005 to approximately 3,147 hectares, of which 2440 hectares were harvested. The Government of Pakistan (GOP) does not have any evidence of heroin labs in Pakistan, although DEA continues to receive unconfirmed reporting about the existence of a few small heroin-producing facilities in Pakistan. Estimates of the number of drug addicts in Pakistan range from three to five million. The GOP has announced it intends to develop a new Master Drug Control Plan for attacking recently emerged narcotics threats from both the supply and demand sides. GOP counternarcotics efforts are led by the Anti-Narcotics Force (ANF) under the Ministry of Narcotics Control, but also include several other law enforcement agencies and the Home Departments of Northwest Frontier Province (NWFP) and Balochistan Province. Counternarcotics cooperation between the GOP and the United States remains strong. U.S. assistance programs in counternarcotics and border security have strengthened the capacity of law enforcement agencies and have improved their access to remote areas where some of the drug trafficking takes place, evidenced by a nearly 61 percent increase in opium seizures in 2005. Pakistan is a party to the 1988 UN Drug Convention.

II. Status of Country

After seeing a steady increase in poppy cultivation from zero in 2001 to 7,571 hectares in 2004, Pakistan reversed the trend in 2005 by cutting cultivation in half. The GOP continues to strive to implement its commitment to return Pakistan to poppy-free status. Since the post-Taliban spike in poppy cultivation in Afghanistan, Pakistan's importance as a transit country of heroin, morphine, opium and hashish has increased, particularly as a conduit to Turkey, by land, and Iran, by land and sea. 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. To a very significant extent, when it comes to opiates, Pakistan is part of the massive Afghan opium production/refining "system". Relatively modest drug cultivation/production in Pakistan frequently means that financiers in Pakistan have judged circumstances in Afghanistan more favorable to investments there, as opposed to Pakistan. Financiers and organized trafficking groups generally operate where it is easiest to operate, and ignore national boundaries when making these decisions. A U.S.-funded Border Security Project, begun in 2002, has significantly improved GOP interdiction capacity on the porous 1500-mile western border, as evidenced by increased drug seizures in 2005. However, fragmented, decentralized drug trafficking organizations, equipped with high-tech communications capabilities, make successful drug investigations difficult.

The steady flow of drugs into Pakistan has fueled domestic addiction, especially in areas of poor economic opportunity and physical isolation. Although no accurate figure exists for the current number of drug addicts in Pakistan, estimates range from three to five million out of an approximate 162 million total population. A 2000 UNODC National Assessment on Drug Abuse estimated 500,000 chronic heroin abusers and identified a new trend of injecting narcotics, which has raised concerns about HIV/AIDS.

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 2005

Policy Initiatives. Taking into account the emergence of new narcotics threats, the GOP currently is revising its Master Drug Control Plan to identify prioritized strategies, agency responsibilities and funding requirements for attacking both drug supply and demand. The ANF is the lead counternarcotics agency in Pakistan. Other law enforcement agencies with counternarcotics mandates include the Frontier Corps (FC), the Coast Guards, the Maritime Security Agency, the Frontier Constabulary, the Rangers, Customs, the police, and the Airport Security Force. The GOP recently approved significant personnel expansions in both the ANF and FC Balochistan. The Coast Guards has created a counternarcotics cell within its headquarters to better coordinate and execute counternarcotics operations. Having been deemed “poppy-free” by the United Nations in 2001, the GOP aims to regain Pakistan’s poppy-free status through enforcement of a strict “no tolerance” policy for cultivation. Federal and provincial authorities continue to conduct antipoppy campaigns in both Balochistan and NWFP, delivering messages to local and tribal leaders that forced eradication, fines and arrests will take place if the ban on poppy is not observed.

The GOP has been actively engaged at the ministerial level in regional and international fora on counternarcotics, such as the Paris Pact, the Intergovernmental Technical Committee, the Quad, International Drug Enforcement Conferences (IDEC), Colombo Pact, Gulf Cooperation, Pak-India bilateral talks, CENTCOM’s Central and South Asia Counternarcotics Security Working Group, and U.S.-Afghanistan-Pakistan Counter Narcotics Working Group (CNWG). In such meetings, the GOP has expressed willingness to conduct “hammer-and-anvil” (military sweep/blocking force) border operations with Afghanistan and to establish mechanisms for exchanging real-time operational and long-term intelligence. The GOP claims such exchanges and joint operations have not been possible previously because the capacity to either block or sweep, as required, simply did not yet exist within the nascent Afghan Army.

Accomplishments. In 2005, Pakistan’s poppy cultivation levels decreased by 58 percent to about 3,147 hectares. This is largely attributed to a significant drop in cultivation in Balochistan from 3,067 hectares in 2004 to 278 hectares in 2005; GOP forces reported complete destruction of the Balochistan crop. Potential opium production decreased from 70 metric tons in 2004 to approximately 61 metric tons in 2005.

From January to December 2005, GOP security forces reported seizing 24.3 metric tons of heroin (including morphine-base), and 6.4 metric tons of opium, a 61 percent increase from 2.5 metric tons in 2004. In particular, ANF’s opium seizures increased from .677 metric tons to 3.7 metric tons, and FC’s opium seizures increased from .064 metric tons to 1.2 metric tons. Of the 90 metric tons of hashish seized by all GOP law enforcement agencies, the Coast Guard interdicted over 7.3 metric tons, more than the total number of CG hashish seizures for the last four years combined. Other drugs seized by ANF in 2005 include over 2438 kilograms of opium poppy straw, 38 kilograms of opium liquid, .683 kilogram of Pseudo-Ephedrine, 210,000 of Buprenorphine Injections, ecstasy tablets and other synthetic drugs.

From January to November 30, 2005, GOP authorities reported arresting 33,932 individuals on drug-related charges. As of November 30, 2005, the ANF had registered 437 narcotics cases in the GOP’s court system over the course of 2005, 387 of which were decided with an 89 percent conviction rate. The great majority of narcotics cases that go to trial are uncomplicated drug possession cases involving low-level couriers and straightforward evidence. The problematic cases tend to involve more influential, wealthier defendants. ANF continues to work appeals for seven long-running cases in the Pakistani legal system against major drug traffickers, including Munawar Hussain Manj, Sakhi Dost

Jan Notazai, Rehmat Shah Afridi, Tasnim Jalal Goraya, Haji Muhammad Iqbal Baig, Ashraf Rana and Muhammad Ayub Khan Afridi. 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 adding attorneys as part of its expansion. Following a DEA judicial seminar on conspiracy laws in October 2005, a Pakistani judge used the conspiracy principles to issue the first conviction of a drug trafficker, Malik Amir. Amir himself was not in direct possession of the narcotics drug.

Through November 30, 2005, the amount of drug traffickers' assets frozen stood at Rs. 238.5 million (about \$4 million) and Rs. 11.475 million (about \$193,000) in assets were forfeited.

The GOP's USG-supported Border Security Project continues to make progress in strengthening security along Pakistan's western border through: training to professionalize border forces; provision of vehicles and surveillance and communications equipment to enhance the effectiveness of patrolling of the remote border areas; and a Ministry of Interior Air Wing to enable border surveillance and interdictions. Since the arrival in May 2005 of two additional Huey II helicopters, the Air Wing's ten Huey IIs have executed 46 operational missions involving 112 aircraft sorties. These included an air assault on a suspected drug compound, poppy surveys, medevacs for personnel injured during FC operations, support for four FC border interdiction missions, and border reconnaissance. The three fixed-wing Cessna Caravans, equipped with FLIR surveillance equipment, executed 55 missions, including border surveillance, medevacs, and command and control support for large operations. Air Wing assets directly contributed to the seizure of 88 kilograms of morphine, 889 kilograms of opium, and 312 kilograms of hashish, as well as weapons and vehicles used by smugglers.

Law Enforcement Efforts. Although counternarcotics agencies in Pakistan generally need more resources, Prime Minister Shaukat Aziz made a significant decision in 2005 to approve 1,166 new positions in ANF (500 positions filled in 2005 and 666 which will be filled in 2006), and increase ANF's budget by 15.5 percent to cope with emerging narcotics challenges. The GOP also approved a 10,264 personnel increase in the Frontier Corps Balochistan to enhance the force on Pakistan's border with Afghanistan and Iran.

The U.S. has trained and equipped ANF's Special Investigative Cell (SIC), a vetted, 62-member unit that was established in 2000 to target major trafficking organizations. In 2005, the performance of the SIC continued to improve in intelligence collection and investigations. In particular, the SIC took the critical step of developing a joint High Value Target list with DEA to identify and dismantle the most significant drug trafficking organizations in the region. As of December 10, 2005, the SIC had arrested 101 persons, and conducted a number of joint operations with other national and international law enforcement agencies.

Corruption. As a matter of policy, neither the GOP nor any of its senior officials encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. However, with government salaries low and societal and government corruption endemic, narcotics-related corruption is likely to be associated with the movement of large quantities of narcotics and pre-cursor chemicals.

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 U.S. is providing counternarcotics and law enforcement assistance to Pakistan under a continued? Letter of Agreement (LOA) that provides for cooperation in the areas of border security, opium poppy eradication, narcotics law enforcement, and drug demand reduction. The U.S.-Pakistan extradition relationship is conducted under the terms of the 1931 U.S.-U.K. Extradition Treaty, which continued in force for Pakistan following its independence. Pakistan has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime and the UN Convention

Against Corruption. In November 2005, Pakistan and India concluded negotiations on a Memorandum of Understanding for counternarcotics cooperation that will be signed shortly.

Cultivation/Production. Through interagency ground monitoring and aerial surveys, the GOP and USG confirmed that Pakistan's cultivation levels decreased by 58 percent to about 3,147 hectares (278 in Balochistan, and 2,869 in NWFP) in 2005. Of the remaining cultivated crop, only 22.5 percent of the hectares were eradicated, leaving about 2,440 hectares to be harvested. Based on the GOP calculation of about 25 kilograms of opium produced per hectare, potential opium production was approximately 61 metric tons. Pakistan's overall decrease in poppy cultivation reflected in large part a 91 percent drop in cultivation in Balochistan. This may have been the result of aggressive GOP eradication campaigns that deterred poppy sowing, but the possibility that extremely heavy rains killed the crop cannot be ruled out. ANF informed the USG that it destroyed 100 percent of the crop this year in Balochistan with the assistance of the new recruits police force and arrested over 100 growers. Cultivation in the "nontraditional" areas in NWFP—Orakzai, Kurram, and North Waziristan—remained almost completely contained this year. (No estimates for South Waziristan are available due to ongoing counterterrorism operations.) The cultivation level in Kohistan reportedly dropped from 1,012 hectares in 2004 to 123 hectares in 2005; one theory for the decline is that people have stopped growing poppy in return for promises of government development programs. However, Pakistan saw increases in cultivation and poor eradication efforts in some easily accessible areas of NWFP, particularly in Charsadda and Peshawar Districts and Mohmand and Bajaur Agencies. The U.S. has constructed roads and provided alternative development assistance in Mohmand and Bajaur since 1989, but in 2005 suspended funding for its programs there until stricter enforcement efforts are seen. In the significant poppy-growing areas of Khyber Agency and Kala Dhaka, 1,488 hectares and 417 hectares of poppy were cultivated respectively. Poor eradication efforts in Kala Dhaka were the result of the inaccessibility of the areas of highest cultivation and the general lack of infrastructure and government presence. In Khyber, poor eradication efforts were attributed to a fear of disrupting community acquiescence to counterterrorism operations in the area and a lack of available security forces due to ongoing counterterrorism operations. Ground monitoring teams observed, particularly in Khyber, a trend of increasing cultivation within walled compounds to discourage eradication.

Drug Flow/Transit. Although no exact figure exists for the quantity of narcotics flowing across the Pak-Afghan border, estimates of opiates that came through Pakistan from Afghanistan in 2004 range from 78 metric tons to 280 metric tons. The GOP has expressed concern that as law enforcement efforts increase in Afghanistan, drug trafficking organizations (DTOs) and labs will shift across the border. Many of the groups already have cells throughout Pakistan, particularly in the rugged, remote terrain of Balochistan Province where law enforcement has little to no presence. DTOs in Pakistan remain fragmented and decentralized. Individuals involved in the drug trade are often "specialists" in one particular activity (such as processing, transportation, or money laundering), who can act as independent contractors for several different criminal organizations. 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. Couriers intercepted in Pakistan were en route to Africa, Nepal, India, Europe, Thailand, China, Bangladesh, Sri Lanka, and the Middle East (especially United Arab Emirates (UAE)). The ANF believes precursor chemicals are smuggled most likely through UAE, Central Asia, China and India, and that mislabeled containers of acetic anhydride form part of the cargo in the Afghan transit trade. Ecstasy, Buphrenophine and other psychotropics are smuggled from India, UAE and Europe for the local Pakistani market. The ANF has also seen Africans bringing cocaine into Pakistan.

Afghan opiates, being 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, Saudi Arabia 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. Drug convoys in Balochistan have become smaller, generally comprising two to three vehicles with well-armed guards and scouts for early warning, and often travel at night. Available evidence indicates that traffickers throughout the country are transporting smaller quantities of drugs through multiple carriers, both male and female, in an attempt to reduce the size of seizures and protect their investment; the seizures of 100-kilo shipments of several years ago have been replaced by seized shipments of 20-100 kilograms. Other methods of shipment include via hard-side luggage; strapped to the body and concealed from drug sniffing dogs with special sprays; the postal system; or inside legal objects (such as cell phone batteries). The ANF believes traffickers frequently change routes and concealment methods to avoid detection. It has also observed that West African traffickers are using more Central Asian, European and Pakistani nationals as “mules”.

Demand Reduction. The GOP and the UNODC are cooperating on a survey of drug abuse in Pakistan. The GOP views addicts as victims, not criminals. Despite the extensive work of a few NGOs and the establishment of two GOP model treatment and rehabilitation centers in Islamabad and Quetta, drug users have limited access to effective detox and rehabilitation services in Pakistan. In 2004 and 2005, ANF conducted a number of drug abuse awareness programs, including a series of UNODC- and USG-funded demand reduction workshops on raising awareness of district officials in the four provinces and the role of women in drug abuse. Religious leaders, who participated in a USG-funded drug prevention program, drafted two resolutions against drug use and cultivation that have been used in weekly sermons. The USG also funded the Malaysian NGO Pengasih to conduct three training courses for drug health care providers in Pakistan. Other programs include financial support of NGOs involved in treatment and rehabilitation of drug addicts; a study on drug addiction in women; creation of youth groups to prevent drug abuse through organized alternative activities; and media messages and information dissemination. The ANF plans to implement other projects to increase community participation in demand reduction and create mass awareness among youth, women, and transportation drivers. While the GOP has the political will to do more, it lacks the resources and an updated, comprehensive demand reduction strategy, which it plans to develop as part of its Master Drug Control Plan.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. counternarcotics policy objectives are to continue to help the GOP strengthen the security of its borders and coast against drug trafficking and terrorism; to expand regional cooperation; to encourage the GOP to eliminate poppy cultivation and inhibit any spread of cultivation; to increase GOP interdiction of opiates from Afghanistan and 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 among GOP agencies with counternarcotics responsibilities.

Bilateral Cooperation. Through the State Department-funded Counternarcotics Program and Border Security Project, the U.S. provides operational support, commodities, and training to ANF and other law enforcement agencies, as well as funding for demand reduction activities. Under the Border Security Project, the construction of 49 Frontier Corps outposts in Balochistan and NWFP was completed in 2005; work on the remaining six outposts in North Waziristan remains suspended due to the security situation there. Ongoing construction of over 360 kilometers of roads in the border areas of the FATA continues to open up remote areas to law enforcement. In 2005, the U.S. completed delivery of over 1500 vehicles, communications, and surveillance equipment to law enforcement agencies operating on the western border. The State Department has funded construction of over 465

kilometers of counternarcotics program roads (which allow forces to eradicate poppy, and facilitate farm-to-market access for legitimate crops), and supported the implementation of over 700 small schemes and alternative crops in Bajaur, Mohmand and Khyber Agencies. These alternative development programs will expand to Kala Dhaka and Kohistan in 2006. The U.S. 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. The U.S.-supported MOI Air Wing program provides significant benefits to counternarcotics efforts, while advancing counterterrorism objectives. The DEA provides operational assistance and advice to ANF's SIC, which continues to raise its investigative standards. The Department of Defense in 2005 began providing assistance to the Coast Guard to improve the GOP's counternarcotics capacity on the Makran Coast.

The Road Ahead. Even with improvements in air and ground mobility and communications capacity, the GOP continues to face an immense challenge in the coming year to interdict the increasing supply of drugs from Afghanistan. The U.S. will continue to assist the GOP in its efforts to conduct investigations that dismantle drug trafficking organizations, to build capacity to secure the western border and coast, to eliminate poppy, to increase convictions and asset forfeitures, and to reduce demand. Implementation of those strategies will require stronger GOP interagency cooperation, strict enforcement of the poppy ban and eradication, effective use of resources and training, development of drug intelligence, and regional cooperation and information sharing.

Sri Lanka

I. Summary

Drug use and trafficking in Sri Lanka remains a relatively minor problem. The Government of Sri Lanka (GSL) remains committed to targeting drug traffickers and implementing nation-wide demand reduction programs. In 2005, the U.S. government strengthened its relationship with Sri Lanka on counternarcotics issues by offering training and seminars for the Sri Lankan Police. After the 2002 ceasefire agreement between the GSL and the Liberation Tigers of Tamil Elam (LTTE), a comparatively relaxed security environment led to the opening of a new overland drug trafficking route. LTTE officials continue to police and monitor the route. Although Sri Lanka has signed the 1988 UN Drug Convention, Parliament had not enacted implementing legislation for the convention as of the end of 2005.

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, with problem drugs consisting of heroin, cannabis, and increasingly, ecstasy.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In 2005, the Police Narcotics Bureau (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, U.S.-sponsored training for criminal investigative techniques and management practices.

Sri Lanka continued to work with the South Asian Association for Regional Cooperation (SAARC) and the United Nations Office on 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, where countries can input, share, and review regional narcotics statistics. GSL officials maintain continuous contact with counterparts in India and Pakistan, countries of origin for the majority of drugs that enter Sri Lanka.

Law Enforcement Efforts. The PNB continued close inter-agency cooperation with the Customs Service, the Excise Department and other, nonnarcotics units of the Sri Lankan Police to curtail the illicit drug supply lines of local drug dealers and users. As a result of these efforts, GSL officials arrested 9,519 heroin dealers and 9,168 cannabis dealers from January to October of 2005. The largest heroin haul was 11.5 kilograms, valued locally at around \$402,500. The Sri Lanka Navy made the interdiction in Mannar, where an LTTE cadre was caught with the package of heroin. This year approximately 40 kilograms of heroin were confiscated in Mannar alone. Law enforcement officials did not make any ecstasy-related drug arrests this year.

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 suspected drug smugglers. During the year, the PNB began the process of establishing additional sub-stations to combat trafficking. The next two substations, at the international port in Colombo and the northwest coastal town of Mannar, will be operational shortly. Future substations 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 and continued through 2005. In June 2005, the PNB, along with police officers island-wide, began “Operation Clean-Up” to apprehend drug peddlers and users. All police stations and divisions are taking part in this effort. Police investigations determined that a sub-inspector of police has earned significant profit from his involvement with a gang of drug dealers. This officer has been suspended from the service, and a special police team is conducting an investigation into his conduct. In addition, investigations also continue in the case of two police constables caught smuggling cannabis. The GSL does not, as a matter of policy, encourage or facilitate the illicit production or distribution of any controlled substances or the laundering of proceeds from illegal drug transactions. There were no reports that any senior official engaged in such activity or encouragement thereof.

Agreements and Treaties. Sri Lanka is a party to the 1988 UN Drug Convention. The Attorney General’s Office is expected to submit a draft of the implementing legislation for the 1988 UN Convention to the Ministry of Justice and Judicial Reforms by year’s end. The Justice Minister is then slated to seek Cabinet approval and present the legislation as a bill to Parliament by the first quarter of 2006. 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. Cannabis is cultivated and used locally. There is little indication that this illicit drug is exported in great quantities. The majority of the production occurs in the southeast. PNB and Excise Department officials work together to locate and eradicate cannabis crops. PNB officials also sought to set up substations in order to limit trafficking through vulnerable regions.

Drug Flow/Transit. Some of the heroin entering Sri Lanka is solely for transshipment purposes. With the opening of the northwestern coastal waters after 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 southern coastal towns, from which they are transported onward by sea. Mannar is considered the primary port of entry for narcotics. The PNB is attempting to control the area better with the upcoming opening of a sub-station there. With no coast guard, however, Sri Lanka’s coast remains highly vulnerable to transshipment of heroin en route 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 northern and eastern 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 PNB instituted an annual drug awareness week in June 2005, with programs focused on school children as well as recent secondary school graduates. The PNB is making preparations to organize other drug awareness programs as well, including counseling to tsunami victims in the south and east of Sri Lanka. With the help of Police Divisions throughout the country, the PNB implemented a successful public awareness program at the village level about the adverse repercussions of narcotics use.

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, although bilateral efforts were hindered by funding cuts on the Sri Lankan side. 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 to implement a law enforcement development program with PNB. Over 200 police officers have participated in training seminars thus far. USG-trained Sri Lanka police replicated the seminars and scheduled training for colleagues of the original police trainees at training academies and stations throughout the island. In May of this year in Sri Lanka, the Colombo Plan sponsored a U.S.-funded South Asian regional conference for public health practitioners on the subject of drug recovery.

The Road Ahead. The U.S. government intends to maintain its commitment to aiding the Sri Lankan police as they attempt to adapt to the changing needs of the Sri Lankan people.

SOUTHEAST ASIA

Australia

I. Summary

Australia is a committed partner in international efforts to combat illicit drugs, and gives 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 2005 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 2005

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 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 its 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 inputs and precursor chemicals used in the creation of synthetic narcotics. The government is supporting private industry's attempt 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. On January 1, 2006 legislation tightening the access to pseudoephedrine on a national level will go into effect. In August 2005, the Australian Minister of Justice announced the implementation of the National Strategy to Prevent Diversion of Precursor Chemicals. The Australian government has committed \$4.1 million to prevent the diversion of legitimate chemicals like pseudoephedrine into the manufacture of illicit drugs.

Accomplishments. The Australian government continues to implement extensive multi-faceted programs to combat drug trafficking and use in Australia. Throughout 2005, 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. State Police

agencies continue to report increases in the number of clandestine methamphetamine labs seized throughout the country, along with the seizure of several large-scale MDMA labs. 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 August 2005, Australian law-enforcement seized 400 kilograms of pseudoephedrine in a shipment of ceramic products from Vietnam. In 2005, law enforcement officials successfully completed several high profile investigations targeting Vietnamese organized crime groups operating sophisticated hydroponic marijuana growth sites. 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 began in January 2005 and is on-going and scheduled to be completed in early 2006.

Law Enforcement Efforts. Australian law enforcement agencies continued their aggressive counternarcotics efforts in 2005. 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. In recent years, the AFP has restructured its liaison network, which has led to a slight reduction of officers and overseas posts, in order to better focus on transnational crime, including drug trafficking, terrorist activities and people smuggling. The AFP currently maintains more than 60 officers in 30 overseas liaison posts in 25 countries to assist in narcotics investigation. AFP 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.

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 protocols against migrant smuggling and trafficking in persons. Australia also is a party to the UN Convention Against Corruption.

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 (13,000 hectares) on the island of Tasmania. Although recent significant seizures of foreign produced methamphetamine have revealed a change in trafficking patterns, a large amount 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. There has been a steady increase in couriers transiting South Africa to convey cocaine into Australia.

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 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, accounting for more than 90 percent of Southeast Asian heroin. Even so, Burma has just a small share of worldwide heroin, given Afghanistan's exceptionally large opium/heroin production. Burma is also a primary source of amphetamine-type stimulants (ATS) in Asia. Annual production of opium has declined over the past ten years and is now at less than 20 percent of mid-1990 peak levels. In 2005, Burma produced an estimated 380 metric tons of opium, less than eight percent of the opium produced in Afghanistan. Burma's opium poppy is grown predominantly in the "Golden Triangle" border region of Shan State in areas near the borders of China, Laos, and Thailand that are controlled by former insurgent groups (less than one percent of Burma's poppy crop is grown outside of Shan State).

Cultivation by ethnic Wa hill tribesmen along the Chinese border accounts for 40 percent of Burma's total poppy crop, down from 55 percent in 2004. The decline in that area was accompanied by a resurgence in poppy cultivation in southern and eastern Shan State. Nonetheless, major Wa traffickers continue to operate with impunity and the government has been unable or unwilling to curb drug activities conducted by the United Wa State Political Leadership (UWSP) a criminal group controlling the United Wa State Army (UWSA), which is primarily responsible for criminal activities such as heroin/ATS production in Wa territories. The UWSA announced in June 2005 a total ban on poppy cultivation and opium production and trafficking, but UWSA noncompliance with that announced ban and involvement in methamphetamine production and trafficking remain serious concerns. In January 2005, the U.S. Attorney's Office for the Eastern District of New York unsealed federal indictments against seven UWSA leaders for conspiracy to possess, manufacture, or distribute heroin and methamphetamine.

During the 2005 drug certification process, the USG determined that Burma was one of only two countries in the world (the other was Venezuela) that had "failed demonstrably" to meet international counternarcotics obligations.

In addition to regular joint work with the Drug Enforcement Administration (DEA) and Australian Federal Police (AFP) on narcotics investigations, the Government of Burma (GOB) has increased law enforcement cooperation with Thai and Chinese authorities, particularly through renditions, deportations, and extraditions of wanted drug traffickers. Burma is a party to 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 that is now produced in Afghanistan. Eradication efforts and enforcement of poppy-free zones combined to depress cultivation levels from 2000 to 2004, especially in the Wa territory. A resurgence of cultivation in eastern and southern Shan State in 2005, however, where improved weather conditions and new cultivation practices increased opium production, led to a slight overall increase in cultivation and production in Burma. According to the UNODC, a persistent and strong demand in Asia for opiates and a falling supply in the Golden Triangle region led to a 22 percent increase in Burmese village-level opium prices, from \$153 per kilogram in 2004 to \$187 in 2005. Opium price increases, however, did little to alleviate the poverty of poppy farmers, who are among the most impoverished populations in Burma.

According to an annual U.S. opium yield estimate, in 2005 the total land area under poppy cultivation was 40,000 hectares (ha), an 11 percent increase over the previous year. Estimated opium production in Burma totaled approximately 380 metric tons in 2005, a 14 percent increase over 2004. A UNODC opium yield survey, using a different methodology, concluded that cultivation had actually declined 26 percent and production had declined 19 percent. Nonetheless, both surveys estimated a yield average of 9.2 kilograms/ha, well below the peak level of 15.6 kilograms/ha recorded in 1996. Both surveys also concluded that Burma had experienced a significant downward trend over the past decade, with poppy cultivation and opium production declining by roughly 80 percent.

Declining poppy cultivation over the last ten years has been matched by a sharp increase in the production and export of synthetic drugs. Burma plays a leading role in the regional traffic of ATS. Drug gangs, many of which are ethnic Chinese, 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 China and India.

According to GOB figures, during the first eleven months of 2005, ATS seizures totaled about 1.65 million tablets, a significant decrease from previous years. Authorities, however, seized over 280 kilograms of crystal methamphetamine (“Ice”). Aside from these important seizures, the government did not destroy any ATS labs in 2005 or take any other significant steps to stop ATS production and trafficking. The GOB has, however, stepped up its dialogue with law enforcement agencies and neighboring countries on the overall ATS problem.

Opium, heroin, and ATS are produced predominantly in the border regions of Shan State, areas controlled by former insurgent groups. Between 1989 and 1997, the Burmese government negotiated a series of individual cease-fire agreements, allowing each of several ethnically distinct 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. In June, the UWSA announced implementation of a long delayed ban on opium production and trafficking in Wa territory. The Wa tribal group, however, remain the country’s leading poppy growers and opium producers. According to many reports, the UWSP leadership facilitates the manufacture and trafficking of ATS pills in Wa territory, predominantly by ethnic Chinese criminal gangs. Although the government has not succeeded in convincing the UWSA to stop illicit drug production or trafficking, Burmese law enforcement entities stepped up pressure against Wa traffickers in 2005.

Burma has a small, but growing domestic drug abuse problem. UNODC estimated there are roughly 20,000 opium addicts in Shan State, the country’s largest poppy growing region. Surveys conducted by UNODC, among others, suggest that the overall drug addict population could be as high as 300,000, plus an additional 15,000 regular ATS users.

III. Country Actions Against Drugs in 2005

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 tied 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 declared 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, implemented a ban in June 2005. Despite substantial gains in reducing the cultivation of poppy, however, none of the regions is truly opium-free.

According to the 2005 U.S. opium yield estimate, poppy cultivation within Wa territories represents 40 percent of the total Burma crop, a decline from 55 percent in 2004, but there was a resurgence in cultivation in eastern and southern Shan State.

The most significant multilateral effort in support of Burma's counternarcotics efforts is the modest presence of the UNODC in northern Shan State. The UNODC's "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 2005 UWSA opium ban, 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. Major donors that have supported the Wa Project include the United States, Japan and Germany, while the UK and Australia have recently made additional contributions.

In 2003, the UNODC established a project in Wa and Kokang areas ("KOWI" project) aimed at supporting the humanitarian needs of farmers who have abandoned poppy cultivation and lost their primary source of income. The project's principal objective 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 World Food Program, the Food and Agricultural Organization, and NGOs—are coordinating activities under the KOWI umbrella to address basic human needs through the provision of food, health services, and education. The goal of these interventions, many of which commenced in 2004 and are scheduled to continue until the UN Development Program assumes oversight in 2008, is to ensure the recovery and development of communities through community-based initiatives. Japan and Italy were early donors to the UNODC's KOWI project. Australia, Germany, the European Commission, New Zealand, Sweden, Switzerland, and the United Kingdom provided support to the project's NGO partners. UNODC plans to phase out its participation by 2007. Japan has undertaken a substantial effort to help the GOB establish buckwheat as a cash crop for former poppy farmers in the Kokang and Mong Ko regions of northeastern Shan State.

The Government of Burma, under a 1993 Narcotic 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 2004 and, in support of a 2002 Control of Money Laundering Law, enacted in 2003 specific "Rules for Control of Money Laundering Law."

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, with UNODC support, of liaison offices on the Chinese and Thai borders over the past four years 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." According to the GOB, Thailand has contributed over \$1.6 million to support an opium crop substitution and infrastructure project in southeastern Shan State. 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 duties and taxes.

GOB law enforcement cooperation with Thai and Chinese authorities is also manifested through renditions, deportations, and extraditions of wanted drug traffickers. Among several important cases, Burmese authorities in January arrested trafficker Ma Shun-su, one of China's five most-wanted drug kingpins, and rendered him to China in connection with the seizure of 21 kilograms of heroin. Also in January, Burmese authorities took custody of Ko Naing Lin, whom Thailand had deported in connection with a 2004 seizure in Burma of 581 kilograms of heroin. In March, Burma took custody of two individuals from China who had been deported in connection with the same 2004 heroin

seizure. In July, Burma and Thailand signed an MOU to address such issues as the sharing of seized financial proceeds from transnational organized crime. In October, Burma and India, during a joint meeting of senior Home Ministry officials, agreed to increase cooperation against drug trafficking.

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, effectively under the control of the Ministry of Home Affairs, now coordinates 25 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. In 2005, CCDAC established two new counternarcotics task forces in Rangoon and Mandalay, complementing existing task forces in those two cities. The GOB also established an additional Financial Investigation Team (FIT), located in Mandalay, to serve as a clearinghouse for northern Burma. This new team, established with DEA and Australian Federal Police (AFP) assistance, complements an existing FIT in Rangoon.

In January, the U.S. Attorney’s Office for the Eastern District of New York unsealed federal indictments against seven UWSA leaders for conspiracy to possess, manufacture, or distribute heroin and methamphetamine. Among those indicted was Wei Hseuh-kang, whom the United States had previously indicted in 1993 and designated a Kingpin trafficker in 2000. The GOB has to date taken no direct action against any of the seven indicted UWSA leaders, although authorities have taken law enforcement action against other, lower ranking, members of the UWSA syndicate.

Narcotics Seizures. Summary statistics provided by Burmese drug officials indicate that during the first eleven months of 2005, Burmese police, army, and the Customs Service together seized approximately 1,000 kilograms of raw opium, 776 kilograms of heroin, 119 kilograms of marijuana, and just over 1.6 million methamphetamine tablets. Heroin seizures have more than doubled over the past three years. Opium, heroin and morphine seizures, however, account for just a fraction of Burma’s yearly potential opium production.

For the second year in a row, Burmese authorities made a massive heroin bust that disrupted international trafficking syndicates. In September, officials seized a major shipment of 496 kilograms of heroin in eastern Shan State and arrested 49 UWSA soldiers, including a brigade commander. The law enforcement operation, the first of its kind against UWSA assets, was the result of close cooperation with Chinese counternarcotics officials. Related investigations that led to additional seizures and arrests came about as a result of GOB cooperation with Laos and Thailand, as well as with the U.S. DEA.

In May, a joint operation among the GOB, DEA, and the Australian Federal Police (AFP) led to the seizure in Rangoon of 102 kilograms of ICE (crystal methamphetamine), disrupting a syndicate that had smuggled over 800 kilograms of ICE from Burma to markets in China, Malaysia, the Philippines, and the United States. Through November 2005, according to official statistics, Burma arrested 4,398 suspects on drug-related charges. The government’s counternarcotics task force in Lashio, northern Shan State dismantled two heroin refineries in 2005. The GOB eradicated 3,907 ha of opium poppy in 2005, a 28 percent increase from the previous year, but less than 10 percent of the entire poppy crop. Nonetheless, overall eradication accounts for over half of the reduction in areas under poppy cultivation since 2001.

Corruption. Burma signed the 2003 UN Convention Against Corruption on December 2, 2005. At year’s end, a government panel was reviewing domestic legislation and will recommend whether existing legislation can be amended to meet the Convention’s obligations, or if new legislation is required.

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 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. Authorities have not, however, charged any of these officials with drug-related offenses, and no Burma Army officer over the rank of full colonel has ever been prosecuted for drug offenses.

Government authorities, acting on the results on a joint investigation with DEA and AFP, closed the Myanmar Universal Bank (MUB) in 2005, including 38 branch offices throughout the country, and seized MUB assets of over \$18 million. Police arrested the bank Chairman, Tin Sein, and several of his associates and charged them for money laundering and drug trafficking offenses. The GOB, also acting on results of DEA and AFP information, revoked operating licenses for the Asia Wealth Bank and Mayflower Bank due to irregularities associated with money laundering.

Agreements and Treaties. Burma 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. 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. Burma is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

Cultivation and Production. According to the annual U.S. opium yield estimate, in 2005 the total land area under poppy cultivation was 40,000 hectares, an 11 percent increase from the previous year. Estimated opium production in Burma totaled approximately 380 metric tons in 2005, a 14 percent increase from 2004. A UNODC opium yield survey concluded that cultivation in 2005 had declined 26 percent from the previous year, and by over 70 percent since 1996. UNODC also determined that production had declined 16 percent, from 370 metric tons in 2004 to 312 metric tons in 2005. Despite a variance in 2005 results, both the U.S. estimate and the UNODC survey estimated a yield average of 9.2 kilograms/ha, well below the peak level of 15.6 kilograms/ha recorded in 1996. Both surveys also concluded that Burma had experienced a significant downward trend in poppy cultivation/opium production over the past decade, with both declining by roughly 80 percent.

Drug Flow/Transit. Most ATS and heroin in Burma are 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 UWSA, the ethnic Chinese Kokang, and the Shan State Army-South (SSA-S). Ethnic Chinese criminal gangs dominate the drug syndicates operating in these areas.

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 2005, 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. Traditionally, some farmers use opium as a painkiller and an antidepressant because they lack access to adequate health

facilities. There has been a growing shift away from opium smoking toward injecting heroin, a habit that is more addictive and that poses a greater public health risk. Deteriorating economic conditions will likely stifle substantial growth in overall drug consumption, but the trend toward injecting narcotics is a significant concern. The government maintains that there are only about 70,000 registered addicts in Burma, but surveys conducted by UNODC, among others, suggest that the addict population could be as high as 300,000. 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. These two baseline studies are the most recent reliable data available on the nexus between drug abuse and HIV/AIDS in Burma. There is also a growing HIV/AIDS epidemic, linked in part to intravenous drug use. According to a UNODC regional center, an estimated 26 to 30 percent of officially reported HIV cases are attributed to intravenous drug use, one of the highest rates in the world. 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, i.e., along Burma's northern and eastern borders.

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 data since 2002. Demand reduction programs and facilities are strictly limited, however. There are six major drug treatment centers under the Ministry of Health, 49 other smaller detox centers, and eight rehabilitation centers which, together, have reportedly provided treatment to about 55,000 addicts over the past decade. As a pilot model, in 2003 UNODC established community-based treatment in Northern Shan State as an alternative to official treatment centers. About 1,600 addicts have participated in this treatment over the past three years. Since 2004, an additional 6,900 addicts have sought medical treatment and support from UNODC-sponsored drop-in centers and outreach workers active throughout northeastern Shan State. 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. As a result of the 1988 suspension of direct USG counternarcotics assistance to Burma, the USG 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. In 2005, these joint investigations led to significant seizures, arrests, and convictions of drug traffickers and producers. The GOB regrettably did not provide sufficient cooperation for a 2005 joint opium yield survey. The U.S., therefore, conducted a unilateral yield estimate, primarily on the basis of comprehensive satellite imagery. The U.S. also supported an annual crop survey carried out by the UNODC that, using a different methodology to determine yields, corroborates U.S. conclusions that poppy cultivation and opium production in Burma have been declining for nearly a decade. The United States supported the UNODC's Wa project for several years as the largest international donor, contributing a total over \$8 million. In January 2005, following the unsealing of indictments against seven UWSA leaders, the United States reallocated unspent funds from the Wa project to UNODC projects outside of Wa territory. Bilateral counternarcotics projects are limited to a small, U.S.-financed crop substitution project in northern Shan State (Project Old Soldier). No U.S. counternarcotics funding directly benefits or passes through the GOB.

The Road Ahead. The Burmese government has in recent years made significant gains in reducing opium poppy cultivation and opium production and has cooperated with the 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 Burmese government 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 eliminate 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 facilitate the manufacture and distribution of ATS, primarily by ethnic Chinese drug gangs. The GOB must also close production labs and prevent the illicit import of precursor chemicals needed to produce synthetic drugs. The USG also urges the GOB to stem the troubling growth of a domestic market for the consumption of ATS.

Cambodia

I. Summary

The number of drug-related investigations, arrests and seizures in Cambodia continued to increase in 2005. This reflects a significant 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 policymaking and law enforcement bodies, the National Authority for Combating Drugs (NACD) and the Anti-Drug Department of the National Police, cooperate closely with DEA, regional counterparts, and the United Nations Office on Drugs and Crime (UNODC). Cambodia is a party to the 1988 UN Drug Convention.

II. Status of Country

Cambodia has experienced a significant increase in recent years in the amount of ATS transiting from the Golden Triangle. The UNODC estimates that as many as 100,000 methamphetamine tablets enter Cambodia each day. Many of these are consumed domestically, though some are also thought to be re-exported to Thailand and Vietnam. 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.

Cambodia is not a producer of opiates; however, it serves as a transit route for heroin from Burma and Laos to international drug markets such as Vietnam, mainland China, Taiwan, and Australia. Heroin and methamphetamine enter Cambodia primarily through Stung Treng, a northern province of Cambodia bordering Laos. Larger shipments of heroin, methamphetamine and marijuana exit Cambodia concealed in shipping containers, speedboats and ocean-going vessels. Smaller quantities are also smuggled through Phnom Penh International Airport concealed in small briefcases, shoes, and on the bodies of individual travelers. Cannabis cultivation continues despite a government campaign to eradicate it. There have been reports of continued military and/or police involvement in large-scale cultivations in remote areas. However, only small amounts of Cambodian cannabis reach the United States.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Cambodian law enforcement agencies suffer from limited resources, lack of training, and poor coordination. The 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. Although the project is currently slated to expire at the end of 2005, it is likely to be extended through August 2006. A successor project has been proposed to target drug-related crime, including transnational organized crime.

Accomplishments. During 2005, the NACD began to implement Cambodia's first 5-year national plan on narcotics control (2005-2010), which focused on demand reduction, supply reduction, drug law enforcement, and expansion of international cooperation. The NACD trained 814 policemen, gendarmes, customs officials, seaport officials, and border liaison officials in drug identification and

law enforcement. This training complements donor-provided training to increase local law enforcement capacity to test seized substances for use as evidence in criminal trials. In February 2005, the National Assembly ratified the 1961, 1971 and 1988 UN Drug Conventions. In 2005, the Cambodian government took decisive action to strengthen previously weak legal penalties for drug-related offenses. The new law drafted with help from the Anti-Drug Department of the National Police provides for a maximum penalty of \$1 million fine and life imprisonment for drug traffickers, and would allow proceeds from the sale of seized assets to be used towards law enforcement and drug awareness and prevention efforts. However, some observers worry that the law is too complex for the relatively weak Cambodian judiciary to use effectively.

Law Enforcement Efforts. In the first 11 months of 2005, 705 people (mostly Cambodians) were arrested for various drug-related offenses. This is an increase over arrests during this same period in 2004, which numbered 474. Total seizures of heroin in 2005 were 11.06 kilograms and 9 small dose packets, a five-fold increase over 2004 seizures, which totaled 2.15 kilograms. Police arrested 10 people in heroin-related cases in 2005, including a Singaporean man with 3 kilograms of heroin strapped to his legs at Phnom Penh International Airport.

While methamphetamine trafficking is believed to have increased in 2005, the number of methamphetamine pills confiscated was just one-third of 2004 levels. Police arrested 670 people in methamphetamine-related cases in 2005 and seized 293,245 methamphetamine pills. In May, police in Kampot province arrested two Stung Treng-based traffickers intending to smuggle over 100,000 amphetamine pills into Vietnam. In December, police arrested four men carrying 46,000 methamphetamine pills in Banteay Meanchey province as part of a Thai-based trafficking ring.

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.

An informal donor working group, including the US, is working closely with the government to produce a revised draft anticorruption law that meets international best practices. Observers expect that the National Assembly will pass this law in 2006. Cambodia is not a party to the UN Convention Against Corruption.

Agreements and Treaties. Cambodia is a party to the 1988 UN Drug Convention and the 1971 UN Convention on Psychotropic Substances, and has signed, but has not yet ratified the 1961 UN Single Convention and its 1972 Protocol, but is expected to do so in 2006. Cambodia is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and illegal manufacturing and trafficking in firearms.

Cultivation/Production. During 2005, 218 square meters of cannabis plantations were destroyed; 102.5 kilograms of dry cannabis were seized; and 13 people were arrested.

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. Enforcement of the border region with Laos on the Mekong River, which is permeated with islands and mangroves, is nearly impossible due to lack of boats and fuel among law enforcement forces. 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. Airports in Phnom Penh and Siem Reap suffer from lax customs and immigration controls. Some illegal narcotics are believed to transit these airports en route to foreign destinations.

Cambodia has several high-quality, improved-surface roads originating in Phnom Penh which have a limited reach toward remote interior regions of the country. The People's Republic of China has demonstrated its interest in increasing political influence and trade opportunities in Cambodia and all of South East Asia. To that end, the Chinese have spent millions of dollars towards this commitment and are currently constructing excellent new roads and bridges connecting the border regions with the main cities and rural areas in Cambodia. Once these roads are completed, high-speed transportation routes will facilitate even greater movement of drugs and supplies across the country.

Domestic Programs (Demand Reduction). 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. A UNODC treatment and rehabilitation project is expected to start providing services to addicts and increasing the capacity of health and human services to deal effectively with drug treatment issues in early 2006. This project will work with centers in Phnom Penh and in the provinces of Battambang, Koh Kong and Banteay Meanchey. Several local NGOs, including Friends, Punloeu Komar Kampuchea, Cambodian Children and Handicap Development (CCHDO), Goutte d' Eau, Cambodian Children Against Starvation Association (CCASVA) and Street Children Assistance for Development Program (SCADP), have taken active roles in helping to rehabilitate drug victims across the country.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. For the first time in Cambodia in over three decades, there has been relative political stability since the formation of coalition governments following national elections in 1998 and 2003. However, freedom of expression declined notably during 2005. An opposition party parliamentarian was sentenced to seven years in prison on questionable charges of fraud and forming an illegal army. A journalist and a trade union leader were arrested on charges of defamation and incitement for criticizing a controversial border treaty with Vietnam. Several other political activists fled the country after warrants were issued for their arrest.

Cambodia is also 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. One unique challenge which Cambodia faces is the loss of many of its best trained professionals in the Khmer Rouge Killing Fields incidents during, and after the Second Indo-China War. Performance in the area of law enforcement and administration of justice must be viewed in the context of Cambodia's profound underdevelopment. Even with the active support of the international community there will be continuing gaps in performance for the foreseeable future.

Bilateral Cooperation. U.S.-Cambodia bilateral counternarcotics cooperation is hampered by restrictions on 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 Bangkok-based DEA personnel, and Cambodian authorities cooperate actively with DEA, including the areas of joint operations and operational intelligence sharing. In September 2005, Bangkok-based DEA personnel conducted basic intelligence analysis training for law enforcement officials. DOD conducted Joint Interagency Task Force-West (JIATF-West) training missions in Battambang in August and October and in Stung Treng province in September. The three-week programs increased the ability of Cambodian police, military, and immigration officials to interdict transnational threats, including narcotics.

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. Instruction for mid-level Cambodia law enforcement officers at the International Law Enforcement Academy in Bangkok (ILEA) and for military, police, and immigration officers by JIATF-West has partially addressed Cambodia's dire training needs. However, after training these officers return to an environment of scarce resources and pervasive corruption.

As part of the JIATF-West program, Cambodian officials can be trained in land and maritime navigation and boat maintenance, but equipment to perform these tasks is often shoddy or completely lacking. The U.S. is unable to help provide this important equipment due to restrictions on U.S. military assistance related to Cambodia's trafficking in persons rating. However, 2006 will see an expansion in DEA training activities, as, for the first time in more than a decade, State Department counternarcotics funding will be available for training run via DEA headquarters. Training in basic investigation techniques is scheduled for January 2006 and a course on airport interdiction is planned for March 2006. The United States will try to assist Cambodia as Cambodia strives for better law enforcement performance and administration of justice.

China

I. Summary

The People's Republic of China (PRC) continues to have a significant domestic drug abuse problem. China is also an important transit route for opiates and ATS (Amphetamine Type Stimulants) moving through Asia. China was removed from the list of Major Drug Transit Countries in 2005 because there was no evidence drugs transiting China affected the U.S. to a significant extent. Heroin use persists, particularly in southwest China. There continues to be an upsurge in the consumption of synthetic drugs such as ecstasy (MDMA) and crystal methamphetamine, otherwise known as "ice". Chinese 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 the accomplishments of dedicated enforcement officials. China has made great strides to integrate regional and global counternarcotics efforts. China is a party to the 1988 UN Drug Convention.

Cooperation with U.S. counternarcotics officials continued to improve over the past year. The signing of a Memorandum of Intent in February 2005 between DEA and the MPS (Ministry of Public Security) Bureau of Narcotics Control yielded a higher level of cooperation. In 2005, 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

The major narcotics producing areas in Asia, Southeast Asia's "Golden Triangle" and Southwest Asia's "Golden Crescent", both border China. The "Golden Triangle" on China's southwestern border is a longstanding problem; Chinese officials now believe that the "Golden Crescent" is an increasing source of illicit drugs trafficked into western China, particularly Xinjiang Province. According to the Chinese 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 Chinese Government reports about 34,000 recent deaths from drug overdose, a significant increase from about 25,000 deaths as of the end of 2003.

China's well-documented economic growth and increasing societal openness over the last decade has dramatically increased the disposable income and leisure time of millions of young urban residents. This phenomenon has led to a rapid increase in drug abuse among the country's youth in large and mid-sized cities. Like large cities of relative affluence all over the world, Chinese cities have seen a significant rise in the urban culture of nightclubs and raves, and their attendant problems of drug abuse. These changes in China have increased abuse of recreational drugs, such as ecstasy and ATS. Officials have responded with several public awareness campaigns and increased enforcement, but abuse of synthetic drugs continues on an up-tick, as in the United States and Europe.

China has one of the largest chemical industries in the world. China is the world's largest producer of certain precursor chemicals, including acetic anhydride, potassium permanganate, piperonylmethylketone (PMK) and ephedra. China monitors all 22 of the chemicals listed in the 1988 UN Drug Convention. Chinese authorities report they seized over 160 tons of precursor chemicals and prevented a further 3,514 tons from leaving the country in 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 2005

Policy Initiatives. In June 2000, the PRC issued a “White Paper” on drugs that articulated China’s strategy for combating drug abuse and trafficking. The document covers all the major goals of the UN Convention, emphasizing education, rehabilitation, eradication, precursor chemical control and interdiction. It continues as the basic strategy for the PRC’s approach to drugs. In November 2005 China passed its first administrative law on precursor chemicals aimed at preventing the illicit use of precursor chemicals. This law represents the first action by the PRC to control domestic sale of precursor chemicals; previous laws and regulations focused solely on imports and exports. 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. The total narcotics budget, however, is significantly higher, because each province administers its own counternarcotics budget.

Accomplishments. China continued to cooperate with regional and international partners, including the U.S., to stem the flow of drugs. China has completely eradicated opium poppy cultivation and PRC authorities have increased efforts to destroy illicit drug laboratories within China’s borders.

Law Enforcement Efforts. The Chinese Government has increased its counternarcotics efforts through several highly publicized campaigns, including a nationwide “People’s War” on Narcotics campaign. The counternarcotics efforts at the national level and those at the provincial level have grown substantially, with increased training and exchange programs with other Asian law enforcement agencies. Some of their successes include: the April 2005 seizure of 26 kilograms of heroin in Xinjiang, the May 2005 seizure of 102 kilograms of methamphetamine in Yunnan, the June 2005 seizure of 41 kilograms of ketamine (a veterinary pain killer widely abused in Asia), in Sichuan, the September 2005, seizure of 1,010 kilograms of ketamine in Shandong and Guangdong and the November 2005 seizure of 110 kilograms of methamphetamine in Yunnan. Additionally, in September 2005, a joint investigation conducted by China, Laos, Thailand and Burma resulted in a combined seizure of 426 kilograms of heroin in Burma. The ringleader of this shipment was a Chinese national who was arrested in Laos and eventually deported to China. The case is an indication of China’s increased law enforcement co-operation with its neighbors.

In order to increase its effectiveness in law enforcement, the NNCC reorganized its enforcement operations, establishing separate heroin and amphetamine-type stimulants (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 address ATS enforcement.

U.S.-Chinese law enforcement cooperation continued to improve throughout 2005. 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. However, most corruption activities in the PRC involve abuse of power, embezzlement and misappropriation of funds, but payoffs to “look the other way” when questionable/illegal commercial activities occur, including drug smuggling, are clearly another major source of official corruption in China. Chinese

officials reported that in 2005 there were more than 32,000 people investigated for alleged corruption and that over half were found to be guilty.

While narcotics-related official corruption exists in China, it is seldom reported in the press. The MPS takes allegations of drug-related corruption seriously, launching investigations as appropriate. Most cases appear to have involved lower-level district and county officials. Although there is no substantive evidence indicating senior-level corruption in drug trafficking, the quantity of drugs trafficked within the PRC raises 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. Narcotics-related corruption does not appear to have adversely affected on-going law enforcement cases in which the U.S. is interested. China is engaged in an anticorruption dialogue with the United States through the Joint Liaison Working Group process. China ratified the UN Convention Against Corruption on January 13, 2006.

Agreements and Treaties. China actively cooperates with other countries to fight drug trafficking. In 2000, China and the United States signed a Mutual Legal Assistance Agreement (MLAA), which entered into force March 8, 2001. In February 2005 DEA and MPS Bureau of Narcotics Control signed a Memorandum of Intent on counternarcotics cooperation. China is a party to the 1988 UN Drug Convention, as well as to the 1961 UN Single Convention as amended by 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 control initiatives, "Operation Purple," "Operation Topaz," and "Operation Icebreaker." China strictly regulates the import and export of precursor chemicals, but chemical diversion from China has been a major problem, despite these efforts.

In October 2005 China hosted the Second International Congress of the "ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD)." More than 200 delegates from ASEAN law enforcement agencies and the UN Office of Drugs and Crime (UNODC) attended. 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 for Drugs and Crime (UNODC) demand reduction and crop substitution efforts in areas along China's southern borders. China regularly participates in counternarcotics education programs sponsored by the International Law Enforcement Academy (ILEA) in Bangkok, Thailand. The PRC actively participates in the annual International Drug Enforcement Conference (IDEC) and Regional Targeting Meetings, which boost regional law enforcement cooperation against drug trafficking. China has signed over 30 mutual legal assistance agreements with 24 countries, but the U.S. and China have been unable to agree on a narcotics cooperation agreement.

Cultivation/Production. The PRC has effectively eradicated the production of drug-related crops within China. Opium, coca and other drug crops are not produced in China in significant quantities. The PRC is a main cultivator of natural ephedra, which is used in the production of amphetamine. China is also one of the world's largest producers of synthetic ephedra, which is used for medicinal purposes but can be diverted for the production of methamphetamine. The Chinese Government tightly controls exports of this key input for ATS, but like other dual-use chemicals, China remains a significant source of chemicals diverted to illicit uses, some diversions to countries as far away from China as Europe.

The Chinese Government continues to make shutting down illicit drug laboratories a top priority. The MPS seized 198 drug processing laboratories between July and August 2004 (seeking update for 2005).

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 and infiltration in Yunnan and Guangdong Provinces has been especially pervasive; drugs also move along and back and forth between China’s border with the Democratic People’s Republic of (North) Korea. While China’s southern and southwestern provinces constitute the PRC’s primary drug flow and transit areas, Chinese authorities acknowledge that western China is experiencing significant problems as well. Drugs such as heroin, methamphetamine and ketamine are being smuggled into Xinjiang Province and then distributed throughout China.

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) and the NNCC have 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 25,000 counternarcotics posters in 2004. In 2004, 100,000 drug awareness pamphlets were distributed and 100,000 special action committees were formed to carry out drug control publicity and education activities. The NNCC, Ministry of Health and the State Food and Drug Administration jointly established 34 clinics in 10 provinces to provide treatment to heroin 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. The information shared by China is leading to progress in attacking drug-smuggling rings that have an impact on the U.S. and is yielding significant operational results.

Road Ahead. The most significant problem in bilateral counternarcotics cooperation remains the lack of progress toward concluding a bilateral Letter of Agreement (LOA) enabling the U.S. Government to extend counternarcotics assistance to China. Reaching agreement on the LOA is a major U.S. goal that, if achieved, would greatly increase counternarcotics cooperation between the two countries. While China has provided the DEA on a case-by-case basis with some 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 enforcement cooperation remains on track and is expected to continue to 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 (HKSAR) actively combats drug trafficking and abuse through legislation and law enforcement, preventive education and publicity, treatment and rehabilitation, as well as research and external cooperation. The 1988 UN Drug Convention, to which the People's Republic of China (PRC) is a party, also applies to Hong Kong.

II: Status of Hong Kong:

Hong Kong's position as a key port city in close proximity to the Golden Triangle 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. Some drug-traffickers continue to use Hong Kong as their financial base of operations, including investors involved in international drug trafficking activity who reside in Hong Kong.

Hong Kong law enforcement officials maintain very cooperative liaison relationships with their U.S. counterparts in the fight against drugs. According to HKSAR authorities, drugs seized in Hong Kong are smuggled 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 2005. According to the Hong Kong Central Registry of Drug Abuse (CRDA), in the first six months of 2005 the total number of drug abusers continued to fall to 8,833, a drop of 5.1 percent from 9,303 during the same period in 2004. Heroin was the most commonly abused drug, though the number of heroin abusers also dropped slightly from 2004. Also noted was a significant drop of 30 percent in ketamine abusers over the same period in 2004. However, the CRDA noted that both the number and proportion of drug abusers taking more than one drug was on the rise, as was the number of female drug abusers.

In 2005, the Hong Kong Government again gave a high priority to tackling psychotropic substance abuse. The Hong Kong Government has identified the continuing prevalence of psychotropic substance abuse and the growing trend of young people experimenting with drugs as their major area of concern in the battle against drug abuse and trafficking.

III. Actions Against Drugs in 2005:

Policy Initiatives. Although there were no major policy changes in 2004 and 2005, the Hong Kong Government continued to work with existing counternarcotics policies and strategies in drug-prevention efforts. Minor policy changes included updating lists of prescription medicines allowed for storage in local hospitals and nurseries as well as an expansion of the reporting network of the Central Registry of Drug Abuse to enable better monitoring of drug abuse in Hong Kong.

Law Enforcement Efforts. Hong Kong's law enforcement agencies, including 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 with significant results impacting on several regions including the United States. HKCED continued to aggressively combat drug trafficking in 2005 and carried out numerous significant drug seizures, including a record seizure of 87.5 kilograms of ketamine in March 2005.

Corruption. As a matter of government policy, the HKSAR 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.

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. In addition, the UN Convention Against Corruption, which the PRC ratified on January 13, 2006, is applicable to Hong Kong.

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 HKSAR 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. The Hong Kong drug trade is primarily dominated by the local Chinese population. Contrary to common belief, there is not a significant and direct connection between Hong Kong narcotics activity and Hong Kong triads at the wholesale level. Therefore, drug investigations are not focused on known triad societies, but rather on the particular trafficking syndicates or individuals involved. In 2005, the trafficking destined for mainland China by Southeast Asians became more prominent. As a result, seizures of ketamine have spiraled upwards; shipments of multi-kilo loads of ketamine have been intercepted.

Agreements and Treaties/International Cooperation. Hong Kong has "mutual legal assistance in criminal matters agreements" with the United States and many other countries. Hong Kong has also signed surrender of fugitive offenders agreements with 14 countries, including the U.S. Hong Kong also signed 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. Hong Kong's reversion to China in 1997, and particularly adjustment to the unique "one country, two systems" environment in which Hong Kong currently operates, caused Hong Kong's law enforcement and customs operations around the time of reversion (July 1997) to operate 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. The 1988 UN Drug Convention, 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention Against Psychotropic Substances are all applicable to Hong Kong.

Domestic Programs. The Hong Kong Government uses a “five-pronged” approach to confront domestic drug problems, covering legislation and law enforcement; preventive education and publicity; treatment and rehabilitation; research; and external co-operation. In 2005, 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. A counternarcotics publicity program, in collaboration with local radio, kicked off in April 2005. The program was designed to allow Hong Kong youth to share their experiences and knowledge publicly through the radio and internet. Additionally, a series of television programs focusing on drug abuse issues will be produced jointly with local Hong Kong T.V. for broadcast in 2006. The Hong Kong Government’s Narcotics Bureau also partners with youth organizations and 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. In June 2004, the Hong Kong Government formally opened the Drug Info Centre (DIC), funded by the Hong Kong Jockey Club. The DIC is the first exhibition center in Hong Kong dedicated to counternarcotics education. Since the DIC’s opening, it has received more than 45,000 visitors for various drug-prevention education activities. The Government also continued to commission nongovernment organizations to assist in educating primary and secondary school children. Since the opening in June 2004, a total of 127,300 students from 530 schools attended drug education programs sponsored by the Government.

The Hong Kong Government also continued to implement a comprehensive drug treatment and rehabilitation program in 2005. The Department of Health and the Social Welfare Department continued to operate seven residential drug treatment centers and five counseling centers for psychotropic substance abusers and the Department of Health continued its operation of a methadone treatment program. The Correctional Services Department continued to provide compulsory treatment for convicted persons with drug abuse problems.

Cultivation and Production. Hong Kong is not a producer of illicit drugs.

IV: U.S. Policy Initiatives and Programs.

Policy Initiatives. The U.S. Government and the HKSAR 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, even though its focus is on terrorism and weapons of mass destruction. Hong Kong is also an active participant in The International Law Enforcement Academy (ILEA) in Bangkok, Thailand. From 2003 to October 2005, Hong Kong Customs, Hong Kong Department of Health and the United States Drug Enforcement Administration launched a joint operation codenamed “Cold Remedy” to monitor the movement of precursor chemicals which are used in the production of methamphetamine and other drugs from Hong Kong to high-risk countries. The operation effectively decreased the frequency of these shipments and, through the high level of information exchange and timely international tracking, indicated strong cooperation between Hong Kong Government officials and their U.S. counterparts. To further strengthen international cooperation against trafficking of precursors used in the production of pseudoephedrine, Hong Kong secured an agreement with the U.S., Mexico and Panama to impose stringent controls on such shipments. Since the agreement’s implementation in April 2005, no shipment of such products to Mexico or any other high-risk countries has been detected.

The Road Ahead. The Hong Kong Government has proven to be a valuable partner in the fight against drug trafficking and abuse. Hong Kong law enforcement agencies, among the most effective in

the region, continue to cooperate closely with 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. Marijuana production for the domestic market is large, because marijuana is widely abused among Indonesia's large population. In addition, recent large seizures point to ecstasy production in Indonesia, as well. The Indonesian National Police (INP) has participated in several international donor-initiated training programs and continues 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 for training and equipment, 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, MDMA (ecstasy), 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. In recent years, there has been a significant increase in the domestic large scale (multi hundred kilogram quantities) production of methamphetamine and MDMA in Indonesia. Indonesian authorities report that the domestic production of methamphetamine and MDMA in Indonesia is controlled by Indonesian and Chinese syndicates, utilizing precursor chemical sources of supply in the PRC. However, the majority of MDMA is reported to be imported from the Netherlands. INP reports that marijuana is cultivated throughout Indonesia, especially the Aceh Province of Northern Sumatra, where large scale cultivation occurs. During 2005, INP identified 66 marijuana fields, destroying 160,211 marijuana plants, comprising a total of approximately 86.5 hectares, and seizing 20.9 tons of marijuana. The peace treaty signed in 2005 between GOI forces and Free Aceh Movement (GAM) rebels, has led to increased access and presence of INP throughout Northern Sumatra. Although cocaine seizures continue to occur in major Indonesian airports, the market for cocaine in Indonesia is very small. Cocaine seizures made by INP are believed to be associated with the transshipment of the drug to more lucrative markets, specifically Australia.

III. Country Actions Against Drugs in 2005

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.

Law Enforcement Efforts. The National Narcotics Board (BNN) continues to strive to improve interagency cooperation in drug enforcement, interdiction, and precursor control. In 2005, under the auspices of BNN, the USG sponsored Joint Interagency Counterdrug Operations Center (JIACDOC), supported by the Joint Interagency Task Force West, was opened in Jakarta, Indonesia. The JIACDOC is supported by an extensive IT infrastructure connecting the center to key provinces throughout

Indonesia. The mission of the JIACDOC is 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, for example, in November INP conducted a raid, dismantling the largest amphetamine type substance (ATS) manufacturing plant in Indonesian history, producing both crystal methamphetamine and MDMA at the time of the raid. 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. Work in the Indonesian Government to define the roles of these agencies, including the Navy and the INP Air and Sea police, continue so as to avoid duplication. For the moment however, no effective campaign can be mounted against possible trafficking by sea. Any attempt to check trafficking by sea will be very challenging, given the many islands that make up the Indonesian Archipelago. 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 the UN Convention Against Corruption.

Cultivation/Production. Indonesia produces enough marijuana for domestic consumption. This is no small amount, given that Indonesia's population is in excess of 220 million, and cannabis is the most widely abused drug. In recent years, Indonesia has experienced a significant increase in domestic production of MDMA and methamphetamine, but most of these two drugs available in Indonesia's larger cities are still imported.

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 laws against it, 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, but as long as official salaries remain very low, some officials will be tempted to accept bribes.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Indonesia and the United States maintain excellent law enforcement cooperation on narcotics cases. In 2005, DEA provided training in the areas of airport interdiction, mail/parcel interdiction and maritime/cross border counternarcotics operations. Indonesia continues to work closely with the DEA regional office in Singapore on narcotics investigations.

The Road Ahead. In 2006, the U.S. will assist the BNN and other counternarcotics agencies in further developing the Joint Interagency 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

Japan is not a significant producer of narcotics, but it is target country for traffickers in a wide variety of narcotics. Methamphetamine (“meth”) is Japan’s most widely abused drug. MDMA (ecstasy) is of growing concern in Japan; several large seizures occurred in 2004 and ecstasy is now readily available in Tokyo nightclubs. Heroin and cocaine are also available in Japan, but they are relatively unpopular. The Japanese legal system discourages proactive investigative techniques for pursuing drug traffickers; consequently, Japanese law enforcement is forced to be primarily reactive in their investigations. Despite legal and bureaucratic restrictions, Japanese law enforcement is emerging as a prominent partner with United States and international law enforcement agencies in pursuit of large-scale international drug trafficking organizations (DTOs). Furthermore, Japan has taken a leadership role within the Asia-Pacific region by hosting training and seminars. DEA Tokyo acts as an advisory, support and training resource to Japanese law enforcement agencies, and conducts joint multinational investigations with its Japanese partners. Japan is a party to the 1988 U N Drug Convention.

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, but there is no evidence of domestic clandestine manufacturing. GOJ authorities believe the majority of methamphetamine smuggled into Japan is refined and/or produced in the People’s Republic of China (PRC), North Korea, Taiwan, Indonesia and the Philippines. Recently, seizures of methamphetamine coming from the U.S. have been made at Japan’s international airports. Canada emerged as a significant source of methamphetamine and marijuana in 2004. Methamphetamine trafficking remains a significant source of income for Japanese organized crime. Approximately 80 percent of all drug arrests in Japan involve methamphetamine. The National Police Agency (NPA) estimates there are 600,000 methamphetamine addicts, and between one and three million casual users nationwide. Although not a producer of methamphetamine, Japan is one of the largest markets for methamphetamine in Asia. Government of Japan (GOJ) authorities unofficially estimate that between ten and twenty metric tons of this substance is trafficked annually into Japan.

III. Country Actions Against Drugs in 2005

Policy Initiatives. DEA Tokyo has worked closely with the GOJ to add synthetic drugs of abuse to Japan’s list of prohibited drugs. In 2005, the GOJ banned 5- MeO-DIPT (“foxy methoxy”) and Alpha-methyltryptamine (“AMT”). Since 2002, legislation has made illegal the possession, sale, and/or use of Benzylpiperazine (“BZP”), trifluoromethylphenylpiperazine (“TFMPP”), Psilocybin (“magic mushrooms”), Gamma Hydroxybutyrate (“GHB”), and 4- Methylthioamphetamine (“4-MTA”). Japanese officials are currently in the process of adding ketamine to the list of prohibited drugs.

Compared to past years, Japanese law enforcement has made greater attempts to be proactive in its approach to drug law enforcement.

Law Enforcement Efforts. Police counternarcotics efforts tend to focus on Japanese organized crime and foreigner operated DTOs, the main smugglers and distributors of drugs. In August 2004, DEA Tokyo initiated a joint investigation with NPA’s Drugs & Firearms Control Division, the Kanagawa Prefecture Police, and U.S. Naval Criminal Investigative Service (NCIS) to intercept multiple

packages containing MDMA ecstasy tablets mailed from Seattle to a U.S. military base in Japan. This resulted in the arrests of two U.S. nationals and the seizure of 50,000 tablets of MDMA, which was sourced to violators in Vancouver, Canada.

Despite restrictive and cumbersome laws against the proactive use of informants, undercover operations, and telephone intercepts, Japan's Ministry of Health, Labor and Welfare's Narcotics Control Department conducted an extensive undercover operation between January and July 2005 that resulted in the arrests of 60 local drug peddlers. Overall, drug-related arrests (January-June, 2005) increased 6.9 percent over the same time frame last year. Through September 2005, Japanese authorities have seized approximately 126 kilograms of methamphetamine, compared to the 612 kilograms seized in 2004.

The popularity of ecstasy continued to grow. It is readily available in Tokyo's nightclubs. Through September 2005, approximately 350,000 MDMA tablets were seized. MDMA seizures this year are on pace to exceed the 414,768 seized in 2004. Heroin imports from Southeast Asia remain low; only 32 grams of heroin and 1,579 grams of opium were seized through September 2005. Heroin, opium, and cannabis use continues to be significantly lower than that of other illegal drugs in the country. However, the growing number of arrests involving marijuana and hashish indicates the increasing popularity of these substances. Through September 2005, approximately 253 kilograms of marijuana and approximately 158 kilograms of hashish have been seized in Japan. Cocaine seizures remain low, with approximately 2.7 kilograms seized through September 2005. This amount is much lower than the anomalous 86 kilograms seized in 2004, and slightly higher than the 2.3 kilograms seized in 2003.

Corruption. As a matter of government policy, the GOJ does not encourage or facilitate the illicit production or distribution of narcotics, psychotropic drugs, controlled substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Japan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by its 1972 Protocol, 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. Japan has signed but has not yet ratified the UN Convention on Transnational Organized Crime and the UN Convention Against Corruption.

The U.S.-Japan Mutual Legal Assistance Treaty (MLAT) was signed in 2003 but is not yet in force. The MLAT will allow Japan's Ministry of Justice to share information and cooperate with the U.S. Department of Justice in connection with investigations, prosecutions and other proceedings in criminal matters.

Cultivation/Production. Although Japan is not a significant cultivator or manufacturer of controlled substances, it is a major producer of 60 types of dual-use precursor chemicals. For example, Japan is one of only a handful of countries that refine ephedrine, a chemical used to treat nasal/breathing problems. Ephedrine is also an essential ingredient in methamphetamine. DEA Tokyo works closely with its Japanese counterparts to monitor end users of dual use precursors.

Drug Flow/Transit. With few exceptions, all drugs illicitly trafficked into Japan are smuggled from overseas. According to the NPA Taiwan, China, the Philippines, Canada, the U.S. and North Korea are principal sources.

Domestic Programs (Demand Reduction). Drug treatment programs are small and generally run by private organizations. GOJ provides narcotics-related counseling focused on drug prevention and supports the rehabilitation of addicts at prefectural (regional) 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 the country, especially among junior and senior high school students. The Ministry of Health and Welfare, along with prefectural governments and private organizations,

continues to run national publicity campaigns and to promote drug education programs at the community level.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. goals and objectives include strengthening law enforcement cooperation related to controlled deliveries and drug-related money-laundering investigations, encouraging more demand reduction programs, encouraging effective use of existing anticrime legislation and available investigative tools against drug traffickers, and encouraging the effective use of government agencies responsible for financial transaction oversight.

The Road Ahead. DEA Tokyo will work closely with its Japanese counterparts to offer support in conducting investigations on international drug trafficking, money laundering, and other crimes. DEA will continue to pursue an aggressive education and information-sharing program with Japanese law enforcement agencies to foster knowledge of money laundering investigations, and their relationship to narcotics trafficking and terrorist financing.

Laos

I. Summary

In 2005, Laos enjoyed unprecedented success in its battle against opium, in no small part due to the determined efforts of the Government of Laos (GOL) supported by U.S. State Department counternarcotics funding. Crop control programs reduced poppy cultivation and production by an estimated 45 percent in just one year. Demand reduction programs reduced addiction by a claimed 30 percent of the known addict population. If successful alternative development is able to secure this victory, Laos could cease to be a major producer of opium in the near future. However, opium addiction is a persistent problem, decades in the making; claims of rapid success in treating addicts could prove to be short-lived. A 30 percent reduction in addict populations in a single year would be almost without precedent worldwide.

Unfortunately, just as Laos appears to be on the verge of a major triumph against opium, a new threat has appeared in the form of amphetamine type stimulants (ATS). The scourge of methamphetamine, locally known as “ya ba” (crazy medicine), is exploding among the nation’s youth, truck drivers, and commercial sex workers. A paucity of law enforcement resources, vulnerability to corruption, and the difficulty of controlling the nation’s long and remote borders will make it difficult for Laos to easily overcome this challenge. Focused demand reduction programs, more robust law enforcement, and better international cooperation will be necessary if Laos is not to become both a major ATS consumer and transit country. Laos is a party to the 1988 UN Drug Convention.

II. Status of Country

Laos was, until this year, the world’s third largest producer of illicit opium, but production has decreased to the point that it may no longer meet domestic demand (largely from traditional abusers among Laos’ Hill Tribes), and the nation’s days as a commercially significant producer of opium appear numbered. In contrast, Laos may be on the verge of becoming a major transit country for ATS and associated precursors.

Increasing prices may be discouraging some opium use even as it serves as a stimulus to production. According to the UNODC, opium prices rose 139 percent in 2005, to a new high of \$521 per kilogram, more than three times the 2002 price. USG survey results indicate that in some remote locations, prices may have been even higher during the year, based on the local specifics of supply and demand. According to the UNODC, the result of these higher prices was that overall opium production revenues declined by only 21 percent, to \$7.4 million, despite the precipitous drop in production.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Central to the GOL’s success in reducing poppy cultivation in 2005 was its determination to achieve the counternarcotics policy goal set forward in the Seventh Party Congress (2001), to free Laos of opium cultivation before the Eighth Party Congress convenes in early 2006. While this policy was not new, the GOL pursued it vigorously during the past year and this helped to bring Laos closer to its stated objective.

In late November 2005, Minister to the President’s Office and Chairman of the Lao National Commission for Drug Control and Supervision (LCDC) Soubanh Srithirath, pressed the provinces to renew their commitment to making Laos opium free before February of 2006. He reminded provincial leaders that they were accountable for the success or failure of the policy and that the central

government would monitor their performance. The GOL sought to implement this policy in several ways:

First, Laos undertook a nationwide program to promote “opium awareness,” focused on sixty-two districts where poppy cultivation has been or continues to be a serious problem. The campaign utilized local, law enforcement, and public health officials to educate suspected opium producing villages on Lao narcotics law, the hazards of addiction, and alternative development opportunities for those who stop producing. One of the key objectives of the campaign was to garner voluntary compliance and a written commitment from each of the target villages and cultivators that they would no longer plant poppy. The campaign also sought to assure that villagers understood the law and the potential legal consequences if they chose to violate it. As part of this campaign, officials attempted to confiscate poppy seed before cultivators could sow it, though the effectiveness of that effort was questionable.

Second, the GOL, with support from the US, UN and other international partners, continued to pursue a variety of alternative development programs. These included crop substitution, rice cultivation, road construction, building community infrastructure, installing clean water systems, opening livestock banks, establishing ecotourism venues, developing village health care, providing vocational training, and promoting literacy education, particularly among women. The bulk of the counternarcotics funds provided by donors to the GOL were committed to alternative development, as these initiatives provide the best long-term solution to the poverty that is the root cause of opium production.

Third, the GOL, again with substantial support from international donors including the USG, sought to bring about an end to opium addiction throughout the country. With the knowledge that it will be next to impossible to eliminate all poppy cultivation as long as there is a substantial domestic demand, LCDC conducted a conference in late November to identify those provinces that had achieved their addict detoxification targets, and to urge those which were lagging behind to redouble their efforts. Laos is in the process of implementing a pilot program that holds the promise of more cost effective detoxification, based in part on lessons learned from regional partners. Opium addiction is a persistent problem; however, and claims of rapid success could prove to be short-lived.

The GOL also sought to bring the growing scourge of ATS to the forefront of the public agenda. In a public speech in June 2005, Minister Soubanh openly addressed the problem of growing ATS abuse among the nation’s youth, citing statistics that showed methamphetamine use as high as 27 percent among students in some locations. Laos is considering revising its penal code and criminal procedures to meet the challenge of growing ATS abuse, with the assistance of several European partners.

The MOJ, in cooperation with UNODC and international partners, is drafting a new comprehensive drug control law to supplement the provisions of Article 135 (1990). The article is incomplete and does not provide a coherent legal framework for the control of narcotics and other substances listed in relevant UN conventions, to which it is a party, such as the 1961 Single Convention. A consequence of this is that Lao law does not always distinguish between illicit and licit medical use of some controlled drugs. The new draft legislation provides a more complete and methodical legal framework for drug enforcement, and includes provisions for enhanced cooperation against illicit transit. In addition, the GOL amended Article 135 in 2005 to include key provisions of the TOC agreement. Unfortunately, changes in the legal code are not always published in the press, and can remain unknown to government officials and the public alike.

Accomplishments. Poppy cultivation in Laos declined dramatically in 2005, and this success stands as an unqualified victory for Laos and its international partners, especially the U.S., in the battle against illicit narcotics, especially the U.S. According to USG figures, the area under cultivation declined from 10,000 hectares in 2004 to 5,500 hectares in 2005. This was a 45 percent reduction in cultivation in just one year. The UNODC survey conducted in 2005 indicated an even steeper decline, from 6,600 hectares in 2004 to approximately 1,800 in 2005, a 74 percent drop. The decline in opium production paralleled that in opium cultivation. The 2005 USG survey projected production of

approximately 28 metric tons, a 46 percent decline from last year's estimate of 49 tons. UNODC survey results showed a more rapid reduction, from 43 tons in 2004 to 14 tons in 2005, a 67 percent decline.

Law Enforcement Efforts. Despite some successes, Laos' law enforcement resources remain inadequate to meet the full range of challenges posed by illicit drugs. Thanks to international assistance, Laos can accurately estimate opium cultivation, production, and addiction, but currently does not possess the means to accurately assess the extent of production, transit, and distribution of ATS and its precursors. Production and transit costs for opium and ATS are low. Anecdotal evidence suggests that some traffickers formerly involved in opium may now be shifting to ATS because it is more mobile, a safer investment, the returns are faster, and the market is growing. There are reports that former heroin traffickers are moving into the hospitality industry, commercial forestry, other legitimate businesses, and money laundering.

Counter Narcotics Units (CNU), Laos' principle counternarcotics law enforcement assets, remain understaffed, insufficiently trained and poorly equipped to deal with the growing ATS challenge. USG and UNODC programs have mitigated training and equipment problems to some extent.

The increase in seizures of ATS near its borders and data indicating rapid growth in use provide what little insight there is into the ATS problem in Laos. Opium seizures during the first nine months of 2005 totaled 31.2 kilograms—roughly on pace with 2004's total of 43 kilograms and somewhat surprising considering the overall reduction in cultivation. Heroin seizures thru September stood at 22.76 kilograms, off pace from 2004, when 55 kilograms were interdicted. ATS seizures were also slightly slower, at 1,870,305 pills in nine months, compared to the first half 3,020,000 of 2004. Cannabis seizures, however, appeared to speed up, with 1.6 metric tons through September 2005 versus 1.8 metric tons for all of the last year. Lao authorities opened 130 drug related cases in 2005, resulting in several hundred arrests. These prosecutions were almost entirely of street pushers, and Laos has demonstrated a serious inability to investigate or develop cases against major traffickers without external assistance and in some cases significant international pressure. Laos relies primarily upon the regulatory agencies of producing states, such as China, to prevent illicit shipments of precursor chemicals into Laos, which currently does not have any domestic production capacity. The GOL did not report any precursor chemical seizures in 2005.

While UNODC noted that Lao law enforcement cooperation with neighboring countries was generally good in 2005, the USG found that bilateral cooperation with Laos had improved only slightly, and remained unsatisfactory. With the exception of the Customs Department, the GOL failed to make use of the opportunities for cooperation afforded by the DEA, which continued to provide law enforcement support to Lao agencies, but received very little feedback in return.

International Organizations (IOs) with experience in Laos have reported that the GOL does seize assets such as homes, plots of land, automobiles and jewelry for a variety of criminal offences including but not exclusively related to narcotics violations. The legal framework for and ultimate disposition of asset seizures is not clear, transparent, or public, and the proceeds from seizures may be used to supplement the budgets of state agencies.

Corruption. Corruption in the Lao PDR, long present in petty forms, may be rising among higher-ranking officials as the potential for graft income grows. Civil servants receive very little pay, and those able to use their positions to advantage, such as police and customs officials, can augment their salary through corruption, particularly in areas distant from central government oversight. Lao law explicitly prohibits corruption, and some officials have been removed and prosecuted for corrupt acts, including at least one senior official in 2005. The GOL has made fighting corruption a priority, and to demonstrate its commitment, participated along with the UNDP, the UNODC, and international donors in "International Anti-Corruption Day" on December 9, 2005. At this event, Deputy Prime Minister Mr. Asang Laoly said that in ratifying the United Nations Convention against Corruption

(UNCAC), the Lao government would join the global partnership to fight corruption. Unfortunately, the same weaknesses that undermine counternarcotics law enforcement and facilitate corruption make fighting the latter a daunting challenge. Laos has signed, but has not yet ratified, the UN Convention Against Corruption.

Agreements and Treaties. The USG supports Crop Control, Demand Reduction, and Law Enforcement programs under three annual Letters of Agreement (LOA) with the GOL. Laos is achieving or making an earnest effort to achieve the performance goals listed in the Crop Control and Demand Reduction LOAs, but is far from doing so with regard to the goals enumerated in the Law Enforcement LOA. Laos is a party to the 1988 UN Drug Convention, the 1962 UN Single Convention and the 1971 UN Convention on Psychotropic Substances. Laos is a party to the UN Convention against Transnational Organized Crime, and its three protocols. Laos has legal assistance agreements with China, Thailand, Vietnam, Cambodia, and Burma, and it signed an agreement for legal cooperation on drug trafficking with Indonesia in 2005. Laos provided the U.S. with some limited mutual legal assistance, in the form of drug samples and a small amount of data on arrests and seizures. Laos has extradition treaties with China, Thailand, Vietnam, and Cambodia (August 2005). The GOL has assisted in the arrest and extradition of individuals to some of those nations, and recently extradited a major trafficker to Burma.

Cultivation/Production. The USG 2005 estimate for poppy cultivation is 5,500 hectares, and about 69 percent of the crop is concentrated in Phongsaly, Houaphan, and Luang Namtha provinces in northern Laos. Though cultivation declined in the majority of districts in Phongsaly, the province, Laos' northernmost, still had the greatest concentration with an estimated 2,750 hectares. Oudomxai Province had the greatest decline in production, down 75 percent from 2004. USG methodology included imagery samples from satellites. With USG support, UNODC and the GOL conducted an opium yield survey in 2005. According to the survey report published in June 2005, poppy cultivation is in a range from 2,900 to 900 hectares, with a mean value of 1,800. The UNODC utilized a helicopter survey of 30 segments approximately 6 km. in diameter and the air corridor connecting them. Digital cameras recorded opium fields for later analysis. In addition, 21 teams conducted surveys with the headmen of 189 villages in eight provinces. According to the USG estimate, 2005 potential production is about 28 metric tons, while the UNODC/GOL figure is 14. Drought significantly affected production in 2005, with USG estimated yields ranging from 3 to 7 kilograms per hectare, and UNODC estimates at an average of 8 kilograms per hectare.

This reduction in cultivation and production is a significant milestone in the nation's opium elimination efforts. From a high of 42,130 hectares when U.S. funded crop control programs began in 1989, the current estimate is an 87 percent reduction, and for the UNODC survey, a 93 percent reduction from a high of 26,800 hectares in 1998. According to the USG survey, cultivation declined in all provinces where opium production has historically been a problem, and the fields that remain are becoming smaller, more remote, and better concealed.

The decrease in production is another significant milestone for Laos, a 93 percent reduction from the estimated 380 tons produced in 1989. UNODC survey results indicated that production has fallen to the point that most of the opium produced in Laos is for domestic consumption by the nation's addicts, rather than export, and that this would remain true even at the higher production levels given in the USG estimates. This conclusion is supported by the sharp increase between 2004 and 2005 in the price paid per kilograms to local opium producers, the consequence of reduced supply.

The USG has not received any verifiable reports on the production of ATS in Laos, but the paucity of law enforcement resources in remote regions makes it highly vulnerable to regional traffickers seeking new locations for clandestine labs. For example, in one province, 14 officers must police more than 16,000 square kilometers of rugged and inaccessible terrain. Based on seizures of illegal cannabis during 2005 in northeast Thai provinces, there may be significant and expanding "contract" cannabis

production, possibly financed by Thai traffickers in southern Laos. Complicating this problem is the continuing use of cannabis as a traditional food seasoning in some locations.

USG-supported crop control programs do not employ herbicides or any other form of forced eradication. Where crops are cut down, the cultivators themselves do the eradication as a condition of a written agreement between villages and the GOL not to produce opium.

Drug Flow/Transit. While it is not possible currently to get an accurate assessment of illicit drug distribution in Laos, addiction and use rates for opium and ATS respectively suggest that while distribution of the former may be in decline, the latter is increasing exponentially. Individuals or small-scale merchants perform the majority of street-level distribution, rather than large organized criminal gangs. There have been reports of some schoolteachers distributing ATS.

Opium distribution is limited, as users are generally addicts within a producing household or village. There is some opium distribution between villages, especially as remaining opium plots move into more remote and distant terrain less accessible to law enforcement agencies. Laos, despite the progress that it has made in reducing its addict population, continues to suffer from one of the highest opium addiction rates in the world. Laos's highly porous borders, dominated by the Mekong River and remote mountainous regions, are notoriously difficult to control and readily facilitate the trafficking of illicit drugs, although there are no reliable estimates of the volume of this flow. According to the UNODC, the growth in drug seizures near Laos' borders in neighboring countries may be evidence of an increasing transit problem. The flow includes methamphetamine, heroin, and precursor chemicals bound for other nations in the region, and ironically, the problem is likely to worsen as the transportation infrastructure in Laos improves. Illicit transit to the U.S. includes unrefined opium and local formulations of ATS, but not in sufficient quantities to have a significant effect.

Domestic Programs/Demand Reduction. The GOL has continued to build its drug treatment and counseling capacity, albeit with very limited resources. Opium education and detoxification is an integral part of the overall opium elimination campaign, and despite resource constraints, appears appropriately sized if austere for the addict population. Significant impediments to full treatment of all opium addicts include the ill health of many elderly users, the remote location of some addict populations, and the lack of sufficient rural health care infrastructure to displace the traditional medicinal use of opium, which often serves as the initial entree into addiction. In addition, the initial apparent success of detoxification often induces additional "hidden" addicts to come forward for treatment. Senior GOL leaders have expressed concern about growing ATS use among the nation's youth, and the GOL has initiated drug education and treatment programs to slow the growth in demand. With the assistance of the USG and Thailand, Laos currently has two major ATS treatment centers under construction, both of which will open before March of 2006. Others are being planned.

Demand reduction is Laos' best defense against ATS, and the GOL has instituted a number of programs to stem the demand, including drug awareness education and media campaigns. Unfortunately, the explosive growth in ATS is overwhelming the resources that the GOL and international donors have available to fight it. The GOL reported that ATS testing in some secondary schools showed an increase in use from 4 percent in 2003 to 27 percent in 2005, and anecdotal evidence suggests that many addicts are turning to crime as a means of supporting their addiction.

Laos' demand reduction efforts in 2005 produced mixed results, with significant reported gains against opium, but a worrying trend in the growth of ATS use. The GOL hopes to treat all opium addicts before the end of 2006, as significantly reducing opium addiction is critical to full elimination of cultivation. Laos had approximately 20,160 opium addicts as of May 2005, based on voluntary reports from villages, and set as an objective the treatment of 9,160 before year's end, 8,885 of whom were in the northernmost 11 provinces. As of November 2005, 6,112 of the addicts in the north had undergone treatment, approximately 69 percent of the target, and the GOL pressed provincial leaders to treat the remaining 31 percent as quickly as possible. This approach to stemming addiction is highly

questionable over the long term: the incentives to report someone treated and “cured” are simply too high. Worldwide, recidivism rates from “treated” opium/heroin addicts are on the order of 80 percent/90 percent.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. is Laos’ strategic partner in the battle against illegal drugs. Since 1989, the USG, through the State Department Narcotics Program (INL), has provided more than \$41 million to support GOL crop control, demand reduction, and law enforcement programs. Crop control funds support opium awareness campaigns, opium detoxification clinics, and the Lao-American Projects (LAP) in Phongsaly and Luang Prahbang Provinces. The LAPs utilize the alternative development programs described above in the Policy Initiatives section. The U.S.-Lao PDR Crop Control LOA prohibits the use of USG funds to support involuntary resettlement. Demand reduction funds provide support for ATS treatment centers, drug awareness programs, and data collection. Law enforcement funds support training and equipment purchases for CNUs and Customs. The USG also supports an array of counternarcotics programs through the UNODC.

The Road Ahead. Laos’ struggle against opium is in its endgame, but its fight against ATS is just beginning. To secure the victory over opium, robust alternative development must be sustained for the next 3 to 5 years. In many districts, villages have stopped cultivation or self eradicated with the promise of government support. If assistance is not soon forthcoming, these villages may revert to opium cultivation, and it will be much more difficult to persuade them to stop a second time. Detoxifying the remaining opium addicts, and offering them the best treatment possible is also essential, but claims of rapid success should be discounted given the very real problem of securing long-term success in defeating opiate addiction.

Laos does not have the law enforcement resources it needs to battle ATS, and it will have to rely on effective demand reduction to stem the tide of “Ya ba” sweeping the country. Programs that educate youth on the dangers of addiction, and treat those who succumb to addiction, should become the new focus for GOL counternarcotics efforts. Programs that train and equip law enforcement officers more effectively and improve the efficiency of the criminal justice system could help Laos to fight corruption, arrest major traffickers, secure its borders, interdict the flow of illicit drugs transiting the nation, and cooperate more effectively with international partners.

Malaysia

I. Summary

Malaysia is not a significant source country or transit point for U.S.-bound illegal drugs, though domestic abuse is on the rise and illicit labs located in Malaysia are increasing methamphetamine production. The Government of Malaysia (GOM) 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. The U.S. maintains active and successful programs for training Malaysian officials and police, and other regional counternarcotics officials. Malaysia is a party to the 1988 UN Drug Convention.

II. Status of Country

While Malaysian officials have expressed concern about rising rates of drug addiction in their own country, Malaysia is not a significant source country or 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 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 25,000 new drug addicts during the first ten months of 2005 through reporting from police, community organizations, and treatment centers, bringing the total since 1988 to about 286,000.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Malaysia continues a long-term effort launched in 2003 to reduce domestic drug use to negligible levels by 2015. Senior officials, including the Prime Minister, speak out strongly and frequently against drug abuse. The Prime Minister chairs the Cabinet Committee on Eradication of Drugs, composed of 20 government ministers. The National Anti-Drugs Agency (NADA) is the policy arm of Malaysia’s counternarcotics strategy, coordinating demand reduction efforts with various cabinet ministries. Malaysian law stipulates a mandatory death penalty for major drug traffickers, with harsh mandatory sentences also applied for possession and use of smaller quantities. Of the 234 criminal executions during the period 1980-2000, according to government statistics, 175 were for drug offenses.

Law Enforcement Efforts. Police arrested nearly 35,000 persons for drug-related offenses during the January to September 2005 period, a 35-percent increase from the same period in 2004. Enforcement officials also seized 105 kilograms of heroin, 647 kilograms of marijuana, 36 kilograms of methamphetamine, 4 kilograms of opium, 105,000 ecstasy pills, 695,000 psychotropic pills, and nearly 8,800 liters of codeine. Malaysian police and prosecutors are effective in arresting small-time drug offenders, and are examining ways to prosecute larger crime rings. The Malaysian government this year began to enforce a law that allows prosecution of the owners and operators of entertainment outlets—in addition to the patrons of such outlets—where drug abuse occurs. According to media reports, over 1,000 suspected traffickers were detained in 2005 under Malaysia’s “special preventive measures,” which allow for detention without trial of suspects who pose a threat to national security. In August 2005, Malaysian police raided a warehouse near the capital of Kuala Lumpur, seizing 156 kilograms of ketamine in bulk granular form, along with quantities of ketamine pills, eramin-5, methamphetamine, and various other chemicals and compounds. Fifteen people were arrested. The

ketamine, valued at \$2.7 million, was apparently in transit from Chennai, India, to Hong Kong, to Shenzhen, China.

Corruption. In an apparently isolated case, two junior narcotics police officers were arrested in November 2005 for selling ecstasy that they had seized in a raid. The government is likely to seek the death penalty for them. While Malaysian and foreign media organizations continued to highlight cases of government corruption in general, no senior officials were arrested for drug-related corruption in 2005. As a matter of government 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.

Agreements and Treaties. Malaysia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by its 1972 Protocol, and to the 1971 UN Convention Against Psychotropic Substances. Malaysia is also a party to the UN Convention Against Transnational Organized Crime. Malaysia has just signed an MLAT with Australia, and is a party to the multilateral ASEAN MLAT. The U.S.-Malaysia Extradition Treaty has been in effect since 1997, though no extradition has yet occurred under that treaty.

Drug Flow/Transit. Drugs transiting Malaysia do not appear to make a significant impact on the U.S. market. However, Malaysia's 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 into Kuala Lumpur International Airport for domestic use and distribution to Thailand, Singapore, and Australia. There is also at least some production of ATS in Malaysia, as evidenced by the take-down of a large methamphetamine lab in 2004 and the seizure of a substantial quantity of precursor chemicals awaiting use at that lab.

Domestic Programs (Demand Reduction). The NADA targets its demand reduction efforts toward youth, parents, students, teachers, and workers, with extensive efforts to engage schools, student leaders, parent-teacher associations, community leaders, religious institutions, and workplaces. Such programs continued during 2005. Government statistics indicate that 6,634 persons were undergoing treatment at Malaysia's 28 public rehabilitation facilities as of October 2005, a marked drop from last year's figure.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. counternarcotics training continued in 2005 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. In August 2005, U.S. officials from the Department of Justice, DEA and FBI presented a training workshop for Malaysian police and prosecutors on using their existing "Aiding and Abetting" laws to prosecute drug kingpins and their organizations.

The Road Ahead. United States goals and objectives for the year 2006 are to encourage the Malaysian government to use existing "Aiding and Abetting" laws more effectively against major drug traffickers; 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

I. Summary

Drug trafficking and abuse are not widespread in Mongolia, but continue to rise and draw the attention of the government. 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 initial five-year plan was completed in 2005, but the government has not yet decided on any changes for the next period. The National Council headed by the Chief of Police coordinates implementation of this program. The program is aimed at preventing drug addiction, drug related crimes, creating a legal basis for fighting drugs, implementing counternarcotics policy, and raising public awareness of the drug abuse issue. Mongolia is a party to the 1988 UN Drug Convention.

II. Status of Country

Mongolia's long unprotected borders with Russia and China are vulnerable to all types of illegal trade, including drug trafficking. Police believe most smuggled drugs come from China, and are carried by Mongolian citizens. Illegal migrants, mostly traveling from China through Mongolia to Russia and Europe, also sometimes transport and traffic in drugs. Police express particular concern that, if drug use in Mongolia continues to rise, organized crime involvement in the trade will grow beyond the current low levels. The government has made the protection of Mongolia's borders a priority. U.S.-sponsored projects to promote cooperation among security forces and training have provided some assistance. A lack of resources and technical capacity, along with corruption in the police forces and other parts of government, hinder Mongolia's ability to patrol its borders, detect illegal smuggling, and investigate transnational criminal cases.

III. Country Actions Against Drugs in 2005

Policy Initiatives/Law Enforcement. The Mongolian government and law-enforcement officials have increased their participation in international fora focused on crime and drug issues. Mongolia became a member of the Asia-Pacific Group on Money Laundering in 2004 and has committed to adhere to Financial Action Task Force (FATF) standards, while seeking participation and eventual membership in the FATF.

Drug Flow/Transit. Marijuana is the most widely used illegal drug. A small amount of marijuana is grown within the country, and appears to be consumed locally. Reports indicate that the availability and use of marijuana, heroin, cocaine, amphetamines, and over-the-counter drugs have increased. However, no reliable surveys exist of drug usage, nor is there any official database of drug convictions. The Mongolian government is alert to precursor chemical production and the potential for diversion. The government has closed some facilities, suspected of diverting chemicals, but foreign interest in securing precursor chemicals in Mongolia continues to surface.

Demand Reduction. Domestic, nongovernmental organizations work to fight drug addiction and the spread of narcotics abuse. 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.

Corruption. Mongolian internal corruption and related criminal activity 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. 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.

Agreements and Treaties. Mongolia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Mongolia also is a party to the UN Convention against Corruption. The government of Mongolia attempts to meet the goals and objectives of international initiatives on drugs. The United States and Mongolia have in force a customs mutual legal assistance agreement. During the year, Mongolia's Minister of Justice and Home Affairs visited Russia and discussed improved information exchange and cooperation on cross-border crime of all kinds, including narcotics.

IV. U.S. Policy Initiatives and Programs

U.S. government assistance has included international visitor programs on transnational crime and counternarcotics, as well as some training by U.S. law enforcement agencies.

North Korea

I. Summary

For decades, North Koreans have been apprehended trafficking in narcotics and engaging in other criminal behavior and illicit activity, including passing counterfeit U.S. currency and trading in copyrighted products. This year there were no public reports of specific incidents of narcotics trafficking with clear, demonstrable DPRK (Democratic People's Republic of Korea) links. However, given developments during 2005 that linked the DPRK to other forms of state-directed criminality, the Department reaffirms its view that it is likely, but not certain, that the North Korean government sponsors criminal activities, including narcotics production and trafficking, in order to earn foreign currency for the state and its leaders.

II. Status of Country

Substantial evidence exists that North Korean governmental entities and officials have laundered the proceeds of narcotics trafficking, counterfeit activities, and other illegal activities through a network of front companies, that use financial institutions overseas, for example in Macau, for their operations. On September 15, 2005, the U.S. Treasury Department designated Banco Delta Asia SARL in Macau as a "primary money laundering concern" under Section 311 of the U.S. Patriot Act, based on the finding that the bank represents an unacceptable risk of money laundering and other financial crimes. The U.S. Treasury Department noted that the bank "...has been a willing pawn for the North Korean Government to engage in corrupt financial activities through Macau." The Federal Register Notice on the designation cited "the involvement of North Korean Government agencies and front companies in a wide range of illegal activities, including drug trafficking and the counterfeiting of goods and currency" and specifically noted past arrests of North Koreans, including DPRK diplomats and officials, for narcotics trafficking and other criminal acts in twenty different countries since 1990.

In addition, indictments in the United States issued in 2005 and the ongoing work of several corporate investigative teams employed by the holders of major United States and foreign cigarette and pharmaceutical trademarks have provided compelling evidence of DPRK involvement in trademark violations carried out in league with criminal gangs around the world, including trafficking in counterfeit cigarettes and Viagra. The DPRK is also associated with production of high-quality counterfeit U.S. currency ("supernotes").

As reported in previous INCSRs, North Korean defectors and informants have long asserted 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 at the order of the regime. According to the article, the government engaged in drug trafficking to earn large sums of foreign currency unavailable to the regime through legal transactions. While this article and similar defector reports have not been verified by independent sources. Defector statements are consistent over the years and occur in the context of multiple narcotics seizures linked to North Korea and evidence of DPRK state entity involvement in other forms of criminality.

There were no seizures of methamphetamines in Japan during 2005 linked to North Korea. But 30 per cent to 40 per cent of methamphetamine seizures in Japan in past years have been linked to the DPRK. It is possible that methamphetamine manufactured in the DPRK is now identified as Chinese-source, because of the involvement of ethnic Chinese criminal elements working with the DPRK abroad, as well as within China, in the narcotics production/trafficking business.

The “Pong-Su” incident in Australia in April 2003 drew worldwide attention to the possibility of DPRK state trading of drugs. The “Pong Su”, a sea-going cargo vessel owned by a North Korean state enterprise, was seized after reportedly delivering a large quantity of pure heroin to accomplices on shore. The trial of the “Pong Su” captain and other senior officers, including a DPRK Political Secretary, began in late January 2005; a verdict is expected in early 2006.

III. Country Actions Against Drugs in 2005

DPRK officials have ascribed past instances of misconduct by North Korean officials to the individuals involved, and stated that these individuals would be punished in the DPRK for their crimes. A 2004 edition of the North Korean Book of Law contains the DPRK’s Narcotics Control Law. There is no information available concerning enforcement of this law or actions taken against North Korean officials and citizens involved in drug trafficking upon their return to North Korea.

IV. U.S. Policy Initiatives and Programs

The United States has made it clear to the DPRK that its involvement in a range of criminal and illicit activities, including narcotics trafficking, is unacceptable and must stop. The United States thoroughly investigates all allegations of criminal behavior impacting the United States by DPRK citizens and entities, prosecutes cases under U.S. jurisdiction to the fullest extent of the law, and urges other countries to do the same.

The Philippines

I. Summary

Philippine law enforcement agencies continued to target major traffickers and large clandestine drug labs. Official Philippine government arrest and seizure statistics reflect an overall decline in seizures, except in the case of diverted precursor chemicals, but this may reflect an effort by the Government of the Philippines (GRP) at providing more accurate statistical reporting to correct the inflated claims of previous years, rather than less success in counternarcotics efforts. The Philippine government continues to develop a dedicated counternarcotics capability in the Philippine Drug Enforcement Agency (PDEA), established by the GRP in 2002. Based on the quantity of seizures in 2005, the Philippines continues to be a producer of crystal methamphetamine. Evidence indicates some links between terrorist organizations and drug trafficking activities in the Philippines. Funding for the proposed priority programs identified by the 2005 GRP—U.S. Joint Law Enforcement Assessment of the Philippine National Police (PNP) could help address systemic problems within the Philippine National Police and implement a reform roadmap in which combined USG and GRP resources could improve counternarcotics programs and overall Philippine law enforcement capabilities in the next few years. 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. Dealers sell shabu in crystal form for smoking. No production or distribution exists 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 the vast majority of the Philippines’ clandestine methamphetamine labs using a network of ethnic Chinese who possess 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, and the U.S. (including Guam and Saipan).

The Philippines 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, and Taiwan.

MDMA commonly known as ecstasy, is gaining popularity as a 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 2005.

The Philippines has also seen a rise in the abuse and illicit conversion of ketamine hydrochloride (ketamine). Ketamine, generally used as an animal tranquilizer, was classified as a “dangerous drug” by the Philippine Dangerous Drugs Board on October 1, 2005, but several illegal ketamine laboratories were dismantled even before this reclassification.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Administration of President Gloria Macapagal Arroyo 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. The GRP has developed and is implementing a counternarcotics master plan, the National Anti-Drug Strategy (NADS), which is carried out by the National Anti-Drug Program of Action (NADPA). The NADPA contains provisions for counternarcotics law enforcement, drug treatment and prevention, and international cooperation in counternarcotics, all of which are objectives of the 1988 UN Drug Convention. However, GRP efforts in 2005 concentrated chiefly on law enforcement. The major developments in 2005 were counternarcotics policy changes, especially the classification of ketamine as a dangerous drug and the greater emphasis on precursor chemicals in counternarcotics strategy.

Law Enforcement Efforts. Counternarcotics law enforcement in the GRP is a high priority, but suffers from a lack of resources. Law enforcement efforts are considered to be effective within the confines of their inadequate funding; there were no significant changes. GRP law enforcement agencies continued to target major traffickers and large clandestine drug labs. In 2005, GRP officials claimed to have seized narcotics worth approximately \$85,323,555; arrested 15,268 people for drug related offenses; and ultimately filed criminal charges in 10,241 drug cases. These numbers are all down from previous years, though marijuana seizures have increased. Asset forfeiture is not yet a component of Philippine narcotics enforcement.

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 wiretapping as well as the consensual monitoring of conversations and interrogations 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 reducing sentences. Throughout 2005, Philippine authorities continued to link drug trafficking activities to terrorist organizations. The Abu Sayyaf Group (ASG), a U.S. and UN-designated Foreign Terrorist Organization operating in extreme southwest Philippines, runs a protection racket for foreign trafficking syndicates. According to government estimates, the Communist Party of the Philippines/New People's Army (CPP/NPA), also a U.S.-designated Foreign Terrorist Organization with a nationwide presence, 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.

The DEA Manila Country Office and Joint Inter-Agency Task Force-West (JIATF-W) are developing a network of Information Fusion Centers (IFCs) in the Philippines. The primary facility, the Maritime Drug Enforcement Coordination Center (MDECC), opened in July 2005 and is located at PDEA Headquarters in Metro Manila. Construction of a satellite center at the headquarters of the Naval Forces Western Mindanao, Zamboanga Del Sur (Southern Mindanao), was completed in October; a

second satellite center is being built at Poro Point, San Fernando (La Union), and is scheduled for completion in February 2006. Officers from the Philippine Navy, Coast Guard, PNP-Maritime Group, and the PDEA will staff the facilities. The purposes of the IFCs are to gather information about maritime drug trafficking and other forms of smuggling, and to provide actionable target information that the agencies at the IFCs can use to investigate and prosecute drug trafficking organizations.

Philippine authorities dismantled seven clandestine methamphetamine laboratories in 2005, down from 11 in 2004 and 2003. This decline may reflect a diversion of operational resources in the face of the GRP's new emphasis on ketamine. 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; 4) the lack of law enforcement expertise and statutory power to detect diverted precursor chemicals used in clandestine labs and prosecutions that are limited to finished product rather than the chemical inputs. GRP authorities seized a total of 104 kilograms of methamphetamine, with an estimated value of \$3,781,821, and 34,353 kilograms of ephedrine (including pseudo-ephedrine and chlorephedrine), essential precursors in the production of methamphetamine. GRP seizures of precursor chemicals were up significantly in 2005. Philippine authorities dismantled 4 clandestine ketamine labs in 2005, and seized 7.8 kilograms of ketamine hydrochloride, valued at \$709,545. According to PDEA, Philippine authorities arrested 15,268 people for drug related offenses, a decrease of 9,953 individuals from 2004. The decline reflects the GRP's continuing strategy, introduced in 2004, of concentrating on larger distributors rather than users and low-level dealers. GRP authorities filed criminal charges in 10,241 drug cases. PRC- and Taiwan-based traffickers remain the most influential foreign groups operating in the Philippines. According to PDEA, Philippine authorities arrested individuals associated with and/or disrupted the operations of 86 out of the estimated 181 local drug rings and syndicates.

Corruption. Corruption among the police, judiciary, and elected officials continues to be a significant impediment to Philippine law enforcement efforts. The GRP has criminalized public corruption in narcotics law enforcement through its Dangerous Drug Act (DDA), which clearly prohibits senior GRP officials from engaging in, encouraging, or facilitating the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug actions. There were no significant arrests or prosecutions under this law in 2005. There have been a few arrests of PNP and PDEA officers for dealing drugs and selling seized chemicals, both of which are also prohibited under the DDA. The USG has no evidence that any senior officials of the GRP engage in, encourage, or facilitate the illicit production or distribution of illegal narcotics, or participate in the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. The Philippines is a party to the 1988 UN Drug Convention, as well as to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol Amending the Single Convention. The Philippines is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. The U.S. and the GRP continue to cooperate in law enforcement matters through a bilateral extradition treaty and MLAT. The Philippines has signed, but has not yet ratified, the UN Convention Against Corruption.

Cultivation/Production. Authorities have identified at least 98 marijuana cultivation sites spread throughout the mountainous areas of nine different regions of the Philippines. In 2005, Philippine law enforcement agencies continued to cooperate with units from the Armed Forces of the Philippines (AFP) in launching marijuana eradication operations, some of which took place in territory controlled by armed insurgent groups. New focus on significant drug traffickers, rather than small-scale marijuana farmers, resulted in several large seizures, including 103,257 sticks of marijuana, a 32-fold increase over the previous year. Using manual techniques to eradicate marijuana, government entities

claim to have successfully uprooted and destroyed 8,570,099 plants and seedlings, more than triple the number from the previous year. They also confiscated 26 kilograms of seeds, five times the number seized in 2004. The seized and eradicated marijuana crop was valued by the GRP at \$31 million. It should be noted, however, that PDEA has no mechanism for confirming these numbers, since the crops are destroyed immediately upon seizure.

Drug Flow/Transit. The Philippines is a narcotics source and transshipment country. Illegal drugs enter the country through seaports, economic zones, and airports. With over 36,200 kilometers of coastline and 7,000 islands, the 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 multi-hundred kilogram quantities of methamphetamine and precursor chemicals. AFP and law enforcement marine interdiction efforts are hamstrung by deficits in equipment, training, and intelligence sharing. The Philippines is also a transshipment point for further export of crystal methamphetamine to Japan, Australia, Canada, Korea, and 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. There has been no notable increase or decrease in transshipment activities in 2005.

Domestic Programs. The Comprehensive Dangerous Drugs Act of 2002 includes provisions that mandate drug abuse education in schools, the establishment of provincial drug education centers, development of 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 2005 figures are not yet available, residential and outpatient rehabilitation centers reported 5,787 admission cases in 2004. Statistics from rehabilitation centers highlight the following: 1) the majority of patients are in the 20-29 age group; 2) 84 percent of the patients report methamphetamine is their drug of abuse; 3) a significant number of patients report abusing inhalants such as glue, and over-the-counter cough and cold preparations; 4) the ratio of male to female users is now 9:1 (compared to the reported 11:1 last year).

In its 2005 World Drug Report, the United Nations Office on Drugs and Crime (UNODC) estimated that 8.3 percent of the Philippine population abuses cannabis (marijuana) and amphetamine-type substances. The GRP's Dangerous Drug Board (DDB) conducted a detailed study in 2004 to determine the number of addicts or abusers involved in each drug category, but the results have never been released.

IV. U.S. Policy Initiatives and Programs

U.S. 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 control of drug and precursor chemicals.

Bilateral Cooperation. The U.S. tries to assist Philippine counternarcotics efforts with training, and has been discussing assistance to the police and justice sectors.

The Road Ahead. The USG plans to continue work with the GRP to promote law-enforcement institution building and encourage anti corruption mechanisms via our JIATF-West presence as well as ongoing programs funded by Department of State (INL and S/CT, and USAID). Strengthening the counternarcotics bilateral relationship serves the national interests of both nations.

Singapore

I. Summary

The Government of Singapore (GOS) has stringent counternarcotics policies and enforces them, including strict laws with the death penalty for trafficking. It also has effective counternarcotics education programs. Singapore is not a producer of precursor chemicals or narcotics, but with its major port and modern sophisticated service sector, it is an attractive target for 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 forums on drug control). Singapore is experiencing a decrease in narcotics trafficking and abuse, with the possible exception of synthetic drugs. According to GOS statistics, the number of drug abusers arrested decreased by 47 percent, while the number of new abusers arrested also decreased by 17 percent. Singapore is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2005, there was no known production of illicit narcotics or precursor chemicals in Singapore. While Singapore itself is not a known transit point for drugs or precursor chemicals, it is the busiest transshipment port in the world, and the volume of cargo passing through its port makes it likely that some illicit shipments of drugs and chemicals do pass through Singapore.

III. Country Actions Against Drugs in 2005

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. Singaporeans and permanent residents are subject to random drug tests. In addition, the Misuse of Drugs Act (MDA) gives the Central Narcotics Bureau (CNB) the authority to commit all drug abusers to drug rehabilitation centers for mandatory treatment and rehabilitation.

Law Enforcement Efforts. According to the most recent statistics available, arrests for drug-related offenses registered a sharp decline of 47 percent from 1,809 in 2003 to 955 in 2004. The number of persons detained for trafficking offenses and arrests for abuse and possession all declined. Arrests of heroin abusers fell by 80 percent, from 567 arrests in 2003 to 111 in 2004. The predominance of synthetic drugs is reflected in the composition of abusers arrested in 2004. Synthetic drugs include MDMA (ecstasy), methamphetamine and ketamine; together they accounted for 56 percent of abusers arrested. Singapore government statistics for 2004 show the composition of abusers by drug type is as follows: 32 percent ketamine; 20 percent nimetazepam; 13.1 percent methamphetamine; 12.3 percent marijuana; 11.6 percent heroine; 10.6 percent MDMA; and 0.4 percent cocaine.

In 2004, authorities executed 48 major operations during which they dismantled 24 drug syndicates. In September 2005, CNB made the largest ketamine seizure in Singapore history, yielding 3.24 kilograms. CNB seized 16,235 methamphetamine tablets ("Ya ba") in 2004, compared to 34,853 tablets seized in 2003. CNB seized 156,922 nimetazepam tablets in 2004, the largest amount seized since 1992 when nimetazepam became a controlled drug.

Corruption. The CNB is charged with the enforcement of Singapore's counternarcotics laws. The CNB and other elements of the government are effective and Singapore is widely recognized as one of the least corrupt countries in the world. Neither the government nor any senior government officials

engage in, encourage or facilitate the production or distribution of narcotics or other controlled substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Singapore 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. Singapore and the United States continue to cooperate in extradition matters under the 1931 U.S.-U.K. extradition treaty. A November 2000 Drug Destination Agreement (DDA) signed by Singapore and the United States continues to be an important mechanism for facilitating cooperation between the countries on drug cases. The agreement provides for cooperation in asset forfeiture and sharing of proceeds in narcotics cases. For instance, on October 7, 2005, the U.S. Marshals Service received \$104,023.88 from Standard Charter Bank in Singapore as part of a forfeiture order in a highly publicized case involving money laundering and conspiracy to import hashish into the United States in the late 1990's. The DDA also facilitates the exchange of banking and corporate information on drug money laundering suspects and targets. Singapore has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention Against Corruption. . In 2001, Singapore signed the Drug Designation Act (DDA) allowing for close cooperation with the United States on Drug and Money Laundering investigations.

Cultivation/Production. There was no known cultivation or production of narcotics in Singapore in 2004 or 2005.

Drug Flow/Transit. Singapore has the busiest (in tonnage) seaport in the world. Approximately 80 to 90 percent of the goods handled by its port are in transit or being transshipped, and do not enter Singapore's customs area. Due to the extraordinary volume of cargo shipped through the port, it is highly likely that some of that cargo contains illicit materials. Singapore does not require shipping lines to submit data on the contents of most transshipment or transit cargo unless there is a Singapore consignee to the transaction. The lack of such information makes enforcement a challenge. Customs authorities rely on intelligence to discover and interdict illegal shipments. 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 weapons of mass destruction-related goods, the controls introduce scrutiny on some transshipped cargo. In March 2004, 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 also is aimed at preventing WMD from entering the United States, the increased information and scrutiny could also aid drug interdiction efforts.

The CNB works with the DEA to closely track the import of modest amounts of precursor chemicals for legitimate 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, although, as noted above, data on transshipment and transit cargo are limited. Singapore notifies the country of final destination before exporting transshipped precursor chemicals.

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 mandatory and rigorous. The government may detain addicts for rehabilitation up to three years. In an effort to discourage drug use during travel abroad, CNB officers may 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 law. Three-time offenders face long mandatory sentences and caning. Depending on the amount of drugs carried, 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 improving law enforcement cooperation. In fiscal year 2005, approximately 33 GOS law enforcement officials attended training courses at the International Law Enforcement Academy (ILEA) in Bangkok on a variety of transnational crime topics. Singapore has provided some assistance in pending cases under the 2000 agreement. In October 2005, the Singaporean government transferred the first seized narcotics assets to the United States since the 2001 implementation of the DDA.

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 will help further bolster law enforcement cooperation. Improved communication on requests under the 2000 agreement should help improve cooperation as well.

South Korea

I. Summary

Narcotics production or abuse is not a major problem in the Republic of Korea (ROK). However, continuing reports indicate that an undetermined quantity of narcotics is smuggled through South Korea enroute to the United States and other countries. South Korea has become a 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 one of the region's largest ports, makes Korea an attractive location to divert illegal shipments coming from more countries, which might more likely attract a contraband inspection upon arrival. In response, the South Korean government has taken significant steps to thwart the transshipment of drugs through its territory. The ROK is a party to the 1988 UN Drug Convention.

II. Status of Country

Drugs available in the ROK include methamphetamine, heroin, cocaine, marijuana and club drugs such as LSD and ecstasy. Methamphetamine remains the drug of choice, while heroin and cocaine are only sporadically seen in the ROK. Club drugs such as ecstasy and LSD continue to grow in popularity among college students. No clandestine labs have been found in the ROK for over five years and it is believed that most of the LSD and ecstasy used in South Korea comes from North America or Europe.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In 2005 the ROK National Assembly approved amended legislation, which enhanced the control of certain precursor chemicals. Throughout 2005 the Korean Food and Drug Administration (KFDA) concentrated its efforts on implementing these controls. 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 allows for criminal sanctions. The lead agency for this initiative, KFDA, has extremely limited investigative and enforcement resources and is only able to assign a limited number of persons to monitor the precursor chemical program. Still, this important change in 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 diversion of dual-use 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 Korean law enforcement has increased its presence and implemented tighter screening procedures, including enhanced examination of persons, luggage, express mail, and cargo. To better manage the potential for diversion of precursor chemicals, the ROK created a precursor chemical program with greater power to punish offending companies. In 2005, no cargo containers routed through Korea were identified as carrying drugs or illegally-diverted precursor chemicals, although intelligence indicated that these items had successfully transshipped through ROK ports. However, in 2004, the U.S. DEA and the Korea Customs Service tracked two large transshipments of illicitly diverted precursor chemicals as they transshipped through ROK, resulting in seizures at the final destinations.

Law Enforcement Efforts. The DEA Seoul Country Office has focused its efforts on the seizure of funds related to illicit narcotics. DEA Seoul organized a one-week training session for members of the Korean National Policy Agency's narcotics units, the Korea Customs Service, the Korean National

Intelligence Service, the Korean Maritime Police and the Korean Supreme Prosecutor's Office on narcotics investigations at the Korean Police University. Additionally, U.S. Department of Justice prosecutors provided training on asset forfeiture, as it related to narcotics seizure, for 28 prosecutors and five senior prosecutor investigators from the Korean Supreme Prosecutors Office, and two members of the Korean Financial Intelligence Unit. The numbers of persons arrested in South Korea for use of psychotropic substances, mostly club drugs, decreased from 4,478 persons to 4,362 persons (a 2.5 percent decrease) while persons arrested for marijuana use fell from 940 to 852 (a 9.3 percent decrease). The overall arrest rate for drug offenders fell slightly from 6,529 arrests in 2004 to 5,942 arrests in 2005 (a 8.9 percent decrease). It should be noted that the figures for both years are based on the first ten months of the year. Total figures for 2005 were not available. The amount of ecstasy seizures decreased significantly from 20,385 tablets in 2004 to 9,795 tablets in 2005. Seizures of trafficked marijuana were down by one third, from about 16 kilograms in 2004 to approximately 10 kilograms in 2005. This is probably a result of high profile, stepped up customs procedures at the airports discouraging traffickers from moving drugs with human "mules". Heroin is generally not used by Koreans and cocaine is used only sporadically with no indication of its use increasing.

Corruption. Although isolated reports of official corruption continue to appear in the ROK's vigorous free press, there is no evidence that any official corruption adversely influenced narcotics law enforcement in the ROK. As a matter of government policy, the ROK 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.

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 the UN Convention against Corruption. Korean authorities exchange information with international counternarcotics agencies such as UNODC and INTERPOL, and have placed National Police and/or Customs Attaches in Thailand, Japan Hong Kong, China and the United States.

Cultivation/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 illicit marijuana growing areas during planting or harvesting time periods to limit possible illicit diversion. In 2004, a dramatic increase of 58,755 plants was seized by local authorities. However, in 2005, the number of plants seized was an extremely low 3,464. Marijuana production is heavily dependent on natural conditions. 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 such plants are grown illegally, since South Korea forbids the growing of poppies for any reason. Each year, each District Prosecutor's Office, in conjunction with local governments, conducts surveillance into suspected poppy growing areas during planting and harvesting. They seized approximately 34,926 plants during the first ten months of 2005.

Drug Flow/Transit. Few narcotics drugs originate in South Korea, and none are known to be exported. However, Korea does produce and export the precursor chemicals acetone, toluene and sulfuric acid. Most Koreans who attempt to smuggle methamphetamine into Korea travel 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. People living in metropolitan areas of Korea 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.

Narcotics transshipped through ROK come from Thailand, China, North Korea and Canada for heroin; Iran, Nigeria, and South Africa for marijuana and hashish; United States, Canada and Spain for ecstasy; and China, Thailand, the 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives and Programs. Embassy Seoul's DEA and Immigration and Customs Enforcement (ICE) officials work closely with Korea narcotics law enforcement authorities, and the DEA considers this working relationship to be excellent.

Bilateral Cooperation. The DEA in Seoul recently 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 Korean Supreme Prosecutor's office and the Korea Customs Service, which monitor airport and drug transshipment methods and trends, including the use of international mail by drug traffickers.

The Road Ahead. Korean authorities have expressed concern that the popularity of South Korea as a transshipment nexus may lead to a greater volume of drugs entering Korean markets. Korean authorities fear increased accessibility and lower prices could stimulate increased domestic drug use in the future.

Taiwan

I. Summary

Although there is little evidence to suggest that Taiwan is again becoming a transit/transshipment point for drugs bound for the U.S., Taiwan-based methamphetamine organizations continue to supply experts such as chemists and technicians to oversee large-scale methamphetamine laboratories and production in other countries in the East Asia/Pacific region. In 2005, no new counternarcotics legislation was passed by the Taiwan's Legislative Yuan. 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. 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, Thailand, Burma and the Philippines are the primary sources of drugs smuggled into Taiwan. Taiwan traffickers in Thailand and Burma continue to export heroin for distribution in Taiwan or onward to other international markets. Domestically, the use of crystal methamphetamine and club drugs such as MDMA and ketamine also continued to rise in 2005. Taiwan has become a consumer and importer of ketamine originating in India. Efforts to stem the flow of heroin and other drugs from Taiwan to the U.S. have been successful in large part because of enhanced coast guard and customs inspections, airport interdiction and intelligence sharing. However, several Taiwan-based organizations continue to have a direct impact on the United States, specifically by shipping precursor chemicals and drugs to the U.S. and Canada. Taiwan is also believed to be a transshipment point for drug flows to Japan.

III. Actions Against Drugs in 2005

Policy Initiatives. Taiwan's Legislative Yuan (LY) did not enact any new narcotics control legislation in 2005. Legislation that would permit the use of confidential sources and undercover operations continues to languish in committee, a victim of partisan politics and gridlock in the LY that has stalled other initiatives. A proposal to create a single narcotics control agency modeled after the U.S. DEA is still discussion by various Taiwan law enforcement organizations and has yet to be acted on.

Accomplishments. One of the highlights of counternarcotics cooperation in 2005 has been the continued receipt of drug samples by DEA from drug seizures made by Taiwan law enforcement agencies for DEA's Drug Signature Program. There was a significant increase in the number of drug samples DEA received from various Taiwan law enforcement agencies in 2005, including the first samples of MDMA (ecstasy) and methamphetamine. In early 2005, Taiwan authorities conducted their second controlled delivery operation resulting in the successful seizure of approximately seven kilograms of heroin and delivering a major setback to a distribution network in central Taiwan.

Law Enforcement Efforts. The Ministry of Justice, Investigation Bureau (MJIB) continues to lead Taiwan's drug enforcement efforts with respect to manpower, budgetary and legislative responsibilities. However, the National Police Administration's Criminal Investigation Bureau (NPA/CIB), Foreign Affairs Police Brigade, Aviation Police Bureau, Military Police Command, Coast Guard Administration (CGA) and Customs all contributed to the counternarcotics effort in 2005. For instance, in 2004 MJIB, in conjunction with the DEA, began an investigation into precursor chemicals

being sent to the United States for the production of drugs. At present, Taiwan is assisting the DEA in an investigation concerning the seizure of over 40,000 kilograms of potassium permanganate in route to Colombia and Mexico that would have been used to process cocaine. MJIB CIB and GGA also continue to share information and coordinate investigative activities with DEA.

From January through November 2005, Taiwan authorities seized 480.17 kilograms of methamphetamine, 2,406.56 kilograms of semi-processed amphetamine, 77.69 kilograms of heroin, 27.02 kilograms of MDMA (ecstasy), 186.79 kilograms of ketamine, 396 grams of Tablet ecstasy and 4.28 kilograms of marijuana. Authorities also reported the seizure of 6182.20 kilograms of precursor chemicals used in the production and processing of synthetic drugs.

Corruption. There is no indication that either the Taiwan authorities or senior officials in Taiwan, as a matter of policy, 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 2005, but some level of corruption would be expected with the scale of drug trafficking occurring in Taiwan.

Agreements and Treaties. In 1992, AIT and its Taiwan counterpart, TECRO, signed a Memorandum of Understanding on Counternarcotics Cooperation in Criminal Prosecutions, and in 2001, AIT and TECRO signed a Customs Mutual Legal Assistance Agreement. In March 2002, the AIT-TECRO Mutual Legal Assistance Agreement (MLAA) entered into force and remains the primary avenue for cooperation. All these agreements continue to govern and encourage narcotics cooperation between the U.S. and Taiwan.

Drug Flow/Transit. The PRC, North Korea, Thailand, Burma and the Philippines remain the principal sources for heroin, methamphetamine, and club drugs for Taiwan. Criminal syndicates continue to rely upon fishing boats, cargo containers and couriers to smuggle drugs into Taiwan. Taiwan is also believed to be a transshipment point for drugs going to Japan as well as precursor chemicals to mainland China.

Domestic Programs. The Ministry of Education and the Taiwan National Health Administration remain committed to partnerships with various civic and religious groups 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 2005, the DEA conducted several training seminars for Taiwan law enforcement agencies, focusing on undercover and controlled delivery operations, precursor chemical control, clandestine lab investigations and airport interdiction. The DEA also sponsored two Coast Guard Administration officers and a NPA/CIB agent to attend a drug intelligence training seminar in Quantico, Virginia. The various Taiwan law enforcement agencies 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 2005, MJIB, the Coast Guard Administration and NPA/CIB all 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.

The Road Ahead. AIT and DEA maintain an excellent working relationship with Taiwan's various counternarcotics agencies and will continue to enhance cooperation in the coming year. The DEA has provided precursor chemical control clandestine lab safety training to Taiwan counterparts with the intent of creating a Taiwan-wide clandestine lab investigative and response capability program. Additional training on undercover operations is planned in the event legislation authorizing the use of

such investigative techniques is passed by the LY. DEA will also continue to promote the Drug Signature program to receive more samples of drugs seized in Taiwan.

Thailand

I. Summary

Thailand remains one of the United States' foremost partners in combating drug trafficking and international crime. Thailand continued its regional leadership role by initiating a crop substitution advisory program with the government of Afghanistan. Thai-U.S. bilateral cooperation is exemplary and joint investigations are routinely conducted between Thai counternarcotics entities and the U.S. Drug Enforcement Administration (DEA). DEA and its predecessor agencies have successfully operated in Thailand since 1963. Thailand remains a transit nation for heroin, opium and methamphetamine enroute to international markets, but with no significant impact on the U.S. While most of the heroin produced in the Golden Triangle (where Burma, Laos and Thailand meet) now transits southern China, substantial amounts pass through the porous north and northeast Thai borders with Burma and Laos enroute to world markets. Small amounts of opium enter Thailand from Laos, while trafficking of crystal methamphetamine (Ice) from Burma into Thailand increased in 2005, primarily in transit to regional markets but also to satisfy a limited, but growing, Thai demand.

Thailand is a victim of drug trafficking as much as it is a transit country/transshipment point, as use of methamphetamine tablets, locally known as "Ya Ba" (crazy drug), permeates Thai society. While the Government of Thailand's controversial 2003 campaign against "Ya Ba" has had lasting impact (the price of individual tablets still remains three times what it was in 2003), drug users have begun moving into other areas of abuse to include ketamine, ecstasy and marijuana. The Government of Thailand (RTG) admits that the drug situation in the country "has taken a turn for the worse," noting that drug use among Thai youth may be up by as much as 20 percent. The Thai Office of the Narcotics Control Board (ONCB) has expressed concern over the rise in use of both methamphetamine and heroin among teenagers in North Thailand, and claims that most drug suspects caught recently are new to drug abuse. The United States supports Thailand's efforts to aggressively continue its national drug control strategies, as well as RTG efforts to assist neighboring nations in drug control and drug abuse treatment programs. Thailand is a party to the 1988 UN Drug Convention.

II. Status of Country

The primary illicit drug threat to Thai society continues to be large quantities of methamphetamine tablets that are smuggled from jungle labs in Burma. Thailand is no longer a significant producer of opium or heroin, and no heroin laboratories have been found inside the country in many years, although rumors about such labs surface periodically. Cocaine, "Ice" (crystal methamphetamine), ecstasy, and ketamine (a veterinary pain killer) were not produced in Thailand during 2005, but rather trafficked through and into the country. Cultivation of opium poppy continues on a very small scale in hill tribe regions, and there is no solid evidence that large quantities of methamphetamine tablets or the crystallized "Ice" form of the drug are produced locally. Some marijuana is grown for local use, and Thai traffickers are said to pay farmers in neighboring Cambodia and Laos to grow marijuana for the Thai and regional markets.

Methamphetamine remains, by far, the most commonly used illicit drug in Thailand, although the Thai ONCB reports that arrests and seizures related to this drug continued to decline in 2005. This trend reflects the RTG's aggressive enforcement policies against methamphetamine over the past several years. Marijuana use continues throughout the country and the market for ecstasy is expanding although the high price limits its abuse to more affluent users. The cocaine market remains very limited—centered mostly in relatively wealthy foreign tourist and expatriate communities. Thailand is becoming a venue for illicit Internet drug sales direct to cities in the United States and worldwide.

Millions of tablets of prescription drugs are sold illegally each year. Criminal organizations that offer prescription drugs and steroids over the Internet are well-organized, closely-knit operations with direct access to drug wholesalers. The Thai government is also concerned about the increased use of ketamine as a substitute for methamphetamine. Seizures of Ice increased in 2005, although they remain small. The consensus view among U.S. and Thai law enforcement agencies is that most smuggled Ice was intended for export to regional markets. Thai or Chinese traffickers arrange large drug transactions out of Burma. International traffickers, including Hong Kong Chinese, Taiwanese, and West Africans are responsible for controlling virtually all of the heroin and methamphetamine coming out of Thailand, while West Africans dominate the smuggling of cocaine into Thailand. Ecstasy is trafficked by a range of groups, some small and some based abroad. The northern Thai border with Burma has become an increasing challenge for traffickers, as police and military counternarcotics units have significantly increased their presence and interdiction activities. As a result, drug traffickers are increasingly transporting their product from Burmese production bases through Laos and even through Cambodia in order to attempt entry into northeast Thailand. Thai officials know that their borders with Laos and Cambodia are vulnerable and have shifted resources to meet the threat.

III. Country Actions Against Drugs in 2005

Policy Initiatives. There were no new policy initiatives in 2005, but Thailand aggressively pursued its law enforcement efforts against smuggling of illicit drugs across its land and river borders. It continued aggressive law enforcement actions against illicit drug distributors, and by far the largest category of arrests continued to be in connection with methamphetamine. The RTG continues to rely on its two effective counternarcotics agencies: the ONCB and the Royal Thai Police Narcotics Suppression Bureau (PNSB). The government also continued its policy of treatment as an alternative to incarceration for drug abusers. Drug treatment institutes and hospitals continue to implement and expand the UCLA-pioneered MATRIX treatment program as part of the national methamphetamine drug abuse treatment strategy. In 2005, Thailand hosted the UN Crime Congress.

Accomplishments. Thailand continued its effective and comprehensive crop substitution programs in northern Thailand that are key contributors to the nation's success in virtually eliminating the cultivation and production of opium. Under the personal leadership of the Thai Monarch since the late 1970's, cash crops such as coffee, tea, flowers, and fruits were steadily introduced as viable alternatives to opium poppy and have proven exceptionally successful. Local hill tribe farmers have come to rely almost completely upon the income generated by these high value crops, and their interest in opium poppy cultivation has subsequently waned. The sustained leadership of the Royal Projects and Mae Fah Luang foundations and the commitment of the RTG continue to provide a suitable standard of living for these former opium-growers. Their handicraft products and some of their crops are extensively marketed throughout the Kingdom and internationally, providing economic benefits to thousands of hill tribe people. The Royal Thai Army continued its aggressive crop eradication program that each year destroys an estimated 90-98 percent of the few small areas in northern Thailand where poppy is still grown. Army ranger teams, aided by intelligence gathered during aerial opium field surveys, destroyed numerous small patches of poppy before opium pods were ready for harvest. Occasional unconfirmed reports surfaced of small-scale repackaging laboratories in northern Thailand, where imported methamphetamine tablets are crushed, diluted with filler, then pressed into new tablets. No interdictions of this type of activity took place, however, in 2005.

The ONCB reports substantial seizures of property and liquid assets from drug-related cases during 2005. All figures show a steady, significant increase during the past 13 years, which is indicative of more effective, aggressive law enforcement activity by RTG agencies.

Demand Reduction. Thailand's approach to reducing the demand for illicit drugs encompasses a combination of stiff punishment for traffickers and an expanding program of treatment and rehabilitation for abusers. In the past two years, the Thai government has taken positive steps to substitute treatment programs for prison terms in instances where the individual concerned was clearly in possession of drugs for personal use and no distribution was intended. At the same time, the RTG continued its policy of stern punishments for violations of drug laws. Asserting that its strict policies have had beneficial results, Thai officials cite the current street price for methamphetamine—300 Baht per tablet compared to 100 Baht before the crackdown in 2003. The RTG also notes its success in interdicting, arresting and prosecuting drug traffickers.

Law Enforcement Efforts. The Police Narcotics Suppression Bureau (NSB), the ONCB and Royal Thai Police Regions 3 & 4, have together been developing a narcotics suppression strategy to be employed in northeastern Thailand. Part of this strategy entails the establishment of a highway interdiction program along the Friendship Highway, the main thoroughfare connecting Laos to Bangkok. ONCB reports frequent drug interdiction activity in 2005, with seizures of 889 kilograms of heroin, 13.4 million methamphetamine tablets (ya baa), 32,438 ecstasy tablets, 5,737 kilograms of opium, 9,997 kilograms of marijuana, 271 kilograms of Ice, 44 kilograms of ketamine, 2.6 kilograms of cocaine, 669 kilograms of codeine, and 107 kilograms of inhalant substances. Distribution of prescription drugs and steroids by small, well-organized groups using the Internet also grew. Thai authorities have cooperated with U.S. law enforcement agencies regarding this problem, but do not share the same sense of urgency because the steroids and drugs being shipped are not themselves illegal or controlled in Thailand and do not require prescriptions for possession or use. There are 200 persons on death row for drug trafficking offenses. A criminal court sentenced a well-known former singer to 50 years in jail for possession with intent to sell 3,000 ecstasy pills, 4 bottles of ketamine and 5 grams of marijuana. A Hong Kong man, in the company of the singer, pled guilty to the charges and received life imprisonment. A sting operation resulted in two other defendants being sentenced to life imprisonment for possession of 40,000 methamphetamine tablets with intent to sell.

In 2005, joint Thai-DEA investigations resulted in substantial seizures of heroin, methamphetamine tablets, Ice, marijuana, and drug money seizures equivalent to nearly \$500,000. Thai authorities unilaterally seized even greater quantities of drugs, money and other assets. United States law enforcement agencies continue to provide substantial training to Thai government officials, which further enhanced cooperation. One notable Thai-DEA enforcement action in 2005 resulted in seizure of 54 kilograms of heroin and 55 kilograms of Ice in a northern Thai border town and four arrests. Another investigation targeted a worldwide African trafficking organization that smuggles drugs into Europe, Thailand, and the U.S. and supplies fraudulent documents to other drug trafficking organizations. Thailand also cooperated with the U.S. to investigate Israeli drug traffickers and Colombian money launderers. Thai agencies conducted successful operations that kept large quantities of heroin and other illicit drugs from reaching international markets. Royal Thai Marine Police stopped the Hong Kong fishing trawler Yueng Shing in international waters, seizing 610 kilograms of heroin and 10,000 methamphetamine tablets and arrested five crewmen. Debriefings identified a foreign national as the intended buyer. Thai officials also seized multiple shipments of compressed marijuana totaling nearly 900 kilograms being shipped to South Thailand and Malaysia and Thai currency equivalent to \$50,000 during raids that were linked to the same nationwide crime network. In January 2005, the U.S. Attorney's Office for the Eastern District of New York unsealed federal indictments against eight United Wa State Army (UWSA) leaders for conspiracy to possess, manufacture, or distribute heroin and methamphetamine. These indictments were the product of a long-term initiative led by the DEA, with the cooperation of several branches of the Royal Thai Police.

Another policy that has encouraged more efficient interdiction efforts is a public rewards system that remains in place. ONCB has reserved a special fund to pay informants for tips that lead to the arrest/conviction of drug traffickers. To date, the fund has paid out more than 18.75 million Baht

(about \$457,320) to citizens who have supplied valuable information via a phone “hotline” in Bangkok.

Thai law enforcement authorities have begun to focus on ‘larger-picture’ money laundering investigations, to include international wire transfers and cooperation with foreign banks. Such initiatives greatly complement DEA’s desire to “follow the money.” Also of importance, Thai authorities in 2005 conducted a wiretap that produced intelligence used in the U.S. courts—the first such instance to be used in legal proceedings outside of Thailand. This significant instance of cooperation clearly demonstrates Thailand’s commitment to combating and overcoming international and transnational drug trafficking.

Corruption. As a matter of official policy, the RTG neither encourages nor facilitates illicit production or distribution of narcotic or psychotic drugs, or other controlled substances, or the laundering of proceeds from illegal transactions, nor does the RTG tolerate senior officials who engage any such activity. There is no evidence that any equipment made available by U.S. State Department assistance has been misused. Public corruption is nonetheless recognized by Thai society as a serious problem. Low public sector salaries, a cultural acquiescence in the culture of bribery, and a historical deference to elites combine to confound anticorruption efforts in Thai society. In 2005, the RTG continued its “war against corruption” that was announced by the Prime Minister in September 2004. Charges of malfeasance against the RTG’s main anticorruption organ, the 9-member National Counter Corruption Commission (NCCC), hampered this campaign. Following an extended period of public debate, the Thai Supreme Court ruled that members abused their authority by awarding themselves certain pay increases. Commission members subsequently resigned, adding to a growing backlog of investigations. Despite this setback, Thai authorities have pursued graft cases with some notable success. Two officers were dismissed from the police force after their arrest for possession of 2,000 methamphetamine tablets. The accused denied the charges, claiming they had the pills only for use in a reverse sting operation (which was apparently unknown to their superiors). Police investigators also undertook an investigation in this case of superiors for possible negligence of duty. Another arrest resulted in suspension from duty of a sergeant-major after his van was seized by Burmese authorities while allegedly being used to smuggle 10,000 methamphetamine pills into Thailand. Thirteen other Thai nationals were also arrested by the Burmese in this incident. In a third instance, a police disciplinary panel recommended the dismissal of 22 police officers from a northern Thai district station for alleged involvement in the drug trade. Despite often ample evidence of complicity, corrupt officials are rarely actually charged with criminal violations. Rather, they are reassigned or lose their official positions in high-profile cases.

Agreements and Treaties. Thailand 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. Thailand has signed, but has not yet ratified, the UN Convention Against Corruption and the UN Convention Against Transnational Organized Crime. Thailand scrupulously honors its 1992 extradition treaty with the United States and continued its policy of excellent cooperation in extraditing persons (including Thai citizens) to the U.S. to face illicit drug charges. Multiple extraditions occurred in 2004 but the number declined in 2005 due to fewer defendants eligible for extradition. In January 2005, one defendant was extradited for violations of conspiracy, distribution, importation, and possession of anabolic steroids (via the Internet). Several other extradition requests are pending for likely movement in 2006.

Cultivation and Production. Opium poppy has traditionally been cultivated in Mae Hong Son, Chiang Mai, Chiang Rai, Nan, and Phayao provinces of northern Thailand, the eastern Shan State of Burma, and in northwest Laos. Every year since 1999, the annual USG survey has found that harvestable opium poppy cultivation in Thailand has been less than the 1,000 hectares (about 2,500 acres) that is the statutory definition of a “major” source country for opium cultivation. Indeed, Thailand has for some time been a net importer of opium. The small quantities of opium that are

actually produced cannot support domestic needs in traditional opium smoking ethnic regions or sustain heroin production. Small pockets of local cultivation continue, usually by hill tribespersons attempting to supplement their meager incomes or to supply their own consumption needs. Marijuana has historically been cultivated across wide regions of northern and southern Thailand, and to a lesser extent in rural northern Thailand, but these crops are largely for local consumption. No significant developments or major marijuana growth were noted in 2005.

Drug Flow/Transit. Thailand remains a transit country for quantities of heroin and methamphetamine entering the international marketplace, including to a lesser extent the United States. Additionally, quantities of precursor and essential chemicals pass through Thailand en route to major international drug trafficking organizations in Burma. Much of the heroin leaving Thailand ends up in Taiwan, Australia and other countries. Several crime organizations ship heroin to New York, New Jersey, Chicago and other Midwestern cities, the Pacific Northwest and California, but not in quantities which have a significant impact on the U.S. market. International drug trafficking organizations also flood Thailand with methamphetamine tablets, and have more recently begun supplying Ice.

Multi-hundred-kilogram shipments of marijuana are seized each year in Thailand that are intended for export to Europe and the U.S. Most is of Lao origin, but some originates in Cambodia and Thailand. There has been some importation of cocaine into Thailand from South America (mostly Brazil, Peru and Bolivia) for local use or transshipment to Taiwan, Japan and elsewhere in Asia. Ecstasy trafficking in Thailand is small-scale, as higher prices restrict the market, though ecstasy use is increasing in the major cities of the country. Another illicit drug trend in Thailand is marketing of steroids and other pharmaceuticals. Within the past two years, crime organizations have begun selling pharmaceuticals over the Internet to U.S. buyers, reportedly in the millions of dosage units. International drug trafficking organizations also flood Thailand with methamphetamine tablets, and have more recently begun supplying crystal methamphetamine (“Ice”), most of which passes through Thailand to international markets.

Heroin and methamphetamine are increasingly entering the northeastern portion of the Kingdom from Laos, either via overland transit or by small boat across the Mekong River. Traffickers also cross the Mekong into Cambodia with cargoes of illicit drugs. Some quantities of methamphetamine and heroin are transshipped from Burma through Laos directly into Cambodia, completely by-passing northern Thailand. Some of these drugs then enter through Thailand through the lengthy, vulnerable borders with Cambodia. Heroin continues to depart Thailand for international markets in an assortment of routes and methods. In early 2005, four Kazakh men were arrested carrying 2.8 kilograms of heroin in their stomachs as they attempted to depart for an unspecified third country. Three Malaysian males were arrested as they attempted to smuggle heroin to Malaysia in condoms they had swallowed. Later in the year, six Taiwanese males were arrested in two separate incidents. In one, four were arrested after police found 8.4 kilograms of heroin in 24 parcels being transported in the back of their car in Chiang Rai Province’s Mae Sai District. The other two were found to be smuggling about one-third of a kilogram of heroin sewn into the shoulder pads of their suits; they were detained as they attempted to board a plane for Taipei.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In September 2005 the U.S. and Thailand signed a Letter of Agreement that provides \$2.58 million in cooperative assistance, including \$1.42 million for continued operation of the International Law Enforcement Training Academy (ILEA) in Bangkok which provides training to government officials and police officers from 20 regional countries. nonILEA dedicated funds from this agreement will be used to conduct a year long program of bilateral courses and seminars to benefit Thai law enforcement and government agencies, training visits by U.S. law enforcement professionals, and purchases of nonlethal equipment and other commodities to target illicit drug and organized crime

capacity. Training and seminars will include the following areas: Drug law enforcement; criminal justice sector development, utilizing the services of an Assistant U.S. Attorney currently on detail to the Embassy Bangkok NAS office; a grant to the American Bar Association's Asian Program office to conduct a series of senior level seminars aimed at countering official corruption; demand reduction, which includes continued support to effective crop substitution programs in northern Thailand that benefit hill tribe farmers; and DEA support programs to vetted police counternarcotics units that facilitate U.S. investigation and interdiction efforts within and outside of Thailand.

The Road Ahead. The U.S. will work to maintain close cooperation with Thailand on illicit drug and international crime control issues. Extradition and mutual legal assistance, casework cooperation, and investigative collaboration between law enforcement authorities will remain strong. Regional cooperation and technical skills to fight transnational crime and narcotics trafficking will be promoted through the continued operation of ILEA/Bangkok. The Department of Defense's Joint Interagency Task Force West will continue to support the training of Thailand's counternarcotics forces through land based and maritime-based training events. In 2006, basic law enforcement training will be integrated into several of the counternarcotics training events. Beyond the regionally-focused ILEA training programs, additional crime-fighting skills and forensic training programs will be developed for Thai participants in recognition of the new law enforcement challenges faced by Thailand. Collaborative efforts with the RTG to prevent, control, disclose and punish public corruption will remain a U.S. Mission priority, and will continue to utilize resources and dedicated personnel from the U.S. Department of Justice as well as private sector organizations such as the American Bar Association.

Vietnam

I. Summary

The Government of Vietnam (GVN) continued to make progress in its counternarcotics efforts during 2005. 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; continued public awareness activities; and additional bilateral cooperation on HIV/AIDS. The U.S. and Vietnam continued to implement training and assistance projects under the counternarcotics Letter of Agreement (LOA). Operational cooperation with DEA's Hanoi Country Office (HCO) continued to lag behind expectations, but was improved over 2004 with some positive cooperation reported. Vietnam is a party to the 1988 UN Drug Convention. In 2005, Vietnam was removed from the list of major drug-producing countries, because actual drug cultivation clearly fell below the 1,000-hectare threshold for Majors.

II. Status of Country

The GVN claims less than 50 hectares of opium under cultivation nationwide 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 confirmed source or transit country for precursors. In an effort to support Vietnam's efforts to enhance its precursor control capacity, the GVN and UNODC are cooperating on a project titled "Interdiction and Seizure Capacity Building with Special Emphasis on ATS and Precursors." Implementation of that project continued successfully into 2005 with the creation of counternarcotics interagency task forces in six "hotspot" provinces.

In 2005, the GVN continued to view the Golden Triangle as the source for most of the heroin supplied to Vietnam. The GVN also perceives close connections between Vietnamese and foreign traffickers. GVN authorities are particularly concerned about rising ATS use, and also ecstasy abuse, among urban youth. During 2005, the GVN increased the tempo of enforcement and awareness programs that they hope will avoid a youth synthetic drug epidemic. Despite some high-profile successes in 2005, lack of training, resources and experience, both among law enforcement and judicial officials, continues to plague Vietnamese counternarcotics efforts. Resource constraints are pervasive, and GVN counternarcotics officials note that Vietnam, a developing country, will face resource constraints for the foreseeable future. Drug laws remain very tough in Vietnam. For possession or trafficking of 600 grams or more of heroin, or 20 kilograms of opium gum or cannabis resin, the death penalty is mandatory. Foreign law enforcement sources do not believe that major trafficking groups have moved into Vietnam. Relatively small groups comprised of between 5 to 15 individuals who are often related to each other, usually do most narcotics trafficking. DEA believes that as Vietnam becomes a more attractive transit country, larger trafficking groups could become more prominent.

With the exception of the recently signed counternarcotics LOA, the USG has no extradition, mutual legal assistance or precursor chemical agreements with Vietnam. The LOA includes three specific counternarcotics training projects. An update to the LOA will add additional projects and funding. Following a November 2005 meeting between the U.S. Embassy, FBI, DEA and MPS (Ministry of Public Security) officials in Hanoi, both sides are at work on new legal documents to improve the framework for counternarcotics and law enforcement cooperation.

III. Country Actions Against Drugs in 2005

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 people's organizations. In addition, MPS, as NCADP's standing member, has a specialized unit to combat and suppress drug crimes. According to the UNODC, the GVN intensified its attention to the drug issue in 2005, including increased attention from the State-controlled media and additional GVN-funded training courses. Many provinces and cities implemented their own drug awareness and prevention programs, as well as demand reduction and drug treatment. The GVN continues to view drug awareness and prevention as a vital tool and 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 propaganda, culminating in the annual drug awareness week in June 2005, and other MPS-identified drives throughout the year. Officially sponsored activities cover every aspect of society, from schools to unions to civic organizations and government offices. In 2005, the GVN extended its 2004 effort to de-stigmatize drug addicts in order to increase their odds of successful treatment, and to help in controlling the spread of HIV/AIDS. Enforcement played a major role in the GVN's 2005 counternarcotics activities as well. This year, in addition to significant drug seizures and busts in Ho Chi Minh City and Hanoi, MPS cracked the country's biggest ever case in Phu Tho Province, and recorded large seizures in other provinces throughout the country. As of the end of 2005, there were 12 implementing decrees for the national law on drug suppression, drafted with the assistance of the UNODC. According to the UNODC, these decrees still require implementing regulations to allow law enforcement authorities to use techniques such as controlled deliveries, informants and undercover officers. There was another increase in the per-case quantity of drugs seized. According to MOLISA (Ministry of Labor and Social Affairs), the drug addiction recidivism rate after treatment is still high, at least 85 percent. As of September, there were 170,000 officially identified drug users nationwide with 83 treatment centers providing treatment to between 55,000 and 60,000 drug addicts annually. The number of "unofficial" (i.e., officially unacknowledged) drug users is much higher.

In March 2005, Prime Minister Phan Van Khai approved the national drug control master plan through 2010. Under the new master plan, there are six areas of priority technical assistance, including law enforcement, treatment, demand reduction, supply reduction, legislation and capacity enhancement, as well as building the legal framework on money laundering and precursor control. The GVN continues to look for assistance from foreign donors in these areas. The 2005 national-level budget for drug control reached approximately \$13.5 million. However the actual spending on all counternarcotics activities is higher when contributed funding from localities, and other funding sources throughout the country are factored in. As in past years, observers, nevertheless, agreed that overall lack of resources continued to be a major constraint in counternarcotics activities. All foreign 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. USG law enforcement agencies hold out some hope that the development of agency-to-agency agreements will improve the cooperation climate slightly. During 2005, cooperation between GVN law enforcement authorities and DEA's Hanoi country office marginally improved, although DEA agents have not been permitted officially to work with GVN counternarcotics investigators. Cooperation was limited to receiving information and investigative requests from DEA, holding occasional meetings and providing limited responses to DEA's requests. Thus far, counternarcotics police have declined to share detailed information with DEA or cooperate operationally. DEA did receive unprecedented cooperation on two undercover money laundering operations where MPS provided an undercover officer to pick up alleged drug money that was remitted to Vietnam through a

money laundering organization in the United States. However, despite requests made by DEA, MPS provided no investigation information on the organizations or businesses that facilitated the illegal money remittance in Vietnam.

Accomplishments. In 2005, the GVN approved a capacity strengthening program in the General Department of Customs, and established a counternarcotics task force within the Department of Coast Guard. This department is to coordinate the counternarcotics effort at sea. Also, during the drug awareness month of held in June 2005, MPS launched Vietnam's first official counternarcotics website "www.phongchongmatuy.com.vn". In addition to significant achievements in counternarcotics awareness campaigns in 2005, the GVN has tried to educate 100 percent of the localities throughout the country about drugs in the hope that at least 80 percent of the population will be made aware of the dangers of addictive drugs.

Law Enforcement Efforts. Seizures of opium, heroin, and amphetamine-type stimulants (ATS) increased during the reporting period. According to GVN statistics, during the first ten months of calendar year 2005, there were 9,936 drug cases involving 15,018 traffickers. Total seizures include 256 kilograms of heroin, 55.1 kilograms of opium, 3,339 kilograms of cannabis, 33,756 ATS tablets and 5,012 ampoules of addictive pharmaceuticals and other substances, representing double digit percentage increases over previous years.

Corruption. During 2005, the GVN continued to demonstrate determination and to mobilize the "entire political system" to combat corruption. Vietnam's first, specific anticorruption law was passed during the Fall National Assembly session. Under the new law, Prime Minister Phan Van Khai was appointed "Commander in Chief" of the Anti-Corruption Committee. Journalists' Association President Hong Vinh urged local reporters to provide in-depth coverage of the fight against corruption. No information specifically links senior GVN officials with engaging in, encouraging or facilitating the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions. Nonetheless, a certain level of corruption, both among lower level enforcement personnel and higher level officials, is consonant with fairly large-scale movement of narcotics into and out of Vietnam. The GVN did demonstrate a willingness in 2005 to prosecute officials, though the targets were relatively low-level. Past GVN estimates stated that as much as 19 percent of the investment in major infrastructure projects is lost to poor management and corruption, indicating the pervasive nature of corruption, and giving some sense of its scale. Vietnam has signed, but has not yet ratified, the UN Convention against Corruption. Vietnam also endorsed a regional anticorruption action plan at an Asian Development Bank-Organization for Economic Co-operation and Development Anti-Corruption Initiative meeting in Manila in July 2004.

Agreements/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 has signed, but has not yet ratified the UN Convention Against Corruption.

Cultivation/Production. The GVN and the UNODC confirm that small amounts of opium are grown in hard-to-reach upland and mountainous regions of some northern, northwestern and central provinces, especially Son La, Dien Bien, Yen Bai, Thanh Hoa, Cao Bang and Ha Giang provinces. 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 12.9 hectares in 2005. UNODC and law enforcement sources do not view production as a significant problem in Vietnam. There have been recent confirmed reports that ATS is produced in Vietnam. GVN law enforcement forces have seized some ATS-related equipment (i.e., pill presses). As part of its efforts to comply fully with the 1988 UN Drug Convention, the GVN continued in 2005 to eradicate poppy when found, and to implement crop substitution. 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. During the reporting year, MARD developed a national crop substitution program to include in the GVN's approved 2006-2010 Master Plan.

Drug Flow/Transit. While law enforcement sources and the 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 the Golden Triangle via Laos and Cambodia, making their way to Hanoi or Ho Chi Minh City, where they are transhipped to other countries such as Australia, Japan, China, Taiwan and Malaysia. The Australia-Vietnam heroin smuggling channel is significant. The ATS flow into the country during 2005 continued to be serious and not limited to border areas. ATS can now be found throughout the country. ATS such as methamphetamine, amphetamine, diazepam, ecstasy and ketamine continue to worry the government. Such drugs are most popular in Hanoi, Ho Chi Minh City and other major cities. In May and June, thousands of discotheques, karaoke bars and cafes, mainly in Hanoi and Ho Chi Minh City, were raided in a sweep targeting ATS consumption. Beyond the nightclub raids, police discovered several cases of amphetamine powder and ice (crystal methamphetamine) possession, presumably for consumption in Ho Chi Minh City.

Domestic Programs/Demand Reduction. The Ministry of Culture and Information (MOCI) is responsible for public drug control information and education among the general population. During 2005, MOCI continued to coordinate with other ministries and organizations to conduct awareness campaigns on HIV/AIDS and drugs. 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. SODC reported that the border forces continued to play an "active role" in disseminating counternarcotics information to border villages and communes. The UNODC views GVN drug awareness efforts in 2005 "somewhat stronger" than in 2004, while assessing that Vietnam has already done a "good job" in this endeavor. According to the UNODC, however, these efforts have had minimal impact on the existing addict and HIV/AIDS population. Behavior modification is still a problematic issue for the GVN. The UNODC believes that the challenge for Vietnam is to implement awareness campaigns more regularly at the grassroots level and encourage the participation of the youth population.

Vietnam has a network of drug treatment centers. There are now 83 centers at the provincial level that are capable of accommodating between 55,000 and 60,000 admissions a year. Vietnam has also strived to integrate addiction treatment and vocational training to facilitate the rehabilitation of drug addicts. Ho Chi Minh City is the pioneer in this campaign. These efforts include tax and other economic incentives for businesses that hire recovered addicts. Despite these efforts, at most 18 percent of recovered addicts find regular employment.

HIV/AIDS is a serious and growing problem in Vietnam. The epidemic is closely related to intravenous drug use and commercial sex work. Injection drug users (IDUs), commercial sex workers (CSWs), CSWs who are also IDUs, men who have sex with men and sex partners of IDU and CSWs are most-at-risk populations in Vietnam. At least 60 percent of known HIV cases are IDUs. The result from a 2004 national sentinel surveillance indicated a 29 percent HIV prevalence among IDUs. However, in some provinces the HIV prevalence is reported at higher than 70 percent. The Vietnamese National Strategy for HIV prevention and Control, launched in March 2004, presents a comprehensive response to the HIV situation. Apart from Information-Education-Communication, major components of the strategy include risk reduction, condom promotion, clean needle and syringe programs, voluntary counseling and testing and HIV/AIDS treatment and care.

In June 2004 Vietnam was designated the 15th focus country of PEPFAR (President Emergency Plan for AIDS Relief). The USG's funding for FY05 is about \$27.5 million. The Emergency Plan will support existing agencies working in HIV/AIDS in Vietnam, including USAID, HHS/CDC, DOL

(Labor) and DOD (Defense). Under PEPFAR, the USG supports Vietnam's effort to develop a comprehensive HIV/AIDS program emphasizing not only treatment, but also prevention, care and support. Although the concentration is on the six highest HIV/AIDS prevalence provinces, the PEPFAR program also set up voluntary consulting and testing centers in 40 other provinces of Vietnam. By the end of 2006, an estimated 18,000 drug users will be eligible for release from some 19 rehabilitation centers serving the HCMC area. It is believed that approximately 60 percent of these individuals will be HIV positive. In order to facilitate successful transition of residents to their home communities, the PEPFAR team is developing a pilot project to provide HIV care and treatment, drug relapse prevention, and other services. Focusing on two HCMC area centers, the project includes in-center services (subject to Congressional approval) and other interventions targeting four HCMC districts. All plans are being coordinated with the HCMC Provincial AIDS Committee (PAC).

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In 2003, Vietnam and the United States completed and signed a bilateral counternarcotics agreement (LOA), which came into force in 2004. 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. Between November 2004 and September 2005, using State Department law enforcement assistance, 70 law enforcement officers attended the Academy for training. In late 2004 and early 2005, USG trainers journeyed to Vietnam to present counternarcotics training under the terms of the US-Vietnam LOA, mentioned above. The USG also contributes to counternarcotics efforts through the UNODC. In 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 Vietnamese interagency task forces at key border "hotspots" around the country. Given the example of Thailand, where ATS abuse has had a devastating impact, the GVN and the international community are anxious to respond forcefully to any sign that ATS abuse might be emerging as a problem in Vietnam.

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, especially from the United States, in the counternarcotics arena. During 2005, 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 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.

EUROPE AND CENTRAL ASIA

Albania

I. Summary

Albania is used by organized crime groups as a transit country for heroin from Central Asia destined for Western Europe. Seizures of heroin by Albanian, Greek, and Italian authorities declined significantly in 2005, suggesting a possible change in trafficking patterns. Cannabis is also produced in Albania for markets in Europe. 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. The new government led by Prime Minister Sali Berisha, in power since September 2005, has stated that fighting corruption, organized crime, and trafficking of persons and drugs is its highest priority. Albania is a party to the 1988 UN Drug Convention.

II. Status of Country

Although Albania is not a major transit country for drugs coming into the United States, it remains a country of concern to the U.S., as Albania's ports on the Adriatic and porous land borders, together with poorly financed and under-equipped border and customs controls, make Albania an attractive stop on the smuggling route for traffickers moving shipments into Western Europe. In addition, marijuana is produced domestically for markets in Europe, the largest being Italy and Greece.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In 2005, the asset forfeiture law, a key tool in the fight against organized crime, began to be successfully implemented, with the filing of eight asset forfeiture cases and the creation of the Agency for the Administration of Sequestered and Confiscated Assets. In 2005, a witness protection working group was set up at the Directorate of the Fight against Organized Crime and Witness Protection. Albania works with its neighbors bilaterally and in regional initiatives to combat organized crime and trafficking, and it is a participant in the Stability Pact and the Southeastern Europe Cooperative Initiative (SECI).

Law Enforcement Efforts and Accomplishments. Albanian police continue their counternarcotics operations, including large drug seizures in Fier, Tirana, and the ports of Vlora and Durres, and have made successful raids in cooperation with Italian authorities. Albanian authorities report that through November 2005, police arrested 229 persons for drug trafficking and 30 for cannabis cultivation. An additional 37 persons are wanted. The police seized 40.8 kilograms of heroin, 5,052.3 kilograms of marijuana, and 1.2 kilograms of cocaine. Police also destroyed 332,018 cannabis plants, and confiscated 7 liters of hashish oil. The quantities of contraband seized by Albanian authorities are just a fraction of the total transiting Albania; the quantities are also quite low compared to quantities of drugs transiting or originating from Albania seized by Italian and Greek authorities. Greek authorities report that from January through September 2005, they confiscated 51.8 kilograms of heroin, 0.8 kilogram of hashish, 4,133.5 kilograms of marijuana, and approximately 0.7 kilograms of cocaine. For the period January through October 2005, Italian authorities report seizing 418.6 kilograms of heroin, and 808.3 kilograms of marijuana.

Corruption. Corruption remains a deeply entrenched problem. Low salaries, social acceptance of graft, and Albania's tightly-knit social networks make it difficult to combat corruption among police, magistrates, and customs officials. The Office of Internal Control (OIC, created with ICITAP assistance and tasked with investigating police corruption) has been instrumental in bringing about the

arrests of several corrupt officers. The OIC reports that it filed 172 criminal reports with the Prosecutor's Office involving 232 police officers in 2005 (through early December). Of these cases, only one involved drug trafficking. The GoA does not, as a matter of policy, encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions. Albania has signed, but has not yet ratified the UN Convention Against Corruption.

Agreements and Treaties. Albania 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. An extradition treaty is in force between the United States and Albania. Under this treaty two individuals were extradited to Albania in 2005. Albania is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

Cultivation and Production, With the exception of cannabis, Albania is not known as a significant producer of illicit drugs. According to authorities of the Ministry of Interior's Anti-Narcotics Unit, cannabis is currently the only drug grown and produced in Albania and is typically sold regionally. Metric-ton quantities of Albanian marijuana have been seized in Greece and Italy. Cultivation of cannabis persists despite the authorities' eradication efforts. As noted, the Anti-Narcotics Unit destroyed 332,018 cannabis plants in 2005. No labs for the production of synthetic drugs were discovered in 2005. Albania is not a producer of significant quantities of precursor chemicals. The Law on the Control of Chemicals Used for the Illegal Manufacturing of Narcotic and Psychotropic Substances was passed in 2002 and regulates precursor chemicals. Police and customs officials are not trained to recognize likely diversion of dual-use precursor chemicals.

Drug Flow and Transit. Organized crime groups use Albania as a transit point for drug and other types of smuggling, due to the country's strategic location, weak law enforcement and judicial systems, and porous borders. Albania is a transit point for heroin from Central Asia, which is smuggled via the "Balkan Route" of Turkey-Bulgaria-Macedonia-Albania to Italy, Greece, and the rest of Western Europe. A limited amount of cocaine is smuggled from South America to Albania, via the United States, Italy, Spain, or the Netherlands, for internal and external distribution. In 2005, seizures of heroin transiting Albania by the Albanian State Police (ASP), as well as by Italian and Greek authorities, declined significantly, suggesting that patterns of drug trafficking may be changing.

Domestic Programs (Demand Reduction). The Ministry of Health believes that drug use is on the rise, though no reliable data exists on this subject. Local and national authorities collect little data and do not believe the problem is particularly widespread (owing both to the traditional cultural norms and low levels of discretionary income). Nevertheless, the GoA has taken steps to address the problem with its National Drug Demand Reduction Strategy. However, the woefully inadequate public health infrastructure is ill-equipped to treat drug abuse, and public awareness of the problems associated with drug abuse remains low. The Toxicology Center of the Military Hospital, the only facility in Albania equipped to handle overdose cases, reported that it handled about 1,800 patients seeking drug abuse-related treatment in 2005.

IV. U.S. Policy Initiatives and Programs

Bilateral and Multilateral Cooperation. The GoA continues to welcome assistance from the United States and Western Europe. The U.S. is intensifying its activities in the areas of law enforcement and legal reform through technical assistance, equipment donations, and training, including an October 2005 course in "Basic Narcotics Investigation Course" that was conducted by the DEA. The U.S. ICITAP and OPDAT programs played a key role in the establishment of the Office of Internal Control at the Ministry of the Interior, the Organized Crime Task Force, and the Serious Crimes Court and Serious Crimes Prosecution Office, all with the goal of professionalizing the police force, combating corruption, and strengthening the GoA's ability to prosecute cases involving organized crime and illicit trafficking. A key part of the ICITAP program has been improving the security of Albania's

borders, including placing advisors at key ports, providing specialized equipment, and the installation of the Total Information Management System (TIMS) for at border crossing points. Other U.S., EU, and international programs include support for customs reform, judicial training and reform, improving cooperation between police and prosecutors, 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.

The Road Ahead. The new government, in power since September 2005, has made a commitment to making the fight against organized crime and trafficking one of its highest priorities. The U.S., together with the EU, will continue to push the GoA to make progress on fighting illegal drug trafficking, to use law enforcement assistance effectively, 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. 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 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 itself, and the local market for narcotics, according to the police, is not large. The principal drugs of abuse are opium and cannabis. Heroin and cocaine first appeared in the Armenian drug market in 1996 and, since then, there has been a small upward trend in heroin sales, while cocaine abuse has remained flat. The Interdepartmental Committee on Combating Drug Addiction and Drug Trafficking is headed by the Chief of Police of Armenia's Police Services Department.

III. Country Actions Against Drugs in 2005

Policy Initiatives. There have been no new policy initiatives since the enactment on May 10, 2003 of the Law of the Republic of Armenia on Narcotic Drugs and Psychotropic Substances. Implementation of the law; however, has been effective and has led to a number of successes in the battle against narcotics.

Accomplishments. Preventive measures to identify and eradicate both wild and illicitly cultivated cannabis and poppy continued in 2005. A total of 112 tons of hemp and poppy were eradicated (551 kilograms of hemp and 335 kilograms of poppy) during the annual eradication campaign.

Armenian Police participated in "Channel 2005," an annual joint operation that involved 6 countries: Russia, Kazakhstan, Belarus, Kyrgyzstan, Tajikistan, and Armenia. All Armenian law enforcement agencies (Police, National Security Service, Customs, Border Guards, Internal Forces, Ministry of Defense) participate in this six-day operation. During "Channel 2005," 14 drug-related criminal cases were initiated against 16 individuals and 100 grams of different types of drugs, 5 liters of precursors and 69 psychotropic tablets (subutex) were seized in Armenia.

Law Enforcement Efforts. In the first 9 months of 2005, the Armenian Police uncovered 458 criminal drug trafficking cases and 15 cases of criminal drug abuse. In this period more than 14 kilograms of drugs were seized, compared to 12 kilograms for the first 9 months of 2004. The Interagency Unit of Drug Profiling (IUDP) was formed at Zvartnots International Airport and began operations in February 2005.

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. In April 2004 a new Anti-Corruption unit consisting of eight prosecutors was created under the Office of the Prosecutor General of the Republic of Armenia. The work of this unit is directly overseen by the Prosecutor General. As a matter of policy, the GOAM 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. Armenia has signed, but has not ratified the UN Convention Against Corruption.

Agreements and Treaties. 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 against migrant smuggling and trafficking in persons.

Cultivation and Production. Hemp and opium poppy grow wild in Armenia. Hemp grows mostly in the Ararat Valley in the south-western part of Armenia; poppy grows in the northern part of Armenia, particularly in the Lake Sevan basin and some mountainous areas. From September 5 to October 5, 2005, Armenian Police carried out “Hemp and Poppy 2005” an annual measure to find and eradicate cultivated and wild hemp and poppy.

Drug Flow/Transit. The principal transit countries through which drugs pass before they arrive in Armenia include Iran (opiates, heroin) and Georgia (opiates, cannabis, hashish). According to the police, drugs are no longer transiting through the Russian Federation to Armenia. Armenia’s borders with Turkey and Azerbaijan remain closed due to the Nagorno-Karabakh conflict but opiates and heroin are smuggled to Armenia from Turkey via Georgia. When all of Armenia’s borders reopen, the police predict drug transit will increase significantly. It is not clear when border difficulties will be resolved, permitting more open frontiers.

Demand Reduction. The majority of Armenian addicts are believed to be using hashish, followed by heroin and 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 implemented and manuals published under the framework of the South Caucasus Anti-Drug (SCAD) Program, funded by the UN Development Program.

A Drug Detoxification Center, which is being funded by the Armenian Ministry of Health and SCAD is scheduled to open in December 2005.

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 primarily serves as 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. Drug consumption in Austria is well below west European levels and authorities do not consider it to be a severe problem. Production, cultivation and trafficking by Austrian nationals remain insignificant. The number of drug users is estimated at between 15,000 to 20,000—equaling fewer than 2 addicts per 1,000 inhabitants. According to a 2005 study, there is a lifetime prevalence of drug abuse, primarily cannabis, of approximately 25 percent.

Cooperation with U.S. authorities continued to be outstanding during 2005, leading to significant seizures, frequently involving multiple countries. The March 2005 visit of U.S. ONDCP Chief John Walters to Austria, the autumn 2005 visits of Interior Minister Prokop and Justice Minister Gastinger to Washington, and Chancellor Schuessel's December 2005 meeting with President Bush underscore the close bilateral cooperation between the U.S. and Austria. Austria is a party to the 1988 UN Drug Convention.

II. Status of Country

Austria's drug situation did not see any significant change during 2005. The number of drug-related deaths has fluctuated between 100 and 150 over the past 5 years, but a surge in Vienna's drug deaths earlier this year points to a higher-than-normal overall figure for 2005. The number of drug deaths from mixed intoxication continues to rise. The latest available statistics for 2004 show a 12.6 percent increase in drug-related offenses over 2003, for a total of 24,528 offenses. Of these, 535 involved psychotropic substances and 357 involved precursor materials.

Experts estimate the number of conventional, illicit drug abusers at around 20,000 (0.25 percent of total population). The number of users of MDMA (ecstasy) remained largely stable in 2005, while usage of amphetamines rose during the same period as these substances became increasingly available in nonurban areas. According to a 2005 study, which the Health Ministry commissioned, approximately one fifth of respondents admitted to consumption of an illegal substance. The respondents cited using mostly cannabis with ecstasy and amphetamines in second and third place. Among young adults (ages 19-29), about 25 percent admitted "some experience" with cannabis at least once in their lifetime. According to the study, 2-4 percent of this age group had already used cocaine, amphetamines, and ecstasy, while three percent have had experience with synthetic drugs.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Throughout 2005 the Austrian government retained its "no tolerance" policy regarding drug traffickers, while continuing a policy of "therapy before punishment" for nondealing drug offenders. In a 2005 amendment, lawmakers expanded a 2004 law that permits police to mount surveillance cameras in high-crime public spaces. This law also provides for the establishment of a "protection zone" around schools, pre-schools, and retirement communities. The law entitles police to 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 federal government in 2005 enacted tighter asylum legislation and stricter citizenship laws. Following intense public debate in 2005, the government decided to improve quality controls and take a more restrictive approach regarding morphine-

maintenance therapy. Austria included the substance “zolpidem” in the control regime of the National Narcotics Act.

Law Enforcement Efforts and Accomplishments. Comprehensive seizure statistics for 2005 are not yet available. Statistics for 2004 show a marked increase in cannabis and cocaine seizures, and a minor surge in heroin and amphetamine seizures. Ecstasy and LSD confiscations remained stable at 2003 levels. In spring 2005, for the first time, police confiscated ecstasy pills containing certain other chemical substances, in addition to MDMA. Experts stress that the degree of purity and concentration of “ecstasy,” “speed,” and other illegal substances has become increasingly volatile, representing a growing risk factor. Street prices of illicit drugs remained basically unchanged during 2004-2005. One gram of cannabis sold for EUR 7.00 (\$8.20); one gram of heroin for EUR 60.00 to 95.00 (\$70.20-\$111.10); and one gram of cocaine cost EUR 90.00 (\$105.30). Amphetamines sold for EUR 20.00 (\$23.40) per gram, and LSD for EUR 30.00 (\$35.10) per gram. The number of criminal cases involving precursor materials rose by 38 percent, from 93 in 2003 to 128 in 2004. For 2005, officials expect higher seizure figures for heroin and cocaine, and a significant reduction in seizures of ecstasy.

Corruption. 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. The GOA’s public corruption laws recognize and punish the abuse of power by a public official. There are no corruption cases pending, however; the government has not yet prosecuted any cases, which would test the degree of the current law’s enforcement. Austria has signed, but has not yet ratified, the UN Convention Against 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. On July 20, 2005, the U.S. and Austria signed a protocol implementing the U.S.-EU Extradition Agreement. Austria is a party to the 1988 UN Drug Convention, the 1961 Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Vienna is the seat of the United Nations Office on Drugs and Crime (UNODC). Austria is also a “major donor” to the UNODC, with an annual pledge of approximately \$440,000. Austria is a party to the UN Convention Against Transnational Organized Crime and its protocol against trafficking in persons.

Cultivation. Production of illicit drugs in Austria continued to be marginal in 2005. Experts note a minor rise in private, indoor-grown, high-quality cannabis.

Drug Flow/Transit. Foreign criminal groups (e.g. Kurdish clans from Turkey, Albanians, nationals from the former Yugoslavia, West African gangs, and Central and South American gangs) carry out organized drug trafficking in Austria. Counternarcotics officials note a slight decrease in body-packing drug smuggling in favor of other conventional means of transportation. The illicit trade increasingly relies on Central and East European airports, including those in Austria. Trafficking of ecstasy products (originating in the Netherlands) decreased slightly in 2005 from 2004. Illicit trade in amphetamines and trading in cocaine increased. Criminal groups from Poland and Hungary were primarily responsible for amphetamine trafficking while South American and African drug organizations traffic cocaine into Austria.

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 abuse legislation and in court decisions. The center-right government made the fight against drug trafficking a major policy goal. At the same time, the government remains committed to measures to prevent the social marginalization of drug addicts. Federal guidelines ensure minimum quality standards for drug treatment facilities. The use of heroin for therapeutic purposes is generally not allowed. Demand reduction puts emphasis on primary prevention, drug treatment, counseling, and so-called “harm reduction” measures, such as needle exchange programs. Ongoing challenges in demand reduction are

the need for psychological care for drug victims and greater attention to older victims and to immigrants. Primary prevention starts at the pre-school level and continues through secondary school, apprenticeship institutions, and out-of-school youth programs. The government and local authorities routinely sponsor educational campaigns both within and outside of educational fora. Overall, youths in danger of addiction are primary 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. Policies toward greater diversification in substitution treatment (methadone, prolonged-action morphine, and buprenorphine) continued.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cooperation between Austrian and U.S. authorities continued to be excellent in 2005. Several bilateral efforts exemplified this cooperation. These include joint DEA and BKA (Criminal Intelligence Service) training at the International Law Enforcement Academy; the drafting of a criminal asset sharing agreement between the U.S. and Austria; and DEA support of a BKA plan to initiate Joint Investigative Teams with Balkan countries to combat the flow of Afghan heroin. Austrian Interior Ministry officials continued to consult the FBI, DEA, and Department of Homeland Security on know-how to update criminal investigation structures. The U.S. Embassy also regularly sponsors speaking tours of U.S. counternarcotics experts in Austria. In March 2005, ONDCP Chief John Walters spoke at the UN Commission on Narcotic Drugs, and held bilateral meetings with Austrian National Drug Coordinator Franz Pietsch and other drug policy and treatment experts in Vienna. Walters highlighted the excellent, ongoing cooperation between U.S. and Austrian law enforcement authorities, and he exchanged views with his counterparts on “harm reduction” as a basis for policy. The October 2005 visits to Washington by Interior Minister Prokop and Justice Minister Gastinger, and Chancellor Schuessel’s meeting with President Bush in December 2005, solidified the close U.S.-Austrian law enforcement connection.

Throughout 2005, 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. Austria hosted events such as the November 25, 2005 “Western Balkans Summit.” 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 2005, Austria, together with Italy, continued work on a project within the UNODC for reform of the justice system in Afghanistan.

The Road Ahead. The U.S. will continue to support Austrian efforts to create more effective tools for law enforcement. The U.S. will work closely with Austria during its EU Presidency and within other U.S.-EU initiatives, the UN, and the OSCE. A priority remains 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 to Western Europe, and from Iran to Russia and Western Europe. Domestic consumption and cultivation of narcotics are low, but levels of use are increasing. The United States has funded counternarcotics assistance to Azerbaijan through the FREEDOM Support Act since 2002. Azerbaijan is a party to the 1988 UN Drug Convention.

II. Status of Country

Azerbaijan's main narcotics problem is the transit of drugs through its territory. Azerbaijan emerged as a narcotics transit route several years ago because of the disruption of the "Balkan Route" due to the wars in and among the countries of the former Yugoslavia. According to the Government of Azerbaijan (GOAJ), the majority of narcotics transiting Azerbaijan originates in Afghanistan and follows one of four primary routes:

- Afghanistan-Iran-Azerbaijan-Georgia-western Europe;
- Afghanistan-Iran-Nagorno Karabakh and occupied territories of Azerbaijan-Armenia-Georgia-Western Europe;
- Afghanistan-Iran-Azerbaijan-Russia; or
- Afghanistan-Central Asia-the Caspian Sea-Azerbaijan-Georgia-western 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. The most widely abused drugs in Azerbaijan are opiates—especially heroin—licit medicines, hemp, ecstasy, hashish, cocaine and LSD. Domestic consumption continues to grow with the official GOAJ estimate of drug addicts reaching 18,000 persons. Unofficial figures are estimated at approximately 200,000 to 300,000, 75 percent of which are heroin addicts. Students make up a large share of total drug abusers at 30-35 percent. The majority of heroin use is in the Lankaran District (64.6 percent), which borders Iran. Drug use among young women has been rising.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The GOAJ has taken the lead on counternarcotics coordination within the GUAM group of countries (Georgia-Ukraine-Azerbaijan-Moldova). As part of this initiative, the GOAJ established the Virtual Law Enforcement Center (VLEC) in Baku and conducted joint narcotics interdiction projects with the other GUAM-member countries. In theory, 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. While training for the integrated computer system of the Virtual Law Enforcement Center took place in 2005, the GOAJ has not yet integrated the system into an encrypted system with other GUAM-member states.

Law Enforcement Efforts. During 2005, the Ministry of Internal Affairs registered approximately 1660 cases of drug-related offenses. During the first seven months of 2005, authorities confiscated 205.2 kilograms of narcotics, not including psychotropic substances and drug precursors. The confiscated narcotics included 12 kilograms of heroin, 716 grams of the poppy straw, 19 kilograms of

hashish, 139 kilograms of marijuana, 10 ampoules and 11,073 pills of psychotropic drugs. Between January to June of 2005, the Azerbaijani State Customs Committee investigated 33 drug-related offenses, confiscated 15,722 kilograms of narcotics, including 4,872 kilograms of marijuana, 5 kilograms of hashish, 284 grams of heroin, and 110 psychotropic substances (in the form of ampoules, capsules and tablets). 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. In 2005, the GOAJ adopted a charter for an anticorruption commission and staffed that commission. However, active judges sit as members on the Commission, and according to Azerbaijan's Constitution, only retired judges should sit on the Commission. The Department for Fighting against Corruption (DEFAC) in the Prosecutor General's Office is extremely limited in its powers, is understaffed, and manages its own internal vetting process, which is contrary to international standards. As a matter of government policy, Azerbaijan 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.

Agreements and Treaties. Azerbaijan is a party to the 1988 UN Drug Convention, to the 1971 UN Convention Against Psychotropic Substances, and to the 1961 UN Single Convention as amended by its 1972 Protocol. Azerbaijan also is a party to the UN Convention Against Corruption, and to the UN Convention Against Transnational Organized Crime and its protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms.

Cultivation and Production. Cannabis and poppy are cultivated illegally, mostly in southern Azerbaijan. In at least one instance in the first half of 2005, the Ministry of Internal Affairs raided a marijuana plantation in western Azerbaijan and confiscated approximately 2 million plants. Seven hundred and eighty kilograms of semi-processed hashish were also found and seized.

Drug Flow/Transit. Opium and poppy straw originating in Afghanistan transit to 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.

Domestic Programs. In November 2005, a conference entitled "Youth Say No to Drugs" was held at Baku Technical College. The event focused on preventing drug addiction among teenagers. The government runs other information programs targeted on the dangers of drug abuse.

IV. U.S. Policy Initiatives and Programs.

Bilateral Cooperation. In 2005 the U.S. Export Control and Related Border Security (EXBS) program continued to provide assistance to the Azerbaijan State Border Service (SBS) and Customs Service. 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 2005, EXBS sponsored numerous courses for the Border Guard Maritime Brigade and Customs. These courses included: Commodity Identification Training Search and Secure Export Control Enforcement Investigative Analysis Training. This training introduced participants to real-time, hands-on inspections and Border Patrol tactics in the field. EXBS and the SBS hosted the Black Sea/Caspian Maritime Conference on Non-Proliferation and Maritime Domain Awareness. This conference facilitated discussion and sharing of methods in identifying and interdicting vessels suspected of carrying contraband. In August 2005, the U.S. government provided training programs

for the Ministry of Internal Affairs. The programs provided training on highway interdiction to identify vehicles containing narcotics and explosives.

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 drug-transit country. Local drug use and drug-related crime 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 receives counternarcotics assistance from the EU UNDP program BUMAD (Belarus, Ukraine, Moldova Anti-Drug Program), which seeks to reduce trafficking of drugs into the European Union. The program, which just launched phase two of its three part project, 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. Belarus is a party to the 1988 UN Drug Convention.

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. This trade is facilitated by Belarus' customs union with Russia, and the resultant lack of border controls between Belarus and Russia. 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 further facilitate all types of trafficking. There is no evidence of large-scale drug production in Belarus. The potential exists for Belarus to have a problem with illicit synthetic drug production because of its ample production facilities and the current lack of oversight controls. The completely government-owned chemical industry 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.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Belarus' counternarcotics strategy initiative (The State Program of Complex Measures Against Drug and Psychotropic Substances Abuse and Their Illicit Trafficking for 2001-2005) expired last year. This program aimed to launch preventative and rehabilitation strategies and to suppress illegal trafficking. Government officials confess, however, that the program lacked details of implementation, timeframes, as well as sufficient financial support. The Ministry of Interior had primary responsibility for its implementation, which was never entirely completed. 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. The State Program will not be renewed. Instead, drug abuse prevention will be incorporated into the Belarusian government's overall national program against crime. While interdepartmental rivalry profoundly inhibits cooperation, Belarus has made some strides in restructuring government agencies to enhance information gathering on drugs. Under the Ministry of Health, the government of Belarus created the legal framework for a National Observatory on Drugs, which aims to link 19 government agencies in order to collect and analyze illicit drug abuse statistics in an effort to combat drug trafficking on a regional level. The Collective Security Treaty Organization launched the first stage of the international anticrime operation "Channel 2005" in Belarus. This cooperative effort between CIS law enforcement officials resulted in the seizure of more than 80 kilograms of narcotics in Belarus in October.

Accomplishments. While Belarus does not face production or cultivation problems, drug use and transit issues must be addressed before Belarus will be in full compliance with the 1988 UN Drug Convention. Government agencies have proposed a set of amendments on drug control to the Belarusian Criminal Code to be included in the national law drafting annual plan for 2006. If the amendments are accepted without change, the legislation will bring Belarus fully in line with the convention.

Law Enforcement Efforts. From January 1 to November 1, 2005, 2,735 people committed 4,707 drug-related crimes. Authorities seized 907 kilograms of drugs during that same time period, but experts, including government officials, agree that this quantity fails to reflect the real quantity of drugs transiting or used in Belarus. 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. Enforcement efforts suffer from lack of communication and coordination among agencies. For example, State Security Services refused to allow law enforcement agencies to use a BUMAD-sponsored software program to enhance information sharing. It is the same program that other BUMAD recipients have already adopted and implemented. Belarusian border guards lack the training, and in many cases, the equipment to conduct effective searches. International assistance programs have tried to alleviate this problem, but insufficient supplies and training still plague law enforcement officials' work. 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. For example, the lack of a border control between Belarus and Russia creates an easy drug smuggling route. In recognition of this problem, police officials from both countries met in October to discuss ways to more effectively stop drug trafficking across the shared border.

The total amount of drug seizures has declined since last year. Drugs seized from January 1–November 1, 2005 (in kilograms) are as follows: Poppy Straw (608); Marijuana (167); Raw Opium (74.8); Heroin (26.7); Amphetamine/Methamphetamine (18.9); Acetylated Opium (liquid heroin) (6.0); Hashish (4.4); Cocaine (2.0); Hallucinogens (1.2); Methadone (1.1); Depressants (1.0); All Other Drugs (under one kilogram). 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 again the drug seized in greatest quantity in 2005—608 kilograms. There is, however, no evidence of large-scale production of poppies for export. Heroin seizures have skyrocketed after three years of steady decline; this year police seized 26.7kgs. Despite their higher prices, synthetic drugs are growing in popularity due to their longer lasting effects. In 2005, authorities seized 1.1 kilograms of methadone, compared to 682 grams in 2004.

Corruption. Corruption is a problem among border and customs officials, which makes interdiction of narcotics difficult. An anticorruption bill was voted down twice last year was removed from the legislative agenda in 2005. The government did not accept any of the 60 proposals in the bill, which included prosecuting presidential candidates and public servants for corruption. In an effort to curb corruption, however, Belarus is in the process of ratifying the 1999 Council of Europe Civil Law Convention on Corruption. This bill would guarantee compensation to those who suffer damages as a result of corruption. Moreover, if a public official commits corruption, this legislation mandates that the government is liable for providing compensation.

Agreements and Treaties. Belarus 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. Belarus is a party to the UN Convention Against Corruption, and the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons and manufacturing and trafficking in illegal firearms.

The international donor community has had repeated difficulties in getting assistance programs registered by the government. In September, a presidential edict greatly restricted all foreign technical assistance, making it nearly impossible to introduce and utilize international aid in Belarus. 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. For example, it took several months to register the second part of BUMAD, which resulted in an interruption in program activities and a delayed launch of the second phase.

Cultivation/Production. There is no confirmed drug cultivation or production in Belarus. Belarus, however, does possess the resources necessary to produce precursor chemicals. Neighboring countries allege that Belarus is a source of precursor chemicals, but Belarusian authorities deny this accusation.

Drug Flow/Transit. Most serious illicit drugs, especially heroin, enter Belarus from Russia. Drugs also enter Belarus from Ukraine (semi-refined opium); the 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).

The Government of Belarus does not have any significant programs aimed at combating trafficking. Belarusian border guards lack the training, and in many cases the equipment, to conduct effective searches. 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.

Domestic Programs (Demand Reduction). 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. This year, BUMAD and the GOB launched a counternarcotics information campaign—*You and Me against Drugs*—targeted at youth in Minsk and in the regions. The information campaign for this program included pamphlet distribution, lectures at organized sporting events and the creation of an informational counternarcotics video with famous Belarusian athletes. In addition, the BUMAD-sponsored NGO Mothers Against Drugs (MAD) won the 2005 UN Civil Society Award for its work on developing and implementing drug prevention programs among Belarusian youth, including counseling services, HIV awareness programs, and self-help groups for addicts and their family members.

According to official data, there are approximately 6,100 registered drug addicts in Belarus and 1,250 registered drug abusers. Belarusian experts, however, estimate the real number at 55,000. 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, who have ready access to narcotics at dance clubs, university dormitories and educational facilities. 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. BUMAD has successfully launched several "Your Choice" one-stop counseling centers in Belarus this year. These centers help injection drug users find medical care, information, and counseling at no cost.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG has not provided narcotics/justice sector assistance to the GOB since 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. Belgium is among the largest suppliers of ecstasy to the U.S. (much of which is shipped via Canada), and plays a significant role in the transshipment of cocaine from South America to Europe. Usage and trafficking of cocaine 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. 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 eleven synthetic drug labs in 2005. Belgium is party to the 1988 UN Convention, 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. By most accounts, its status as an important transit point for cocaine is largely due to the shared border with the Netherlands. In virtually all cases of significant cocaine shipping, the end destination for the cocaine is the Netherlands. Colombian trafficking groups continue to dominate in the cocaine exchange in Northern Europe. Increased seizures of cocaine may be an indication there may be a growing demand in Belgium. This common border shared by Belgium and the Netherlands is also responsible for the surge, both in size and number, of clandestine amphetamine and ecstasy laboratories in Belgium since 2000. Airline passenger couriers remained the principal means of transporting small quantities of ecstasy to the United States. Stricter controls have limited the mailing of pills via both express and regular mail from Belgium. Dutch groups control most of the ecstasy production and Belgian officials believe that sea freight is likely used for shipping larger amounts of ecstasy from Belgian ports via third countries to the United States and Canada. Israeli groups continue to be the largest identified distribution network operating globally and specifically in the United States. Several recent investigations have involved the use of containerized cargo. Belgian authorities continue to make a concerted effort to stem the tide of ecstasy headed for the U.S.

Turkish groups continue to control most of the heroin trafficked in Belgium, although the influence of Albanian groups continues to grow. This heroin is principally shipped through Belgium to the UK. Increased seizures of cocaine may be an indication there may be a growing demand in Belgium. 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. Cannabis seizures have doubled—a trend that may be explained by increased enforcement and coordination efforts with neighboring countries.

Although Belgium is not a major producer of precursor chemicals used in the illicit manufacture of drugs, it is an important transshipment point for these chemicals coming from China to Europe. Precursor chemicals that transit Belgium include: acetic anhydride (AA) used in the production of heroin; piperonylmethylketon (PMK) and benzylmethylketon (BMK), chemical precursors used in the production of ecstasy; and potassium permanganate used in cocaine production.

III. Country Actions Against Drugs in 2005

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 and transshipment 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.

Accomplishments. Belgian authorities seized 11 laboratories in 2005: five producing ecstasy, five producing amphetamines, and one gamma hydroxybutyrate (GHB) production site. 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 51. By comparison, only 12 laboratories were seized in the six-year period from 1992 to 1998.

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, efforts are focused on combating synthetic drugs, heroin and cocaine. Belgian authorities continued to cooperate closely with DEA officials stationed in Brussels. During the year Belgium coordinated with the Netherlands to create joint laboratory intervention teams to dismantle drug laboratories safely. Belgium and the Netherlands cooperated on several counternarcotics sweeps during the year to include the raid and seizure of the largest MDMA production facility to date in Belgium. In 2005, Belgium authorities seized more than 8,000 kilograms of cocaine, 93 kilograms of heroin, 435 kilograms MDMA (amphetamines), and 550 kilograms of cannabis/hashish /marijuana. At Brussels' Zaventem International airport in the Brussels region, nonuniformed personnel trained by the Federal Police to help detect drug couriers became increasingly proficient. Belgian authorities continued a proactive approach to searches and inspections of U.S.-bound flights at the airport with limited results. Belgian police attribute this to the additional DHS mandated security controls on these flights. The resources Belgium devotes to the inspection of sea freight, however, appears inadequate. In June of 2005, Belgium and the Netherlands agreed to jointly increase border controls in order to prevent ecstasy and cannabis production from shifting to Belgium. This expanded international cooperation on law enforcement investigations is particularly necessary given evidence that some ecstasy production is migrating from the Netherlands to Belgium and other neighboring states.

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. Money laundering has been illegal in Belgium since 1993. The country's Financial Intelligence Unit (FIU) (TIF-CIF) is active in efforts to investigate money laundering. No senior official of the Belgian 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 as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Belgium is a party to the UN Convention Against Corruption, the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons, and illegal manufacturing and trafficking in firearms. The United States and Belgium have an extradition treaty and an MLAT. During FY-2005, eight MLAT requests for narcotics case information sharing were submitted between Belgium and the United States. As part of a joint U.S.-EU venture, in December 2004 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 are stationed at the Port of Antwerp to serve as observers and advisors to Belgian Customs inspectors on U.S.-bound sea-freight shipments.

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. Belgium is surely among the largest exporters of ecstasy for use in the United States. Cultivation of marijuana is increasingly done at elaborate, large-scale operations in Belgium. Two farms, one with 1500 plants, were destroyed during the reporting period. The new police action plan 2004-2007 includes the fight against illegal commerce of cannabis due to the large-scale plantations discovered in the country. The production of amphetamines does not appear to have abated, as evidenced by the seizure of yet another five labs in 2005. 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 Canada and the United States. Despite the arrest of an Israeli courier with 10 kilograms of ecstasy in November, Israeli drug traffickers no longer figure so prominently in the export of ecstasy from Belgium and the Netherlands (see above), however, 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 official estimate of 20 tons entering the port each year; the actual number is believed to be considerably higher. 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. 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. As in many illicit trades, this concept of the cocaine trade is a thesis: other well-informed observers believe that most cocaine enters Europe through Spanish ports. 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. Turkish criminal organizations involved in heroin trafficking seem to have diversified their activities by starting to export ecstasy. Trucks with ecstasy are sent to Turkey and return to Belgium with heroin. In addition combined consignments of heroin, cannabis with possibly amphetamines and black market cigarettes are exported to the United Kingdom.

Domestic Programs. Belgium has an active counternarcotics educational program that targets the country's youth administered by the regional governments (Flanders, Wallonia, and Brussels). 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 approach directs its programs at individuals who influence young people versus young people themselves. In general, Belgian society think teachers, coaches, clergy, and the like are better suited to deliver the counternarcotics message to the target audience because they already are known and respected by young people.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States and Belgium regularly 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 transshipment. Despite increasing law enforcement cooperation, gradual improvements in the oversight of the financial sector, 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, lack of coordination among police agencies, and a lack of attention by Bosnia's political leadership mean that effective measures against narcotics trafficking and related crimes often do not exist. BiH is still considered primarily a transit country for drug trafficking due to its strategic location along the historic Balkan smuggling routes, weak state institutions, lack of personnel in counternarcotics units, and poor cooperation among the responsible authorities. In November 2005, BiH passed legislation mandating the development of a national counternarcotics strategy and the creation of a state-level body to coordinate the fight against drugs. In 2005, the BiH government launched a public information campaign to raise awareness about the dangers and effects of drugs. BiH is attempting to forge ties with regional and international law enforcement agencies. Bosnia is party to the 1988 UN Convention on Drugs and is attempting to meet the goals of the Convention.

II. Status of Country

Bosnia is not a significant narcotics producer, consumer, or producer of precursor chemicals. BiH does occupy a strategic position along the historic Balkan smuggling routes between drug production and processing centers in South Asia and markets in Western Europe. Bosnian authorities at the state, entity, cantonal and municipal levels have been unable to stem the continued transit of illegal aliens, black market commodities, and narcotics since the conclusion of the 1995 Dayton Peace Accords. Traffickers have capitalized in particular on an ineffective justice system, public sector corruption, and the lack of specialized equipment and training in combating criminal networks that support the illicit drug trade. BiH is increasingly becoming a storehouse for drugs, mainly marijuana and heroin. One of the main routes for drug trafficking starts in Albania, continues through Montenegro, passes through BiH to Croatia and Slovenia and then on to Central Europe. Cocaine arrives mainly from the Netherlands through the postal system.

Information on domestic consumption is not systematically gathered, but authorities estimate BiH is home to 100,000 drug addicts. Anecdotal evidence and law enforcement officials indicate that demand is steadily increasing. No national drug information system focal point exists, and the collection, processing, and dissemination of drug-related data is neither regulated nor vetted by a state-level regulatory body.

III. Country Actions Against Drugs in 2005

Policy Initiatives. On November 8, 2005, the BiH House of Representatives passed legislation designed to address the problem of narcotics trafficking and abuse. This legislation calls on the state-level Ministry of Civil Affairs to develop a comprehensive counternarcotics strategy and requires the Ministry of Security (MoS) to develop a national counternarcotics action plan. It further mandates that the MoS will serve as a state-level counternarcotics coordination body and control confiscated narcotics. The new law also regulates the production and possession of chemical precursors for

synthetic narcotics such as acetic anhydride (AA). This legislation clarifies the responsibilities of law enforcement agencies and places ultimate responsibility with the national government. Bosnia is a state with limited financial resources, but with USG and EU assistance it is attempting to build state-level law enforcement institutions to combat narcotics trafficking and organized crime and to achieve compliance with relevant UN conventions. The full deployment of the State Border Service (SBS) and the establishment of the State Investigative and Protection Agency (SIPA) have improved counternarcotics efforts. Telephone hotlines, local press coverage, and public relations efforts have focused public attention on smuggling and black-marketeering.

Law Enforcement Efforts. Counternarcotics efforts have improved but remain inadequate given suspected trafficking levels. Cooperation among law enforcement agencies and prosecutors is primarily informal and ad hoc, and serious legal and bureaucratic obstacles to the effective prosecution of criminals remain in place. Through September 2005 (latest available statistics), the SBS has filed 32 criminal reports against 40 persons and seized 68 kilograms of marijuana, 27 kilograms of heroin and 9.5 kilograms of cocaine. The Federation Ministry of Interior filed 877 criminal reports against 1,139 suspects. Federation counternarcotics operations have resulted in the seizure of 44 kilograms of marijuana, 41 kilograms of heroin and 220 ecstasy pills. Through November 2005, Republika Srpska (“RS”) police have filed 232 criminal reports and arrested 489 persons. RS police operations resulted in the seizure of 7.5 kilograms of marijuana, 1.6 kilograms of heroin, 0.4 kilograms of cocaine and 1,216 ecstasy pills. Through September 2005 (latest available statistics) Brcko District police have filed 14 criminal reports against 17 persons, seized 77 marijuana plants and miniscule quantities of heroine and cocaine.

The State Border Service, with 1,968 officers, is now operational and is responsible for controlling the country’s four international airports as well as Bosnia’s 55 international border crossings covering 1,551 kilometers. The SBS is considered one of the better border services in Southeast Europe and is one of the few truly multi-ethnic institutions in BiH. However, there are still a large number of illegal crossing points that the SBS does not control, including dirt paths and river fords. Moreover, many official checkpoints are minimally staffed and many crossings remain understaffed. The SIPA, once fully operational, will be a conduit for information and evidence among local and international law enforcement agencies, and will have a leading role in counternarcotics efforts. As of December 2005, SIPA had hired approximately 900 of its proposed 1,700 staff.

Cultivation/Production. BiH is not a major narcotics cultivator. Officials believe that domestic cultivation is limited to small-scale marijuana crops grown in southern and western Bosnia. BiH is also not a major synthetics narcotics producer and refinement and production are negligible. There are indications of increasing production of synthetic drugs, such as ecstasy, on a small, but increasing scale. Though BiH does not have the industrial infrastructure to support large-scale illicit manufacturing, a modest level of synthetic drug production in clandestine labs cannot be ruled out.

Corruption. BiH does not have laws that specifically target narcotics-related public sector corruption and has not pursued charges against public officials on narcotics-related offenses. Organized crime, a few corrupt government officials, and ethnic hard-liners all use the narcotics trade to generate personal revenue. There is no evidence linking senior government officials to the illicit narcotics trade. As a matter of government policy, however, BiH 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. BiH has signed, but has not yet ratified, the UN Convention Against Corruption.

Agreements and Treaties. BiH is a party to the 1988 UN Drug Convention and is developing bilateral law enforcement ties with neighboring states to combat narcotics trafficking. A 1902 extradition treaty between the U.S. and The Kingdom of Serbia applies to BiH as a successor state.

BiH is a party to the UN Convention against Transnational Crime and its protocols against migrant smuggling and trafficking in persons.

Drug Flow/Transit. While most drugs pass through BiH, indigenous organized crime groups are involved in local distribution to the estimated 100,000 drug users in the country. Major heroin and marijuana shipments are believed to travel through BiH by several well-established overland routes, often in commercial vehicles. Local officials believe that Western Europe is the destination for this traffic. Cocaine sales are also reputedly on the rise as the price has dropped. Officials believe that 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. Sale of narcotics is also considered a significant source of revenue used by organized crime groups to finance both legitimate and illegitimate activities. There is mounting evidence of links between, and conflict among, Bosnian criminal elements and organized crime operations in Russia, Albania, Serbia and Montenegro, Croatia, Austria, Germany, and Italy.

Domestic Programs. In BiH there are only two methadone therapy centers with a combined capacity to handle about 160 patients. The limited capacity of the country’s psychiatric clinics, also charged with treating drug addicts, is problematic, as the number of addicts and drug-related deaths in the country rises steadily. It is estimated that between 70 to 80 per cent of drug addicts who undergo basic medical treatment are recidivists. The Bosnian government currently pays for the basic medical treatment of drug addicts, but there are no known government programs for reintegrating former addicts into society. On November 8, the BiH House of Representative adopted a law on the prevention of the use of illegal narcotics. This law includes provisions for treatment, rehabilitation, and increasing public awareness. Canton Sarajevo Public Institute for Alcoholism and Substance Abuse started a public radio campaign discouraging drug usage aimed at youth population. A counternarcotics citizen’s association organized a fund raising concert under the title “NO DRUGS” Program with the participation of popular BiH music groups. nongovernmental organizations including the Parents’ Association Against Drug Abuse have helped send 65 addicts to various residential centers. The Citizen’s Association for Treatment, Support, and Re-Socialization of Drug Addicts (UG-PROI) provides advice and support to drug addicts and their families, and assists in the re-socialization of recovered addicts after treatment. In May 2005, the organization completed the construction of a therapeutic community for the rehabilitation of addicts near Sarajevo on a property donated by a local family. This is the first multidisciplinary center of this kind in the Federation.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. USG policy objectives in BiH include reforming the criminal justice system, strengthening state-level law enforcement and judicial institutions, improving the rule of law, depoliticizing the police, improving local governance, 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’s bilateral law enforcement assistance program continues to emphasize task force training and other measures against organized crime, including narcotics trafficking. The Department of Justice’s International Criminal Investigative Training Assistance Program (ICITAP) and U.S. Customs programs provided specific counternarcotics training to entity Interior Ministries and the SBS. The Overseas Prosecutorial Development Assistance Training (OPDAT) provides training to judges and prosecutors on organized crime-related matters.

The Road Ahead. Strengthening the rule of law, combating organized crime and terrorism, and reforming the judiciary and police remain top USG priorities. The USG will continue to focus its bilateral programs on related subjects such as public sector corruption and border controls. The USG

will assist BiH with the full implementation of the new national counternarcotics strategy and with the implementation of police reform. 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 thought that much of the heroin distributed in Europe is transported through Bulgaria. Marijuana and cocaine are also transported through Bulgaria. The Government of Bulgaria (GOB) has continued to make progress in improving its law enforcement capabilities and customs services; it closed some illegal drug-producing laboratories and recorded a notable increase in seizures. However, while major legal and structural reforms have been enacted, effective implementation remains a challenge. 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 a drug transit country to an important producer of narcotics. According to NGO and government sources, Bulgaria is increasingly a center of synthetic drug production, and synthetic drugs have overtaken heroin as the most widely used drugs in Bulgaria. Amphetamines are produced in Bulgaria for the domestic market as well as for export to Turkey and the Middle East. The Government of Bulgaria has emphasized its commitment to combat serious crime including drug trafficking. Despite some progress towards this goal, there were no convictions of major figures involved in drug trafficking, or other serious related crimes, including organized criminal activity, corruption or money laundering during 2005. Among the problems hampering counternarcotics efforts are poor inter-agency cooperation, inadequate equipment to facilitate narcotics searches, widespread corruption, and an often ineffective judicial system.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Bulgarian government has continued to implement the National Strategy for Drugs Control adopted by the Council of Ministers in 2003. In 2004, amendments to the Criminal Code abolished a provision that had decriminalized possession of one-time doses of illegal drugs for personal use. The effect of this policy has been to extend harsh penalties for drug possession to users as well as producers and distributors. NGOs, government bodies, and European institutions have disputed the effectiveness of this legislation, with some studies claiming that drug use has actually increased since its adoption. Additional measures started in 2002 and continuing through 2005 included engaging NGOs in counternarcotics partnerships and the establishment of 16 provincial prevention and education centers throughout the country. Unfortunately, national programs for drug treatment and prevention, including the National Center for Addictions, have been consistently underfunded.

Accomplishments. The National Drugs Intelligence Unit, founded in October 2004, has improved coordination between law enforcement agencies by gathering and analyzing information relating to illegal drugs production and distribution. To date, the center has compiled data on over 300 suspected drug traffickers.

Law Enforcement Efforts. From January to November 2005, Bulgarian law enforcement agencies closed three illegal drug-producing laboratories and seized 2240 kilograms of drugs, including 395 kilograms of heroin, 61 kilograms of marijuana, 142 kilograms of cocaine, 1,327 kilograms of synthetic drugs and 2000 vials and 27,598 tablets of other psychotropic substances. Also seized were 192 kilograms of dry and 157 liters of fluid precursor chemicals. Bulgarian services report that the 12.5 percent increase in seizures of synthetic drugs over the same period in 2004 is due to increased demand for Bulgarian-produced synthetic drugs in Southwest Asia.

Corruption. Despite some progress, corruption in various forms in the government remains a serious problem. According to recent polls, the Customs Service is widely considered the most corrupt government agency. In November 2005, 24 Customs officers, including the Deputy Chief of the Customs Service, resigned over allegations of corruption. Despite this, 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 is not a party to the UN Convention Against Corruption.

Agreements and Treaties. Bulgaria is a party to the 1988 UN Drug Convention, the 1961 Single Convention as amended by 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 protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms. The 1924 U.S.-Bulgarian Extradition Treaty and a 1934 supplementary treaty are in force.

Cultivation and Production. The only illicit drug crop known to be cultivated in Bulgaria is cannabis, but the extent of 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 of synthetic stimulant products such as captagon (fenethylamine).

Drug Flow/Transit. Synthetic drugs and heroin are the main drugs transported through Bulgaria. Heroin from the Golden Crescent and Southwest Asia (primarily Afghanistan) has traditionally been trafficked to Western Europe through the Northern Balkan route from Turkey through Bulgaria to Romania. However, Bulgarian authorities have noticed a recent shift in heroin trafficking to more circuitous routes through the Caucasus and Russia to the north and through the Mediterranean to the south. Other trafficking routes crossing Bulgaria pass through Serbia and Montenegro and the Republic of Macedonia. In addition to heroin and synthetic drugs, smaller amounts of marijuana and cocaine also transit through Bulgaria. Precursor chemicals for the production of heroin pass from the Western Balkans through Bulgaria to Turkey and the Middle East. Synthetic drugs produced in Bulgaria are also trafficked through Turkey to markets in Southwest Asia. Principal methods of transport for heroin and synthetics include buses, vans, and cars, with smaller amounts sent by air. Cocaine is primarily trafficked into Bulgaria by air in small quantities and by maritime vessel in larger quantities.

Domestic Programs. Demand reduction has received government attention for several years. The Ministry of Education requires that schools nationwide teach health promotion modules on substance abuse. The Bulgarian National Center for Addictions (NCA) provides training seminars on drug abuse for schoolteachers nationwide. The NCA is in the process of opening prevention and education centers in each of Bulgaria's 28 administrative districts, 16 of which are currently operational. Three universities provide professional training in drug prevention. For drug treatment, there are 35 outpatient units, including 5 specialized methadone clinics which provide treatment to 770 patients. Twelve inpatient facilities nationwide offer 209 beds for more intensive addiction-related treatment. Specialized professional training in drug treatment and demand reduction has been provided through programs sponsored by UNODC, EU/PHARE and the Council of Europe's Pompidou Group.

IV. U.S. Policy Initiatives and Strategies

Bilateral Cooperation. DEA operations for Bulgaria are managed from the U.S. Consulate General in Istanbul. The United States also supports various programs through the State Department, USAID, the Department of Justice (DOJ) and the Treasury Department to support the counternarcotics efforts of 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 insufficient 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 attorney advises Bulgarian prosecutors and investigators on cyber-crime and other issues. A Treasury Department representative supports Bulgarian efforts to investigate and prosecute financial crimes, including money laundering. USAID provides assistance to strengthen Bulgaria's constitutional legal framework, enhance the capacity of magistrates and promote anticorruption efforts.

The Road Ahead. The U.S. and Bulgaria will continue to cooperate effectively to improve Bulgaria's capacity to enforce narcotics laws.

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 2005

Policy Initiatives. Croatia adopted a National Strategy for Narcotics Abuse Prevention in November for the 2006-2012 period, developed with assistance from the European Monitoring Center for Drugs and Drug Addiction (EMCDDA). The Strategy aims to bring demand and supply reduction efforts in line with EU policies and creates a National Information Unit for Drugs to standardize monitoring and the assessment of drug abuse data to facilitate data sharing with the EU’s EMCDDA programs. In November of 2005, draft changes to the criminal code passed the initial reading in the Sabor (parliament). Key provisions include simplifying confiscation of assets of organized criminals and stiffening penalties for corruption. Further parliamentary discussion of these changes is expected in early 2006. At the end of 2005, Croatian authorities initiated a program to change the official health protocol on disbursement of heptanon and other heroin addiction replacement therapy drugs. This initiative was taken to counter the growing abuse of heptanon in Croatia: seizures of illegal heptanon doubled in 2005 compared to 2004.

Accomplishments. Croatia continues to cooperate well with neighboring and other 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 October 2005, Croatian police joined with police from Macedonia, Slovenia, and Serbian police in Operation “Put” (path) to break up an ongoing heroin smuggling operation. Twelve persons (Croatian, Turkish and Macedonian citizens) were arrested and 1.3 kilograms of heroin seized. In another operation, Croatian police worked with their Austrian counterparts to arrest an Albanian national involved in drug smuggling in Croatia.

Law Enforcement Efforts. 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. Croatian police and Customs authorities continued to coordinate counternarcotics efforts on targeted border-crossing points, although with 189 legal border crossings, the level of coordination was not consistent. Heroin (114 kilograms in 2004 vs. 25 kilograms in 2005), Hashish (53 kilograms in 2004 vs. 6 kilograms in 2005) and marijuana (967 kilograms in 2004 vs. 428 in 2005) seizures fell sharply during the first ten months of 2005 compared

to the same period of 2004. Cocaine seizures, while small absolutely, increased sharply (from 7 kilograms in 2004 to 17.6 kilograms in 2005), amphetamine and ecstasy seizures declined.

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. In 2005, two mid-level police officers from the city of Velika Gorica were suspended on allegations of corruption. Also in 2005, a lower level police officer was arrested in the city of Rijeka along with four individuals in a police raid on a street-level drug distribution organization.

Agreements and Treaties. Croatia ratified the UN Convention Against Corruption in April 2005. Croatia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by 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 against trafficking in persons, migrant smuggling, and illegal manufacturing and trafficking in firearms. 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 International Criminal Tribunal for the Former Yugoslavia (ICTY).

Cultivation/Production. Small-scale cannabis production for domestic use is the only narcotics production within Croatia. In 2004, 2,207 cannabis plants were seized. 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 Strategy for Narcotics Abuse Prevention which was adopted by the government in November for the period of 2006-2012. In July 2004, the Sabor approved some changes to the criminal code allowing courts to mandate therapeutic treatment in some drug addiction cases. According to the Office, Istria County had the highest rate of treated addicts, followed by the Zadar and Sibenik-Knin County. The high rates in Istria did not necessarily reflect high drug abuse rates, but rather an efficient system of their inclusion in treatment due to good cooperation between drug abuse prevention centers and general practitioners. In 2004, 5,768 persons underwent drug addiction treatment, which is 1.6 percent more than in the previous year. But the number of the first-time seekers of addiction treatment, which has been sliding since 2001, dropped another 12 percent to 1,619 in comparison with the previous year. The number of new opiate addicts, which stood between 800 and 1000 annually for the past several years, dropped further to 732 in 2004. However, due to reorganization of addiction prevention centers, these positive results may have more to do with an unstable system of reception of addicts, than the actual decline in numbers. Approximately 72 percent of the overall number of addicts was addicted to heroin. Over 47 percent were infected with hepatitis C which was a significant drop from the 72 percent last year, and 0.5 percent were HIV positive. The number of deaths caused by overdose continued to rise. There

were 108 drug related deaths in 2004, of which 76 died of overdose—a 22 percent increase compared to 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 spent 34 million Kuna (approx \$5,484,000) for demand reduction related activities in 2004. The Government of Croatia has created county-level expert advisory groups that will work with local governments to counternarcotics abuse and serve as incubators for policy initiatives. In Varazdin, the advisory group is piloting a random drug testing program for high school students.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. 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. Having achieved basic objectives ahead of schedule, U.S. assistance for police reform efforts under the ICITAP (DoJ) program was refocused on combating organized crime. In April, U.S. DEA special agents joined with ICITAP trainers to help Croatian police develop confidential source management skills. In October, Croatian police formed the first joint police-prosecutor task force to target a criminal organization allegedly involved in drug trafficking. 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. In January 2005, Customs officials who had recently received EXBS training in detecting concealed compartments in vehicles and shipping containers seized 700 kilograms of marijuana hidden in a truck.

Road Ahead. For 2006, U.S. expert training teams will join in-country U.S. trainers to help Croatian police develop skills in complex case management, undercover operations, anticorruption investigations, and detecting financial crimes including money laundering. In addition, resident advisors will continue to assist the Ministry of Interior in improving police and prosecutor cooperation in complex narcotics and organized crime cases. Additional training and detection equipment donations planned for 2006 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.

Cyprus

I. Summary

Although Cypriots do not produce or consume significant amounts of narcotics, an 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 chemicals between the Middle East and Europe. To a limited extent, drug traffickers use Cyprus as a transshipment 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 narcotics-related overdoses in 2004 were as follows: seven (7) confirmed heroin deaths (two of which also had cannabis in their system); one (1) confirmed ecstasy death; one (1) unconfirmed heroin death; and one (1) unconfirmed cocaine death. Overall, the number of overdose related deaths remained constant in 2005. The use of cannabis and ecstasy by young Cypriots and tourists continues to increase. Cypriots themselves do not produce or consume significant quantities of drugs. Dual-use precursor chemicals 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 ninth-largest merchant shipping fleet in the world.

Drug-related crime, still low by international standards, has been steadily rising since the 1980's. According to the Justice Ministry, drug-related arrests and convictions in Cyprus have doubled since 1998. Cypriot law proscribes a maximum prison term of two years for drug users less than 25 years of age with no prior police record. In late 2005, the Courts began to refer most first-time offenders to rehabilitation centers rather than requiring incarceration. Sentences for drug traffickers range from four years to life, depending on the substances involved and the offender's criminal record. In an effort to reduce recidivism as well as to act as a deterrent for would be offenders, Cypriot courts have begun sentencing distributors to near maximum prison terms as allowed by law. For example, in the second half of 2004, the Greek Cypriot courts began sentencing individuals charged with distributing heroin and ecstasy (MDMA) to much harsher sentences, ranging from 8 to 15 years. 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 2005

Policy Initiatives. In May 2004, Cyprus became a member of the European Union (EU). 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. 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. 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. The Cyprus Police, Drug Law Enforcement Unit, (DLEU) is the lead Police agency in Cyprus charged with combating drug trafficking in Cyprus.

Law Enforcement Efforts. Through the first 11 months of 2005, the Cyprus Police Drug Enforcement Unit opened 561 cases and made 675 arrests. Of those arrested 465 were Greek Cypriot while 211 were foreign nationals. The police also participated in three controlled deliveries with authorities from Greece, South Africa and the United Kingdom and dismantled four drug-trafficking organizations operating within Cyprus. They also seized 155 kilograms of cannabis, 332 cannabis plants, 5 kilograms of cannabis resin (hashish), one kilogram and 300 grams of cocaine, 12,835 tablets and 5.7 grams of MDMA (ecstasy), 17.5 tablets and 1.5 grams of amphetamines, 792 grams of opium, and 953 grams of heroin. 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. As a matter of policy, the Government of Cyprus does not encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Cyprus 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. 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 and an MLAT are in force between the United States and Cyprus. Cyprus also became a member of the EU in May 2004.

Cultivation/Production. Cannabis is the only illicit substance cultivated in Cyprus, and it is grown only in small quantities for local consumption. The Cypriot authorities vigorously pursue illegal cultivation.

Drug Flow/Transit. 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 nonCypriots on similar charges. The number of Turkish Cypriots arrested for the distribution of narcotics in Cyprus in 2005 was roughly the same or below 2004 levels. 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.

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/Bilateral Cooperation. 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 2006, 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. The consumption of recreational drugs such as marijuana and ecstasy continues to grow, particularly among youth. According to the EU, Czech marijuana usage is now the highest in Europe. The usage and addiction rates of heroin and pervitine have stabilized or slightly decreased; the level of cocaine use remains very low. 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. The Czech Republic is a party to the 1988 UN Drug Convention.

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 imprisonment. The Czech National Focal Point for Drugs and Drug Addiction is the main body responsible for collecting, analyzing and interpreting data on drug use. Earlier this year the Interior Ministry issued its action plan: National Drug Policy Strategy 2005-2009. According to a pan-European (EU) study, the rate of marijuana use in the Czech Republic is the highest in Europe, with 22.1 percent of young adults having used the drug within the previous twelve months. Czechs were also the most likely to have ever used marijuana in their lifetimes. Consumption of ecstasy and Pervitine was among the highest in the EU. Czech officials believe that the number of IV drug users has largely remained steady or has slightly declined.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Drug policy remains a contentious issue in Czech domestic politics. The Christian Democratic Party, a junior member of the governing coalition, has endorsed a "war on drugs" and called for sharply punitive enforcement policies. The new Criminal Code passed in 2005, however, draws a sharp distinction between the use of "soft" drugs, such as marijuana and ecstasy, and "hard" drugs, such as heroin and Pervitine. Although a measure that would have decriminalized marijuana failed in Parliament earlier in 2005, the Criminal Code fully envisions a markedly more liberal approach to soft drugs in order to focus resources against drugs considered more damaging. The current National Drug Strategy flatly states that drug users will not be a priority target of police operations. Current planning focuses enforcement operations against organized criminal enterprises and efforts to reduce addiction and their associated health risks. The National Drug Headquarters is the main organization within the Interior Ministry responsible for major drug investigations, but the Deputy Police President has noted publicly that it is seriously understaffed. The drug unit of the Czech Customs Service assumed responsibility in 2005 for monitoring the Czech Republic's modest licit poppy crop, a function previously performed by the Ministry of Agriculture.

Accomplishments/Law Enforcement. In 2005, the National Drug Headquarters, together with the Custom Service, seized 36.3 kilograms of heroin; 19,010 ecstasy pills; 5.3 kilograms of methamphetamine, 103 kilograms of marijuana, 1,780 cannabis plants, 4.6 kilograms of hashish, and 10 kilograms of cocaine. They also found 261 laboratories for methamphetamine production compared

to 105 in 2004. The seizure statistics for ecstasy and hashish showed decreases, methamphetamine and cocaine seizures represented a significant increase over the totals registered in 2004.

The National Drug Headquarters also scored some significant successes in 2005. In November 2005, for example, a ten-member group of pervitine producers were arrested following a long-term sting operation. The arrests put an end to an operation that had generated perhaps millions of dollars in illicit revenues. The Drug Headquarters also successfully investigated and prosecuted several members of ethnic-Albanian drug gangs involved in the distribution of heroin and other drugs.

According to the police statistics for 2005, 2209 people were investigated for drug related crimes. 2156 suspects were investigated for unauthorized production and possession of narcotics and psychotropic substances and “poisons”. 184 were investigated for drug possession for personal use, and 53 others were investigated for spreading addiction.

According to the statistics provided by the Ministry of Justice for 2005, the state prosecuted 2430 suspects and indicted 2157 others for drug related crimes. 203 were indicted for drug possession for personal use and 91 were indicted for spreading addiction. Courts have convicted 1326 people; there were 60 convictions for drug possession for personal use and 32 for spreading addiction.

Statistics for year 2005 show that most of the convicted criminals (51 percent) receive conditional sentences, i.e., (if they regularly attend mandated treatment, their sentences are suspended) for drug related crimes and only one third of convicted criminals are actually sentenced to serve time. Only 13 percent of this latter group receives sentences higher than 5 years. The majority (74 percent) of those given prison sentences receive from 1 to 5 years. There was a significant trend in Czech legal practice to give additional penalties such as financial penalties (28 percent of all convicted) and assets forfeiture (6 percent). Compared to 2004 there were no punishments such as public service.

Corruption. As a matter of government policy, the Czech 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. A current provision in Czech law permits possession of a small amount of certain drugs, but fails to define a “small amount”. Leaving this determination to the individual officer offers strong possibilities for corruption and malfeasance. To avoid any possible confusion and to eliminate possibilities for corruption, the Police President and Supreme Public Prosecutor issued internal regulations designed to clarify elements of the drug law that some feared allowed policemen too much discretion in whether to pursue drug cases. In 2004/05 a few police officers committed drug-related crimes: there were 4 cases of production and distribution of drugs, and 1 case of trafficking. Ten police officials were convicted of similar offenses in 2003 and four in 2002. The Czech Republic has signed, but has not yet ratified, the UN Convention Against Corruption.

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 1926 extradition treaty, as supplemented in 1935, remains in force between the United States and the Czech Republic. The U.S. the Czech Republic are in the process of negotiating a new extradition treaty. The Czech Republic has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Drug Flow/Transit. According to the head of Police counternarcotics squad, heroin trafficking in the country is largely under the control of ethnic Albanian groups that import their product from Afghanistan. During the course of the year the counternarcotics squad registered several major successes against these groups. Heroin is transported in the Czech Republic primarily using modified vehicles. Cocaine, on the other hand remains relatively rare in the Czech Republic, and frequently is imported through Western Europe. Pervitine is a synthetic methamphetamine primarily produced in homes and laboratories. Besides Czech citizens, Russian-speaking organized crime groups are

frequently implicated in the Pervitine trade, as well as Bulgarian nationals and citizens of former Yugoslav states. Pervitine is often exported to surrounding countries. Ecstasy remains a favorite drug of the “dance scene,” and comes to the country primarily from the Netherlands, Belgium, Poland, and Bulgaria. Seizures of ecstasy tablets more than doubled in 2004 over 2003. A trend toward larger-scale growth of cannabis plants in hydroponic laboratories continued in 2004, along with a similar growth in the potency of the drug produced (up to 20 percent THC). In the greater Prague area, three such large scale facilities were discovered in 2004.

Domestic Programs (Demand Reduction). The main components of Czech demand reduction plans include primary prevention along with treatment and re-socialization of abusers. This strategy entails a variety of programs which include school-based prevention education, drug treatment and needle exchange programs, and partnerships with local NGOs. Within the context of the National Strategy, the government has established benchmarks for success. Some of these include stabilizing or reducing the number of “problem” (“hard”) drug users, reversing the trend in the Czech Republic toward rising recreational and experimental drug use, and ensuring the availability of treatment centers and social services. In 2004, the state budget provided 206 million Czech Crowns, or \$8.3 million to national drug programs and an additional 82 million Crowns, or \$3.3 million came from the regional budgets and 63 million Crowns, or 2.5 million from local/district budgets.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. covers Czech Republic drug issues through the DEA office in Berlin, which maintained an extremely active and cooperative relationship with Czech counterparts. The State Department has given grants for counternarcotics education and has provided equipment and training for customs officers.

The Road Ahead. The U.S. and the Czech Republic will continue their active cooperation as the Czech Republic implements its National Drug Policy Strategy document for 2005-2009.

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 will inevitably 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 use 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 2005

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. Although seldom used, undercover operations are permitted in Denmark with a court order when investigating crimes punishable by terms of more than six years in prison. Informants are used more for intelligence purposes than to secure actual evidence through sting-type operations in criminal investigations. Danish legislation passed in late 2002 requires persons carrying cash or instruments exceeding 15,000 Euros (approximately \$17,850) to report the relevant amount to customs upon entry to or exit from Denmark. This law has led to Danish customs proactively intercepting illegal money.

Law Enforcement Efforts. During 2005, there was a significant 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." This case has been linked to a 43 kilograms seizure of cocaine in Estonia, the largest cocaine seizure in Baltic history. Police also targeted members of the Hell's Angels and Banditos biker gangs by increased enforcement of tax laws. Authorities brought 31 cases of tax evasion against members of the biker gangs resulting in fines up to DKK 4,000,000 (\$727,272). Biker gangs are major factors in the drug trade. Heroin availability in Denmark has fluctuated based on the heroin production levels in Afghanistan. Heroin trafficking is

controlled by Serbian and Albanian nationals. Final crime statistics for 2005 are not yet available, but are expected to show increased heroin seizures over 2004. In May 2005, after a Copenhagen Police Department investigation, the Spanish Guardia Civil seized 2,500 kilograms of marijuana destined for distribution in Denmark. During the same month, another 638 kilograms of marijuana was seized by Spanish authorities at the Spanish/French border based on information provided by Copenhagen police. Suspects in Denmark were arrested in connection with both of these seizures.

Corruption. As a matter of government policy, Denmark 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.

Agreements and Treaties. 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 are known to 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.

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 on methadone maintenance. The 2003 governmental action plan against drug abuse, built upon existing programs, 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

Bilateral Cooperation. U.S. goals in Denmark are to cooperate 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. The USG enjoys excellent cooperation with its Danish counterparts on drug-related issues. In October 2005, the Embassy's defense attaché and DEA organized a briefing by the United States Coast Guard (USCG) and DEA in Washington, D.C. for senior Danish officials. This briefing addressed the Danish government's interest in using the Danish Navy, which possesses limited police powers, to support counternarcotics missions in Danish waters, as well as the Caribbean basin to combat the increasing quantities of cocaine being shipped from South American to Europe and the United States.

The Road Ahead. Danish enforcement efforts will be strengthened by new legislation that authorizes police to use 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. The introduction of visa-free travel from the new EU member states has increased the 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

Frequent arrests of drug traffickers and seizures of record amounts of drugs on Estonia's borders indicate that the drug transit through Estonia is increasing; and it also is an indication of the increasing efficiency of the counternarcotics efforts of Estonian law enforcement agencies. Monitoring agencies agree that Estonia has higher-than-average drug-related delinquency and HIV infection rates. Estonia is a party to the 1988 UN Drug Convention.

II. Status of Country

Estonia has one of the highest HIV infection growth rates in Europe. As of December 1, 2005, 5,028 cases of HIV have been registered, 586 of which were registered in 2005. AIDS has been diagnosed in 89 people, 19 in 2005. Intravenous drug-users (IDUs) and their partners form the largest share of newly registered HIV cases

III. Country Actions Against Drugs in 2005

Law Enforcement. The closure of three synthetic drug labs within six months in 2005, along with seizures of drug precursors and detentions of drug traffickers in possession of refined drugs, indicates that synthetic drugs are produced in Estonia. In April 2005, police discovered an extensive narcotics trafficking network near Tallinn and seized 0.7 kilograms of precursor chemicals. In the first six months of 2005 police seized nearly three times more drugs than in the same period of the previous year. In October Estonian law enforcement, in cooperation with U.S. law enforcement agents, seized 40 kilograms of high-quality cocaine in Tallinn and detained four Israeli citizens in connection with drug trafficking.

Domestic Programs/Demand Reduction. In 2005, changes were introduced to the state legal framework regulating drug-related issues. On April 13, 2005, the Estonian Parliament adopted the Amendment to the Law on the Narcotic Drugs and Psychotropic Substances Act (ALNDPSA), which came into force in May 2005. The ALNDPSA harmonizes domestic legislation with EU narcotics regulations and brings Estonian law into compliance with the 1988 UN Drug Convention. The ALNDPSA provides the Estonian Drug Monitoring Center with the authority to collect data on drugs and drug addiction and to establish a national drug treatment registry.

In 2005, the GOE continued implementation of the National Strategy on the Prevention of Drug Dependency 2004-2012. Combating the drug trade and reining in domestic consumption continue to be high priorities for all Estonian law enforcement agencies as well as for several government ministries. Under the current Government Coalition Agreement, which was adopted in April 2005, the GOE has announced it will focus on prevention of drug addiction and HIV/AIDS.

On December 1, 2005, the GOE adopted a national anti-HIV/AIDS strategy for 2006-2015 which aims to bring about a steady downward trend in the spread of HIV as well as to improve the quality of life of people living with the disease. The strategy pays special attention to programs for various at-risk groups, including intravenous drug uses (IDUs).

Corruption. As a matter of government policy, Estonia 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.

Agreements and Treaties. Estonia 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. Estonia is also party to the 1990 Council of Europe (COE) Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. The U.S. and Estonia share a 1924 extradition treaty, supplemented in 1934 and an MLAT that entered into force in 1998. Estonia is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons, and illegal manufacturing and trafficking in firearms.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The U.S. and Estonia will continue to work together to suppress narcotics trafficking and reduce the drug dependency of drug abusers.

Finland

I. Summary

Finland is not a significant narcotics-producing or trafficking country. However, drug use and drug-related crime has increased over the past decade. Finland's constitution places a strong emphasis on the protection of civil liberties, and this sometimes has a negative effect on law enforcement's ability to investigate and prosecute drug-related crime. Electronic surveillance techniques such as wiretapping are generally prohibited in all but the most serious investigations. Finnish political culture tends to favor demand reduction and rehabilitation efforts over strategies aimed at reducing supply. Police believe increased drug use may be attributable to the wider availability of narcotics in post-cold war Europe, increased experimentation by Finnish youth, cultural de-stigmatization of narcotics use, and insufficient law enforcement resources.

While there is some overland narcotics trafficking across the Russian border, police believe existing border controls are mostly effective in preventing this route from becoming a major trafficking conduit into Finland. Estonian organized crime syndicates are believed responsible for most drug trafficking into Finland. Estonia's accession to the Schengen Treaty has complicated law enforcement efforts to combat narcotics trafficking. Asian crime syndicates have begun to use new air routes between Helsinki and Asian cities like Bangkok to facilitate trafficking-in-persons, and there is some concern that these routes could be used for narcotics trafficking as well. 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 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 the export of narcotics abroad. Estonia, Russia, and Spain are Finland's principal sources for illicit drugs. Finnish law criminalizes the distribution, sale, and transport of narcotics; the GoF cooperates with other countries and international law enforcement organizations regarding extradition and precursor chemical control.

The overall incidence of drug use in Finland remains low (relative to many other western countries); however, drug use has increased over the past decade. Cocaine is rare, but amphetamines, methamphetamine, synthetic "club" drugs, and heroin and heroin-substitutes can be found. Finland has historically had one of Europe's lowest cannabis-use rates, but cannabis seizures have increased since 2004. Police attribute this to new smuggling routes from southern Spain, a popular tourist destination for Finns and home to a Finnish "migr," a kibbutz-like rural community. Ecstasy, GHB, ketamine ("Vitamin K") and other MDMA-type drugs are concentrated among young people and associated with the club culture in Helsinki and other large cities. Social Welfare authorities believe the introduction of GHB and other date rape drugs into Finland has led to an increase in sexual assaults. Finnish law enforcement authorities admit that resource constraints and restrictions on electronic surveillance and undercover police work complicate efforts to penetrate the ecstasy trade. Changing social and cultural attitudes toward drug use also contribute to this phenomenon.

Heroin use began to increase in Finland in the late 1990's, but seizures have declined since 2004. . In August 2005, Finnish Customs at the Vaalimaa Border Station, Finland, which is located at the Russian border seized 55 kilograms of heroin. This is largest reported heroin seizure in Finland's history. Typically, heroin is smuggled to Scandinavia by vehicle using the Balkan route, through

Germany and through Denmark to the rest of Scandinavia. This seizure documents a new route used with Finland being the first point of entry to the EU and Scandinavia.

Abuse of Subutex (buprenorphine) and other heroin-substitutes seems to have replaced heroin abuse to some extent. France remains the major source for Subutex. According to police, French doctors can prescribe up to three weeks supply of Subutex. Finnish couriers travel frequently to France to obtain their supplies which are then resold illegally with a high mark-up. Possession of Subutex is legal in Finland with a doctor's prescription, but Finnish physicians do not readily write prescriptions for Subutex unless patients are actually in a supervised withdrawal program.

According to Finnish law enforcement, there are approximately two dozen organized crime syndicates operating in Finland; most are based in Estonia or Russia. Since Estonia's entry into the Schengen Region, Estonian travelers to Finland are no longer subject to routine inspection at ports-of-entry, making it difficult to intercept narcotics. The police report that a drug dealer in Helsinki can phone a supplier in Tallinn, and within three hours a courier will have arrived in Helsinki via ferry with a shipment of drugs. Although Estonian syndicates control the operations, many of the domestic street-level dealers are Finns. In the past, the Estonian rings primarily smuggled Belgian or Dutch-made ecstasy into Finland, but beginning in 2003, larger quantities of Estonian-produced ecstasy began hitting the Finnish market, although the quality (and market value) is lower. Estonian smugglers also organize the shipment of Moroccan cannabis from Southern Spain to Finland. The police report that cooperation with Estonian law enforcement is excellent, and both countries maintain permanent liaison officers in the other.

Russian organized crime syndicates remain active inside Finland. Russian traffickers based out of St. Petersburg are the primary suppliers of heroin, although Estonians are now active in this area as well. The police are increasingly concerned about Asian crime groups using new air routes from Helsinki to major Asian cities like Bangkok as a narcotics smuggling route. Asian syndicates are already using these routes for trafficking-in-persons. Finland's Frontier Guard will post a permanent liaison officer to Beijing in 2006 to better monitor this phenomenon.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Finland's comprehensive policy statement on illegal drugs was issued in 1998; the statement articulated a zero-tolerance policy regarding narcotics. However, a 2001 law created a system of fines for simple possession offenses rather than jail time. The fine system enjoys widespread popular support and is chiefly used to punish youth found in possession of small quantities of marijuana, hashish, or ecstasy. Some Finnish authorities have expressed concern that this system sends a mixed message to Finns about drug use and would prefer stiffer penalties. There is limited political and public support for demand reduction through stronger punitive measures, however. In 2005, Parliament passed a law expanding the authority of the Frontier Guard to cover the entire country (not just immediate border areas), thereby enhancing the Guard's ability to combat narcotics trafficking.

Law Enforcement Efforts. The police report that arrests and seizures in 2005 remained stable (statistics are not yet available). Law enforcement focuses limited police resources on major narcotics cases and significant traffickers. Finland in 2005 continued its impressive record of multilateral cooperation. Finnish police maintain liaison officers in ten European cities (six in Russia).

Corruption. As a matter of government policy, Finland 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. Finnish officials do not engage in, facilitate, or encourage the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Official corruption is not a problem in Finland. There have

been no arrests or prosecutions of public officials charged with corruption or related offenses linked to narcotics in Finnish history.

Agreements and Treaties. Finland is a party to the 1988 UN Drug Convention, and its legislation is consistent with all the Convention's goals. Finnish judicial authorities are empowered to seize the assets, real and financial, of criminals. Finland is also a party to the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Finland is a party to the UN Convention against Transnational Crime, and is a signatory to the UN Convention Against Corruption. A 1976 bilateral extradition treaty is in force between the United States and Finland. Finland signed the bilateral instrument of the EU-U.S. Extradition Treaty in 2004; however, the Parliament has not yet ratified the treaty, and some Parliamentarians have linked this nonratification to discomfort with certain U.S. rendition practices, which some believe might violate. Finland has also concluded a Customs Mutual Assistance Agreement with the United States. Finland is a member of the major Donor's Group within the Dublin Group. The vast majority of Finland's financial and other assistance to drug-producing and transit countries has been via the UNODC.

Cultivation/Production. There were no reported seizures of indigenously cultivated opium, no recorded diversions of precursor chemicals, and no detection of illicit methamphetamine, cocaine, or LSD laboratories in Finland in 2004; reports for 2005 are not yet available. Finland's climate makes cultivation of cannabis and opium poppy almost impossible. Local cannabis cultivation is believed to be limited to small-scale, indoor hydroponic culture. The distribution of 22 key precursor chemicals listed by international agencies is tightly controlled.

Drug Flow/Transit. Hashish and ecstasy are the drugs most often seized by Finnish police. Finland is not a major transit country for narcotics. Most drugs trafficked into Finland originate in or pass through Estonia. Finnish authorities report that their land border with Russia is well guarded on both sides to ensure that it does not become a major transit route.

Domestic Programs (Demand Reduction). The central government gives substantial autonomy to local governments to address demand reduction using general revenue grants. Finnish schools in 2005 continued to educate students about the dangers of drugs. Finland's national public health service offered 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 illegal drugs. The government was criticized in 2005 for failure to provide adequate access to rehabilitation programs for prison inmates.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives/Bilateral Cooperation. The U.S. has worked with Finland and the other Nordic countries through multilateral organizations in an effort to combat narcotics trafficking in the Nordic-Baltic region. This work has involved U.S. assistance to and cooperation with the Baltic countries and Russia. Finland in 2005 participated in a DEA-sponsored regional drug enforcement seminar.

The Road Ahead. The U.S. anticipates continued close cooperation with Finland in the fight against narcotics. The only limitations to such cooperation will likely be the smaller 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 colonial legacy 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 2004 (latest figures), Government of France (GOF) counternarcotics initiatives in 2005 included increased 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

Cannabis users are the largest group of drug users in France, according to official French statistics. By contrast, users of the next most popular drugs, heroin and cocaine, account for approximately four percent and two percent of users respectively.

The number of fatal drug overdoses decreased in 2004 compared to 2003, continuing a trend that began in 1995 (with the exception of a small up-tick in 2000). There were only 69 deaths due to drug overdose in 2004, compared to 89 in 2003, indicating a 22 percent decrease.

III. Country Actions Against Drugs in 2005

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.

Late in 2004, France launched a five-year action plan called "Programme drogue et toxicomanie" (Drug and Addiction Program) to reduce significantly the prevalence of drug use among the population and lessen the social and health damage caused by the use and trafficking of narcotics. In 2005, as part of that plan, the French Government launched a 38 million euro national information campaign as well as a program to boost France's medical treatment for cannabis and heroin users/addicts. The plan also provided funding (up to 1.2 million euros) for France's contributions to EU and UN counternarcotics programs in four priority areas: Central and Eastern Europe, Africa, Central Asia, and Latin America/Caribbean. While France's bilateral counternarcotics programs focus on the Caribbean basin, special technical bilateral assistance has also been provided to Afghanistan through France's Development Agency (AFD). Ten million euros went to training Afghan

counternarcotics police and to fund a crop substitution program that will boost cotton cultivation in the provinces of Konduz and Balkh.

Law Enforcement Efforts. French counternarcotics authorities are efficient and effective. In 2005, French authorities made several important seizures of narcotics. In addition, they dismantled fifteen drug rings across France, with a total of 90 arrests. French authorities report that France-based drug rings appear to be less and less tied to one product, and are also increasingly involved in other criminal activity such as money laundering and clandestine gambling. Some of the larger 2005 seizures include: On January 3, French Customs stopped a tractor-trailer arriving in France from Spain. A search revealed over 4.5 tons of hashish within a cargo of sand. On January 11, French authorities at the Belgian border seized 14 kilograms of heroin from a Spanish vehicle. On January 17, French authorities seized 15 kilograms of heroin and 1 kilogram of cocaine from the luggage of two passengers as they arrived at the train station in Lille from Belgium. On November 1, Interior Ministry officials carried out a large raid involving over 160 officials. The raid, in the Drome department of southeastern France, led to the seizure of 17.6 kilograms of heroin and yielded 43 arrests. On December 2, French Customs officials at Lyon airport seized 24 kilograms of cocaine hidden in packets of dog biscuits and Chinese noodles. There were several other important seizures throughout France.

Corruption. As a matter of government policy, the Government of France 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.

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. France and the U.S. share an extradition treaty and an MLAT. The U.S. also has a Customs Mutual Assistance Agreement (CMAA) with France. France is a party to the UN Convention Against Corruption, and the UN Convention on Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

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. There are currently 85,000 persons taking Subutex in France now, and 25,000 on methadone.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives/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 (French Central Narcotics Office) have been working together on operations that have resulted in the seizure and/or dismantling of 25 operational, or soon-to-be-operational clandestine MDMA (Ecstasy) laboratories, the arrests of more than 44 individuals worldwide, and 16 lab seizures in the United States, two in France, three in Germany, two in Australia, and one each in Ireland, New Zealand and Spain.

French Naval vessels operating in the eastern Caribbean Sea cooperate with Joint Interagency Task Force South (JIATF-S) by conducting counternarcotics patrols. They have seized several drug-laden vessels. During the spring, French Naval Forces conducted a large counternarcotics operation concurrent with JIATF-S involving several warships northeast of the Leeward Islands in the southern North Atlantic Ocean.

The 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, and look forward to their signing the Caribbean Regional Maritime Counterdrug Agreement.

Georgia

I. Summary

Georgia has the potential to be a transit country for narcotics flowing from Afghanistan to western Europe. In 2004 and 2005, however, there were no transit-size seizures of narcotics. Subutex, a licit pharmaceutical produced in France, is moving from Europe to Georgia and has quickly become the drug of choice for intravenous drug users. Breakaway territories not controlled by Government of Georgia (GOG) South Ossetia and Abkhazia also provide additional routes for drugs flow and other contraband. The GOG has taken steps to make their borders less permeable with USG support. There have been notable improvements in border control on the Black Sea coast with Turkey and along the Russian border. These border control improvements have resulted in an increase in the seizure of contraband goods, and, to a lesser extent, of narcotics. Statistics on seizures, arrests, and prosecutions for narcotics-related crime in the country are poorly kept. Georgia is a party to the 1988 UN Drug Convention and receives assistance from the UN Office for Drug Control and Crime Prevention (UNODC).

II. Status of Country

Georgia's geography and transit status between Europe and Asia make it a potential narcotics trafficking route. Asian-cultivated narcotics destined for Europe probably enter Georgia from Azerbaijan via the Caspian sea and exit through the northern Abkhaz or Southern Ajaran land and water borders. Thinly staffed ports of entry and confusing and restrictive search regulations encourage traffickers to use Trans-International Route trucks as their main means for westward-bound narcotics trafficking in the region. Judging from Ministry of Internal Affairs (MOIA) statistics, there does not appear to have been transit-sized seizure of drugs moving west in 2004 or 2005. There were, however, two smaller seizures of heroin at the Red Bridge crossing point with Azerbaijan in December 2005. Conversely, licit drugs, namely Subutex, are trafficked from Europe in small quantities via used-car trade routes, where vehicles acquired in Western Europe are driven through Greece and Turkey destined for Georgia. There have been public reports of major seizures of Subutex, a synthetic opiate analog used in drug treatment in France, entering the country for domestic consumption. Anecdotal evidence indicates a growing problem. The GOG is working with France to limit the diversion of Subutex to Georgia for abuse.

III. Country Actions Against Drugs in 2005

Law Enforcement Efforts. Arrests for narcotics offenses decreased slightly from 2004 to 2005, though seizures increased. According to the MOIA, its counternarcotics unit uncovered 1,702 drug-related cases, compared to 1,763 in the previous year. According to GOG statistics, heroin, cocaine, marijuana, and raw opium seizures all rose in 2005, but quantities seized were small (raw opium 38 kilograms). Since 2001, the Southern Caucasus Anti-Drug Program has been implementing projects that address the strengthening of interdiction capacities at sea ports and land borders, and the development of compatible systems of intelligence gathering and analysis.

Corruption. After the 2003 Rose revolution, the GOG declared war against corruption and still remains committed to this effort. A considerable number of corrupt former government and law enforcement officials were arrested, their property was confiscated, and large fines were levied. The government is working on civil service, tax and law enforcement reforms aimed at deterring and prosecuting corruption. It is also building a professional police force and streamlining the bureaucracy. As a result of the counter corruption campaign, the head of a police sub-station, and some customs

employees were arrested and charged for bribery. A number of policemen and high-ranking officials, including the Georgian Consul to Ivory Coast and an employee of Chamber of Control were also recently arrested for drug trade in Georgia. Georgia is not a party to the UN Convention against 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 the 1972 Protocol. Georgia has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation and Production. Given the small amount of low-grade cannabis grown for domestic use, Georgia does not appear to be a significant producer of narcotics. There is no other known narcotics crop or synthetic drug production in Georgia. Although Georgia has the technical potential to produce precursor chemicals, it has no known capacity for presently producing in significant quantities.

Drug Flow/Transit. The GOG has no reliable statistics on the volume of drugs transiting through Georgia. MOIA figures appear to indicate the absence of transit size seizures in 2004 and 2005. Prices for drugs in Georgia are currently estimated at the wholesale price of \$100-\$120 for one gram of heroin. The decrease in price for heroin was (in 2004 it was \$150-\$200) mainly caused by emergence of a new synthetic drug on Georgian Market—Subutex. According to law enforcement officials, Subutex appears to have replaced heroin as the main intravenous drug of choice: 65 percent of drug addicts have switched to Subutex in the last 3 years. One tablet of Subutex can be dissolved into an injectable solution for seven to eight people. One “hit” costs approximately \$12-\$15.

Demand Reduction. There are no widely accepted figures for drug dependency in Georgia. Press reports indicate at least 350,000 drug users in Georgia during 2005; the government puts the number at 240,000. Any increase in drug consumption is probably due to the growing popularity of Subutex.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2005, the USG continued assistance on procuracy reform, anticorruption efforts, money laundering, writing a new criminal procedure code, upgrading the forensics lab, remodeling the police academy and introducing a new curriculum, fighting human trafficking, and equipping the patrol police with modern communication equipment.

The Road Ahead. The GOG is capable of fighting the transit of narcotics through its territory. Ongoing efforts by the USG to help the GOG to strengthen its borders have already resulted in some narcotics seizures and indicate a greater willingness by the GOG to address drug trafficking at entry points.

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 2005, Germany continued to implement its Action Plan on Drugs and Addiction launched in 2003, with a specific focus on prevention. Cannabis is the most commonly consumed illicit drug in Germany. Continuing a trend from recent years, the consumption of amphetamines and cannabis increased in 2004. The use of cocaine and ecstasy also rose in 2004, whereas the use of heroin decreased slightly. In the first half of 2005, the numbers of drug-related deaths were up only 1.3 percent over the figures for the first half of 2004. The number of first-time users of illicit drugs dropped 6 percent in the first half of 2005 compared to the first half of 2004. Organized crime continued to be heavily engaged in narcotics trafficking. The number of drug-related crimes has increased continuously in the last ten years, with a rise of 11 percent in 2004, compared to 2 percent in 2003. Germany is a party to the 1988 UN Drug Convention. The Federal Criminal Investigative Service (BKA) publishes an annual narcotics report on illicit drug related crimes, including data on seizures, drug flows, and consumption. Their report was a key source document for this report. The most recent complete German drug statistics available cover the year 2004, although a few series are available covering the first half of 2005.

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. Ecstasy transits from the Netherlands through Germany to Eastern and Southern Europe. Heroin transits Germany from Eastern Europe via the Balkan route to Western Europe, especially the Netherlands. Cocaine transits through Germany from South America, the Netherlands, and for the first time in 2004 to a more than marginal degree from African states, such as Ghana and Nigeria. Germany is a major manufacturer of pharmaceuticals, making it a potential source for precursor chemicals used in the production of illicit narcotics.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Germany continues to implement the Health Ministry's "Action Plan on Drugs and Addiction" adopted by the cabinet in 2003. The action plan establishes a comprehensive multi-year strategy to combat narcotics. The key pillars are (1) prevention, (2) therapy and counseling, (3) survival aid as immediate remedy for drug-addicts, and (4) interdiction and supply reduction. The National Drug Commissioner at the Federal Health Ministry continues to coordinate Germany's national drug policy. A new Drug Commissioner was nominated in November 2005 after the parliamentary elections September 18. The agreement of the new CDU/CSU—SPD coalition that took power in November 2005 lists key policy issues of the new German government and confirms the action plan as the new Coalition's counternarcotics strategy.

Law Enforcement Efforts. German law enforcement agencies scored numerous successes in seizing illicit narcotics and arresting suspected drug dealers. The number of cases of cocaine, opium, heroin, amphetamine, and ecstasy seizures increased in the first half of 2005 compared to the first half of 2004, while the numbers of crack (Crystal Form of Cocaine) seizures dropped; the amounts of cocaine and crack seized rose, while the amounts of heroin, opium, amphetamine, and ecstasy seized went down. German law enforcement agencies scored numerous successes in seizing illicit narcotics and

arresting suspected drug dealers. The Customs Criminal Police established a telephone hotline in March 2005 for anonymous tips regarding illegal smuggling of goods, including narcotics. According to the Customs Criminal Police, since establishment of the hotline callers have provided useful tips for a number of investigations. In one of the largest German narcotics trafficking investigations of the last 50 years, the State Criminal Investigative Service of North Rhine-Westphalia disrupted a ring of Lebanese cocaine traffickers with world-wide operations after a four year investigation. Brazilian officials arrested twenty ringleaders in Sao Paulo, Brazil, in July 2005. Since the beginning of the investigation in 2001, law enforcement agencies in several EU countries have arrested over 200 members of this ring, and seized 1100 kilograms of cocaine, worth over 110 million Euros.

Corruption. As a matter of government policy, Germany does not encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. A 1978 extradition treaty and a 1986 supplement treaty are 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 Bundestag is expected to ratify in 2006. The MLAT has also been sent to the U.S. Senate for ratification. In addition, the U.S.-EU Agreement on Mutual Legal Assistance and Extradition is expected to improve further the U.S.-German legal cooperation. Negotiations on the U.S.-German implementing instrument to the U.S.-EU MLAT were concluded in January 2006 and the instrument is expected to be signed later in 2006. The U.S.-German MLAT and the U.S.-EU Agreements on Mutual Legal Assistance and Extradition, once they are ratified and implemented, will simplify and expedite law enforcement cooperation. 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 signed the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. Ratification of both conventions is pending.

Cultivation and Production. Germany is not a significant producer of hashish or marijuana. The BKA statistics reported that all ten synthetic drug labs seized in Germany in 2004 were small and not equipped for large 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 and from Africa to and through Germany 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 trans-shipment point for ecstasy destined to the U.S. and other drugs coming into 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 other prevention programs. Addiction therapy programs focus on drug-free treatment, psychological counseling, and substitution therapy. Results of a heroin-based treatment pilot project to treat seriously ill, long-term opiate addicts are expected in 2006.

In 2005, there were 25 "drug consumption rooms" in Germany supplementing therapy programs to offer so called "survival aid." German Federal law requires personnel at these sites to provide medical counseling and other professional help, and to supervise the addicts to assure an orderly process, while they take a medically approved dosage of their drug of abuse. The 2004 International Narcotics Control Board (INCB) Annual Report noted that the establishment of "drug injection rooms" raises "legal and ethical" issues as they are "legal facilities for the purpose of facilitating behavior that is

both illegal and damaging.” In July 2005, the second German-French working conference hosted by the French and German Drug Commissioners was held in France to discuss cross-border cooperation to prevent the consumption of cannabis and to treat cannabis addicts. Germany and Switzerland are conducting a bilateral assistance project called “Realize it” to help juvenile cannabis consumers to stop using the drug. Germany, together with four other European countries, also participates in a research project on the treatment of young cannabis addicts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. German agencies routinely work very closely with their U.S. counterparts in joint investigations, using the full range of investigative measures, such as undercover operations. German-U.S. cooperation to stop diversion of chemical precursors for cocaine production continues to be close (e.g., Operations “Purple” and “Topaz”). A DEA liaison officer is generally 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.

The Road Ahead. The U.S. will continue its cooperation with Germany on all bilateral and international counternarcotics fronts, including the Dublin Group of Countries Coordinating Narcotics Assistance and the UNODC.

Greece

I. Summary

Greece is a “gateway” country in the transit of illicit drugs. Although not a major transit country for drugs headed for the United States, Greece is part of the traditional “Balkan Route” for drugs flowing from drug producing countries in the east to drug consuming countries in 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. The DEA and Hellenic Authorities conducted numerous counternarcotics investigations during the year, which resulted in significant arrests, narcotics seizures, and the dismantling of major drug trafficking organizations. A number of judges were charged and at least nine were dismissed for allegedly taking bribes in exchange for favorable judgments or early prison release of defendants, including accused drug traffickers. Greece is a party to the 1988 UN Drug Convention.

II. Status of Country

With an extensive coastline border, numerous islands, and land borders with other countries through which drugs are transported, Greece’s geography has established it as a favored drug transshipment country on the route to Western Europe. Greece is also home to the world’s largest merchant marine fleet. It is estimated that Greek firms own one out of every six cargo vessels and control 20-25 percent of cargo shipments worldwide. The utilization of cargo vessels is the cheapest, fastest and most secure method to transport multi-ton quantities of cocaine from South America to distribution centers in Europe and the United States. Greece is not a significant source country for illicit drug production, although marijuana cultivation operations have increased slightly. The marijuana that is produced in Greece is usually destined for the domestic market. Hellenic Authorities recently arrested an individual who was mailing anabolic steroids, which were later found to have originated in Russia, from Greece to the United States. (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 2005

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 eventually eliminate the ability of drug trafficking organizations to operate in the region.

Law Enforcement Efforts. Several notable joint U.S./Hellenic counternarcotics investigations occurred during 2005 with significant arrests and seizures. Following a two-year investigation, the DEA, in cooperation with Hellenic and Macedonian authorities, seized 6,500 kilograms of hashish and 1,088 kilograms of ephedrine in January 2005. The hashish and ephedrine were co-mingled in a containerized shipment of rice, which originated in Pakistan. The hashish was destined for North America, while the ephedrine was destined for Southeast Asia. In October 2005, the DEA and Hellenic Authorities dismantled a marijuana trafficking organization that was responsible for distributing metric ton quantities of marijuana throughout Greece for over a decade and was growing marijuana in greenhouses in Central Greece. Hellenic Authorities executed search warrants on the greenhouses and several residences used by the organization, resulting in the arrest of six individuals and the seizure of 840 marijuana plants, 105 kilograms of processed marijuana, 21 kilograms of

marijuana seeds, scales and packaging materials. According to Hellenic Authorities, this was the largest marijuana cultivation operation ever seized in Greece. The Hellenic National Police reported that through November 2005, 10,204 kilograms of hashish, 278 kilograms of heroin, and 39 kilograms of cocaine were seized by authorities, and 11,411 individuals were arrested in connection with the above seizures.

Narcotics seizures increased considerably in 2005. In November, authorities in the Western Macedonia region reported seizing three times the hashish seized in 2004. National seizures of heroine and cocaine were also reported to have increased over 2004 seizures. 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. 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.

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 nine judges were dismissed and as many as 50 judges are being prosecuted for allegedly taking bribes in exchange for favorable judgments or early prison release for a variety of defendants, including accused drug traffickers. As a matter of government policy, Greece neither encourages nor facilitates illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances or 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, and the 1961 UN Single Convention 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 and an extradition treaty between the U.S. and Greece are in force. 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 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 part of the "Balkan Route" and as such is a transshipment country 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. 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 Trans-International Route trucks, in automobiles, on trains, and in buses. 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 significant amounts of narcotics are entering the United States from Greece.

Domestic Programs (Demand Reduction). Drug addiction continues to climb in Greece. According to the National Documentation Center for Narcotics and Addiction run by the Mental Health Research Institute of the Medical School of the University of Athens, 8.6 percent of the Greek population between 12 and 64 years of age report that they have used an illegal substance one or more times in

their life. The most commonly used substances are chemical solvents, and marijuana and heroin. There has been 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 of whom about 19,000 are addicted to heroin, with the addict population growing.

The Organization Against Narcotics (OKANA) is the state agency that coordinates all national treatment policy in Greece. It has the capacity to treat 3,923 persons in 40 therapeutic rehabilitation centers, of which 25 offer “drug free” programs, seven offer methadone substitution programs, and 8 offer buprenorphine substitution programs. The average number of addicts treated in 2004 was 2,783, and the total number of those who received therapeutic treatment was 5,160. OKANA has 64 prevention centers in 47 of the 52 regions in Greece, and treated 1,824 addicts in “drug free” therapeutic programs in 2004, down from 1,967 in 2003. About 3,000 persons have been registered in waiting lists for substitution programs. OKANA plans to extend its 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. In June 2005, the Mayor of Athens, in collaboration with the national broadcasting organization and the drug rehabilitation organization KETHEA, presented plans for a new rehabilitation/detoxification center to be opened in Athens.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2005, an American Professor of Clinical Psychiatry and Director of the Center for Criminality & Addiction Research, Training & Application at UC San Diego was awarded a Fulbright scholarship to develop curricula and direct workforce development trainings for treatment of addiction.

The Road Ahead. The United States continues to encourage the GOG to participate actively in international organizations focused on narcotics assistance coordination efforts, such as the Dublin Group of narcotics assistance donor countries. The DEA will continue to organize regional and international conferences, seminars, and workshops with the goal of building regional cooperation and coordination in the effort against narcotics trafficking.

Hungary

I. Summary

Hungary continues to be a primary narcotics transit country between Southwest Asia and Western Europe, due to its unique combination of geographic location, a modern transportation system, and the unsettled political and social climate in the former Yugoslavia. Since the collapse of communism, Hungary has transformed into a significant consumer of narcotics as well. Drug abuse, particularly among persons under 40 years of age, rose dramatically during the 1990s and continues to increase. The illicit drugs of choice in Hungary are heroin, marijuana, amphetamines, and ecstasy (MDMA). In addition, the abuse of opium poppy straw, barbiturates and prescription drugs containing benzodiazepine is growing. In the lead-up to its accession to the European Union in May 2004, Hungary adopted and amended much of its narcotics-related legislation to ensure harmonization with relevant EU narcotics law. Since 2004, the Ministry of Youth, Family, Social Affairs and Equal Opportunity has held primacy over all matters related to narcotics issues. Hungary continues to expand efforts to collect narcotics data. The center to collect data 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

Throughout 2005, Hungary continued to be a major transit route for illegal narcotics smuggling from Southwest Asia and the Balkans into Western Europe. Traditional routes in the Balkans that had been disrupted due to instability in the Former Republic of Yugoslavia are again being utilized to transport narcotics. Hungarian Ministry of Interior and Border Guard officials reported narcotics smuggling to be especially active across the Ukrainian, Romanian and Serbian borders. Foreign organized crime, particularly those from Albania, Turkey, and Nigeria, control the transit and sale of narcotics in Hungary. Concurrently, Hungarian drug suppliers and criminal networks are getting stronger as well 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 2005

Policy Initiatives. 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 nongovernmental organizations. The objective is to create local drug strategies, customized for local needs. As of December 2005, there were 96 counternarcotics fora throughout Hungary. The GOH has employed programs for combating drug use at schools since 1992, however, given the shortage of police trainers and funding, there is a continuing increase in drug dealing at schools. Research findings from the National Drug Data Collection Center and the Ministry of Youth, Family, Social Affairs and Equal Opportunity indicate that the share of those experimenting and using drugs is on a steady increase. One in five youths (1/3 who are under age 14) have tried marijuana. The drugs of choice are marijuana, ecstasy, and to a lesser extent LSD.

Accomplishments. Expanded investigative authorities and cooperation between the Hungarian Border Guards and the Hungarian National Police, coupled with investigative agreements with neighboring countries, have also played a significant role in increasing Hungary's ability to interdict shipments of

narcotics. Despite these successes, Hungary continues to be a significant transshipment point for narcotics destined for, and sent from, Western Europe.

Law Enforcement Efforts. Close cooperation continued in 2005 between the Hungarian Border Guards and the Hungarian National Police. Subsequent to the accession of Hungary to the European Union, the Hungarian Ministry of Interior had prepared a unified drug interdiction strategy for the Hungarian National Police and Border Guards for the period 2005-2012 in line with the requirements of the EU drug strategy. The stated goals of this strategy are to (1) guarantee the security of the society, (2) combat the illegal production and smuggling of drugs and precursors, (3) facilitate joint actions with the EU member countries, and (4) to combat production, trading and consumption of synthetic drugs. Nevertheless, the number of criminal drug cases has continued to increase dramatically. Much of the increase is attributed to the transition from penalty-based court and social systems to treatment-based court and social systems that are alleged to have eliminated negative individual consequences for drug use. Seizures of ecstasy and cocaine continued to increase between 2004 and 2005.

Corruption. As a matter of government policy, Hungary neither encourages nor facilitates the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions. The Hungarian government enforces its laws against corruption aggressively, and takes administrative steps (e.g., re-assignment of border guards) to reduce the temptation for corruption whenever it can. A challenge to determining the scope and success of Hungarian efforts to combat corruption is the treatment of corruption-related information and prosecution as classified national security information.

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. Hungary is a party to the UN Convention against Corruption, and has signed the UN Convention against Transnational Organized Crime. An extradition treaty and MLAT are in force between the U.S. and Hungary. Ratification of the UN Convention against Transnational Organized Crime is expected in 2006.

Cultivation/Production. GOH authorities report that marijuana is cultivated in Western Hungary. Ecstasy (MDMA) and LSD may also be manufactured locally. However, to date no production laboratories have been discovered. All other illegal narcotics are smuggled into Hungary.

Drug Flow/Transit. Albanians, Turks and Nigerians, who have been resident in Hungary for many years, are involved in drug trafficking in Hungary. Budapest's Ferihegy international airport continues to be an important stop for cocaine transit from South America to Europe. Synthetic drugs such as ecstasy (MDMA) are transported into Hungary, frequently via car, from the Netherlands and other Western European countries.

Domestic Programs. Hungarian ministry officials report the domestic drug problem continues to be significantly higher among youth between the ages of 12-25. As a result, drug prevention programs are taught to teachers as part of their normal educational training within the educational system. The life skills program is the largest of the counternarcotics programs and was developed in the early nineties with USIA assistance. Through 2005, the fifteen year program has trained nearly 12,000 teachers and educators. Community-based prevention efforts are primarily focused on the teen/twenties age group and provide information about the dangers of substance abuse, while emphasizing active and productive lifestyles as a way of limiting exposure to drugs. Within Hungary there are approximately 230 healthcare institutions that care for drug patients. The Ministry of Health continues to establish and fund drug outpatient clinics in regions where such institutes are not yet available. By 2005, only one region (out of nineteen) in Hungary still did not have a drug outpatient clinic. 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 traffickers often escaped prosecution. The amendment allows police, prosecutors, and judges to place drug users in a 6-month government-funded treatment or counseling program instead of prison. Drug addicts are encouraged to attend treatment centers while casual users are directed to the prevention and education programs. The amendment also provides judges with more alternatives and flexibility when sentencing drug users. Due to the continuing increase in the rate of drug use, as well as drug-related crime in Hungary, the GOH has become dissatisfied with the results of the treatment-focused system and is currently considering a return to the punishment-based deterrence system. As a result, beginning in December 2004, the constitutional court began to scale back treatment programs and focus again on prison sentences. However, the State Secretary for Drug Affairs has reconfirmed her commitment to alternative treatment programs. In 2005, the GOH continued to provide access to several needle exchange dispensers in Budapest to guarantee inexpensive, sterile needles for drug users.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The primary USG focus in support of the GOH counternarcotics efforts is through training and cooperative education at the ILEA. In addition, DEA maintains a regional office in Vienna that is accredited to Hungary and works with local and national Hungarian authorities.

The Road Ahead. The USG continues to support and encourage Hungarian legislative efforts to stiffen criminal penalties for drug trafficking offenses, and will continue to support the GOH law enforcement efforts through training programs and seminars at ILEA, as well as through specialized in-country programs. The DEA office in Vienna continues its cooperative efforts with the Hungarian National Police to streamline the flow of actionable investigative information.

Iceland

I. Summary

Icelandic authorities do not have to confront significant levels of drug production or transit. There is some production of marijuana plants for local consumption, but that is pretty much all. Their focus is thus on stopping importation and punishing distribution and sale, with a lesser emphasis on prosecuting for possession and use. Along with the government, secular and faith-based charities organize abuse prevention projects and run respected detoxification and treatment centers. Iceland is a party to the 1988 UN Drug Convention.

II. Status of Country

Illegal drugs and precursor chemicals are not produced in significant quantities in Iceland. The harsh climate and lack of arable soil make the outdoor cultivation of drug crops almost impossible. Icelandic authorities believe that the production of drugs, to the extent it exists, is limited to marijuana plants—now grown in quantities adequate to satisfy virtually all domestic demand, and the occasional small-time amphetamine laboratory. In late December 2005 police confirmed that they had heard of Icelandic marijuana on the market in Copenhagen, but no further information was available regarding this apparently new phenomenon. 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 past two years as part of a trend of stimulant drug use that also involved heightened levels of cocaine in circulation. According to authorities there were 87 cases of importation of drugs and precursors in 2005 (latest available National Commissioner of Police figures).

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 during their school years than did earlier cohorts. Appraisals of Reykjavik in 2004 and 2005 by the Icelandic Center for Social Research and Analysis, a nonprofit research center that specializes in youth research, supported a conclusion that drug use in Iceland has declined.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Public Health Institute of Iceland, established in 2003, is responsible for alcohol and drug abuse prevention programs on behalf of the government. 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.

Programs are funded through an alcohol tax, with allocations overseen by the independent national Alcohol and Drug Abuse Prevention Council (ADAPC). The institute collects data; disseminates information on use of intoxicants; supports health improvement projects; and funds and advises local governments and nongovernmental organizations working primarily in prevention. During the year the institute made grants worth \$485,000 to a total of 52 groups and projects across the country.

Reykjavik Customs continued with a national drug education program developed in 1999 and formalized in an agreement with the state (Lutheran) church in 2003. As part of the program, 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. Customs officials also use the meetings to distribute an educational multimedia CD dealing with drug awareness.

In spring 2005, European Cities against Drugs launched a new Europe-wide drug prevention program geared toward teenagers that is based on the conclusions of an Icelandic research program on drug prevention. The Icelandic program, Drug Free Iceland 1997-2002, was launched by the City of Reykjavik and resulted in a substantial reduction in teen drug use between 1998 and 2004. The European program, Youth in Europe, will be based on key results from the Icelandic project and emphasize the importance of organized leisure activities, as well as time spent with parents, as the Icelandic study showed that these reduced the likelihood of drug use. The program will study drug use in 10 European cities, compare different prevention methods, and attempt to motivate institutions, authorities, schools and the urban public to confront the drug menace. The program is sponsored by the pharmaceutical company Actavis Group, headquartered in Iceland, and is administered and coordinated by the City of Reykjavik, the University of Iceland, and Reykjavik University. A Reykjavik city council member and a medical doctor head the program's steering committee, and the President of Iceland, Mr. Olafur Ragnar Grimsson, is the honorary "patron" of the project.

Law Enforcement Efforts. Through November 2005, Keflavik Airport (KEF) authorities made 33 seizures of controlled narcotics compared to 60 for the same period in 2004. Authorities have documented a substantial upward trend in narcotics apprehensions in Iceland over the past several years (from 1,385 in 2003, to 1,671 in 2004, and 1,754 as of December 13, 2005). While one explanation may be escalating drug use, that runs counter to survey results, reported above. Another explanation is increased enforcement against possession. Police nationwide have intensified surveillance in public places and initiated searches of suspicious individuals. Nationwide drug seizure enforcement highlights include:

- In January, KEF Customs arrested two men after finding 4 kilograms of amphetamines concealed in a hidden compartment in a suitcase. This is the largest amount of amphetamines ever confiscated at one time at KEF.
- In January and May, a Norwegian Customs expert in training drug-sniffing dogs conducted courses for Icelandic police and customs officials. Authorities contend that the dogs' success rate in finding narcotics has significantly improved since the adoption of Norwegian methods. 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. Police credit their stricter law enforcement and the deployment of the drug-sniffing dogs for approximately 100 arrests made at the festival, a large increase from previous years.
- In March, KEF police seized 800 grams of cocaine from a woman in her sixties who had hidden it in a wig.
- In May and June, Reykjavik District Court convicted nine people in connection with one of the most wide-ranging narcotics cases in the history of Iceland, involving the smuggling of approximately 7.7 kilograms of amphetamines and 2,000 doses of LSD on a cargo ship. The defendants received punishments ranging from a fine to six-and-a-half years in prison (later reduced by the Supreme Court to four years in return for the defendants' cooperation with the investigation). Icelandic police discovered an additional 4,000 doses of LSD in a suitcase. The suitcase belonged to one of the defendants in the cargo ship smuggling incident. It had been seized by Dutch authorities from the defendant's apartment in the Netherlands. Dutch authorities simply overlooked the secreted drugs. This surprising find resulted in the single largest confiscation of LSD ever in Iceland.

- In June, an Icelandic court sentenced two Lithuanians to three years in prison for smuggling 4 kilograms of amphetamines to Iceland on a passenger ferry arriving in Seydisfjordur (East Iceland) from Denmark via the Faeroe Islands. The men had hidden the drug in a specially outfitted storage space inside a beam under their vehicle.
- Also in June, five men and a woman were sentenced to one to two years in prison for attempting to smuggle 1,000 ecstasy pills and 130 grams of cocaine, which they had concealed in hollow candles, in through KEF.
- In December, KEF security arrested a man with 3 kilograms of hashish in his suitcase, the largest amount seized at the airport this year.
- In December, police arrested a man in southern Iceland on charges of possessing 165 cannabis plants and about 5 kilograms of marijuana.

Despite the increased number of violations, law enforcement expects the total amount of narcotics seized to be lower overall. The amount of amphetamines authorities expect to have seized at year's end will be almost the same as in 2004 or about 16 kilograms. During the year, police seized at least 1,200 ecstasy pills, down from around 7,500 seized in 2004; and confiscated approximately 3,200 cannabis plants, almost as many as in the previous four years combined (latest available National Commissioner of Police figures). Through November, KEF authorities seized a total of 2.7 kilograms of hashish, 800 grams of cocaine, and 3.9 kilograms of amphetamines

The National Police Commissioner has expressed concern about attempts at infiltration by Eastern European gangs and criminals from the Baltic States. In the past, police have cooperated with Nordic officials to prevent the entry of biker gang members supposedly attempting to import their criminal operations into Iceland; there were no new biker gang incidents this year.

Corruption. 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 as amended by its 1972 Protocol. Iceland has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. An extradition treaty is in force between the U.S. and 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 cocaine), and particularly amphetamines are popular on the capital region's weekend club scene. Most alcohol and drug abuse treatment is taken on by the National Center of Addiction Medicine (SAA). 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 addicts, especially men, there are none for teenagers. SAA's main treatment center estimate for the number of admitted patients in 2005 is around 2,100, which is down by several hundred from previous

years. SAA has had to reduce some services due to rising costs in excess of government funding. Its emergency reception center closed at the beginning of 2005 due to lack of funding but reopened in early December 2005 after receiving a promise of private funding from seven Icelandic corporations. Some 300 drug addicts annually (often those with complicating psychiatric illnesses) go to the National-University Hospital. In addition, 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. The DEA office in Copenhagen and the Regional Security Office in Reykjavik have a good working relationship with Icelandic law enforcement personnel for the purpose of cooperating on narcotics investigations and interdiction of shipments. In the past year the Embassy's Regional Security Office has worked closely with the Icelandic Border Police on implementing advanced screening techniques, scrutinizing identity documents, and developing intelligence on traffickers. The USG's goal is to maintain the good bilateral law enforcement relationship that has facilitated the exchange of intelligence and cooperation in narcotics cases.

The Road Ahead. The U.S. will continue efforts to strengthen exchange and training programs to further improve law enforcement 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 continued its upward trend. Seizures have also increased as traffickers attempt to import drugs in larger quantities. The GOI's National Drug Strategy aims 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, but 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 2004, officials found a quantity of precursors intended to manufacture around Euro 500 million worth of ecstasy and amphetamines.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The GOI continued to implement 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 released the results and recommendations of this review in June 2005. It found that 49 of the 100 actions set out in the strategy published in 2001 are completed or almost so, progress has been made in 45 of them, and six need considerably more progress. The review made rehabilitation of drug users a fifth pillar of the strategy, and recommended greater availability of needle exchanges and increased resources for community policing. A Working Group was set up to develop a strategy for the provision of integrated drug rehabilitation services. The GOI announced a National Drug-Related Deaths Index on September 27. The index will provide an accurate estimate of people who die directly from drugs and an accurate estimate of people who die as a result of the consequences of drug use.

Accomplishments. Seizures in 2003 had reached Euro 121 million, three times the goal set in the National Drug Strategy for that year. (Figures for 2004 and 2005 are not yet available). 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, which in one such case resulted in the arrest in Spain of 11 people and the seizure of over four tons of cocaine, worth an

estimated Euro 330 million. Authorities believe the cocaine was intended for distribution to other European countries, including Ireland.

Law Enforcement Efforts. Although official statistics are not yet available for 2005, 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 (NDU) each year. The NDU's arrests tend to include most of the large seizures, but local police also have had success. For example, in 2005 the local police in Limerick seized various narcotics totaling over Euro five million, including a May 13 seizure of 150 kilograms of cannabis resin with an estimated market value of over Euro one million. Each year, 60-65 percent of arrests for drug-related offenses nationwide tend to be for simple possession, 20-25 percent are for possession with the intention to sell, and the remainder of arrests are related to obstructing drug arrests or forging prescriptions.

During 2005, arrests and prosecutions included the seizure on March 22, of 200 kilograms of cannabis with an estimated street value of Euro 1.5 million during a search of a house in the Malahide area of Dublin. A man jailed in April 2004 for possession of nearly Euro 16 million worth of cocaine and cannabis had his prison sentence increased from five to seven years by the Court of Criminal Appeal in March. A man who was caught by police with Euro 108,000 worth of heroin and cocaine in 2004 was jailed for six years by the Dublin Circuit Criminal Court. In July 2005, three men were arrested following the seizure of 20 kilograms of cocaine, worth Euro 1.5 million, in Portlaoise. In August 2005, a truck driver, found in possession of cannabis and cocaine with a combined value of over Euro 15 million was jailed for 10 years at Dublin Circuit Criminal Court. In August 2005, the NDU recovered cocaine worth Euro 4.5 million in a raid on a house in Dublin. Police believe that a major drug gang used the house as a base to prepare, mix and package an average of eight kilograms of uncut cocaine every two weeks for the past year for distribution across south Dublin. The cocaine recovered had a purity of almost 80 percent, compared to the average street-level purity of between 25 percent and 30 percent. In August 2005, as part of the result of an ongoing investigation, police and customs officials seized 1.2 tons of cannabis resin in Kildare valued at Euro 10 million. This resulted in the arrest and detention of three Irish men and a Spaniard under Section 2 of the Drug Trafficking Act. In Dublin, on the same day, police seized some 20 kilograms of cocaine, worth Euro 1.5 million. In October 2005, during a planned raid on a crack manufacturing operation in Dublin, police seized 900g of cocaine, 300g of crack cocaine and drug paraphernalia. The drugs had an estimated street value of Euro 150,000. On the same day, police and customs service officers seized 15 kilograms of cocaine, worth Euro 1.2 million, from baggage at Dublin airport, and arrested two women in a follow-up operation.

Corruption. As a matter of government policy, 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. An MLAT between the United States and Ireland, signed in January 2001, is now in force. An extradition treaty between Ireland and the United States is also 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 has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Cultivation/Production. Only small amounts of cannabis are cultivated in Ireland. There is no evidence that synthetic drugs were produced domestically this year.

Drug Flow/Transit. Among drug abusers in Ireland, cocaine, cannabis, amphetamines, ecstasy (MDMA), and heroin are the drugs of choice. A Council of Europe report on organized crime, published in January, said Ireland had the highest rate of ecstasy and amphetamine use in Europe and the second highest rate of cocaine abuse. The UN Office on Drugs and Crime (UNODC) World Drug Report 2005, published in June, placed Ireland in joint third place (out of 30 European countries) for cocaine use and in joint sixth place for ecstasy use. 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 sites. 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. Four pilot projects to tackle cocaine use were announced in January 2005, following a number of reports which indicate that abuse of the drug has increased substantially in recent years. The four projects are aimed at different types of drug users in Dublin's inner city and Tallaght and will differ in their approaches to dealing with cocaine abuse. The projects will include diversionary therapies aimed at mainly intravenous users, group drug counseling, individual drug counseling, and cognitive behavior therapy.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. In 2005, 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 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, continues 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 domestically and internationally. The Berlusconi government continues its strong counternarcotics stand with capable Italian law enforcement agencies. Italy is a consumer country and a major transit point for heroin coming from the Near East and southwest Asia through the Balkans as well as for cocaine originating from South America enroute to western/central Europe. 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, cocaine, and hashish. Possession of small amounts of illegal drugs is an administrative, not a criminal, offense, but drug traffickers are subject to stringent penalties. 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. Law enforcement agencies with a counternarcotics mandate are effective.

III. Country Actions Against Drugs in 2005

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 of abusers. A draft law submitted to Parliament in late 2003 would change this approach, eliminating the legal distinction between hard and soft drug use as well as decreasing the tolerance for possession of a “moderate quantity” of drugs, making possession and personal use of drugs illegal. At a 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, including 6-20 years in prison, and fines ranging from \$22,000 to over \$220,000. Deliberations on this law began in 2004 and continued through 2005 in the Senate Justice Committee. At the multilateral level, Italy contributed \$12 million to the UN Office for Drug Control and Crime Prevention (UNODC), making it one of the largest donors to the UNODC budget. Italy also supported U.S. key objectives at the UN commission on narcotic drugs.

Law Enforcement Efforts. Comparing data from January to October 2005, seizures of cocaine and hashish have increased, while those of heroin and marijuana have decreased. As of October 2005, the Italian police apprehended 18,000 people on narcotics-related offenses and seized approximately 27,000 kilograms of narcotics (1,168.4 kilograms of heroin; 3,714.4 kilograms of cocaine; 19,947.5 kilograms of hashish; and 2,024.1 kilograms of marijuana) and 284,310 MDMA tablets. The major nationalities of those arrested were Moroccan, Tunisian, Albanian, Algerian, Nigerian, Spanish, Senegalese, and Colombian.

In October 2005, the Italian police led an international drug bust involving five countries (Italy, Spain, Argentina, France, and the Netherlands) that netted about 1.5 tons of cocaine and over 120,000 ecstasy tablets; at least 60 people were arrested. Also in October, the Italian Carabinieri (military police) busted an organized crime-led international drug trafficking network based in southern Italy. Over 40

individuals were arrested and about 100 others were put under investigation. The fight against drugs is a major priority of the National Police, Carabinieri, and financial police counternarcotics units. The counternarcotics units of the three national police services are 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 19 drug liaison officers in 18 countries that focus on major traffickers and their organizations. Additional drug liaison positions were created in 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 Ndrangheta, the Naples-based Camorra and the Puglia-based Sacra Corona Unita). During a two-year investigation leading to a major drug bust in early 2005, Italian officials confirmed working links on drug trafficking between the Mafia, Ndrangheta, and Camorra.

Additional narcotics trafficking groups are Nigerian, Albanian, 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 e-mail accounts, undercover operations and controlled deliveries under certain circumstances. Adequate financial resources, money laundering laws, and asset seizure/forfeiture laws help ensure the effectiveness of these efforts.

Corruption. As a matter of government policy, Italy does not encourage or facilitate the illicit distribution of narcotics or the laundering of proceeds from illegal drug transactions. No senior official of the 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 in Italy although it rarely rises to the national level and it does not compromise investigations. When a corrupt law enforcement officer is discovered, authorities take appropriate action. Penalties range from 6 months to 5 years in prison, depending on the charge.

Agreements and Treaties. Italy is a party to the 1961 UN Single Convention as amended by its 1972 Protocol, as well as the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Italy has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is still being examined by the Justice Ministry. Italy has signed, but has not yet ratified 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 and the U.S. have concluded negotiations on the instruments to implement the U.S.-EU treaties, and it is expected that they will be signed in early 2006.

Cultivation/Production. There is no known cultivation of narcotics plants in Italy, although small-scale marijuana production in remote areas does exist, but is mainly for domestic consumption. No heroin laboratories or processing sites have been discovered in Italy since 1992. 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. A large percentage of all heroin seized in Italy comes via Albania. 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. Albania is a source country for marijuana destined for Italy. During 2002-2004, Italian law enforcement agencies seized 15,907 kilograms of marijuana originating in Albania. Italian seizures of Albanian marijuana in 2004 (801 kilograms) were significantly lower than 2003 levels (9,258 kilograms).

Almost all cocaine found in Italy originates with Colombian and other South American criminal groups and is managed in Italy mainly by Calabrian-based organized crime groups. Multi-hundred kilogram shipments enter Italy via several seaports concealed in commercial cargo. Although the traditional Atlantic trafficking route is still in use, stepped-up international scrutiny and cooperation are forcing traffickers to use alternative avenues. Italian officials have detected traffickers using transit ports in Nigeria, Togo, and Ghana where drugs are off-loaded to smaller fishing vessels that ultimately reach Spain and other Mediterranean approaches. Cocaine shipments off-loaded in Spain and the Netherlands are eventually transported to Italy and other European countries by means of vehicles. Smaller amounts of cocaine consisting of grams to multi-kilogram (usually concealed in luggage) enter Italy via express parcels or airline couriers traveling from South America.

Ecstasy found in Italy primarily originates in the Netherlands and is usually smuggled into the country by means of couriers utilizing commercial airlines, trains or vehicles. Italy is also used 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 to couriers in Amsterdam concealed in luggage. The couriers then travel by train or airline to Italy facilitated by the EU's open borders. Once in Italy, the couriers are provided an originating airline ticket from Italy to the U.S. disguising the couriers, recent travel from a source country, thereby reducing the chance of scrutiny by law enforcement authorities in the U.S.

Hashish comes predominantly from Morocco through Spain, entering the Iberian Peninsula (and the rest of Europe) via sea access points using fast boats. Hashish also is smuggled into Italy on fishing and pleasure boats from Lebanon. As with cocaine, larger hashish shipments are smuggled into Spain and eventually transported to Italy by vehicle.

Domestic Programs/Demand Reduction. The GOI promotes drug prevention programs using abstinence messages and treatment aimed at the full rehabilitation of drug addicts. The Italian Ministry of Health funds 557 public health offices operated at the regional level while private nonprofit 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 budgeted \$141 million for counternarcotics programs run by the health, education, and labor ministries. Seventy-five percent of this amount is dedicated to the different regions and the remaining 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 2005, the DEA continued the Drug Sample Program with the GOI, which consists of the analysis of seized narcotics to determine purity, cutting agents and source countries. From January-November 2005, the DEA received approximately 140 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 DEA also provided training to Italian counterparts in the areas of asset forfeiture, undercover operations, and forensic chemistry.

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 to enhance both countries' abilities to apply effective demand dampening policies. The Italian authorities are considering an invitation by the Government

of Afghanistan's "Drug Czar" to assign a drug liaison officer in Kabul, Afghanistan. Italy also maintains a large liaison office in Albania made up of Carabinieri, Finance Police, and National Police to assist Albanians interdicting narcotics originating there and destined for either Italy or other parts of Europe.

Kazakhstan

I. Summary

Kazakhstan continues to be an important narcotics transit country, especially for drugs coming out of Afghanistan. The Ministry of the Interior's Committee on Combating and Controlling Narcotics estimates that approximately 1,400 tons of Afghanistan's opium will move through Kazakhstan this year via the northern Afghan route (Uzbekistan-Kyrgyzstan-Kazakhstan). It is also estimated that approximately 10 percent of these drugs will be sold in Kazakhstan. According to data provided by the Committee, more than 19 tons of narcotics, including 130 kilograms of heroin, have been seized since the beginning of this year. Kazakhstan is a party to the 1988 UN Drug Convention.

II. Status of Country

While there is some cultivation of narcotic crops and production of narcotics in Kazakhstan, it is primarily a transit country. Although Kazakhstan's existing small-scale cultivation of marijuana and opium suggest that it could become a major producer of narcotics in the future, evidence continues to suggest that local production is minimal at present. The Committee on Combating and Controlling Narcotics' statistics for the first nine months of 2005 show that the annual "Operation Poppy" campaign only eradicated approximately 15,271 square meters of illicit poppy and marijuana cultivation. There were no discoveries of laboratories for the production of narcotics.

The Committee for National Security (KNB) has uncovered two new routes of movement for opiates and heroin transiting the country: Kyrgyzstan-Kazakhstan-China-Australia and Afghanistan-Tajikistan-Kazakhstan-Russia-Japan. In addition, the KNB continues to monitor the long established route through Kazakhstan-Russia to western Europe. During the KNB's operation "Trap" this year, more than 1,250 kilograms of opium and more than 200 kilograms of heroin were seized from an internationally operated narcotics ring led by a Kazakhstani citizen of Tajik descent. The ring laundered the proceeds received from the sale of narcotics by creating fictitious contracts supposedly related to the sale of wheat and flour. The KNB traced this laundered money to bank accounts in Germany and the Baltic countries. In an August 2005 article published in a *Izvestiya-Kazakhstan* newspaper, a KNB official was quoted as saying that the investigation of only one of these bank accounts turned up more than \$1.6 million from the sale of narcotics, which had been transferred abroad. The KNB continues to investigate the international narcotics and money laundering ring.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Presently, Kazakhstan is in the fifth year of its five-year plan to fight drug trafficking. On March 3, 2004, the President signed a decree that established the Committee on Combating and Controlling Narcotics within the Ministry of the Interior. This DEA-like office 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 local branch of Interpol. The Committee's staff is comprised of 580 officers. The Committee has been operational for more than a year, and it is already responsible for more than its present staff can handle. According to the Head of the Committee, Vice Minister Vyborov, only 13 officers are engaged in significant investigative work related to the elimination of major narcotics trafficking. Vice Minister Vyborov also noted that the work of the Committee over the last year has increased five times and that the Committee's staff must tackle a variety of tasks ranging from

submitting tenders for narcotics search equipment to conducting undercover work. The MIA requested \$16.5 million for its new three-year counternarcotics program including over \$5 million for first-year operations in 2006.

According to Vice Minister Vyborov, Kazakhstan needs stricter legal punishments for those involved in drug trafficking and the sale of narcotics, especially to minors. During a Governmental meeting chaired by the Prime Minister, the Minister of the Interior announced that 2,626 people had been convicted of narcotics-related charges in 2004, but one in every four was given a suspended sentence. He also stressed the prevalence of repeat offenders, noting that every fifth offence was committed by a previously-convicted criminal. Furthermore, he noted that only one of the 316 criminals convicted in 2004 for serious narcotics offenses received the maximum sentence of 15 years of imprisonment. On average, narcotics dealers only receive a sentence of three years imprisonment. Moreover, a majority of convicted criminals are paroled and released early without serving a complete sentence. In order to address these shortcomings, the MIA initiated changes to the Law of the Republic of Kazakhstan on “Narcotics, psychotropic substances, precursors, and countermeasures to illegal consumption” in 2005. More specifically, the Committee’s recommendations include stricter sentences for narcotics barons and narcotics dealers, as well as more regulated procedures for the destruction of seized narcotics to eliminate its leakage back into the market. The Prime Minister supported these proposed changes and promised the MIA that the GOK will expedite the amendments to the legislation. This legislative initiative is part of the first stage of the Government’s counternarcotics program for 2006-2014.

Another major policy initiative taken by the Committee is the creation of an internal narcotics checkpoint system entitled “Narcotics Boundaries.” The Committee plans to establish six checkpoints to search vehicles on six major highway intersections and three checkpoints at railroad stations. Construction of the structures at these checkpoints will be directly funded by INL or via an INL grant to UNODC. The GOK has allocated more than \$700,000 for the “Narcotics Boundaries” program. According to Vyborov, each of the nine “Boundary” posts will be manned by a Committee officer, a road patrol officer, a migration police officer, and a dog handler.

On July 8, 2005, 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” (ALOA). This agreement established a framework for the implementation of projects designated to improve the capacity of Kazakhstani law enforcement agencies to combat narcotics trafficking and organized crime. The agreement includes the provision of technical assistance aimed at improving the ability of the Ministry of the Interior’s counternarcotics forces to apprehend narcotics and other contraband transiting through Kazakhstan and to improve 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. The Committee on Combating Narcotics, whose sole responsibility is fighting narcotics, is in the final stages of adopting a “Master Plan for the Control of Illicit Drugs and Organized Crime.” The Central Asia Regional Information Coordination Center (CARICC) is a \$6.5 million, four-year, UNODC project. The Center's main objective is to develop and promote regional cooperation in counternarcotics efforts between Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan. The Center, which will be based in Almaty, will house a shared database of regional intelligence and will produce operational intelligence and strategic assessments concerning narcotics trafficking and related crimes.

Law Enforcement Efforts. The GOK claims to have seized more than 19 tons of various narcotics (raw marijuana, etc.), including 130 kilograms of heroin. Seizures are for the first nine months of 2005. Since the beginning of 2005, more than 15 undercover operations were led by the Committee. Seven major organized criminal groups and four smuggling rings with ties to other organized crime groups in the Southern-Kazakhstan region, the Eastern-Kazakhstan region, and the city of Almaty

were apprehended and charged with illicit narcotics activities. More than 64 kilograms of heroin were seized from one of these groups in April 2005. After a six-month covert operation, Committee officers seized a substantial load of heroin, its largest seizure of 2005, hidden in a truck transporting tomatoes. In August 2005, the Committee also seized four loads of marijuana, each weighing more than a ton. The annual project "Operation Poppy," which combines intelligence collection, interdiction of smugglers, eradication of cultivation, and demand reduction was conducted from May 20 until October 20, 2005. More than 1,800 officers from the Ministry of the Interior, 141 officers from Customs, and 99 officers from the Committee for National Security combined their efforts in undertaking the operation. As a result, 3,803 individuals, including 88 CIS citizens from outside Kazakhstan, were detained for the production, processing, and trafficking of narcotics. "Operation Poppy" also concentrated on the control and seizure of psychotropic substances and precursors. Overall, this operation led to 83 criminal convictions related to the abuse of psychotropic and controlled substances, which represents almost a 25 percent increase over 2004. In addition to these arrests, more than 15,271 square meters of illicit poppy and marijuana were eradicated, and 4,607 other drug related arrests were made, which is more than a 100 percent increase over last year (2,134 cases in 2004).

In an April 2, 2005, interview with the *Kazhakhstanskaya Pravda* newspaper, the Head of the KNB stated that there are no heroin-producing laboratories operating on the territory of Kazakhstan. He also noted that southern Kazakhstan has become a new hub for narcotics trafficking and one of the most critical regions in the country's counternarcotics efforts. In March 2005, after two years of cooperation with Tajik and Russian colleagues, the KNB dismantled an international narcotics trafficking ring based in the southern Kazakhstan city of Shymkent. As a result, 268 kilograms of raw opium and 66 kilograms of heroin were seized. The KNB Head added that the group had utilized a warehouse in Shymkent to store heroin entering Kazakhstan from Uzbekistan and Kyrgyzstan. After being re-packaged in the warehouse, the heroin was transported in hidden car compartments to Russia. The KNB also raided several auto shops in Shymkent that had begun specializing in the construction of hidden compartments for vehicles. During the first three months of 2005, law enforcement officials in southern Kazakhstan seized 238 kilograms of opium, and 37 kilograms of heroin. During the same time period in 2004, officials in the region only apprehended 31 kilograms of opium and 45 kilograms of heroin. Similarly, the number of narcotics addicts in the southern region increased by 100 percent in the last year. Most of these drug addicts are young, with the average age of addicts being 14-15 years old. The youngest drug addict presently going through a rehabilitation program in the region is eight years old.

Law enforcement circles in Kazakhstan are also seriously concerned about the expansion of synthetic drugs. In 2005, the KNB seized more than 36,000 ecstasy pills. All synthetic drugs seized in the country were produced outside of Kazakhstan. Despite this increase in nonopiate narcotics, heroin still remains the drug of choice in Kazakhstan.

Corruption. The significant corruption in Kazakhstan inevitably is a factor hampering the country's war on drugs. Nonetheless, there appears to be an increasing effort to apprehend law enforcement officials involved in corruption. Corruption charges were brought against 15 individuals from the Ministry of the Interior for illegal actions involving their operations with narcotics. Police officers are required to destroy all narcotics after their use as court evidence, but it is likely that much of these seized narcotics return to circulation via corrupt law enforcement officials. During the first eight months of 2005, 29 out of 39 state officials accused of corruption were convicted based on evidence provided by KNB. Among the accused are a district mayor, three judges, 23 police officers, and two Financial Police officers. In all cases, the perpetrators were sentenced to jail terms and were immediately terminated from their government positions. One of these cases involved a former police officer from the western region of Kazakhstan who was arrested for selling heroin and sentenced to ten years imprisonment in a maximum-security prison. While these efforts demonstrate that the GOK is at

least 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. Kazakhstan is not a party to the UN Convention Against Corruption.

Agreements and Treaties. Kazakhstan is party to the 1988 UN Drug Convention, 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Kazakhstan also is a party to the UN Convention Against Transnational Organized Crime. Kazakhstan has signed the Central Asian counternarcotics Memorandum of Understanding with UNODC. The Kazakhstan national counternarcotics law, passed in 1998, specifically gives the provisions of international counternarcotics agreements precedent over national law (Article 3.2).

Cultivation/Production. Marijuana grows wild on about 1.2 million hectares of southern Kazakhstan, with the largest single location being in the Chu Valley. It is estimated that 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 2005, the Committee on Combating Narcotics identified 164 cases of the illicit cultivation of opium poppies and marijuana. In August 2005 operatives from the Committee on Combating Narcotics apprehended a 40 year old resident of the Chu Valley who had harvested more than one ton of marijuana for sale, and seized another ton of marijuana from a separate Chu Valley resident. These cases were the biggest marijuana seizures this year.

Drug Flow/Transit. Kazakhstan continues to be an important transit country, especially for drugs coming out of Afghanistan. The law enforcement officials of Kazakhstan estimate that one-third of Afghanistan's 4,200 tons of heroin will pass through Kazakhstan this year and that 10 percent of this heroin will remain in Kazakhstan to be consumed by local addicts. The main routes for narcotics coming into Kazakhstan continue to run through Tajikistan and Kyrgyzstan.

Domestic Programs. Kazakhstan's increasing prosperity has also created a new market for artificial drugs, particularly ecstasy and amphetamines. These drugs are particularly popular among the patrons of the country's 700 night clubs. Nonetheless, the growing popularity of these drugs poses much less a threat to Kazakhstan than does the country's ever-expanding heroin problem. Opiate addiction continues to increase in the country, likely due to the large amount of heroin and opium transiting Kazakhstan. During the first nine months of 2005, it was estimated that there were approximately 52,137 drug addicts in Kazakhstan (47,000 in 2004). The GOK has sponsored several drug awareness programs since the beginning of this year. These programs were initiated as part of a pilot project on combating narcotics among the underage and teenage population.

IV. U.S. Policy Initiatives and Programs

Despite its continued problems of drug trafficking and drug abuse, Kazakhstan has made considerable progress. Given Kazakhstan's great potential as a partner in the fight against narcotics, the overall goal of the United States is to develop a long-term cooperative relationship between the police and investigative services of the United States and those of Kazakhstan. This relationship will enhance the professional skills of officers and improve the organization and management of GOK law enforcement services thereby increasing their effectiveness in the fight against illegal narcotics. All assistance provided by the U.S. in 2005 was intended to further this larger long-term goal. To allow for the more efficient inspection of trucks and vehicles, State Department Counternarcotics assistance (INL) provided an inspection hangar at the Ulken counternarcotics checkpoint this year. The Ulken checkpoint is approximately 400 km northeast of Almaty. The construction was completed in October 2005 and is located on a major highway with a constant flow of trucks and vehicles from Kyrgyzstan, Tajikistan, and Uzbekistan. Ulken will serve as a model for two internal MIA checkpoints in Kyzyltu and Beineu that INL will equip, and for the remaining five checkpoints which UNODC will construct with INL funds. INL continued to cooperate with the Border Guard Service. As part of a larger project aimed at combating narcotics trafficking in Kazakhstan, INL provided search equipment for the Aul

and Zheshkent Border Guard posts on the Russian-Kazakhstani border. During joint discussions of funds and projects for 2006, the Border Guards requested that we change our focus from working on the Russian-Kazakhstani border to working on the Kyrgyz-Kazakhstani border. The Border Guards felt that it made more sense to concentrate on controlling the traffic of incoming narcotics from Kyrgyzstan as opposed to controlling the outflow of narcotics from Kazakhstan to Russia.

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 and regional partners. Furthermore, it is better targeting its approach to counternarcotics work, is trying to curb corrupt law enforcement officials, and is establishing stricter punishments for drug-related crimes. 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 significant transit country for drugs originating in Afghanistan and destined for Russian, western European and American markets, with several of the main drug trafficking routes out of Afghanistan running directly through the Kyrgyz Republic. Particularly in the city of Osh and its surrounding regions, drug trafficking has become an ever-increasing source of income and employment.

However, there is minimal domestic production of illicit narcotics or precursor chemicals in the Kyrgyz Republic. During the calendar year 2005, the Government of the Kyrgyz Republic (GOKG) attempted, with limited resources, to combat drug trafficking and locate and prosecute offenders. 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. The Drug Control Agency (“DCA”) has introduced legislation that would make first time offenders eligible for treatment instead of incarceration. The legislation will go before the Kyrgyz Parliament in January 2006. Although there are no official statistics for 2005, the Ministry of Health reports that approximately 90 percent of known HIV and AIDS cases are related to intravenous drug use. The Kyrgyz Republic is a party to the 1988 UN Drug Convention. In August 2005, a new director was appointed to the DCA, and he has taken an innovative approach to the reorganization of the agency.

II. Status of Country

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 to a minor extent, the United States. The Kyrgyz Republic is not a major producer of narcotics; however, cannabis, ephedra and poppy grow wild in many areas.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Despite the GOKG’s best efforts, public confidence is very low with regard to the GOKG’s ability to address important concerns of its citizens such as unemployment, unpaid salaries, inadequate health care, corruption, and rising crime. The result has been public apathy towards government initiatives such as counternarcotics programs, cynicism about 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 established Kyrgyz Drug Control Agency (DCA) (funded by the USG, and implemented by UNODC), along with the Ministry of Interior initiatives have been fighting a losing battle against drug trafficking. There have been some positive indications that perhaps the tide is beginning to turn.

Law Enforcement Efforts/Accomplishments. The DCA, established in 2003, coordinates all drug enforcement activities in the Kyrgyz Republic. The DCA estimates that through November, there were 4326 kilograms of illicit narcotics seized (569 kilograms more than during the first 11 months of last year—2004). The DCA also reports that they detected 151 crimes, including 138 drug crimes (83 crimes more than during the 11 months of last year—2004). To stop illegal activities of transnational organized drug crime, the DCA closely cooperates with relevant competent bodies of Russia, Kazakhstan, and Tajikistan. They conduct joint operations and “external controlled deliveries” of drugs.

One of the operations the Channel Operation had as its major goal to block the “northern route” and to improve mechanisms of cooperation of law enforcement, customs, border guard and security institutions. The “Channel” operation seized 28,577 kilograms of drugs, including 3,386 kilograms of heroin, 24,731 kilograms of marijuana, 25 kilograms of precursors. The “Zaslon 2” operation started in October 2004, and lasted for six months. It was financed by the Drug Enforcement Administration and supported by the Ministry of Interior of Uzbekistan. The DCA was in charge of the operation on the territory of Kyrgyzstan coordinating activities of the Customs Service, Border Guards, National Security Service, and the Ministry of Internal Affairs. As a result of this operation, law enforcement bodies seized 174 kilograms of different drugs on the territory of Kyrgyzstan, including 45 kilograms of heroin and 129 kilograms of opium.

Corruption. The GOKG does not facilitate the production, processing, or shipment of narcotic and psychotropic drugs or other controlled substances, and does not discourage the investigation or prosecution of such acts. The GOKG takes legal and law enforcement measures to prevent and punish public corruption. During the spring and summer months of 2005 a number of investigations were launched into corrupt activities within the DCA that resulted in the replacement of the director of the DCA and three of its command staff in August 2005. Corruption is one of the single most important deterrents to effective Kyrgyz law enforcement efforts; reform efforts continued in the late fall of 2005.

Agreements and Treaties. The Kyrgyz Republic is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. It is also a party to the Central-Asian Counter Narcotics Protocol, a regional cooperation agreement encouraged by the UN. The Kyrgyz Republic is a party to the UN Convention Against Corruption Convention, the UN Convention Against Transnational Organized Crime, the Protocol Against Trafficking in Persons, and the Protocol against Migrant Smuggling.

Drug Flow/Transit. 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 more difficult. These isolated passes are some of the most heavily used routes for drug traffickers. Border stations located on mountain passes on the Chinese and Tajik borders are snow-covered and un-staffed for up to four months of the year. Government outpost and interdiction forces rarely have electricity, running water or modern amenities to support their counternarcotics efforts.

Afghanistan is the major source of opium and heroin, which pass through the Kyrgyz Republic through a so-called “Northern Route.” 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.

International Organizations and Law Enforcement bodies of the Kyrgyz Republic estimate that 80 metric tons of heroin enter Russia and Europe by way of Central Asian countries. Every year up to 3-5 metric tons of heroin (or 30-50 metric tons of opium) transits Kyrgyzstan. Most of these drugs come to Russia and Western European countries along the “northern route.” The fact that 34 citizens of Kyrgyzstan were arrested in Russia for drug crimes is a solid indication of the nature of this traffic. Availability of local sources of cannabis and ephedra complicates the drug situation in Kyrgyzstan. According to UNODC data, the total area of wild cannabis is more than 6,000 hectares, which results in the production of 4,248 metric tons of marijuana (or 148 metric tons of high quality hashish). Opium acreage and production are negligible. Drug dealers use almost every transportation means for drug delivery. Drugs are hidden among goods, food, objects, personal items, body cavities, home appliances, vehicles, and containers.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The USG supports a Customs Post in the village of Kyzyl-Art on the Tajik border. This \$250,000 “model” project, funded by State Department Narcotics assistance (INL), will be equipped with modern detection equipment and will be manned on a 24-hour basis. The construction phase of the project was finished in September 2005, and the training phase (final) should be completed in early 2006. State Department narcotics assistance (INL) also supported a project which purchased vehicles, office, laboratory and communications equipment for the Ministry of Justice, the Ministry of Interior, the Customs Service and the Procurator’s office. This \$465,000 project has assisted the GOKG to reduce the number of drug related crimes. The USG is also the only donor to a \$6.3 million UNODC project that helped establish an overall Drug Control Agency in the Kyrgyz Republic.

The Road Ahead. The USG will continue to assist the GOKG in their 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 their law enforcement and customs canine services. The development of a master plan for counternarcotics activity in Kyrgyzstan will continue, hopefully, to a successful conclusion in the near future.

Latvia

I. Summary

Drug use in Latvia is characterized by continued prevalence of synthetics. The overall results from Latvian government attempts to combat narcotics distribution and use remains mixed. Ecstasy is the most common narcotics in Latvia, though amphetamines, cannabis, heroin, cocaine and LSD can also be found. Patterns of heroin use, in previous years Latvia's most serious narcotics problem, are changing. Recreational drug use is shifting to ecstasy due to the latter's low cost, as well as national information campaigns highlighting the dangers of intravenous drug use. Though Latvia experienced an increase in drug-related criminal cases and prosecutions this past year, a lack of law enforcement resources continues to hinder efforts to combat narcotics use. Latvia is party to the 1988 UN Drug Convention.

II. Status of Country

Two sophisticated marijuana production facilities were shut down by the Organized Crime Enforcement Department. The marijuana was destined for the Riga market and not for distribution abroad. Latvia itself is not a significant producer of precursor chemicals, but Customs officials believe that a significant quantity of diverted "pre-precursors" originate in Belarus and transit Latvia en route to other countries. Heroin is sold at "retail" in public places such as parks, in the city center, or more discreetly, in private apartments; selling tactics and methods constantly change. Amphetamines are distributed in venues that attract youth, such as nightclubs, discotheques, gambling centers and raves. Recent seizures and arrests indicate that Latvians themselves are becoming more involved—not just in the trading of cannabis—but also in its production for local distribution. Organized crime groups also engage in both wholesale and retail trade in narcotics. Through the first nine months of 2005, Latvian police seized 28.64 grams of heroin, compared to 494.38 grams the previous year. Recreational drug use has increased with Latvia's growing affluence, with amphetamines, cannabis, cocaine, and ecstasy all reflecting an increase in usage.

III. Country Actions Against Drugs in 2005

Policy Initiatives. On August 17, 2005, the Cabinet of Ministers approved the State Program for the Restriction and Control of Addiction and the Spread of Narcotic and Psychotropic Substances (SPRCASNPS) for the years 2005 to 2008. This national strategy lists as its priorities: reducing the spread of drug abuse, especially among young people; increasing the possibilities for rehabilitation and re-socializing for drug addicts; reducing crime related to drug abuse and distribution, as well as drug trafficking; eliminating and preventing the harm caused to the general development of the Latvian state by drug addiction and drug related crime. Latvia's passage of the SPRCASNPS was in response to criticisms that it lacked a clear division of authority between municipalities and the state regarding budget and competencies.

Law Enforcement Efforts. The total number of drug-related crimes increased from 814 in the first nine months of 2004 to 877 in the same period of 2005. The 2005 drug-related crime statistics include 852 crimes related to sales, purchasing, possession, and repeated illegal use of narcotics; as well as ten crimes related to large-scale drug contraband. In the first nine months of 2005, the amount of seized marijuana, hash, ecstasy pills, and LSD increased compared to 2004 figures. Poppy straw, heroin, and cocaine seizures dropped in the first nine months, while amphetamines and methamphetamines seizures remained approximately the same. The total number of persons arrested for driving while under the influence of narcotics has steadily increased, with 2005 showing the highest number of

arrests to date (283 for 2005 as compared to 255 for 2004). This is due in part to the recent government crack down on intoxicated and impaired drivers. Prosecutions of drug-related cases have steadily increased over the past several years. In the first six months of 2005, the General Prosecutor's office opened 573 narcotics-related criminal offense cases, as compared to the 523 for the entire year of 2004. Of the cases opened by the Prosecutor General's Office, 355 have been completed and sent up for trial. In December of 2005, the police seized the largest amount of methamphetamines in Latvia to date. Latvian customs officers, in cooperation with the police, detained a courier on the Lithuanian border, whose arrest led to the discovery of 2.98 kilograms of methamphetamines in the courier's home. The police believe the courier to be associated with organized criminal elements in Latvia. Ecstasy seizures increased five times from 4,385 tablets in 2004 to 20,945 tablets in 2005. Marijuana seizures also increased five-times from 5.8 kilograms in 2004 to 25.38kg in 2005. Hashish seizures increased almost ten-times from 139.62g in 2004 to 1331.32g in 2005, and LSD increased quite sharply from 79.5 units in 2004 to 2190 units in 2005. Ephedrine seizures dropped from 658.05g in 2004 to 18.46g in 2005; heroin seizures dropped from 494.38g in 2004 to 28.64g in 2005; and poppy straw seizures dropped from 103.13kg in 2004 to 58.68kg in 2005.

The Latvian government acknowledges that Latvian law enforcement needs to show better results for its counternarcotics efforts, even with resource and funding difficulties. The new national strategy to address drugs takes this into account and has stated the government's intent to increase funding, personnel, and education for law enforcement. Currently, however, the police are not able to fully investigate all narcotics reports, especially routine reports of individual usage or abuse in private or club settings.

Corruption. Latvia's Anti Corruption Bureau (KNAB) was established in 2003 to help combat and prevent public corruption and has grown in its effectiveness and scope. In 2005 the KNAB uncovered and investigated potential abuses in Latvia's sworn Bailiff System. In 2005 the KNAB opened 34 new criminal cases, and 24 have been passed to the General Prosecutor's office, slightly more than 2004. 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 and a 1934 supplementary extradition treaty currently are in force between the U.S. and Latvia. On December 7, 2005, Latvia and the United States signed a new extradition treaty and Mutual Legal Assistance protocol, which will require ratification. Latvia is a party to the UN Convention against Corruption, and to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms.

Drug Flow/Transit. Narcotic substances are frequently smuggled into Latvia from Lithuania, principally by ground transport. Seaports are used mainly to transship drugs destined for sale elsewhere. Latvia is not a primary transit route for drugs destined for the United States. Most drugs transiting Latvia are destined for the Nordic countries or Western Europe. Latvian police report that seventy percent of drugs entering the Nordic countries move through Latvia, Estonia and then on to the Nordic countries, often taking advantage of frequent ferry service along the Baltic and Scandinavian coasts. Heroin is primarily trafficked via Russia from Central Asia.

Domestic Programs. The new national strategy, announced in 2005, addresses demand reduction, education, and drug treatment programs. For the year 2005, the following have been achieved: a co-ordination mechanism for institutions involved in combating drug addiction (involving eight ministries); monitoring of the work program of the EMBDDA on the national level; a system for monitoring court directed treatment for addicted offenders; educational events for teachers and

parents, as well as updated educational materials and informative booklets; inclusion of information on drug addiction into school curriculums; a pilot program for teaching prevention of drug addiction, alcohol abuse and smoking; pilot programs on drug addiction for local governments; education programs for members of the armed forces; mechanisms for information exchange amongst relevant institutions; an increase in the number of employees in the regional offices of the Organized Crime Enforcement Department under the State Police; and a course on “Problems of Narco-criminality” to be studied as part of the Master’s program at the Police Academy. In addition to the State Narcotics Center, Latvia has established four regional narcotics addiction treatment centers in Jelgavas, Daugavpils, Liepajas, and Straupes. There are rehabilitation centers in Riga and Rindzeles, and youth rehabilitation centers in Jaunpiebalga and Straupe respectively.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States maintains assistance on liaison programs in Latvia that focus on investigating and prosecuting drug offenses, corruption, and organized crime.

The Road Ahead. The United States will continue to pursue and deepen cooperation with Latvia, especially in the areas of law enforcement and prosecution. The United States will expand efforts to coordinate with the EU and other donors to ensure complementary and cooperative assistance and policies with the government of Latvia. The United States will also encourage Latvia to work with regional partners to advance the mutual fight against narcotics trafficking.

Lithuania

I. Summary

In 2005, Lithuania increased the efficiency of law enforcement counternarcotics efforts, improved drug-consumption research capabilities, and strengthened implementation of the National Drug Addiction Prevention and Drug Control Program at the federal and municipal levels. Lithuania remains a transit route for heroin and other illicit drugs from Asia and Russia to Western Europe. Lithuania produces synthetics for both domestic use and export. The most popular drugs for domestic consumption include synthetics, poppy straw extract, heroin, and cannabis. Lithuania's domestic drug trade is estimated at LTL 500 million (\$172 million) and growing. The number of registered drug addicts and drug-related crimes increased in 2005. Law enforcement cooperation between the U.S. Government and the Government of Lithuania 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 illicit drugs in Lithuania. Heroin is smuggled into Lithuania from Central Asia and the Balkans. Cocaine imports from South America transit Western Europe into Lithuania and then on to neighboring countries. Organized crime groups operating in central and western Lithuania smuggle illegal narcotics and psychotropics, especially ecstasy, into other Western European countries, including Norway, Germany, Ireland, and the United Kingdom. The number of people seeking initial treatment for drug addiction increased from 10.3 cases per 100,000 inhabitants in 2003 to 12.2 cases per 100,000 inhabitants in 2004. Nearly 73 percent of registered drug addicts are younger than 35 years old, 90 percent live in cities, and 20 percent are women. Lithuania had 943 registered cases of HIV in October 2005, an increase of 133 from October 2004. Approximately eighty percent of those registered with HIV contracted the disease through intravenous drug use.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The national Narcotics Control Department (NCD), established in 2004, commissioned its first survey of drug use in Lithuania. The study found that 8.2 percent of Lithuania's residents had used drugs at least once in their lifetime, with those 15-34 years old significantly more likely than those 35-64 years old to have tried drugs at least once (14.1 percent and 3.8 percent respectively.) The NCD, in cooperation with the Nordic Council of Ministers, also initiated a drug prevention and education project targeted at reducing the sale and use of illicit narcotics in bars and clubs. Lithuania approved a Drug Prevention Action Plan for 2006 under the overall National Drug Addiction Prevention and Drug Control Program adopted in 2004. In 2005, the parliament designated this program as critical to Lithuania's long-term national security.

Law Enforcement Efforts. Lithuanian law enforcement registered 1,313 drug-related crimes as of November 2005, a slight increase over the 1,121 registered during the same period in 2004. In 2004, Lithuanian law enforcement detained 869 persons for criminal acts related to the possession or sale of narcotic and psychotropic substances. In the first ten months of 2005, law enforcement detained 845 persons. As of November 2005, police and customs had seized 545 kilograms of poppy straw, 76 liters of poppy straw extract, 59 kilograms of cannabis, 48 kilograms of hashish, and 5,500 ecstasy tablets. They also impounded small quantities (less than five kilograms each) of heroin, cocaine, amphetamines, methamphetamines, LSD, hallucinogenic mushrooms, various psychotropic drugs, and precursors. In 2005, the police shut down a laboratory producing high-quality amphetamines. They

confiscated 769 grams of amphetamine and three kilograms of BMK (1-phenyl-2-propanon), an amphetamine and methamphetamine pre-cursor, from the laboratory site. The Customs Service initiated fourteen pre-trial investigations related to narcotics smuggling in 2005.

In May 2005, law enforcement officials on the Latvian border seized 23 kilograms of hashish hidden in a passenger car. Swedish and Lithuanian law enforcement cooperated to stop a drug smuggling group that included five Lithuanians and had attempted to transport 130 kilograms of hashish and 3.5 kilograms of amphetamine from Lithuania to Sweden. Russian and Lithuanian law enforcement officials busted a criminal group that transported heroin and amphetamine to Russia, arresting three individuals and seizing 30 grams of heroin and one kilogram of amphetamine. In October 2005, Norwegian law enforcement detained three Lithuanians for transporting 56 kilograms of rohypnol tablets. In December 2005, Lithuanian police participated in a joint operation with Ireland and France to arrest a Lithuanian arriving in Ireland by car ferry with 113,000 ecstasy pills concealed in his car bumper. The Lithuanian court system heard 1,111 drug-related cases in 2005, with a 75 percent conviction rate. Those convicted of trafficking or distribution face prison terms of five to eight years.

Corruption. Lithuania does not encourage or facilitate illicit production of controlled substances or money laundering. Lithuania has established a broad legal and institutional anticorruption framework, but low-level corruption and bribery continue to be the basis of frequent political scandals. There were no reports involving Lithuanian government officials in drug production or sale or in the laundering of drug proceeds.

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 trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms. An extradition treaty and mutual legal assistance treaty are in force between the U.S. and Lithuania. Lithuania has signed, but has not yet ratified, the UN Convention against Corruption.

Cultivation/Production. Illicit laboratories in Lithuania produce amphetamines for both local use and export. Lithuania is not a major cultivator of illicit narcotics, but law enforcement regularly finds and destroys small plots of cannabis and opium poppies used to produce opium straw extract for local consumption. In 2005, police, in cooperation with customs agents, eradicated 10,089 square meters of poppies and 286 square meters of cannabis.

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) 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. Amphetamines from Lithuania are usually transported by truck to Sweden and Norway through Poland, Germany and Denmark. Most ecstasy tablets come by land or sea from the Netherlands. Iceland was a new destination for amphetamines and cocaine in 2005. The United States is occasionally a destination country for synthetic narcotics, primarily ecstasy, from Lithuania.

Domestic Programs (Demand Reduction). Lithuania operates five national drug dependence centers and ten regional public health centers, and attempts to reduce drug consumption through education programs and public outreach, especially in schools. In 2005, twenty rehabilitation centers and seventeen addict rehabilitation communities operated in Lithuania. The Prisons Department operates a rehabilitation center for incarcerated drug addicts, and allocated LTL 780,000 (\$280,000) in 2005 to purchase equipment and fund activities to prevent drug trafficking, train officials, and educate prison.

In 2005, Lithuania increased funding to the National Drug Prevention and Control Program by twenty percent, from LTL 10.2 million (\$3.51 million) to LTL 12.2 million (\$4.21 million) and allocated LTL 15.25 million (\$5.25 million) to the 2006 Action Plan. The national police department strengthened prevention and control measures at public events including concerts and holiday celebrations, arresting several individuals for selling illicit drugs. In 2005, the police also organized a “Drug Prevention Week” for about 600 school children from around the country.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Law enforcement cooperation between the United States and Lithuania is very good. In 2005, the United States continued to support Lithuania’s efforts to strengthen its law enforcement bodies and improve border security. The United States sponsored a conference in Lithuania on drug prevention and treatment with participation of speakers from the Department of Health and Human Services and the White House Office of National Drug Control Policy. Lithuanian Customs opened negotiations with a U.S.-based logistics company for assistance in narcotics detection and interdiction.

The Road Ahead. The United States looks forward to continuing its close cooperative relationship with Lithuania’s law enforcement agencies. In 2006, the United States will continue to promote increased Lithuanian attention to the drug problem and will support activities aimed at preventing the production and trafficking of illicit narcotics. A U.S. priority will be to encourage Lithuania to focus on the role of communities, parents and schools in drug abuse prevention and on strengthening counseling and other services as part of drug treatment programs.

Macedonia

I. Summary

Macedonia is neither a major producer nor a major regional transit point for illicit drugs. The government made some progress in combating drug trafficking in 2005; however, illicit drug transshipments through Macedonia increased, as did drug use. The quantity of drugs seized in 2005 decreased on average in some categories (heroin and marijuana) but increased in others (cocaine and psychotropic substances). The inter-ministerial counternarcotics commission completed its draft counternarcotics strategy and action plan, but the plan had not been approved by year's end. The organized crime unit of the Ministry of Interior (MOI) began operating in early 2005, and Macedonian law enforcement authorities cooperated closely with regional counterparts in counternarcotics operations. However, counternarcotics operations often were hindered by ineffective inter-agency coordination and planning, as well as by inadequate criminal intelligence. 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 hashish and marijuana produced in Albania to Turkey, where it is exchanged for heroin that is then transported to Western European markets. Small amounts of marijuana are grown in Macedonia, mainly for personal use. Macedonia is not known to produce precursor chemicals. Police and Customs officers check on the possible diversion of precursors at the borders. Cocaine was not transported to or through Macedonia in significant quantities. Trafficking in synthetic drugs appeared to increase in 2005.

III. Country Actions Against Drugs in 2005

Policy Initiatives. By year's end, the GOM's inter-ministerial National Commission for Prevention of Illicit Drug Trafficking and Abuse had completed a draft national strategy and action plan for demand reduction and combating drug trafficking. The Commission expected the draft plan would be reviewed and approved by the government before June 2006. Unfortunately, the plan did not include any provision for adequate funding for implementation of the plan. In addition, the GOM revised and submitted for parliamentary approval draft laws to further strengthen control of narcotic drugs, psychotropic substances, and medical and chemical precursors. The government expected both laws would aid in implementing the 2004 Law for Control of Precursors. In May 2005, the Minister of Health established and chaired a working group to prepare a draft National Strategy and Action Plan for Prevention, Treatment and Harm Reduction related to drug abuse for 2006-2012. By year's end, the strategy document was in the final phase of preparation.

Accomplishments. The Witness Protection Law was adopted in May 2005, nearly completing the legal framework for combating organized crime and drug trafficking. At year's end, the parliament was reviewing the Law on Intercepting Communications, which would enhance the ability of prosecutors to use wiretaps as evidence in criminal proceedings.

The MOI's Organized Crime Unit, which included a sector for combating illegal drug trafficking and a criminal intelligence cell, began operations in early 2005. However, inadequate MOI intelligence regarding narcotics trafficking hampered counternarcotics efforts.

The Customs Administration continued to strengthen its intelligence units and mobile teams. Anecdotal evidence suggests that rivalries between Customs and the Border Police hampered effective counternarcotics operations in some instances.

Law Enforcement Efforts. According to MOI statistics, criminal charges were brought against 283 persons involved in 228 cases of illicit drug trafficking. The ministry also reported that 428 misdemeanor charges were brought against 449 individuals for “using narcotic drugs.” Police seizures of heroin and marijuana in 2005 were on average lower than in the previous year. Seizures of other drugs such as cocaine and other psychotropic substances were much higher, although overall quantities seized were relatively low.

The MOI reported the following quantities of drugs and psychotropic substances seized: nearly 70 kilograms of heroin (10 percent of the quantity reported seized in 2004); 196 kilograms of marijuana (36 percent of the 2004 figure); just over 3 kilograms of hashish; 11 kilograms of cocaine (over 100 times higher than in 2004); 3,206 ecstasy tablets (nearly 300 times higher than in 2004); 107,000 diazepam tablets; nearly 2 kilograms of paracetamol and cocaine mixture; 93 morphine hydrochlorine ampules; 2,865 cannabis sativa plants (6 times higher than in 2004) 2,220 poppy plants; and 2.5 kilograms of dry poppy. Macedonian police disrupted one international distribution operation at the Blace border crossing with Kosovo, seizing 9 kilograms of Turkish heroin bound for Kosovo.

Corruption. Corruption is prevalent in Macedonia. Low salaries and high unemployment help to foster graft among law enforcement officials. The judiciary remains weak and is frequently accused of corruption. Macedonia’s Anti-Corruption Commission accused the Public Prosecutor of showing little interest in prosecuting high-profile corruption cases, although there was no concrete evidence of high-level corruption related to drug trafficking, it is probably reasonable to presume that some occurs. As a matter of 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. Macedonia has signed, but has not yet ratified, the UN Convention against Corruption.

Agreements and Treaties. Macedonia is a party to the 1988 UN Drug Convention, the 1961 Single Convention 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. Macedonia is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling.

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. Only one pharmaceutical company in the country was authorized to cultivate and process poppy. Authorized poppy production is reported to the Ministry of Health, which shares that information regularly with the Vienna-based International Narcotics Control Board. Marijuana cultivation in southeast Macedonia continued to present a challenge to authorities.

Drug Flow/Transit. Macedonia is on the southern variant of the Balkan Route used to ship southwest Asian heroin to the western European consumer market. Drug gangs used heavy trucks, vans, buses and cars to transport the bulk of the drug shipments. The quantity of synthetic narcotics trafficked in Macedonia in 2005 appeared to increase, largely due to the low cost of such drugs. Most synthetic drugs aimed at the Macedonian market originated in Bulgaria and Serbia, and arrived in small amounts by vehicle.

Domestic Programs (Demand Reduction). Official Macedonian statistics regarding drug abuse and addiction are unreliable, but the government estimated there were between 6,000-8,000 drug users in the country, reflecting an increase in domestic drug use. The most frequently used drug was marijuana, followed by heroin and ecstasy.

Macedonia has one state-run outpatient medical clinic for drug users that dispenses methadone to registered heroin addicts. During 2005, the Ministry of Labor and Social Affairs opened three day care centers for drug addicts, and was seeking professional training assistance for the staff members of the centers. The Ministry of Health reported the opening of six new drug treatment centers, and anticipated opening an additional 10 centers in 2006. In-patient treatment in specialized facilities consisted of detoxification, accompanied by medicinal/vitamin therapy, as well as limited family therapy, counseling and social work. Follow-up services after detoxification, or social reintegration programs for treated drug abusers, were inadequate. Educators and NGOs continued to support programs to increase public awareness of the harmful consequences of drug abuse, targeting drug use among youth in particular. The Ministry of Science and Education continued its counternarcotics use information campaign at the primary and secondary school level.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During the year, DEA officers worked closely with the Macedonian police to support coordination of regional counternarcotics efforts. In one case, Macedonian, Greek and U.S. DEA officers cooperated to disrupt a drug trafficking operation at the border crossing point between Macedonia and Greece in southern Macedonia. The successful operation resulted in the seizure of 10.5 kilograms of high-quality cocaine intended for the Greek market. MOI police, financial police, customs officers, prosecutors, and judges received State Department-funded training in 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. Macedonia's porous borders and the growing influence of regional narcotics trafficking groups suggest the country will continue to face increased transit rates of illegal drugs, which is likely to boost drug use domestically. DEA officials expect increased use by traffickers of Macedonia as a "warehousing" base during transshipments. The United States government, through law enforcement training programs, will continue to strengthen the ability of the police, prosecutors and judges to monitor, arrest, prosecute, and sanction narcotics traffickers. Working with our EU and other international community partners, we will press for implementation and funding of the national counternarcotics strategy and a permanent secretariat for the National Commission. We also will work with the GOM and our international partners to strengthen the criminal intelligence system, and to improve the government's ability to provide reliable statistics on drug use and arrests, prosecutions and convictions of 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 significant 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 is in harmony with the goals and objectives of the 1988 UN Drug Convention, to which Malta is a party. 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, cocaine, ecstasy, and cannabis resin over the last five 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 399,000 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, unwanted trends are relatively easy to detect and deter. However, with daily flights, numerous cruise ship calls, a large commercial port, numerous illegal immigrants, and frequent international travel by a large percentage of Maltese, Malta is not isolated. 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 abuse 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 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. There are a number of generic pharmaceutical firms operating in Malta, but no evidence of pilferage or diversion from the production side. There are stringent legislative controls of the pharmaceutical sector and the Maltese Health Department conducts inspections and review of company records.

III. Country Actions Against Drugs in 2005

Since the drug problem in Malta is not widespread, enforcement agencies are able to focus a large percentage of their resources on preventing the smuggling of drugs into Malta. Police and Customs personnel have had significant success through the profiling and targeting of suspected passengers transiting the airport. The Police and the Armed Forces work together to monitor, intercept and interrupt sea borne smuggling of illegal drugs. Maltese Custom officials have worked to become more adept at detecting and preventing the movement of drugs through the 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.

Law Enforcement Efforts. There was no significant seizure of property related to drug crimes in 2005. However, current Maltese law provides the necessary provisions for asset forfeiture of those accused of drug-related crimes. In 2005, the Malta Police Force Drug Squad seized several vehicles,

boats, and cash property. In the first 10 1/2 months of 2005, Maltese authorities seized 6.4 kilograms of cocaine (.15 kilogram); 15.4 kilograms of heroin (.77 kilogram); 7 kilograms of cannabis products (36 kilograms), and 15,309 ecstasy pills (6071). (Figures in parenthesis represent 2004 full-year seizures.)

Corruption. The USG is not aware of any widespread 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". The final outcome in this case is pending appeals filed on behalf of the defendants.

Agreements and Treaties. Malta is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Malta is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. Malta has signed, but has not yet ratified, the UN Convention against Corruption. In June of 2004, the U.S. and Malta successfully negotiated a Maritime Counter-Narcotics Cooperation Agreement. This agreement concerns cooperation to suppress illicit traffic in narcotic drugs and psychotropic substances by sea and is intended to assist the interdiction of the flow of drugs through Mediterranean shipping lanes. Malta and the U.S. are currently negotiating a Proliferation Security Initiative (PSI) Ship Boarding Agreement. If negotiations on the Ship Boarding Agreement are successful, then it and the Counter Narcotics Cooperation Agreement may be sent to the Maltese Parliament for ratification at the same time. Malta and the U.S. cooperate in extradition matters under the 1931 US-UK Extradition Treaty. In November 2005, Malta and the United States concluded bilateral negotiations for a new extradition treaty and for a mutual legal assistance treaty.

Drug Flow Transit. There is no indication that Malta is a major trafficking location. The Malta Freeport container port 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 nonproliferation 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. There are cases of heroin being smuggled into Malta, hand-carried by visitors from North African countries (Libya, in particular). Traditionally, Malta's drug problems involved the importation and distribution of small quantities of illegal drugs for individual use. In 2005, three significant seizures indicated a trend toward "distribution by organization." Specifically, police determined that the products were intended for sale at street level by loosely affiliated individuals. Malta has the world's eighth 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. Customs has provided several training courses in Malta over the last two years. Under the Export Control and Border Security assistance program at Embassy Valletta, the U.S. continues to work closely with port officials to improve their ability to monitor and detect illegal shipments. In 2005, a Coast Guard Attaché was assigned to Embassy Valletta to improve coordination and training with the Maltese Maritime Enforcement Squadron. Training focuses on maritime search

and seizure techniques as well as on the proper utilization and operation of two recently donated 87' state-of-the-art patrol boats. In May 2005, DEA conducted a four-day training seminar for Maltese law enforcement agencies. Topics included surveillance techniques, raid techniques, information sharing, and interdiction tactics. The joint effort to provide training, support and assistance to GOM law enforcement agencies has clearly improved the Maltese enforcement 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.

The Road Ahead. The U.S. and Malta will continue to work on narcotics control issues, benefiting the performance and interests of both parties.

Moldova

I. Summary

Drug usage within Moldova remains a concern; although the number of officially registered addicts decreased, the importation of synthetic drugs and psychotropic substances increased, despite the fact that consistently poor economic conditions make Moldova a relatively unattractive market for narcotics sales. To date, 2005 statistics regarding the quantity of hemp and poppy plants seized doubled in comparison with the same period of last year and heroin seizures increased by more than four times. There was also a noticeable increase in the seizures of psychotropic substances, especially ecstasy. Moldova is not a significant producer of narcotics or precursor chemicals. The number of criminal proceedings this year indicates a noticeable increase in cases sent to trial. Moldova is a party to the 1988 UN Drug Convention.

II. Status of Country

Moldova is an agricultural country with a climate favorable for cultivating marijuana and opium poppy. Annual domestic production of marijuana is estimated at several thousand kilograms. By November of 2005, authorities seized and destroyed 16,688 kilograms of hemp plants and 18,418 kilograms of poppy plants. The market for domestically-produced narcotics remains small. The importation of synthetic drugs continues to grow as evidenced by the increase quantities of ecstasy and other psychotropic substances seized this year. Domestic drug traffickers remain closely connected to organized crime in neighboring countries. Moldova is not a factor in the regional production of any precursor chemicals. During the first 10 months of 2005 the Ministry of Internal Affairs (MIA) discovered 8 cases of medical personnel prescribing narcotic and psychotropic substances in violation of the established regulations.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In November 2005 the Parliament amended the articles pertaining to narcotics control in the Criminal Code (CC), Criminal Procedure Code (CPC) and the Administrative Offences Code (AOC), which brought the legislation in line with the provisions of Article 3 of the 1988 UN Drug Convention. The maximum penalty in the CC for narcotics trafficking was increased from 12 years to 20 years in prison. The CC was amended to include six new articles that covers a wider range of drug-related crimes. The articles from the CPC related to wiretapping, intercept of communications and correspondence, were greatly improved to allow the use of these techniques for the entire range of drug related crimes, versus only especially grave offenses before November 2005. The AOC was amended to include a more detailed description of drug-related offenses. In 2005 the Anti-Drugs Department of the MIA was transferred from the Directorate to Combat Organized Crime to the Directorate of the Judicial Police, which also incorporates the Criminal Police Department. This change was considered significant by the MIA, because the regional counternarcotics investigators are now directly subordinated to the Anti-Drugs Department, instead of reporting to a different department. Unfortunately, this change also brought a reduction of the number of law enforcement personnel within the Anti-Drugs Department, which decreased from 103 to 75 officers nationwide, with 12 officers at headquarters in Chisinau supporting 63 in the regions. Moldova also continues to pursue—with U.S. support—anticorruption, counternarcotics and border control initiatives that supplement counternarcotics efforts.

Law Enforcement Efforts. Moldovan authorities initiated at least 1,846 drug-related cases in the first 10 months of 2005, as compared to 2,140 total cases for the entire year of 2004. This year, 558

kilograms of poppy straw and 9 liters of opium were seized, compared with 460 kilograms of poppy straw and 13.5 liters of opium for the same period of 2004. Heroin seizures increased by 4 times in 2005: 870 grams were seized during the first 10 months of 2005, while only 202 grams were seized during the first 11 months of 2004. Seizures of ecstasy almost tripled: 326 pills in 2005 and 124 pills in 2004. Concerns over Moldova also focus on the fact that historically, many transit countries have become user countries over time. Moldova will need to invest significant resources in education, border enhancement, and further law enforcement initiatives to stem the growth of its user population. Narcotic drug seizures and lab destructions remain high priorities for the counternarcotics units. The Anti-Drugs Department found and destroyed 38 clandestine labs this year compared with 11 labs in 2004. MIA officials also continue to work with the Prosecutors to ensure quality cases are pursued. During the first 10 months of 2005, 98.8 percent of the cases reported were sent forward for prosecution, with 78.7 percent going to trial. During the entire year of 2004, 99 percent of those reported were forwarded for prosecution, resulting in 70.5 percent of cases going to trial.

Corruption. Corruption, on all levels, is a major systemic problem within Moldova. Despite repeated pledges by the Government of Moldova to eradicate corruption, corruption appears to be pervasive, permeating all levels of society from the judicial and political processes to education and health care to business. The Center for Combating Economic Crimes and Corruption (CCECC) is the law enforcement agency responsible for investigating corruption allegations, including those related to narcotics-related public corruption. It has been accused of political bias in its investigations, although not specifically with regard to narcotics cases. As a matter of government policy, Macedonia neither encourages nor facilitates illicit production or distribution of narcotics or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Moldova is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention. Moldova is also a signatory of the Strasbourg Convention of 1990 and the 1999 International Convention for the Suppression of the Financing of Terrorism, and cooperates in accordance with these agreements where resources and abilities permit. Moldova is a party to the UN Convention on Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. Moldova has signed, but has not ratified, the UN Convention against Corruption

Drug Flow/Transit. Seizures this year increased and they indicate that Moldova remains primarily a trans-shipment country for narcotics. Information provided by the MIA 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 Commonwealth of Independent States. The MIA continues to express concern about the increased use of heroin and ecstasy and has indicated that in the near future Moldova may become a target of international drug trafficking networks, especially those trafficking heroin.

Domestic Programs. As of November 2005 the number of officially registered addicts was 8,247, which is a decrease compared with the same period of 2004 (8,527). The MIA conducted 5,515 raids and operations in 2005, organized 7,013 meetings with vulnerable groups and published 312 preventive advertisements in the media. Treatment is an option for only the wealthiest of offenders. These rehabilitation programs continue to suffer from lack of financial resources and dilapidated facilities, which restrict rehabilitation and treatment efforts by the Moldovan government.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG's counternarcotics program remains focused around Department of State (INL) Bureau activities. In March 2005, the United States provided narcotics interdiction training for the Moldovan police, customs officials and employees of the Information and Security Service. The training focused on tactical vehicle stops, drug identification, parcel interdiction and

secret compartments, jet way interdiction, ground transportation interdiction, case development and international controlled deliveries. INL supported travel abroad by Moldovan police investigators, customs officials and border guards to attend the International Law Enforcement Academy (ILEA) in Budapest for basic law enforcement training, which included sessions on combating organized crime, drug trafficking, human trafficking, money laundering and corruption. INL also organized an ILEA Roswell Advanced Management training for ILEA graduates from Moldova focused on drug and human trafficking. Ongoing 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. Moldova and the U.S. will continue to work closely on narcotics control issues.

Netherlands

I. Summary

With its extensive transportation infrastructure and some of the most active maritime ports in Europe, the Netherlands is one of the leading distribution points for illegal drugs to and from Europe. A significant percentage of the cocaine consumed in Europe enters first through the Netherlands, and the country remains one of the leading international producers of ecstasy (MDMA), although production seems to be declining substantially. 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. that could be linked to the Netherlands dropped to 0.2 million in 2004 from 1.1 million in 2003 and 2.5 million in 2002. This number does not take into account the amount of ecstasy seized in Canada that is destined for the U.S. Operational cooperation between U.S. and Dutch law enforcement agencies is excellent, despite some differences in approach and tactics. In July 2005, ONDCP Director John Walters and Dutch Health Minister Hans Hoogervorst signed an agreement between their two agencies to exchange scientific and demand reduction information. The Netherlands actively participates in DEA's El Paso Information Center (EPIC). The 100 percent close inspection at Schiphol airport on inbound flights from the Caribbean and some South American countries has resulted in a dramatic decline in the number of drug couriers. 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. The Netherlands is a party to the 1988 UN Drug Convention.

II. Status of Country

The central geographical position of the Netherlands, with its modern transportation and communications infrastructure, 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; although significant ecstasy production has shifted outside the country—particularly to neighboring European states and perhaps to Canada. 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 2005

Policy Initiatives. The National Crime Squad ("Nationale Recherche" or NR), which officially started functioning in January 2004, had a very successful year in 2005. Not only did it make the largest cocaine seizure ever in the Netherlands, it also dismantled the largest ecstasy laboratory ever found in the country (see below for more details).

Cannabis. As announced in the 2004 "Cannabis Letter", the Dutch Government has given top priority to discouraging "drug tourism" and cannabis cultivation, particularly in the southern border regions. In November 2005, Justice Minister Donner sent the Second Chamber an assessment of the government's cannabis policy, highlighting the most important developments:

- Dutch authorities in Maastricht will shortly begin a trial project to offer local residents special access passes to coffeeshops. The Netherlands permits sale of cannabis in coffeeshops under vigorous controls and conditions. The objective of the

Maastricht trial is to cut down on drug tourism from neighboring countries. If successful, the experiment will be expanded.

- In October 2005, Justice Minister Donner proposed amending the Opium Act to make it easier for local governments to close down premises where drugs are sold illegally. Currently, closure of such “drug premises” is possible with a judge’s order, but only if there is concrete evidence they are causing a serious public nuisance.
- The public prosecutor’s office and the police in the southern provinces of Brabant and Limburg have started a pilot project targeting the criminal organizations behind illegal cannabis cultivation, rather than merely focusing on individual growers.
- In anticipation of parliamentary ratification of the bilateral law enforcement cooperation treaties with Germany and Belgium, practical measures have been taken to reduce drug trafficking in border regions. Cross-border surveillance has been intensified and license numbers of drug tourists are being exchanged.
- To implement the EU framework decision on illegal drug trafficking of November 2004, the Government currently is drafting a proposal raising the sentence for large-scale cannabis cultivation and illegal cannabis trafficking “either (in organized form) or not in organized form” from 4 to 6 years’ imprisonment.
- The 2004 National Drug Monitor, published by the Trimbos Addiction Institute in April 2005, showed that recent (within the last-month) cannabis use among young people aged 12-18 dropped from 11 percent in 1996 to 9 percent in 2003. Lifetime prevalence (ever-used) of cannabis in this age group dropped from 22 percent to 19 percent over the same period. In 2004, Trimbos began a 3-year mass-media publicity campaign, subsidized by the Health Ministry, to discourage cannabis use among young people.
- The average THC content in Dutch-grown cannabis (“Nederwiet”) was a very high 20 percent in 2003-2004, and appears to be stabilizing at between 17 and 20 percent. The State Institute for Health and Environment (RIVM) has been ordered to investigate acute health risks of cannabis with high THC levels. Results of this study are expected in March 2006.
- A July 2005 study estimated the total number of coffeeshops in the Netherlands at 737 at the end of 2004, down from 754 in 2002. Only 22 percent of the 483 Dutch municipalities allow coffeeshops within their cities—70 percent do not allow any at all. Half of all coffeeshops are located in the five largest cities. On average, coffeeshops are checked by the authorities four times per year, and criteria for operating such shops usually are well observed.

In a November 28, 2005 letter to the Second Chamber, Health Minister Hoogervorst stated that legal sales of medicinal cannabis by pharmacies have largely failed. He said the policy to allow medicinal sales in pharmacies could only be effective if an official cannabis-based medicine were registered. Hoogervorst intends to end the experiment if the pharmaceutical industry fails to develop such a medicine within one year. Since March 2003, doctors have been allowed to prescribe medicinal cannabis for their chronically ill patients. The Health Ministry’s Bureau for Medicinal Cannabis buys the cannabis from two official growers, confirms quality and organizes the distribution.

Cocaine Trafficking. In July 2005, the Justice Ministry expanded prosecutions of South American and Caribbean cocaine couriers at Schiphol airport. Previously, the government only prosecuted couriers carrying 3 kilograms or more of cocaine; couriers carrying smaller quantities were sent home (to save the Dutch taxpayer the expense of “lodging” them in prisons). Under the new policy, couriers

carrying 1.5 or more kilograms are prosecuted. Government officials expect to prosecute all couriers, regardless of quantity carried, by January 2006. This has become possible because of the dramatic decline in the number of couriers due to the stricter controls. During a Justice Ministry budget debate in November 2005, the Second Chamber questioned the high amount of money spent annually on the 100 percent checks: 27 million Euros by Justice, and 6.5 million Euros each by the military police and Customs. In early 2006, the Justice Ministry will publish an assessment of the Schiphol drug policy, including a long-term plan.

In September 2005, Justice Minister Donner signed agreements with his Colombian and Venezuelan counterparts on intensified cooperation in combating cocaine trafficking to Europe. In June 2005, the Justice Ministry agreed to resume sharing the list of all “blacklisted” Schiphol couriers with DEA’s El Paso Intelligence Center (EPIC) after a two-month hiatus due to Dutch concerns over privacy protections. To date, approximately 5,300 courier names have been provided to EPIC. In August 2005, the Rotterdam police seized 4,500 kilograms of cocaine—the largest cocaine seizure ever in the Netherlands. The cocaine, hidden inside two large steel cable spools, was worth an estimated \$273 million. The investigation involved close cooperation with DEA offices in Spain, Belgium, and the Netherlands. Cooperation among Dutch, German and Spanish police led to the seizure of 1,650 kilograms of cocaine at the Port of Rotterdam in November. The cocaine, with an estimated street value of \$60 million, was hidden in tins of asparagus and red peppers.

Ecstasy. In July 2005, Justice Minister Donner submitted to the Second Chamber an interim evaluation of the Government’s 2002-2006 ecstasy action plan. The report, which covers the period up to 2004, indicated positive effects, such as increased seizures, increased apprehensions, and completed investigations. (For more details, see section on cultivation/production.)

On November 29, 2005, the National Crime Squad (NR) and the FIOD-ECD fiscal and economic investigation service dismantled the largest ecstasy lab ever found in the Netherlands. The professional lab was found in Nederweert (southern Limburg province), and was estimated to have had a production capacity of 20 million ecstasy tablets. The police also found more than 300 liters of PMK (the precursor for ecstasy) and a small quantity of MDMA powder and amphetamine. In addition, more than 50,000 liters of chemicals were discovered at a different location. Six people were arrested, all of them from Limburg province. The investigation, which began in May 2005, was carried out in close cooperation with German and Belgian authorities. This was the first ecstasy lab discovered in 2005; previously, only amphetamine laboratories had been found this year.

Accomplishments. The new National Crime Squad (NR) has proved very effective in drug investigations, and resulted in closer cooperation with the DEA. In July 2005, the national police (KLPD) assigned a liaison officer to China to work on joint precursor chemical investigations. In addition to working directly with the Chinese, the Netherlands is an active participant in the INCB/PRISM (A multilateral control effort) project’s taskforce.

Law Enforcement Efforts. The Health Ministry coordinates drug policy, while the Ministry of Justice is responsible for law enforcement matters relating to local government and the police are the responsibility of the Ministry of Interior. At the municipal level, 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 up to 12 years. When trafficking takes place on an organized scale, the sentence is increased by one-third (up to 16 years). Sales of small amounts of cannabis products (under five grams) are “tolerated” (i.e., not prosecuted, even though technically illegal) in “coffeeshops” operating under regulated conditions (no minors on premises, no alcohol sales, no hard drug sales, no advertising, and not creating a “public nuisance”).

The Dutch National Police (KLPD) and the National Prosecutors office continue to give high priority to combating the illegal drug trade. The National Crime Squad (Nationale Recherche—NR), a branch of the KLPD, became operational on January 1, 2004; two of the NR's primary missions are investigating of smuggling and cross border trade in cocaine and heroin, and investigating the production and trade of synthetic drugs. As part of the bilateral "Next Steps" law enforcement negotiations, DEA has obtained increased access to the NR office in The Hague, which focuses on cocaine investigations, and is working toward a similar relationship with the NR office in Helmond, which focuses on synthetic drugs. In September 2004, DEA assigned an additional special agent to The Hague Country Office, increasing the office's manpower to six, the largest it has ever been.

The Netherlands has accelerated efforts to collaborate on joint-law enforcement operations with its neighbors. On May 27, 2005, the Dutch government signed the Prum treaty with Belgium, Luxembourg, Germany, Austria, France, and Spain, promoting broad police cooperation across borders. In March, the Netherlands signed the Germany-Dutch Treaty, which will go into effect in 2006 and allow for common police patrols and controls in the border area between the two countries. The Benelux treaty, (the Netherlands, Belgium and Luxembourg), signed in June 2004 and enacted in February 2005, provides for increased cross-border police cooperation between the three countries. In June of 2005, Belgian and Dutch authorities agreed to jointly increase border controls in order to prevent ecstasy and cannabis production from shifting to Belgium. This expanded international cooperation on law enforcement investigations is particularly necessary given evidence that some ecstasy production is migrating from the Netherlands to neighboring states.

All foreign law enforcement assistance requests continue to be sent to the DIN (International Network Service), a division of the NR. The DIN has assigned two liaison officers to assist DEA and other U.S. law enforcement agencies. Since the reorganization into the NR, the DIN has allowed DEA and other liaison officers to contact one of the five NR offices directly with requests. In addition, DEA has been allowed to contact regional police offices on a case-by-case basis. This policy has permitted better coordination during ongoing enforcement actions, such as controlled deliveries and undercover operations. Under Dutch law enforcement policy, prosecutors still control most aspects of an investigation. Dutch police officers must get prosecutor concurrence to share police-to-police information directly with foreign liaison officers. This can hamper the quick sharing of information, which could be used proactively in an ongoing investigation. However, the quick sharing of police-to-police information is improving as a result of the increased access for DEA agents with NR units. This improved information sharing led to the seizure of approximately 4,500 kilograms of cocaine and the dismantling of a Colombian cocaine transportation cell operating in the Netherlands and Spain in September 2005. Dutch law enforcement has also become much more willing to undertake controlled delivery operations with DEA. In fiscal year 2004, the Dutch did not accept any requests from DEA for controlled delivery operations. In FY 2005, the Dutch and DEA conducted 10 inbound controlled deliveries of cocaine. This trend is continuing with three controlled delivery operations attempted so far in FY 2006. Most of these controlled deliveries are small amounts of cocaine (less than five kilograms) contained in parcels being sent from South America or the Caribbean.

The Dutch Government also took significant steps at the policy and operational levels to target the more significant international drug trafficking organizations active in the country. In 2005, the National Crime Squad (NR) began operations to better coordinate Dutch investigations with a focus on large organizations. In early July, the NR announced the arrests of 10 members (including the leader) of an international organization believed to be responsible for a significant percentage of all MDMA production in the Netherlands. Seizures from this organization have included 25,000 liters of precursor chemicals, enough to make 375,000,000 tablets worth an estimated \$7.5 billion in retail street value. The NR attributes the doubling of the price of precursors since 2004 to seizures against this organization—a mark of its market dominance. Also, Dutch targeting of Israeli-based trafficking

organizations has had a demonstrable impact; they are no longer dominant players in the ecstasy trade originating from the Netherlands.

The 100 percent checks on inbound flights from the Caribbean and some South American countries continue at Schiphol Airport. The manpower required to conduct these 100 percent checks remains a major monetary expense and logistical challenge for the authorities at Schiphol. The program negatively affects the number of flights targeted for outbound checks, and as a result, the number of outbound drug couriers going to the United States arrested at Schiphol remains low.

Double Dutch. This is a joint initiative between Dutch Customs, ICE, and CBP, that is led and coordinated by ICE. The operation targets drug smuggling via commercial air carriers departing Schiphol International Airport in Amsterdam for various U.S. airports. On selected flights, Dutch Customs conducts 100 percent outbound examinations of cargo, baggage, passengers, and flight crews, as do ICE and CBP upon the flight's arrival in the U.S. The rationale behind 100 percent exams on both sides is intended to preclude the possibility of internal conspiracies.

Mercure. From November 3-10, 2004, the Office of the ICE Attache/The Hague participated in Operation Mercure II, a World Customs Organization-sponsored, multinational initiative designed to target synthetic drug smuggling from 21 European countries via airfreight, courier services, and letter/parcel post packages bound for the United States, Australia, and Canada. The European countries include: Belgium, Denmark, Germany, France, Hungary, Ireland, Poland, Spain, Sweden, The Netherlands, United Kingdom, Estonia, Greece, Slovenia, Finland, Austria, Portugal, Lithuania, Italy, Luxembourg, Czech Republic, and Switzerland.

Mercure II, based at Europol in The Hague, ran for 24 hours a day for the duration of the operation. The primary focus of Mercure II was for European customs organizations to attempt to intercept packages containing controlled substances and facilitate controlled deliveries to the U.S., Canada, and Australia.

The operation resulted in approximately 175 referrals to the U.S. Of these, only one resulted in an ICE/DEA controlled delivery of 47,250 ecstasy tablets in New York, although CBP did effect numerous seizures of anabolic steroids at JFK. Most of the referrals were recommendations for examination in the U.S., which obviously usually met with negative results for controlled substances.

Corruption. The Dutch 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. Press reports of low-level law enforcement corruption appear from time to time but the problem is not believed to be widespread or systemic. In November 2005, 140 officers of the special Schiphol CargoHarc drug team staged a preventive security control action of the airport's baggage basement, searching for drugs and other potential criminal activities. The action did not result in any arrests.

Agreements and Treaties. The Netherlands is party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 Single Convention on Narcotic Drugs as amended by the 1972 Protocol. 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 is a signatory to the UN Convention against Corruption, and is a party to the UN Convention on Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling.

The U.S. and the Netherlands have fully operational extradition and mutual legal assistance agreements (MLAT).

Cultivation and Production. Although commercial (indoor) cultivation of hemp is banned, about 80 percent of the Dutch cannabis market is Dutch-grown marijuana (“Nederwiet”). A 2004 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 kilograms of “Nederwiet.” In 2004, 2,261 hemp plantations were dismantled, up from 1,867 in 2003. Domestic Dutch cannabis production in 2005 remains quite significant. Although the Dutch government has given top priority to the investigation and prosecution of large-scale commercial cultivation of Nederwiet, tolerated coffeeshops appear to create the demand for such cultivation. To end the controversial policy of allowing “front-door” cannabis sales in coffeeshops, but banning “back-door” deliveries, a Second Chamber majority urged the Government in October 2005 to approve a trial program regulating cannabis cultivation. Proponents, including the Mayors of Amsterdam and Maastricht, argued that the measure would end large-scale home cultivation, in which organized crime plays an important role. Justice Minister Donner and Interior Minister Remkes strongly opposed the experiment on the grounds that it would violate international treaties to which the Netherlands is committed. The matter remains under consideration.

The Netherlands remains one of the largest producers of synthetic drugs, although the National Crime Squad (NR) has noted a production shift to Eastern Europe. According to the NR, there also appears to be a shift from ecstasy to amphetamine production. According to a July 2005 report by the National Crime Squad (NR), 197 ecstasy suspects were arrested in 2004, down from 214 in 2003. The NR seized 11,120 liters of chemical precursors compared to 11,453 liters in 2003. The NR completed 60 criminal investigations in 2004 and 40 in 2003. The Fiscal and Economic Investigation Service (FIOD-ECD) completed 23 investigations in 2004 and 19 in 2003. The total number of ecstasy tablets with an alleged Dutch connection confiscated by U.S. authorities continued to drop from almost 2.3 million tablets in 2002, and 1.1 million in 2003, to about 0.2 million in 2004. The number of registered ecstasy tablets seized in the Netherlands totaled 5.6 million in 2004, compared to 5.4 million in 2003.

According to the same NR report, 2004 drug seizures around the world that could be related to the Netherlands involved more than 10 million MDMA tablets (2003: 12.9 million) and more than 1,000 kilograms (2003: 870 kilograms) of MDMA powder. MDMA (powder and paste) seizures in the Netherlands in 2004 dropped to 303 kilograms from 435 kilograms in 2003. The number of dismantled production sites in the Netherlands for synthetic drugs dropped to 29 in 2004 from 37 in 2003. Of the 29 production sites, 13 were for amphetamine and 11 for ecstasy production, and 5 were meant for ecstasy tableting.

Drug Flow/Transit. The Netherlands remains an important point of entry for drugs to Europe, especially cocaine. According to a November 2003 report by the National Crime Squad, an estimated 40,000-50,000 kilograms of cocaine are smuggled annually into the Netherlands, of which about 20,000 kilograms enter via Schiphol and the remainder via seaports and road from Spain (Dutch cocaine use is estimated at 4,000-8,000 kilograms annually). The Dutch government has stepped up border controls to combat the flow of drugs, including the successful Schiphol Action Plan. Cocaine seizures in the Netherlands dropped to 12,387 kilograms in 2004, of which about 8,155 kilograms were seized at Schiphol. The government has expanded the number of container scanners in the port of Rotterdam and at Schiphol airport. Controls of highways and international trains connecting the Netherlands to neighboring countries 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); 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 Dutch government, needle supply and exchange programs have kept the incidence of HIV infection among intravenous drug users relatively low. Of the addicts known to the addiction care organizations, 75 percent regularly use methadone.

According to the 2004 National Drug Monitor, the out-patient treatment centers registered some 29,173 drug users seeking treatment for their addiction in 2003, compared to 27,768 in 2002. The number of cannabis addicts seeking treatment rose to 4,485 in 2003 from 3,701 in 2002, but the number of opiate addicts seeking treatment dropped from 16,043 in 2002 to 15,195 in 2003. Statistics from drug treatment services show a sharp increase in the number of people seeking help for cocaine addiction, from 6,103 in 2000 to 9,216 in 2003. About 65 percent of addicts seeking help for cocaine problems are crack cocaine users.

Prevention. A network of local, regional and national institutions organize drug prevention programs. Programs target schools in order to discourage youth drug use, and use national mass media campaigns 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 “healthy living” project, developed by Netherlands Institute of Mental Health and Addiction (the Trimbos Institute) continues to run in about 75 percent of Dutch secondary schools. The three-year cannabis information campaign launched in 2004 by the Health Ministry and the Trimbos Institute warning young people (12-18 years old) about the health risks of drugs also continues. The 24-hour national Drug Info Line of the Trimbos Institute has become very popular.

Heroin Experiment. In June 2005, Ministers Donner and Hoogervorst informed the Second Chamber that projects providing free heroin to hard-core drug addicts would be expanded to another 15 municipalities, for which 7 million Euros would be made available over the next few years. Amsterdam, Rotterdam, The Hague, Utrecht, Groningen and Heerlen already have such projects, which include a total of 300 addicts. In total, 980 addicts could be “treated” with the extra money.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. and Dutch law enforcement agencies 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. Dutch law enforcement has dramatically improved its acceptance of controlled delivery operations with the DEA but continues to resist use of undercover operations in investigations of drug traffickers. They are also reluctant to admit the involvement of large, international drug organizations in the local drug trade and do not use their asset forfeiture rules often. The fourth bilateral law enforcement talks, which were held in Washington in April 2005, resulted in additional agreements to the “Agreed Steps” list of actions to enhance law enforcement cooperation in fighting drug trafficking. The U.S. is also working with the Netherlands to assist Aruba and the Netherlands Antilles in countering narcotics trafficking. The 10-year FOL agreement between the U.S. and the Kingdom for the establishment of Forward Operating Locations (for U.S. enforcement personnel) on Aruba and Curacao became effective in October 2001. Since 1999, the Dutch Organization for Health Research and Development (ZonMw) has been working with NIDA on joint addiction research projects. We have also noted improved and expedited handling of extradition requests.

The Road Ahead. We expect U.S.-Dutch bilateral law enforcement cooperation to intensify in 2006. The bilateral “Agreed Steps” process will continue to promote closer cooperation in international investigations, including ecstasy and money laundering cases. In particular, increased access for DEA agents to NR drug units is expected to result in enhanced police-to-police information sharing and coordination. The Dutch government’s ecstasy Action Plan is expected to result in further improvements in Dutch counternarcotics efforts. The Dutch synthetic drug unit, which now is part of the National Crime Squad, will continue to make concrete progress. The stationing of the Dutch liaison officer in China in July 2005 is expected to increase cooperation among the U.S., China and the Netherlands on precursor chemicals.

Norway

I. Summary

Norway's illicit drug production remained insignificant in 2005. Norway continued to tightly control domestic sales, exports and imports of precursor chemicals. The volume of drugs seized increased despite a decline in the number of drug seizures as the police continued to focus attention on bulk drug suppliers rather than individual abusers. Of the 2005 seizures, cannabis accounted for 43 percent followed by amphetamines (20 percent) and benzodiazepines (16 percent). Other drugs accounted for 21 percent of seizures. The police continued to step up efforts to track and intercept drugs in transit. Norway is a party to the 1988 UN Drug Convention.

II. Status of Country

Norwegian illicit drug production remained insignificant in 2005 mainly due to Norway's tight regulations governing domestic sales, exports and imports of precursor chemicals and Norway's unfavorable climate for drug production. However, Norway remained a popular market and transit country for drugs produced in Central/Eastern Europe and elsewhere. Looking ahead, Norway is unlikely to become a significant source for diverted dual-use precursor chemicals because of the country's prohibitive regulatory framework and strong law enforcement.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In 2005, the Ministries of Health and Social Affairs continued their joint Narcotics and Alcohol Abuse Treatment and Prevention Reform program. The national government, represented by the regional health enterprises, has the responsibility for treatment and prevention of narcotics and alcohol abuse. The principal aim of state centralization is to provide improved and uniform health and counseling services for drug and alcohol abusers countrywide.

On January 31, 2005, the Ministry of Social Affairs opened the first injection control room (in Oslo) for drug addicts; more are slated to follow. The rationale for the injection rooms is to remove the drug addicts from the streets and to provide addicts with sterilized injection needles in a controlled environment. The Ministry of Social Affairs has also arranged counternarcotics conferences in Oslo on themes including Norwegian Cities against Narcotics, with officials from major Norwegian cities attending.

The national government unveiled a drugs status report on July 25, 2005, as a progress report on Norway's 2003-2008 Counter-Narcotics Action Plan (see below). Then-Social Affairs Minister Dagfinn Hoeybraaten underscored that the Norwegian Government's counternarcotics policy remains comprehensive and coordinated. He called for continued international cooperation to combat drug abuse and stated that increased rehabilitation of drug offenders was a priority in Norway. Meanwhile, the joint Narcotics Action Committee (established by the Ministries of Health and Social Affairs in 2003) continued its work on government narcotics policy. According to the committee's mandate, it will evaluate preventative strategies and propose drug rehabilitation and treatment measures. The committee is also mandated to study the premises behind current narcotics policy and propose long-range policy changes.

The Norwegian Police Directorate (PST), a part of the Justice Ministry, continued to implement Norway's 2003-2008 Counter-Narcotics Action Plan, with the police carrying out an increasing number of countrywide drug raids. The PST has at its disposition one helicopter that is used in narcotics investigations, specifically in tracking narcotics criminals. The PST's 2003-2008 Action

Plan, unveiled in October 2002, carries forward plans and initiatives to meet the objectives of the 1988 UN Drug Convention. The PST Plan focuses on reducing domestic drug abuse, identifying and curbing illicit drug distribution, and curbing drug abuse among drivers of motor vehicles.

Norway's Customs and Excise Directorate (CED) continued its counternarcotics efforts. The CED has now been equipped with mobile X-Ray scanners that can detect drugs, illegal firearms and alcohol in vehicles passing major border crossings. The CED continued implementing its own counternarcotics plan aimed at curbing drug imports, and seizing illicit drug money and chemicals used in narcotics production. The CED continues to coordinate its efforts with the police and the Coast Guard.

Law Enforcement Efforts. According to statistics compiled by the Norwegian police crime unit (NEW KRIPOS), which was re-organized as of January 1, 2005, the number of drug seizures in 2005 dropped by eight percent to an estimated 22,300 cases from 24,108 in 2004. But NEW KRIPOS notes that volumes of some seized drugs rose (e.g., cocaine) as the police continued to focus attention on bulk drug suppliers rather than individual abusers. In November, the police seized a record haul of cocaine (nearly 200 kilograms) onboard a South American ship docking in a Norwegian industrial port. Of the seizures made in 2005, cannabis accounted for 43 percent, amphetamines 20 percent, benzodiazepines 16 percent, and other drugs accounted for 21 percent of total seizures. In 2004 (the most recent year in which figures were available) the number of persons charged with narcotics offenses remained virtually unchanged from the prior year—37,259 in 2004—the latest available figure) compared to 36,657 in 2003—perhaps reflecting a tendency for police to focus attention on bulk drug suppliers. In order to discourage the use of narcotics substances, Norwegian law enforcement authorities have continued to make coordinated raids at border crossings against smuggling rings and to impose heavy fines relating to narcotics offenses. In a move to improve law enforcement, the Ministry of Justice gave permission in 2005 to use bugging devices to track down narcotics offenders.

Corruption. Norway 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. Senior government officials do not engage in, encourage, or facilitate illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. According to Norway's penal code, corruption of Norwegian and foreign officials is a criminal offense.

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 is also a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms, and has signed, but has not yet ratified, the UN Convention Against Corruption. Norway has an extradition treaty and customs agreement with the U.S. Norway remains a member of Interpol, the Dublin group, and the Pompidou group.

Cultivation/Production. In 2005, insignificant amounts of illicit crop plant cultivation were discovered. Very small quantities of Norwegian-grown hashish/cannabis concealed as potted plants in private premises were detected. While there is concern that narcotics dealers may establish mobile laboratories to convert chemicals into drugs, the police did not uncover significant synthetic drug production in 2005.

Drug Flow/Transit. According to the police crime unit NEW KRIPOS, the 2005 inflow of illicit drugs remained significant in volume terms with cannabis, heroin, benzodiazepines, ecstasy, amphetamines and khat topping the list. Most illicit drugs enter Norway by road from other European countries including the Baltic states, the Netherlands, Belgium, Germany, Spain, Central, the Balkans and other countries in Eastern Europe and Asia. As in the past, some drugs have been seized in commercial vessels arriving from elsewhere on the European continent and from Central/South

America. A record quantity of cocaine (nearly 200 kilograms) was seized onboard a South American ship that docked in Norway in November.

Domestic Programs (Demand Reduction). Government ministries and local authorities continue to initiate and strengthen counternarcotics abuse programs. According to the Ministries of Health and Social Affairs, the reduced number of drug-related deaths suggests that these programs have been successful. While the maximum penalty for a narcotics crime in Norway is 21 years imprisonment, penalties for carrying small amounts of narcotics are mild.

IV. U.S. Policy Initiatives and Programs

DEA officials consult with Norwegian counterparts when required.

The Road Ahead. Norway and the U.S. will continue to cooperate on narcotics related issues both bilaterally and in international fora, especially the EU.

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. 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 in 2004 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.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The National Program for Counteracting Drug Addiction (National Program), 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 nongovernmental organization, is the main actor in the implementation of the National Program. In 2005, the National Program budget was decreased slightly from \$3.6 million in 2004 to \$3.2 million. In addition, individual ministries and local governments continue to finance the program's activities out of existing counternarcotics budgets.

Law Enforcement Efforts. DEA agents visit Poland regularly and in 2005, worked closely with the Polish National Police in numerous narcotics investigations targeting drug trafficking organizations that import controlled substances into Poland, as well as those that export controlled substances to the United States. The National Bureau for Drug Addiction is well-known for its openness and cooperation in discussing drug-related issues. During 2005, Polish police shut down 18 major amphetamine-producing laboratories. Many of these were in the Warsaw region, with two in Katowice and others scattered throughout Poland. To fight international crime, the use of informants, telephone taps, and controlled deliveries are now all permitted by Polish law, and a witness protection program is in place.

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. Instances of small-scale corruption bribery, smuggling, etc., are prevalent at all levels within the customs service and among police. In April and May, the Central Bureau of Investigation (CBS) offices in Lodz and Poznan were closed and the Director of the CBS, Janusz Golebiewski resigned. An inspection at the CBS in Lodz revealed that over the last several years over 120 kilograms of narcotics disappeared from CBS custody, while in Poznan an inspection revealed that CBS officers were trading top-secret operational information. 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 a Law Enforcement LOA.

Agreements and Treaties. Poland has fulfilled requirements to harmonize its laws with the EU's Drug Policy. Poland is a party to the UN Convention on Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons, and illegal manufacturing and trafficking in firearms. Poland has signed, but has not yet ratified, 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 of countries coordinating narcotics assistance.

Drug Flow/Transit. While 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. Ecstasy transits Poland en route to both Western Europe and the United States. 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. The program also seeks to improve training and coordination between various Polish law enforcement authorities, including the CBS and the border guards. The CBS has made the controlling and monitoring of precursors the Bureau's top priority. The Law on Counteracting Drug Addiction also 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. The Ministry of Education requires all schools to incorporate a drug prevention curriculum in their programs, however, schools are able to modify and tailor their drug prevention curriculum to meet individual school needs. To assist teachers with this task, the Ministry has a Center for Psychological and Didactic Assistance which offers professional training and programs to develop drug prevention curriculum.

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 2006 bilateral activities. Enhancing operational cooperation through joint investigations and travel assistance to Polish law enforcement officers will also continue.

Bilateral Cooperation. The DEA maintains close contact and holds numerous operational liaison meetings with Polish law enforcement officials, and cooperates with two full-time agents from the Federal Bureau of Investigation posted in Warsaw. In 2006, DEA plans to have two full time agents posted to Warsaw. In 2005, the U.S. International Criminal Investigative Training and Assistance Program (ICITAP) conducted a training of senior level police officials, such as regional commanders and deputy commanders, on Code of Ethics and Anti-Corruption Strategy. 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 by the U.S. and Poland.

The Road Ahead. Poland's accession to EU membership on May 1, 2004 played a key role in sharpening the GOP's 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 2006 will continue to include better educational campaigns addressed to specific target groups (including media campaigns, and a 'peer campaign' for children and students) and continuing the pilot program for the assessment of the quality of medical, rehabilitation, and health harm reduction treatments provided by various institutions. Authorities will also continue to focus on the creation of a strategy for counteracting drug addiction at the local (township) level.

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 cocaine and heroin also taking a heavy human and economic toll. Overall drug seizures in Portugal in 2004-2005, as compared to 2003-2004, significantly increased. For example, seizures of cocaine increased 146 percent and heroin increased 35 percent. Seizures of hashish diminished by 8 percent. Portugal actively participates in international counternarcotics programs. U.S.-Portugal cooperation on drugs has included visits to Portugal 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 easier by open borders between the Schengen Agreement countries and by Portugal's long coastline. South America was the primary source in 2004-2005 for cocaine arriving in Portugal, largely from Brazil and Venezuela, both of which have large resident Portuguese populations. Other primary source countries in 2004-2005 were Morocco and Spain, especially for hashish. Cocaine and heroin enter Portugal by car, commercial aircraft, truck containers, and maritime vessels. The Netherlands, Spain and Belgium are the primary sources 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 2005

Policy Initiatives. Portugal decriminalized drug use for casual consumers and addicts on July 1, 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 (EEZ). Portugal is planning to open its doors soon to the European Maritime Safety Agency (EMSA).

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 of criminal investigations. According to the 2004 annual report drawn up by the PJ, the Portuguese law enforcement forces arrested 5,086 individuals for drug-related offenses in 2004. 2,235 were traffickers and 2,851 were "traffickers/consumers." Most were Portuguese citizens, followed by a number of nationalities, such as Cape Verdeans (368), Angolans (68), Venezuelans (66), Spanish (57), Bissau-Guineans (42), and Brazilians (41).

The 2005 PJ semi-annual report indicates a significant increase of drugs seized in the first half of 2005 compared to the first half of 2004. Seizures increased by 104 percent for heroin, 363 percent for cocaine, and 59 percent for ecstasy. Hashish seizures decreased by about 24 percent. The PJP 2005 semi-annual report indicates the following monetary seizures related to narcotics: 1.8 million Euros in cash, 212 thousand Euros in assets and the equivalent of Euro 426 thousand in foreign currency.

In December 2005, a joint investigation by the PJ and the Spanish Internal Revenue Service Agency (Agencia Tributaria Espanhola) led to the seizure of a UK-flagged fishing vessel called "The Guiding

Light.” Upon the boat’s attempt to dock in Portugal, officials seized huge quantities of hashish. Three British citizens were arrested, and the cargo was recovered.

In November 2005, the PJ seized more than 230 kilograms of cocaine in Lisbon’s harbor. The drug, coming from South America, was disguised in a container carrying furniture.

Also in November 2005, Portuguese Customs Patrol made three important seizures of cocaine—two at the Lisbon airport and one at the Madeira airport. Two Venezuelans and one Italian were arrested. All three flights originated in Caracas.

Corruption. As a matter of government policy, Portugal does not encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions. No senior Portuguese officials are known to be involved in, or encourage, such activities.

Agreements and Treaties. Portugal 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. Portugal is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. Portugal has signed, but has not yet ratified, the UN Convention against Corruption. 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 an extradition treaty dating from 1908. Although this treaty does not cover financial crimes, drug trafficking or organized crime, certain drug trafficking offenses, are deemed extraditable in accordance with the terms of the 1988 UN Drug Convention. On July 14, 2005, the U.S. and Portugal signed agreements on extradition and mutual legal assistance pursuant to the U.S.-EU Agreements on these subjects. These will modernize the criminal law relationship between the U.S. and Portugal. Portugal has signed, but has not ratified, the UN Convention against Transnational Crime.

Drug Flow/Transit. Portugal’s long, rugged coastline and its 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. The U.S. has not been identified as a significant destination for drugs transiting through Portugal, but in recent years, U.S. border officials have found an increasing number of Portuguese citizens trying to smuggle in khat. The U.S. embassy in Lisbon is aware of at least 50 such cases.

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). The new IDT gathers statistics, disseminates information on narcotics issues and manages government treatment programs for narcotic addictions. It also sponsors several programs aimed at drug prevention and treatment, the most important of which 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.

Portugal is currently bringing forward a new National Drugs Strategy: 2005-2012, with an intermediary impact assessment scheduled for 2008. The new strategy builds on the EU’s Drugs Strategy 2000-2004 and Action Plan on Drugs 2000-2004. The Portuguese strategy focuses on reducing drug use, drug dependence and drug-related health and social risks. The system will include prevention programs in schools and within families, early intervention, treatment, harm reduction, rehabilitation, and social reintegration measures. Drug demand reduction measures take into account

the health-related and social problems caused by the use of illegal psychoactive substances and of poly-drug use in association with legal psychoactive substances such as tobacco, alcohol and medicines.

In law enforcement cooperation, the program aims at strengthening cooperation among all security forces within Portugal as well as within the 25 EU member states. The program also will intensify law enforcement cooperation with Portugal's countries of interest, largely in Africa and South America.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA-Madrid cooperates closely with the Portuguese authorities on U.S.-nexus drug cases. The Portuguese Customs Bureau cooperates with the U.S. under the terms of the 1996 CMAA.

The Road Ahead. Continuing cooperation between the U.S. and Portugal on narcotics law enforcement will aid in attacking drug trafficking networks. Portugal's ratification of the MLAT and its participation in the Container Security Initiative will assist in the seizures of narcotics in maritime cargo containers.

Romania

I. Summary

Romania is not a major source of narcotics; however, Romania serves as a transit country for narcotics from Southwest Asia to Central and Western Europe. It is also a developing route for the transit of synthetic drugs from Western and Northern Europe to the East. In 2005, Romania made several major drug seizures. Romania worked to implement its 2004-2005 National Anti-Drug Strategy and finalized the National Anti-Drug Strategy for 2005-2012 which was drafted to comply with EU standards. Romania is a party to the 1988 UN Drug Convention.

II. Status of Country

Romania lies along the Northern Balkan Route, which is used to move heroin and other opiates from Southwest Asia to 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 transit Romania from West European countries en route to Turkey. Heroin and marijuana are the primary drugs consumed in Romania; however, the use of synthetic drugs such as MDMA (ecstasy) also increased among segments of the country's youth. According to estimates by Romanian authorities, domestic heroin consumption remained level in 2005, due in part to a country-wide campaign against the use of intravenous drugs because of the danger of the spread of HIV

III. Country Actions Against Drugs in 2005

Policy Initiatives. Romania recently completed hiring personnel for a new legally-required integrated system for prevention and treatment services at the national and local level. The 47 Drug Prevention and Counseling Centers throughout the country are furnished, staffed and capable of providing treatment. However, the occupancy rate is below expectations because of the low quality of the services provided to patients. The General Directorate for Countering Organized Crime (DGCCO) operates at both the central and local level, with 15 brigades assigned next to the local Appeal Courts and 27 county offices for combating organized crime and narcotics. Joint teams of police and social workers carry out educational and preventive programs against drug consumption. Romania plays an active role in the Bucharest-based Southeast European Cooperative Initiative (SECI) Center's Anti-Drug Task Force.

Law Enforcement Efforts. In the first eleven months of 2005, Romanian authorities seized 906.1 kilograms of illegal drugs, including 284.8 kilograms of heroin, 109.7 kilograms of cocaine, 6.2 kilograms of opium, 493.9 kilograms of cannabis and 32,309 amphetamine and derivatives pills. The number of drug-related offenses increased 5 percent in 2005, up to 1,495 crimes. Between January and October 2005, the Romanian authorities identified 145 organized groups of drug traffickers composed of 653 individuals. The Prosecutor's Offices opened 1,105 criminal cases related to drug and precursor crimes, in which 1,828 individuals were investigated.

Corruption. Corruption remained a problem within the Romanian government, including in the judiciary branch and with law enforcement. Existing legislation, which allowed drug dealers to receive smaller sentences in exchange for providing information about other drug criminals, contributed to the development of bribery between police and drug criminals. In conjunction with renewed emphasis on the Code of Ethics, which provides strict rules for the professional conduct of law enforcement, the government created an Anti-Corruption Unit within the Ministry of the Administration and Interior to monitor compliance with the Code. The Anti-Corruption Unit conducted several internal undercover

operations targeting suspected corrupt police officers. While no policemen were officially convicted on corruption charges, numerous administrative sanctions were imposed. As a matter of government policy, however, Romania 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.

Agreements and Treaties. Romania 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. Romania is a party to the UN Convention against Corruption and to the UN Convention against Transnational Organized crime and its protocols against trafficking in persons, migrant smuggling, and illegal manufacturing and trafficking in firearms. Both an extradition and a mutual legal assistance treaty are in force between Romania and the United States.

Cultivation/Production. Not applicable.

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 and Ukraine, 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 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 increasing, and the Romanian government has become increasingly concerned about domestic drug consumption. In 2005, 213 drug prevention programs and activities were initiated. Detoxification programs were offered through some hospitals, but treatment remained severely limited. These programs were hampered by a lack of resources and adequately trained staff. In the first eleven months of 2005, approximately 1,800 individuals were registered for treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2005, the United States provided \$1.75 million in SEED money assistance to further develop Romania's crime fighting capabilities at the police, prosecutor and judicial levels. In addition, Romanian Police officers have participated in DEA and Customs Enforcement (ICE) undercover operations training, focusing on drug-related investigations. The FBI provided training in advanced cybercrime investigations, combating police corruption and advanced organized crime. Romanian police officers participated in U.S. Bureau of Customs and Border Security Canine Enforcement Officer training. Romania also benefited in 2005 from approximately \$1.3 million in U.S. assistance to the Bucharest-based Southeast European Cooperative Initiative 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 Road Ahead. In 2005, Romania put emphasis on its counternarcotics efforts and cooperation with the USG and other nations. Future efforts will likely be keyed to domestic drug consumption, corruption and strengthening Romania's borders. The USG believes that cooperation will continue, as Romania moves closer to becoming a member of the European Union. The United States will continue supporting Romania's efforts to strengthen its judicial and law enforcement institutions.

Russia

I. Summary

In 2005, the Government of Russia (GOR) intensified its counternarcotics efforts in response to the threat of narcotics trafficking along the “Northern Route” from Afghanistan through Central Asia into Russia. Afghan opiates transported along the Northern Route supply Russia’s internal user demand, as well as transit through Russia to the rest of Europe. In addition, heroin use contributes to the significant increase in the number of persons infected with HIV/AIDS and/or Hepatitis C, due to intravenous drug use. Press reports claim that one hundred Russians each day are infected with HIV/AIDS. Federal Drug Control Service (FSKN) Director General Cherkesov emphasized the need for international cooperation to combat drug traffickers that operate without regard for borders. The FSKN plans to open liaison offices in ten countries, including Afghanistan, in 2006. In November 2005, the FSKN signed a Memorandum of Understanding with the U.S. Drug Enforcement Administration (DEA) to enhance bilateral cooperation to combat illegal drugs and their precursor chemicals. Trafficking in opiates from Afghanistan (primarily opium and heroin) and their abuse continued to be major problems facing Russian law enforcement and public health agencies, although the FSKN reports the sharp post-Soviet increases in the number of drug users has begun to stabilize.

Russia handed over control of the Afghan/Tajik border to Tajikistan in June 2005. Following withdrawal, FSKN officials report the drug flow into Russia has increased significantly. More than 90 percent of Afghan drugs arrive in Russia via Central Asia. The GOR has recognized the extent of the drug trafficking and is taking steps to address both the law enforcement and public health issues. Health education programs in schools are beginning to incorporate messages concerning the harmful effects of drug use and the links between injecting drugs and HIV/AIDS. Russia is party to the 1988 UN Drug Convention.

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 the rest of Europe. The Russian border with Kazakhstan is roughly twice the length of the U.S.-Mexican border and poorly patrolled. Considering the resource constraints facing local law enforcement agencies, Russian authorities are unlikely to stop a significant proportion of the heroin entering their country.

Synthetic drugs produced in Russia usually take the form of amphetamine type stimulants (ATS) and heroin analogues like methadone and mandrax (methaqualone). The FSKN reports that the use of illegal synthetic drugs increased dramatically in 2005. Clandestine amphetamine labs are occasionally reported in Russia, typically located in the northwest region of the country close to St. Petersburg or right across the border in the Baltic States. The St. Petersburg area had long been considered the primary gateway for foreign-produced MDMA (ecstasy) smuggled into Russia. However, the Russian Federal Customs Service (FCS) reported that roughly half of the MDMA it seized in 2005 entered the country from Belarus and is typically manufactured in Poland. Although the MDMA tablets produced in Russia are of poor quality, the low prices (as little as \$5.00) are attractive to Russian youth compared to the \$20 typically charged for MDMA tablets from the Netherlands. Methamphetamine production is extremely rare in Russia.

Russia is a legitimate producer of acetic anhydride (AA), which is a widely used industrial chemical, but also is a precursor chemical used in the clandestine production of heroin from opium. The FSKN and Russian Customs report that the small number of legitimate production facilities in Russia is subject to strict government regulation. However, they acknowledge that diversion of AA may occur.

Other precursors such as ergotamine (for LSD), red phosphorous (for methamphetamine), and acetone (used in several substances) are also produced in Russia. 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. Disposable incomes in Russia have risen steadily for seven years, while cocaine prices have remained static, making the drug more affordable to a growing pool of potential users. 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 in cargo containers. Couriers traveling on commercial flights bring cocaine into Russia, often traveling through third countries in Europe as well as through the U.S.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The FSKN was established in 2003 as the State Committee for the Control of Traffic in Narcotic and Psychotropic Substances (GKPN). Russian President Putin issued an edict in July 2004 calling for the restructuring of FSKN. The FSKN has 35,000 employees, with branch offices in every region of Russia. Since the 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. Production, transportation, distribution, and import/export of controlled substances now require licensing from the FSKN.

Accomplishments. Russia now has a legislative and financial monitoring structure that facilitates the tracking, seizure, and forfeiture of all criminal proceeds. Russian legislation provides for investigative techniques such as search, seizure and the compulsion of documents production.

In 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 financial institutions to report suspicious transactions to the FSFM.

In 2004, Russia passed new witness protection legislation. Russian law previously provided limited protection for testifying witnesses, but the provisions were weak and ineffective. 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. The new legislation requires implementing regulations. The GOR is working on such regulations, but they have not yet been published.

One of the key obstacles in Russia's struggle with drug trafficking is a lack of experience with prosecuting narcotics-related cases. FSKN Director Cherkesov has commented publicly that the courts must give stiffer sentences to drug traffickers. It is rare that criminals who have committed serious drug crimes in Russia are given the maximum 20-year sentence. However, Russia's legislators and politicians continue to address this problem, demanding stiffer sentences for narcotics-related crimes and establishing a legal framework that is beginning to work effectively against drug dealers.

Law Enforcement Efforts. In November 2004, the FSKN announced it would establish a system of drug liaison offices (DLOs). FSKN officers will be stationed in approximately ten foreign countries to

facilitate information sharing and joint investigations. The FSKN has already established an office in Dushanbe, Tajikistan, and plans to open an office in Kabul in early 2006.

The average price for a gram of heroin (retail) in 2005 was in the \$40 range. The range in 2004 was \$30 and in 2003, \$20. The wholesale price for a gram of heroin in 2005 was between \$20-\$30. Per gram prices as low as \$10 and as high as \$50 have been reported.

FSKN officially reported seizing 3.9 metric tons of heroin in 2004 and 1.5 metric tons of heroin in the first half of 2005. At a November 2005 press conference, Cherkesov stated that the year-to-date total was over four metric tons of heroin seized by all law enforcement agencies. The FSKN further reported the seizure of 102.3 metric tons of narcotics and psychotropic and other powerful substances in 2004 and that 129.7 metric tons were seized by all Russian law enforcement agencies in 2004. Final figures for 2005 are not yet available.

Corruption. Controlling corruption has been a stated priority for the Putin administration since its inception. However implementing this policy is a constant challenge. Inadequate budgets, low salaries, and lack of technical resources hamper performance, sap morale, and encourage corruption. Evidence indicates the scope and scale of official corruption have grown markedly in the past several years. Officials from the FSKN report that corruption is a problem within their agency. In an effort to decrease corruption, Cherkesov endorsed a Code of Honor in 2005 for FSKN personnel. The Code is a brief list of rules of conduct that are supposed to guide the activities of every FSKN employee. FSKN officials report that about 100 law enforcement officers were arrested in 2004 for drug trafficking and stated that the figures for 2005 (not yet available) will be even higher. There were no reported cases of high-level narcotics related corruption, but given the scale of drug trafficking in Russia, some probably exists. Russia has signed but has not yet ratified the UN Convention Against Corruption.

Agreements and Treaties. Russia 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. A mutual legal assistance treaty is in force between the United States and Russia. As a result of the provision in the MLAT 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. To date, Russia has provided MLAT assistance in two narcotics-related cases and has received a third request for assistance from the USG. Russia is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

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 ranging in size from 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. Every year Russian authorities carry out the "Operation Poppy" eradication effort, aimed at illicit cannabis and poppy cultivation. In 2005, Operation Poppy identified and destroyed numerous illicit plantations of cannabis, primarily in maritime areas and the Altai region.

Drug Flow/Transit. Opiates (and hashish to a lesser degree) from Afghanistan are carried across the Central Asian states and into Russia. The FSKN estimates that 60 tons of heroin are smuggled annually into Russia from Afghanistan via Central Asian countries on the "Northern Route." Contraband is typically carried in vehicles along the region's highway system that connects it to the populated areas of southwestern Russia and western Siberia. The Russian cities of Yekaterinburg, Samara, Omsk, and Novorossisk have emerged as hubs of trafficking activity. Couriers also frequently

use the region's passenger trains. Incidents involving internal body carry or "swallowers" are common.

At the wholesale level, the trade in Afghan opiates within Russia is dominated by Central Asians. Tajiks, Uzbeks, and others with family, clan, and business ties to Central Asia transport Afghan heroin across the southern border with Kazakhstan and into European Russia and western Siberia. The FSKN claims that ninety percent of drug kingpins in Russia are from Central Asia. 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.

Cocaine destined both for Russia and in-transit to Western Europe enters the country through the port of St. Petersburg. Synthetic drugs manufactured in Russia and elsewhere in 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. In 2005, there was one report of a large seizure of ephedrine in both bulk powder and tablet forms that had originated in China. 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.

Each year, law enforcement agencies of several CIS countries participate in Operation Kanal. Kanal is an interdiction blitz during which extra personnel are stationed at railroad stations, airports, border crossings, and other checkpoints. In Russia, 881 individuals were detained and 1,396 kilograms of illegal drugs were seized during Kanal 2005.

Russian forces were stationed in Tajikistan after the dissolution of the Soviet Union. At that time, their stated goal was to prevent incursions by Islamic extremists. This arrangement was formalized in a 10-year agreement signed in 1993. During that time, narcotics interdiction became one of their primary functions. In May 2003, the agreement governing the presence of Russian forces on the Tajik-Afghan border expired. In June 2005, Russia handed over control of the Afghan/Tajik border to Tajikistan. FSKN officials report that the withdrawal of Russian border guards from the Afghan/Tajik border has led to a significant increase in drug trafficking into Russia.

Demand Reduction. The FSKN reports that there are 1.5 million drug users with 400,000 officially registered drug addicts in Russia's narcological centers. New models of cognitive therapy are being implemented in narcological centers in St. Petersburg, but substitution therapy (i.e., maintenance using some artificial opiate like methadone) has not been fully explored and remains politically sensitive. The Ministry of Health estimates that up to six million Russians take drugs on a regular basis. These figures are significantly higher than FSKN statistics cited in 2004 and suggest a new willingness by the GOR to acknowledge and combat drug use in Russia. In 2004, Cherkosov claimed that there were only 390,000 "officially registered" drug addicts in Russia and four to five million Russians who use drugs regularly.

According to the Ministry of Health, as of October 2005, there were 335,000 officially registered HIV/AIDS cases in Russia. However, unofficial estimates, including those by the United Nations AIDS program, put the figure much higher, with some suggesting that there are over one million HIV-positive Russians. Intravenous drug use continues to be the most common method of transmission of HIV/AIDS and Hepatitis C in Russia. There are estimates that nearly 70 percent of new HIV cases can be attributed to intravenous drug use, and that 90 percent of injecting drug users are Hepatitis C positive.

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 have come to support the idea that demand reduction should complement law enforcement efforts to reduce supply. With support from the USAID Healthy Russia 2020 project, demand reduction messages are being incorporated into a Ministry of Education sanctioned health education curriculum for high school students and training materials for teachers. This program has been tested in Ivanovo (the eighth poorest oblast in Russia) and plans to expand to Irkutsk and Orenburg, two oblasts on the key drug trafficking routes. The problem of drug use among homeless teens has reportedly reached extraordinary levels in St. Petersburg. The Doctors of the World Program, which works with street children, reported that about 70 percent of children age 11 and younger (on a small sample of 30) were injecting homemade substances and 30 percent of these young people were HIV positive. While the knowledge of HIV risks is high even among drug users, the messages have not yet translated into behavioral changes and injecting practices.

IV. U.S. Policy Initiatives and Programs

Policy Objectives/Initiatives. The principal U.S. counternarcotics goal in Russia is to help strengthen Russia's law enforcement capacity, both to meet the challenges of international drug trafficking into and across Russia, and to provide reliable Russian law enforcement partners for U.S. law enforcement.

Bilateral Accomplishments. In 2002, the U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs (INL) negotiated a Letter of Agreement (LOA) with the GOR allowing direct assistance to the GOR in the area of counternarcotics and law enforcement assistance. In 2005, DEA International Training teams provided instruction to the agency's Russian counterparts in precursor chemicals, highway interdiction, and specialized training for drug enforcement unit commanders. Progress continued on the Southern Border Project, an effort that will lead to the establishment of three mobile drug interdiction task forces based in Orenburg, Chelyabinsk, and Omsk, all near the Russian-Kazakh border. The U.S. and Russia worked together to provide canine training to counternarcotics law enforcement officials from four Central Asian countries, training more than 45 law enforcement officials. The U.S. provided technical assistance in support of institutional change in the areas of criminal justice reform, mutual legal assistance, anticorruption and money laundering. U.S. Customs and Border Protection (CBP) conducted 2 Border Security Seminars at Russian Customs training academies and Rostov-on-Don and Vladivostok. The training included equipment packages of nonintrusive inspection equipment. In 2005, the U.S. provided \$809,000 worth of equipment to Russian Customs and the FSKN in support of INL counternarcotics projects. In November 2005, the FSKN signed a Memorandum of Understanding with the U.S. Drug Enforcement Administration (DEA) to enhance bilateral cooperation to combat illegal drugs and their precursor chemicals.

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, particularly in light of its upcoming chairmanship of the G-8. The USG will continue to encourage and assist Russia to implement its comprehensive, long-term national strategy against drug trafficking and use with multidisciplinary sustainable law enforcement assistance projects that combine equipment, technical assistance and expert advisors. DEA is scheduled to provide INL-funded counternarcotics training to over 100 trainees in 2006, drawn from the FSKN, the MVD, and the Federal Customs Service.

Slovakia

I. Summary

Slovakia lies near the western end of the Balkan drug transit route, which runs from southwest Asia to Turkey and on to Germany, France, and other western European countries. Since 1989 Slovakia has seen an increase in transshipments of narcotics and domestic production and consumption. Slovakia is a party to the 1988 UN Drug Convention.

II. Status of Country

Narcotics consumption and production remain relatively low in Slovakia, though the domestic market is still growing. The fastest growth is seen in the production and use of stimulants, including Pervitin and ecstasy, as well as marijuana. The Government of Slovakia (GOS) remains concerned that Slovakia is a transshipment point for drugs, particularly heroin, smuggled by ethnic Albanian criminal organizations along the “Balkan Route”—from Afghanistan, through Central Asia, and then through the Balkans, Hungary, and Slovakia, and on to Western Europe. The Slovak police believe the same criminal organizations are responsible for the shipment of smaller amounts of cocaine (from South America) and hashish (mostly from Morocco) into Slovakia for the domestic market. For the time being, however, the high price of such drugs has restricted the local market.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The national action plan for the fight against drugs was revised for 2005-2008 in accordance with the Action Plan of the EU for the Fight against Drugs. The revised version represents a comprehensive strategy to reduce drug use and to intercept drug transshipments.

Law Enforcement Efforts. In the first half of 2005, there were 837 drug-related criminal cases in Slovakia, which is a 29 percent increase in comparison to the first half of 2004. In the first 9 months of 2005, police seized almost 2 kilograms of heroin; 302.2g of cocaine; 1.35 kilograms of synthetic drugs; 649g of marijuana (including 92 plants uprooted), 98.7g of hashish, and 60 ecstasy tablets. Police are concerned by a growing number of small synthetic drug laboratories, mostly used to produce Pervitin. In the first 9 months of 2005 police confiscated 14 such laboratories.

Corruption. Although corruption remains a serious problem, GOS has enacted major legislation in recent years. In 2005 charges were brought and sentences handed down against several high profile personalities. Most officials seem serious about creating transparent rules and prosecuting abuses. In addition to the special Police Bureau for Fighting Corruption, since 2004 there is also a special prosecutor and, since September 2005, a special court for the fight against corruption. All are viewed as effective.

Agreements/Treaties. Slovakia 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 Substance. Slovakia is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms. Slovakia has signed, but has not yet ratified, the UN Convention against Corruption. The extradition treaty between the former Czechoslovakia and the United States continues in force between the United States and Slovakia as a successor state. In 2005 the U.S. and Slovakia successfully completed negotiations to implement the U.S.-EU extradition treaty and the U.S.-EU mutual legal assistance treaty; these agreements were signed in early 2006.

Cultivation/Production. Marijuana is the most commonly cultivated illicit drugs in Slovakia. Although some high-quality marijuana is grown in greenhouses and indoors, the majority of marijuana and hashish used in Slovakia is of Moroccan origin.

Drug Flow/Transit. In years past the majority of drugs sold in Slovakia were taken from larger shipments of drugs that continued west. Because of improved policing, however, larger transshipments are usually kept whole until reaching a final destination west of Slovakia, at which point smaller amounts are couriered back to Slovakia on demand.

In years past the main sellers of illicit drugs were thought to be Roma selling from their homes. Today the police believe that Roma are responsible only for a negligible portion of sales, and that foreign criminal groups with local contacts, especially ethnic Albanian groups, have taken over the trade. Slovakia's border with Hungary was the site of the greatest number of attempts to enter Slovakia with illegal narcotics. The Austrian border was the site of the greatest number of attempts to smuggle drugs out of Slovakia.

Domestic Programs. According to the 2003 Mini-Dublin group report, the GOS is among the highest spenders on preventive 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

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 2005. 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 was the leading confiscated drug in 2005. 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 2005

Policy Initiatives. In June 2004, a two-year regional project sponsored by the European Union aimed at strengthening cooperation of law enforcement structures and other agencies, such as Customs of EU candidate countries, which focused on 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 1,166 tablets of ecstasy in the first 11 months of 2005 compared with 198 in 2004. In 2005, authorities seized slightly less than 24 kilograms of heroin, compared with almost 150 kilograms in 2004. In addition, police netted 22.8 kilograms of marijuana, up from approximately 17 kilograms in 2004. Police also seized 2,183 cannabis plants in the first 11 months of 2005 compared with 4,893 plants in 2004. Through the end of November 2005, police seized just over 2 kilograms of cocaine compared with approximately 105 kilograms in 2004.

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 protocols against trafficking in persons, migrant smuggling, and illegal manufacturing and trafficking in firearms.

Drug Flow/Transit. In the first 11 months of 2005, the Slovene authorities registered 1,262 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 2005, with three seizures at border crossings constituting the majority of heroin seizures for the year.

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 joint operations against dangerous drugs.

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 2006.

Spain

I. Summary

Spanish National Police, the Guardia Civil and Customs Services interdicted near-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. Spain continues to be the largest consumer of cocaine in the European Union with four percent of young adults reportedly using cocaine during 2005. Spain also ranks in the top four of all EU nations in its consumption of designer drugs and hashish. Spain continues to work on ways to reduce demand. Law enforcement officials have increased investigations into the trafficking of ecstasy (MDMA). The Spanish government ranks drug trafficking as one of its most important law enforcement concerns, and continues to maintain excellent relations with U.S. law enforcement.

II. Status of Country

Spain remains a principal gateway for cocaine transported from Latin American countries, such as Colombia and Venezuela, or transshipped from South America through West Africa and Morocco. The ready access to hashish from Spain's close southern neighbors of Morocco and Algeria make the maritime smuggling of hashish across the Mediterranean Sea a large-scale business. Spanish police continue to seize large amounts of Moroccan hashish, some of which is brought into Spain by illegal immigrants. The majority of heroin that arrives in Spain is transported via the Balkan route from Turkey. The Spanish National Police have identified established organizations operated by Turks that distribute the heroin once it is smuggled into Spain. Illicit refining and manufacturing of drugs in Spain is minimal, although small-scale laboratories of synthetic drugs such as LSD are discovered and confiscated each year. MDMA labs are rare and unnecessary in Spain since labs in the Netherlands are plentiful and productive; however, ecstasy and other synthetic drug traffickers use Spain as a transit point to the U.S. in an effort to foil U.S. Customs and Border Protection inspectors who are increasingly wary of packages from the Netherlands or Belgium. Spain has a pharmaceutical industry that produces precursor chemicals. There is effective control of precursor shipments within Spain from the point of origin to destination, administered under the National Drug Plan (PND).

III. Country Actions Against Drugs in 2005

Policy Initiatives. Spanish policy on drugs is directed by the National Drug Plan (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. In March, the Spanish government modified the PND to focus on reducing drug consumption. The plan was funded with 17 million Euros. In 2003, Spain and Portugal signed a Treaty of Cooperation to reduce 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.

Spain is a member of the UNODC major donors group and the Dublin group of countries coordinating policies on drug issues. Spain also chairs the regional Dublin group for Central America and Mexico. Spain funds programs through the Organization of American States' Inter-American Drug Abuse Control Commission. Spain pledged \$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.

Law Enforcement Efforts. Spanish officials at the Ministry of Interior reported that drug enforcement agencies seized more than 40,000 kilograms of cocaine in 2005 year-to-date. Many of the more significant seizures and arrests in 2005 were a direct result of cooperation between the U.S. DEA's office in Madrid and Spanish authorities. For example, in coordination with DEA, on March 22, the Spanish GC seized two metric tons of cocaine and more than 17 million Euros hidden in maritime shock absorbers. The cocaine had been smuggled into Barcelona via commercial air cargo from Mexico. On July 21, DEA contributed to an operation that resulted in a seizure of 2,500 kilograms of cocaine by Spanish customs agents. Eight Brazilian nationals were arrested. Also in coordination with DEA, on August 3, a shipment of 4,500 kilograms of cocaine that originated in Spain was seized in the Netherlands. A total of 14 traffickers were arrested. Operations that resulted in cocaine seizures of 458 kilograms on March 30 and 190 kilograms on April 19 are two additional examples of success from DEA/Spanish cooperation. Increased efforts in MDMA investigations led to several significant seizures of the drug. In January, Spanish authorities seized 8,500 ecstasy tablets from a Spanish female as she attempted to travel to Philadelphia. On February 6, the GC seized 2,550 tablets of ecstasy during a raid on a residence in Alpedrete, a section of northwest Madrid. Two Moroccan nationals were arrested. On September 10, the GC intercepted 1,590 ecstasy tablets hidden inside a vehicle at a service station in Cordoba, Spain. Two Spanish nationals were arrested. On September 14, five Spanish nationals were detained following a vehicle stop in Guarroman-Jen, Spain, where nearly 2,000 ecstasy tablets were discovered.

Hashish trafficking continues to increase as does the use of the drug in Spain. Hashish trafficking is controlled by Moroccan, British and Portuguese smugglers and, to some extent, people from Gibraltar and Dutch nationals. GC investigations have uncovered strong ties between the Galician mafia in the northwest corner of Spain and Moroccan hashish traffickers. Hashish continues to be smuggled into Spain via commercial fishing boats, cargo containers, Fast Zodiac boats and commercial trucks.

Some notable hashish interdictions include the August 13 capture of 67 bundles of the drug with an approximate weight of 2,000 kilograms found inside a maritime vessel named "Trolls." Spanish Customs officials, in cooperation with the National Police, were credited with this seizure. Two British nationals and one Moroccan were detained. On September 20, the GC, also in cooperation with Spanish customs, intercepted 2,600 kilograms of hashish on a Zodiac boat in Las Mulas-Murcia, Spain.

Corruption. The National Central Drug Unit coordinates counternarcotics operations among various government agencies, including the Spanish Guardia Civil (GC), 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.

Agreements and Treaties. Spain 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. Spain is also a party to the UN Convention Against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. 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, 2004, Spain and the United States signed bilateral instruments on extradition and mutual legal assistance pursuant to the U.S.-EU Agreements on these subjects.

Cultivation/Production. No coca is grown in Spain. Some cannabis is grown but the seizures and investigations by Spanish authorities indicate the production is minimal. Opium poppy is cultivated

licitly under strictly regulated conditions for research. Refining and manufacturing of cocaine and synthetic drugs is minimal, with some small-scale laboratories converting cocaine base to cocaine hydrochloride.

Drug Flow/Transit. Spain is the major gateway to Europe for cocaine coming from Columbia, Peru, and Ecuador. 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 principal 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, where counternarcotics sea patrols are less frequent. Spain's international airports in Madrid and Barcelona are a transit point for passengers who intend to traffic ecstasy and other synthetic drugs, mainly produced in the Netherlands, to the United States. These couriers, however, are typically 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 4.1 million Euros to assist private, nongovernmental organizations that carry out drug prevention and rehabilitation programs.

IV. U.S. Policy Initiatives and Programs

U.S. 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. The USG seeks to promote intensified contacts between officials of both countries involved in counternarcotics and related fields. Minister of Interior Juan Jose Alonso met with DEA Administrator Karen Tandy when he visited the U.S. in April. Latin America remains an important area for counternarcotics cooperation. Spanish officials work closely with U.S. Embassies in Peru and Bolivia on drug issues.

The Road Ahead. The U.S. will continue to coordinate closely with Spanish counternarcotics officials though 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. Amphetamine and cannabis remained the most popular illegal drugs. The Government of Sweden (GOS) increased efforts concerning treatment of drug addicts. Sweden actively participates in numerous international counternarcotics fora. Sweden is a party to the 1988 UN Drug Convention.

II. Status of Country

Relative to other European countries, Sweden (both government and society) is highly intolerant of illegal drugs. Sweden places strong focus on prevention and education. Among adults, the number of drug users is twice as high among men as women. Sweden has approximately 28,000 seriously dependent drug addicts (i.e. addicts with regular intravenous use and/or daily need for narcotics) which represents an increase of 7 percent from last year; women represent 25 percent of this total. The rate of drug-related deaths has increased significantly the last few years. There were approximately 390 narcotics-related deaths during the year, which represents an 8 percent increase from last year. NGO reports indicate that the overall number of young people who use drugs remained the same during the last five years. Trends observed in 2005 include continued use among young drug users of high-profile drugs such as amphetamines and cocaine. Among sixteen-year-old students, 4 percent said they had used narcotics recently. There were no differences between the percentages of male and female students using drugs. Approximately 60 percent of students who used drugs claimed they used cannabis when trying narcotics for the first time. Amphetamines and ecstasy were the second and third most common drugs.

Reports of teenagers buying drugs on the Internet have led police to increase efforts to develop methods, such as infiltration and sting operations, to stop the trade. Swedish Police have also increased Internet monitoring for drug transactions. Prime Minister Goran Persson has declared the fight against narcotics to be one of his government's top priorities. Sweden has allotted approximately \$42 million to a National Action Plan on Narcotic Drugs, which began in January 2002 and ran through the end of 2005. Restricting supply to young people 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.

There were no reports concerning the liquid steroids originating from China that were mentioned in the 2005 INCSR. Also, problems that arose in 2004 with the synthetic drug fentanyl did not reoccur.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Government's "Mobilization Against Drugs" taskforce continued to implement the National Action Plan on Narcotic Drugs established in January 2002. Its work during 2005 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 task force's final report was scheduled to be delivered to the Government at the end of 2005 or at the beginning of 2006. Police in Sweden and other Scandinavian countries have started a joint initiative to combat west-African criminal networks smuggling heroin, cocaine and marijuana into the Nordic countries. In Sweden, these networks dominate the increased heroin-trade.

At the end of 2004 the GOS announced that it would be making an investment of \$80 million for a three year nationwide fight against drugs. Approximately \$12 million will be directed towards the treatment of drugs abusers in prisons; the rest will be distributed among municipalities, which bear responsibility to act at the local level. This initiative directs \$10 million to addicts recovering from drug abuse and to the improvement of treatment facilities. In March 2005, the GOS gave \$1 million to the National Board of Health and Welfare to strengthen voluntary organizations that work with drugs and narcotics, and \$1 million to drugs prevention projects operated by NGO's and County Administrative Boards throughout the country. Fighting drugs remains a high priority area for Sweden's efforts in official development assistance. The Swedish International Development Authority (SIDA) allocated about \$1.5 million for 2005 for multilateral and bilateral UN "best practices" projects against drugs and tobacco.

Sweden played a strong part in the development of an EU strategy plan for narcotics 2005-2012 that was approved during the autumn. Also, a frame decision was taken by the European Council concerning common criminal regulations on penalties for handling narcotics. Another action within the EU concerns an initiative on a resolution for cannabis. The resolution aims to increase awareness about cannabis and reduce the use of the drug among young people. Sweden is also one of the major contributors to the UNDCP.

Law Enforcement Efforts. Police reported 37,471 narcotics-related crimes for the January-September 2005 period. This represents a slight decrease (5 percent) compared to the corresponding period in 2004. Approximately 30 percent of the arrests under the Narcotics Act led to convictions, which on average carried six-month jail sentences. The majority of the crimes involved consumption and possession. No major drug processing labs were detected during the year.

Corruption. As a matter of government policy, Sweden does not encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions. Swedish law criminalizes 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 or production of illegal narcotic substances.

Agreements and Treaties. 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 has signed, but has not ratified, the UN Convention Against Corruption. An extradition treaty is in force between the U.S. and Sweden

In October 2005, the GOS approved cooperation agreements between the Swedish National Police Board and Russian Narcotics Control Authorities. The agreement provides for increased bi-lateral cooperation in fighting narcotics in the region, such as facilitation of information sharing and bilateral efforts in police enforcement actions.

Cultivation/Production. No major cultivation or production operations were detected during the year. Some legal cultivation of cannabis for use in fibers occurs in Sweden, as permitted 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 amphetamines originate in 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 but, according to police information, a west-African network has established a route for smuggling into Sweden. The Stockholm Police have characterized as alarming the heroin inflow, and note that despite 30 arrests during the year heroin continues to enter the country in significant amounts via this network. Sweden and other countries in Scandinavia have cooperated in customs and law enforcement activities, as well as other activities, to combating this influx.

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. Since 2004 Sweden has participated in 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. There were no cases of extradition between Sweden and the U.S. concerning drug crimes during 2005. Sweden has a bilateral customs agreement with the United States.

The Road Ahead. Swedish cooperation with United States Government law enforcement authorities continues to be excellent. The United States 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. Nevertheless, in 2004 (NB. Throughout this report, the latest official statistics available are for 2004) total drug-related arrests reached 50,000 cases for the first time. Cocaine and ecstasy seizures increased by 91.6 percent and 480 percent respectively.

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 have 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, the public lobby "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 the whole 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 obtain the remaining 30,000 signatures needed to pass the initiative soon. The initiative is expected to be formally registered at the Federal Chancellery on January 13, 2006. A zero tolerance law against driving while on drugs (cannabis, heroin, cocaine, ecstasy) entered 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. While the use of heroin and ecstasy has stabilized, the use of cannabis, amphetamines, and LSD continues to increase. Police are also concerned about the continuing trend by casual users to mix cannabis and other drugs. An international survey recently found 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 increased by 9.5 percent in 2004 and concerned mostly marijuana smokers.

The Swiss Federal Police published a report on narcotics activities in 2004. It is available on <http://www.bap.admin.ch/f/aktuell/stat/BMS-f-2004>.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Since January 1, 2002, jurisdiction for all cases involving organized crime, money laundering, and international drug trafficking shifted from the cantons to the federal prosecutor's office in Bern. According to the federal prosecutor's office, the number of investigative magistrates will be increased to 25 by 2006. Beginning January 1, 2002, it became illegal to advertise products that contain narcotic 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.

Heroin maintenance prescription programs originally intended to end in December 2004 have been extended 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 percent 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.

Following the release of the “Zurich drugs and addiction policy report,” made public on August 12, 2004, Zurich authorities admitted that they had been so busy tackling the open heroin scene that other areas of addiction had been overlooked. 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 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. However, the Swiss government is backing other pilot projects in Bern and Basel aimed at distributing Ritalin, a substitute for narcotic drugs.

Law Enforcement Efforts. To give a sense of drug abuse developments in Switzerland, some important drug-related enforcement operations are described below:

- Over the year 2005, Lausanne police undertook 10 counternarcotics operations leading to the arrest of 14 drug traffickers, and the seizure of 3.6 kilograms of cocaine and 1 kilogram of heroin. Most of the drug traffickers were of African origin or from the Balkans.
- In April 2005, the Lausanne police seized a record 30,000 ecstasy pills worth 450,000 Swiss francs (\$346,786). Two Serbs and one Frenchman were arrested.
- In July, the Zurich police dismantled an African drug ring which was based in Switzerland, Italy and Holland. Eleven people were arrested, and 21 kilograms of cocaine and 100,000 Swiss francs in cash were seized. The drugs were smuggled into Switzerland using human mules from Africa and South America. In many cases, these were women accompanied by small children.
- In October, the Zurich police managed to break a ring that smuggled 180 kilograms of cocaine into Switzerland. The traffic went through a Zurich-based company that imports precious stones, minerals, and flowers from Brazil. The company is owned by a Swiss-Brazilian dual citizen. Payments to traffickers in Brazil were presumably made through another company owned by a Brazilian national with businesses in Lausanne and Lugano. Also arrested were Swiss and Moroccan citizens accused of delivering narcotics to Zurich and another Swiss national from Schwyz who was in charge of laundering the funds.
- In November, the Zurich police arrested two Turkish citizens after discovering 11.5 kilograms of heroin and four handguns in their apartment.
- Following a three-and-a-half year investigation, cantonal and federal police authorities managed to break an important drug trafficking ring operating from Fribourg. About 50 individuals, including four Swiss citizens and nationals from mostly the Balkans, were arrested on accusations of having possession of and trafficking 115 kilograms of heroin estimated to be worth Sfr. 5-7 million (ca. \$4.6 million). The ring supplied drugs to the Fribourg, Bern, Biel, Thun, Lausanne and Geneva areas.

Geneva police authorities also complain that a large number of drug dealers or traffickers have applied for asylum while simultaneously destroying their identity papers to avoid repatriation to their home country. Dealers from Algeria, Guinea and Serbia Montenegro are the most problematic in this regard.

During 2004, Swiss border guards reported that the amount of drugs seized at the border was still significant, with cocaine seizures doubling to 259 kilograms. Most of the drug seizures took place at airports. Cannabis seizures dropped by a third to 157 kilograms, largely as a result of police crackdown on hemp shops in several cantons. Ecstasy and amphetamines seizures increased to 180,000 largely as a result of the demand at rave parties. Across Switzerland five to ten percent of police time is spent fighting drugs. In 2005, a new undercover law went into effect. Under this law, undercover operations can only be authorized at the federal prosecutor's level. Previously, this authority rested at the law enforcement level.

Foreigners and asylum seekers play a significant role in the Swiss drug scene, especially in distribution. Those arrested in the past originated mainly from the Balkans (Albania, Former Yugoslavia, and Bosnia) Africa (Sierra Leone, Guinea), the Dominican Republic, and 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 bands dealing in heroin and prostitution; and the money laundering networks working 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 convicted drug dealers, resident in another canton, from visiting their cantons. They also prohibit convicted drug dealers from visiting certain areas, like 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 country of origin from the police. When looking at cross-border cocaine smuggling, the Swiss federal police believe that many criminals involved use the train to connect the Swiss drug market with Holland or Spain. Their nationalities range from Swiss, Italians, Lebanese, West-African, South-East Europe, South American, and from the Dominican Republic. The "mules" generally originate from Africa or South Africa, Brazil, the Dominican Republic and Europe.

Corruption. As a matter of government policy, the GOS 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.

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. In September 2005, Switzerland ratified the 1988 UN Drug Convention. Switzerland has signed, but has not yet ratified either the UN Convention Against Corruption, or the UN Convention Against Transnational Organized Crime.

On June 22, 2004, Swiss and German authorities announced a new bilateral police agreement aimed at increasing bilateral cooperation at border checkpoints. The main goal of the agreement was to deal more effectively with drug and weapons smuggling. Document specialists from both countries will also assist border guards to use improved techniques to detect forged travel documents. The Swiss-German border crossing at Basel/Larach is one of the busiest in Europe, with 70 million people crossing over per year. In September 2005, a joint police operation led to the arrest of a Yugoslav drug ring that was established in Switzerland and the neighboring German region of Baden Wurttemberg. On July 27, 2004, Slovenia and Switzerland signed a police agreement aimed at fighting organized

crime, and facilitating the return of illegal residents. The deployment of liaison officers will enable a faster more direct exchange of information.

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 illicit hemp planted area 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 increased the allotment of heroin to 246 kilograms to use for maintenance of severe drug addicts as part of its maintenance programs in 2004, as compared to 230 in 2003. Three-quarters of those enrolled in the program were male. The number of slots available in “heroin treatment centers” also increased by eight to a total of 1389. These centers are currently at 92 percent of capacity. Medical treatment costs approximately \$16,137 (SFr 20,840) per year per person, or \$44 per day (SFr57). Twenty percent of the costs were paid for by the cantons, while 80 percent was paid by the individual’s health insurance. Average time in heroin treatment is 2.83 years. Of the 182 persons who terminated the heroin prescription program, 42.3 percent opted for the methadone-assisted programs, or an abstinence therapy. In early 2005, Switzerland took part in an international pilot study, the implementation of the Multidimensional Family Therapy (MDFT) for adolescents with a cannabis problem. MDFT was developed at Miami University and has been used successfully in many instances in the U.S.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation/Policy Initiatives. 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 stated that every country should introduce and enforce laws against the sale of narcotics and psychotropic drugs over the Internet. Swissmedic, 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 big increase in seizures of narcotic drugs bought over the Internet, many of these originating from Pakistan. The 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 urges Switzerland to use experiences gained in fighting terrorist money laundering to become more proactive in seizing and forfeiting funds from narcotics money laundering. The United States also will monitor Switzerland’s proposed revisions of its narcotics law.

Tajikistan

I. Summary

Tajikistan produces few narcotics, but it is a major transit country for heroin and opium from Afghanistan. A significant amount of opium/heroin is trafficked, primarily using land-based routes, through Tajikistan, onward through Central Asia, and then to Russian and other European markets. Illicit narcotics transiting Tajikistan rarely enter the United States. 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 remains committed to fighting narcotics, but is less equipped to handle the myriad social problems that stem from narcotics abuse. Tajikistan continues to implement a counternarcotics strategy and coordinates well with all major donors to that strategy. 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, 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, as well as the Government's lack of revenue to adequately support law enforcement efforts. With the average monthly income in the country around \$30, high unemployment, 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 2005

Policy Initiatives. In coordination with other Tajik government agencies, the Presidential Office's Drug Control Agency (DCA) continued to implement a number of U.S. and UN-funded programs to strengthen Tajikistan's drug control capacity, including: new facility construction; renovation of existing facilities; purchase of vehicles and trucks and police support equipment; creation of new analytical centers, a national K-9 facility and trained dog and handlers; forensics laboratory improvements; national law enforcement communications network, training academy improvements, and salary supplemental programs. The addition of the new mobile response and deployment teams by the DCA has improved DCA's operational capacity. As a result of the final withdrawal of Russian border troops in August, Tajik forces are now solely responsible for patrolling and maintaining the border.

Accomplishments. Although the TBG (Tajikistan Border Guards) are poorly equipped and trained, enforcement operations have increased substantially since the Russian troop withdrawal, as have

arrests and seizures of narcotics and related counternarcotics operations, thanks in large part to the new initiatives and programs.

Law Enforcement Efforts. Despite misgivings that the withdrawal of Russian border troops would lead to an increase in narcotics trafficking and a decrease in seizures, the Tajik Government reports that the opposite has proven true: Tajik forces claim to have seized up to twice the amount of drugs as Russian forces during the same period. During the first 10 months of 2005, the DCA, TBG and MOI reported the following seizures: DCA—407.5 kilograms of heroin; 553.7 kilograms of opium; 151 metric tons of cannabis. TBG—137.4 kilograms of heroin; 261.6 kilograms of opium; 151 metric tons of cannabis. MOI—965.7 kilograms of heroin; 1.25 metric tons of opium; 498 metric tons of cannabis. Tajikistan currently ranks fourth in the world for quantity of heroin seizures.

Corruption. As a matter of policy the Tajik Government 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. However, it has been reported that many senior officials in the TBG, MOI and DCA live in modest houses and apartments and drive modest vehicles, while some counterparts in Customs and Security agencies, have more extravagant lifestyles. Because of this apparent disparity there is a good deal of public speculation about the involvement of government officials in narcotics trafficking and money laundering. Speculation focuses on prominent public figures involved in Tajikistan's 1992-97 civil war. It is impossible to determine authoritatively just how pervasive drug-related corruption, and other forms of corruption are within government circles. However, there is certainly a comparative disproportion between low salaries paid to government officials and the lifestyles many senior officials appear to maintain. Even when arrests are made for narcotics trafficking, the resulting cases are not always brought to a satisfactory conclusion. Tajikistan is not a party to the UN Convention against Corruption.

Agreements and Treaties. Tajikistan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and the 1972 UN Convention on Psychotropic Substances. Tajikistan is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

Cultivation/Production. Opium poppies and cannabis, are cultivated in very limited amounts, mostly 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 grow opium poppies in neighboring Afghanistan. No statistics are available for 2005. 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 narcotic plants have been eradicated, including 825 poppy plants.

Drug Flow/Transit. The Tajik government estimates that a high share of narcotics produced in Afghanistan is smuggled across the border into Tajikistan's Shurobod, Moskovskiy, and Pyanzh districts. 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) the total volume of drugs transiting Tajikistan is certainly high and growing. One UN estimate put the amount of heroin from Afghanistan going through Tajikistan at roughly 80 to 120 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 encouraged the involvement of domestic and international nongovernmental organizations (NGOs) in this effort. In 2004, a youth center in Khorog was added to the Tajik Government's programs to fight drug use among 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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. Embassy has a full-time Senior Law Enforcement Advisor to coordinate Law Enforcement and counternarcotics assistance. A full-time narcotics assistance officer should be in place by summer 2006, and the DEA plans to open their office in 2006 as well. The Embassy’s Border Law Enforcement Working Group (BLEWG) provides a coordination mechanism for all USG assistance on counternarcotics and border assistance. The Embassy played a large role in creating a donor working group to coordinate multilateral assistance with IOM, the UN and EU to better meet Tajikistan’s great needs. The USG provided training for a number of Tajik law enforcement officials through the International Law Enforcement Academy in Budapest and Roswell.

The Road Ahead. The United States remains committed to working with the Tajik Government to increase its law enforcement and counternarcotics capabilities. The United States plans to coordinate closely with European countries, including Russia, to maximize available resources for narcotics-related projects.

Turkey

I. Summary

Turkey is a major transit route for Southwest Asian opiates to Europe, and serves as a base and refining center for major narcotics traffickers and brokers. Turkish law enforcement organizations focus their efforts on stemming the traffic of drugs and intercepting precursor chemicals. The Turkish National Police (TNP), under Interior Ministry control, is responsible for security in large urban areas. The Jandarma, paramilitary forces under joint Interior Ministry and military control, is responsible for policing rural areas. The Jandarma is also responsible for specific border sectors where smuggling is common; however, the military has overall responsibility for border control. 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., but not in quantities sufficient to have a significant impact on the U.S. There is no appreciable cultivation of illicit narcotics in Turkey other than marijuana grown primarily for domestic consumption. There is no known 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 point. 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, with the Jandarma and Customs continuing to play a significant role. 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 smuggled through Turkey each month. Some heroin is still being refined in Turkey.

Turkey is one of the two traditional licit opium-growing countries recognized by the USG and the International Narcotics Control Board. Opium for pharmaceuticals 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 cannabis 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 2005

Policy Initiatives. The Government of Turkey devotes significant financial and human resources to counternarcotics activities. Turkey continues to play a key role in Operation Containment (a DEA 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 (TNP), continues to be a 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 44 training programs for local and regional law enforcement officers in 2005. A total of 287 foreign officers were trained at TADOC this year, including officers from the Balkans, Central Asia, Syria, and Afghanistan. The training programs focused on drug trafficking, corruption, counterfeiting, illegal immigration, money laundering, and demand reduction. TADOC also hosted an FBI training program on criminal interrogation techniques for 35 law enforcement officers from the region. A 2004 UN drug survey indicated that while there was no major increase in drug abuse in Turkey in the last couple of years, the use of synthetic drugs is on the rise.

Law Enforcement Efforts. Through 05 December 2005, Turkish law enforcement agencies seized 7,760 kilograms of heroin, 409 kilograms of morphine base, 7.6 million dosage units of synthetic drugs, 10,671 kilograms of hashish and 25 kilograms of cocaine. In addition, the GOT law enforcement authorities have made more than 12,749 drug-related arrests. (The Jandarma and Customs have only reported statistics through October 2005.)

Corruption. As a matter of government policy, Turkey 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. In December 2005, the General Assembly's Foreign Affairs Committee adopted a law ratifying the UN Convention against Corruption.

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 protocols on migrant smuggling, trafficking in persons, and illegal manufacturing and trafficking in firearms. 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 cannabis, 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, refining center 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 Afghanistan and Pakistan via Iran. 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, 2,304 liters of acetic anhydride were seized in, or destined for, Turkey. Some criminal elements in Turkey 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 2005, 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 calendar year 2005, a total of 7.5 million dosage units of synthetic drugs, predominantly captagon and ecstasy, were seized in Turkey.

Demand Reduction. While drug abuse remains modest in scale 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 2005, seven 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives and Programs. Through fiscal year 1999, the U.S. Government has extended \$500,000 annually in assistance. During 2005-06 the U.S. Government anticipates spending approximately \$60,000 in previously-obligated funds on counternarcotics programs.

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

The 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 transshipment route 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 992-kilometer boundary with Iran. Counternarcotics efforts are carried out by the Ministry for National Security (MNB), Ministry of Internal Affairs (MVD), State Customs Service (SCS), State Border Guards Service (SBS), State Service for the Registration of Foreigners and Prosecutor General's Office. The State Counternarcotics Coordination Commission (SCCC) at the Cabinet of Ministers 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 548 kilograms of illegal narcotics in the first six months of 2005.

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. GOTX officials have acknowledged publicly that smuggling organizations are increasing their efforts to traffic narcotics across Turkmenistan and large-scale seizures are increasingly common. Domestic drug abuse is steadily increasing, although concrete statistics are not publicly available. 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. Opiates from Afghanistan—such as heroin, opium and other opium-based drugs—destined for markets in Turkey, Russia and Europe enter Turkmenistan from Afghanistan, Iran, Pakistan, Tajikistan and Uzbekistan. The bulk of the GOTX's law enforcement resources and manpower are directed toward stopping the flow of drugs from Afghanistan and Iran. Turkmen law enforcement efforts at the Turkmenistan-Uzbekistan border are primarily focused on interdicting smuggled commercial goods. Traffickers appear aware of this focus, and thus seem to view this route as an attractive transshipment route. Commercial truck traffic from Iran continues to be heavy. Caspian Sea ferry traffic from Turkmenistan to Azerbaijan and Russia continues to be a viable smuggling route. Turkmenistan airlines operates international flights connecting Ashgabat with Abu Dhabi, Bangkok, Beijing, Birmingham, Dubai, Frankfurt, Istanbul, Kiev, London, Moscow, and New Delhi. These too provide options to traffickers.

III. Country Actions Against Drugs in 2005

Policy Initiatives. During the past year, the President of Turkmenistan acknowledged that drug usage and smuggling were a problem in Turkmenistan and increased pressure on law enforcement officials to improve counternarcotics efforts. In August 2004, the GOTX introduced a new draft criminal procedure code in its efforts to transform its Soviet era criminal justice sector. The parliament has not adopted the new code.

Accomplishments. The U.S. Export Control and Related Border Security Program (EXBS) conducted an interdiction and boarding officers' course in Turkmenbashi Port in July and the Department of Homeland Security Customs and Border Protection hosted a Port Security training exercise in August. The GOTX had two law enforcement officers participate in counternarcotics dog training in Rostov,

Russia in March, and three officers from counternarcotics units attended the Drug Enforcement Agency's (DEA) counternarcotics unit commanders training seminar in Tashkent in December. Along with the enhancement of border infrastructure (see paragraph below), the UNODC and OSCE conducted training programs on narcotics identification. INL, European Union-Border Management Programme for Central Asia (BOMCA) and UNODC all have permission to continue counternarcotics training.

Law Enforcement Efforts. The USG is constructing two new border crossing checkpoint facilities, one on the border with Afghanistan and one on the border with Iran, and the GOTX has given the SCS money for the construction of two new facilities on the border with Kazakhstan. EXBS delivered nine additional jeeps and three additional water trucks along with radios and radio networking equipment to the SBS. The USG donated gas chromatograph/mass spectrometer and laboratory equipment to the MVD's national forensic laboratory for analyzing narcotics. Turkmen border forces are moderately effective in detecting and interdicting narcotics and reported a total of 548 kilograms of seized illegal narcotics in the first six months of 2005. The local press published articles in August and September detailing drug seizures by SGS officers along the border with Iran. Officers involved in the incidents seized 100kg of opium and 122 kilograms of narcotics respectively and were awarded medals for courage and given immediate promotions.

Corruption. Law enforcement officials' low salaries, combined with their broad general powers, foster an environment in which corruption occurs. A palpable general distrust of the police by the public, fueled by anecdotal evidence of police officers soliciting bribes, suggests a problematic level of corruption in law enforcement. There have been persisting reports that senior GOTX officials are directly linked to the drug trade. In September, President Niyazov dismissed the provincial governor of Ahal province and the provincial head of law enforcement for drug addiction. The governor was also accused of purchasing and selling heroin. In November, the president dismissed the SBS chief responsible for the border guards at Serhetabad border crossing checkpoint along the Turkmenistan-Afghanistan border for his staff's involvement in the illegal drug trade. Payments to facilitate passage of smuggled goods to lower officials at border crossing points frequently occur.

Agreements and Treaties. Turkmenistan 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. Turkmenistan also is a party to the UN Convention Against Corruption, the UN Convention Against Transnational Organized Crime, and its protocols against migrant smuggling, trafficking in persons, and Illegal Manufacturing and Trafficking in Firearms.

Cultivation/Production. Turkmenistan is not a significant producer of illegal drugs, although small-scale opium and marijuana 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, law enforcement officials eradicate opium crops.

Drug Flow/Transit. Turkmenistan remains a primary transit corridor for smuggling organizations seeking to transport opium and heroin to markets in Turkey, Russia and the whole of Europe, and for the shipment of precursor chemicals to Afghanistan. Turkmenistan's two major border control agencies, the SCS and the SBS, have received increased attention and funding for their drug enforcement duties. Systemic deficits in necessary equipment, training, resources, and facilities will take time to improve. Border crossing points with rudimentary inspection facilities for screening vehicle traffic and lacking reliable communications systems have been identified by the GOTX and are being improved.

Domestic Programs. Currently, the Ministry of Health operates seven drug treatment clinics; one in the capital Ashgabat, one in Serdar city, and one in each of the five provincial administrative centers. Drug addiction is a prosecutable offense with jail sentences for convicted persons, although judicial officials usually sentence addicts to treatment. The president's opening statement read at the GOTX-

UNODC Regional Counternarcotics Conference in March was the first high-level admission that drug use was a concern for the government. GOTX consistently has refused to participate in USG or UN drug demand reduction programs and is not conducting any of its own.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The USG is providing necessary equipment and quality training to make the GOTX a more effective partner in counternarcotics issues. State Department assistance has an ongoing relationship with the MVD through a forensic lab project, the funding of two UNODC projects on the border with Afghanistan, funding of English language programs for law enforcement officers working to combat narcotics trafficking, and training port security officials to locate contraband. INL will also begin a regional counternarcotics training program for MVD officers. The EXBS program directly benefits INL efforts by providing search and seizure training and enhancing border security. The U.S. Department of Defense is currently funding and implementing the construction of two border crossing checkpoints.

Bilateral Cooperation. The USG-GOTX bilateral relationship on law enforcement issues, most specifically counternarcotics programs, continues to improve. The GOTX supported USG initiatives to enhance law enforcement institutions and training programs, and has expanded the relationship to include the construction of infrastructure along the border.

The Road Ahead. Bilateral cooperation is expected to continue, and the USG will expand counternarcotics law enforcement agency training at the working level. 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 2005. Ukraine has adequate counternarcotics legislation. The Government of Ukraine continued to take steps to limit illegal cultivation of poppy and hemp to proven licit uses. The transit of illicit narcotics through Ukraine is a serious and growing problem. Combating narcotics trafficking and use, and its effects, continues to be a national objective, though a lack of resources seriously hinders Ukrainian efforts. Coordination between law enforcement agencies responsible for counternarcotics work has improved but still remains a problem due to regulatory and jurisdictional constraints. Ukraine is a party to the 1988 UN Drug Convention.

II. Status of Country

Ukraine is not a major drug-producing country; however, Ukraine is located astride several important drug trafficking routes into Europe, and thus is an important transit country. Ukraine is a significant transit corridor for narcotics originating in East, Central and Southwest Asia (Afghanistan) and transiting through Russia, the Caucasus and Turkey, and then through Ukraine further into Western Europe. Some of the drugs trafficked through these routes come from Latin America and Africa. Ukraine's domestic market is increasingly influenced by synthetic 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, Belarus and Russia. 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 for synthetic drugs and psychotropic substances, especially amphetamine type stimulants (ATS).

III. Country Actions Against Drugs in 2005

Policy Initiatives. In 2005 the Government of Ukraine continued to implement a comprehensive policy 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, and that the Government's current education and public awareness efforts, community prevention efforts, treatment and rehabilitation centers are not adequate in scope and number to address the problem. The Program's implementation involves two stages: stage one took place from 2003-2005 and stage two will be implemented between 2006-2010. Stage one's objectives included: improving legislation; improving 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. The Program also provides estimates of future funding for the continuing support of its implementation. The total estimate is over 300 million Ukrainian hryvnias (\$60 million).

As part of the Program implementation, the Ukrainian Government proposed a bill amending The Law on Circulation of Narcotics, Psychotropic Substances and Precursors in Ukraine. The amendment establishes an explicit procedure for licensing activities related to licit trade of narcotics, psychotropic substances and precursors. It also sets forth a requirement that hospitals and health care institutions should obtain licenses for storing, transporting, purchasing, and selling medical drugs containing narcotic substances. The new Criminal Procedure Code pending adoption will also regulate more consistently the procedure for destruction of confiscated or seized equipment that has been used for illegal production of narcotics or psychotropic substances and cannot be used for legal purposes.

Accomplishments. In Ukraine counternarcotics enforcement responsibility is shared between the Ministry of Interior with its domestic law enforcement function and the Security Service of Ukraine which deals with trans-border aspects of drug traffic. The State Border Guard Service and the State Customs Service carry out drug enforcement functions in their respective field of operation, mainly drug interdiction at the green and customs borders. The Ukrainian Security Service participated in an international operation to limit cocaine trafficking from South America to Ukraine. The operation was jointly conducted by the Security Service, U.S. Drug Enforcement Agency, and the Argentine Federal Police. It led to the seizure of more than two kilograms of cocaine and the elimination of an organized criminal group with members in both Argentina and Ukraine.

Law Enforcement Efforts. According to official statistics for 2005 (January through November), approximately 61,867 narcotics offenses were investigated by the Ministry of Interior and 177 were investigated by the Security Service. Between 2001 and 2005, Ukrainian law enforcement agencies eliminated 309 drug trafficking organizations in Ukraine and 57 foreign-led drug trafficking organizations operating from Ukraine territory. According to government statistics, drug “imports” for consumption remain comparatively low while drug “exports” are increasing. The Ministry of Interior continued to strengthen its Drug Enforcement Department (DED). The total number of DED officers is 2,613 in the regions and 51 in the central headquarters; however, unlike the central staff, regional officers are tasked with other anticrime activities besides narcotics.

Corruption. The Ukrainian government has acknowledged that corruption remains a major problem in the country. In 2005, media published several reports about public officials or law enforcement officers being engaged in drug trafficking or covering up such activity. Despite the increased attention of the public to the issue of corruption and the government’s declaration that it will decisively root out corruption, corruption remains a major challenge in Ukraine due to a widespread bribe-tolerant mentality, and the lack of means that law enforcement can use to investigate and prosecute it. In 2005, there were no charges of corruption of public officials relating to drugs. Ukraine has signed but has not yet ratified the UN Convention Against Corruption.

Agreements and Treaties. Ukraine is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and to the 1971 UN Convention on Psychotropic Substances. The U.S.-Ukraine Mutual Legal Assistance Treaty came into force in February 2001. Ukraine is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

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. Despite the prohibition on the cultivation of illicit drug plants (poppy straw and hemp), many cases of illegal cultivation by private households were discovered during past government investigations.

Drug Flow/Transit. The Customs Service alone interdicted 644 cases of drug trafficking across the Ukraine border from January to September of 2005. Heroin is trafficked from Central Asia (primarily Afghanistan). It comes into Ukraine mostly through Russia, the Caucasus and Turkey. Shipments are

usually destined for Western Europe, and arrive predominantly by road, rail, or sea, which methods are perceived as less risky than air or mail shipment. Lately, experts noted an increase in heroin traffic from Turkey into Ukraine by sea and then across Ukraine's western border into Western Europe. Experts believe that criminals are looking for alternatives to traditional Balkan drug traffic routes. This assumption is also supported by a number of large heroin seizures in the last year on the Ukrainian-Hungarian border. Drug traffic from Asia is increasingly controlled by well-organized international criminal groups of Afghan, Pakistani, and Tajik origin, which use citizens of the former Soviet republics as drug couriers. At the same time, the high street price of heroin (\$70-\$100 per gram) in Ukraine in 2005 testified to comparatively effective heroin interdiction efforts of Ukrainian law enforcement agencies. The largest segment of drug flow is composed of poppy straw and hemp, 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 trafficking of synthetic drugs and psychotropic substances from Poland and of licit medical opiates and other licit painkillers from Romania and Moldova is growing. Criminal groups, which formed in the 1990s and traditionally stayed away from the drug trafficking business, are now increasingly taking up this lucrative niche. The price of the mass-use drugs is lower than that of heroin and cocaine and therefore is attractive to young drug addicts. Other smuggling routes include cocaine from Latin America and hashish from North and West Africa. These routes transit Ukraine into Europe. The quantity of drugs moving along these routes is comparatively small.

Domestic Programs (Demand Reduction). Estimates of the number of drug addicts vary widely, from 141,594 of officially registered drug addicts as of September 2005 to roughly one million reported by local NGOs. Drug addicts commit about 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 have grown 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 methamphetamines. Hard drugs such as cocaine and heroin are still too expensive for most Ukrainian drug users. 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 an effective counternarcotics program 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 U.S. Drug Enforcement Administration have conducted a number of training courses funded by the U.S. Department of State in drug interdiction in seaports and investigation of drug cases. The Drug Enforcement Agency has established good working relations with Ukrainian counternarcotics law enforcement units.

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 border controls. Trafficking of synthetic drugs from countries of Eastern Europe is a growing concern. Demand reduction and treatment of drug abusers remain a challenge and require 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 eighth 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 try to exploit the underground narcotics market and use the UK as a major transshipping 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 England and Wales compiled as part of the 2004/05 British Crime survey. Around 9.7 percent of 16-59 year-olds (3.04 million) reported using cannabis at least once in the past year. Cocaine is the next most commonly used drug with 2.0 percent reporting use of it in the last twelve months, closely followed by ecstasy at 1.8 percent and amphetamines at 1.4 percent.

Overall, the latest official surveys on drug use showed few changes between 2003/04 and 2004/05. About 11.3 percent of those between the ages of 16-59 reported having used an illicit drug in the past year, down slightly from 12 percent in the previous survey. The decline was mainly due to a decrease in the use of cannabis between 2003/04 and 2004/05. Between 1998 and 2004/05 the use of all Class A drugs, with the exception of cocaine, has remained stable or has dropped. Ecstasy use has fluctuated, peaking in 2001/02 and is now stable. The overall increase in Class A drug use since 1998 reflects the increase in the use of cocaine and ecstasy through 2000 and an increase in the percentage of people age 25-59 who use Class A drugs. Between 2003/04 and 2004/05, the survey showed stable overall use of Class A drugs, with a slight decrease in cocaine use and an increase in the use of "magic mushrooms."

The 2004/05 survey indicates that among young people age 16-24, the incidence of use of any drug has decreased significantly since 1998, (dropping from 31.8 percent to 26.3 percent) with Class A drug use remaining stable. Cannabis is the drug most likely to be used by young people; according to the survey, 23.5 percent of 16-24 year olds used cannabis within the last year. Cocaine was the next most commonly used drug with 4.9 percent claiming to have used it in the last year, followed closely by ecstasy at 4.8 percent, amyl nitrite at 3.8 percent, and amphetamines at 3.3 percent, and hallucinogens at 3.0 percent. (The survey does not differentiate between amphetamines and methyl amphetamine.) Other drugs showed minimum usage levels among this age group.

Virtually all parts of the UK, including many rural areas, confront the problem of drug addiction to at least some degree. Official estimates of cocaine and crack users ages 16-59 have dropped, but are still well over 600,000. Current estimates of opiate users declined approximately 27 percent to 75,000 in the 2003/04 survey and further still to 41,000 in the 2004/05 survey, but still represent a significant subgroup of users. The National Criminal Intelligence Service (NCIS) reports that Britain faces a significant threat from national and international organized crime. Historically drugs have been linked to about 80 percent of all organized crime in London, and about 60 percent of crime overall.

III. Country Actions Against Drugs in 2005

Policy Initiatives/Accomplishments. UK counternarcotics policies have a strong social component, reflecting the widely accepted view that drug problems do not occur in isolation, but are often linked to other social problems. In 2005, the British government continued its ten-year strategy program, 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 decision to downgrade cannabis to a Class C drug. The final legislation implementing this downgrade was enacted in July 2003, taking effect on January 29, 2004. Class C categorization 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.

In April 2005, the Home Secretary asked for a review of the cannabis reclassification decision in light of studies into links between the regular use of cannabis and mental illness. The Advisory Council on the Misuse of Drugs issued its new report in December 2005, but did not make a firm recommendation. The Home Secretary is reviewing the report and still has the option of reclassifying the drug. Police chiefs have reportedly urged that, if cannabis is upgraded to Class B, fixed penalties be established to streamline 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.

On November 17, the Advisory Council published a special report on methyl amphetamine. While the Council did not recommend changing the classification of the drug (currently Class B), it did suggest that the serious impact of methyl amphetamine on communities in other countries, notably the United States, warranted extra attention to its patterns of use in the UK and recommended regular reassessments.

Direct annual government expenditures under the updated overall drug strategy are increasing 10 percent between 2004/05 and 2005/06, from \$2.38 billion (£1.344 billion) to \$2.63 billion (£1.483 billion). Drug treatment expenditures are targeted to increase 12 percent over the same period, expenditures on programs for young people will rise 5 percent, and funding for reducing supply will hold steady at \$673 million (£380 million). The largest increase will come in spending on community programs (24 percent).

New legislation, the Drugs Act of 2005, has further strengthened police powers in drug enforcement. The new law allows for drug tests on arrest, rather than on charge, and requires persons with a positive test to undergo further assessment. It also amended the Anti-social Behavior Act of 2003 to allow authorities to enter a suspected crack house to issue a closure notice. Under provisions of the Act, “magic mushrooms” were upgraded to Class A in July 2005. Prior to this change in the law, only prepared (such as dried or stewed) magic mushrooms were rated as Class A drugs. The most controversial provisions of the new law will set thresholds for possession that allow police to charge persons found with more than a specified amount of a given drug with dealing, rather than the lesser

charge of possession. The prescribed amounts have yet to be set; the UK government expects to begin consultation at the end of 2005 with a final review by the Advisory Council.

Laws that took effect in 2000 required courts to weigh a positive Class A 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. The testing requirement also is applied 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 (DIP), 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, and the DIP program now operates with an annual budget of \$292 million (£165 million). As of April 4, 2005, Drug Testing and Treatment Orders (DTTO) for adults were replaced by a new “Community Order.” The new orders will allow authorities to choose from a larger menu of options and more closely tailor the consequences to the seriousness of the offense. Standard DTTOs will continue for 16-17 year olds until April 2007 and for offenses committed prior to April 2005. In December 2005, the UK inaugurated a pilot program of drug courts. Magistrates in one court in Leeds and one in West London have received special training and begun to track convicted drug offenders and personalize treatment. The long-term plan is to establish the courts nationwide. Scotland has been running a pilot drug court in Glasgow since 2003.

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.

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. The total value of assets recovered by all agencies under the Act (and earlier legislation) in England, Wales, and Northern Ireland was \$96.6 million (£54.5 million) in 2003/04 and \$149.6 million (£84.4 million) in 2004/05.

The number of drug seizures recorded in 2003 dropped to 109,410—four percent fewer than in the previous year. (Note that, as of 2003, Home Office statistics only include seizure data for England and Wales; 2003 represents the most recent detailed statistics.) Seventy-seven percent of all seizures were of Class B drugs, 94 percent of which were cannabis seizures. Twenty-seven percent of all seizures involved Class A drugs. Overall, police and customs seized a greater amount of cocaine, heroin, ecstasy, amphetamines, and cannabis in 2003 than in 2002. Heroin was the most commonly seized Class A drug, followed by cocaine. The volume of Class A drugs seized in 2003 also was greater than that seized in 2002; authorities seized 6.8 tons of cocaine (almost twice as much as in 2002) and 2.7 tons of heroin (a 2 percent increase over 2002). With the “date rape” drug GHB illegal as of July 2003, official figures recorded for the first time a seizure of 40 kilograms of this substance. The government claimed it had dismantled or disrupted 193 drug trafficking groups in 2002/03 and an additional 268 groups in 2003/04.

In 2003, the total number of drug offences in England and Wales rose 5 percent over 2002 levels to 133,970. The majority of these were cannabis offenses, at the time still a Class B substance. The number of Class A offenses rose 6 percent to 35,610. Heroin offenders were the largest group of known Class A drug offenders, accounting for 10 percent of all known offenders in 2003. The vast majority of persons convicted or cautioned for drug offenses were charged with possession. About 90 percent of all persons dealt with in the courts for drug offenses were male. Possession offenses tend to be committed by younger people (63 percent committed by those under the age of 25) while 63 percent of the producing/exporting/importing offenses were committed by persons over age 30 and 71 percent of dealing offenses were committed by persons over age 25.

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. The UK has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. In July 2005, the UK signed an updated U.S. Coast Guard Law Enforcement Detachment (LEDET) Memorandum of Understanding with the USG. This included the airborne use of force (AUF) capability on Royal Navy and auxiliary vessels attempting to stop noncompliant drug smuggling go-fast vessels as well as authorization to carry LEDETS in the eastern Pacific in addition to Caribbean operations. The first success of this AUF capability was realized on October 28, 2005 when HMS CUMBERLAND seized 1,756 kilograms of cocaine from a go-fast vessel that refused a lawful order to stop and was subsequently disabled by precision rifle fire from the HMS Cumberland's helicopter.

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. 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 evidence of exportation. In 2005, the DEA, in concert with UK authorities, conducted the controlled delivery of three GBL shipments to the U.S. DEA has asked 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 South America, Mexico, Spain and the UK are the organizers of this smuggling. Other information also suggests that cocaine is smuggled into the UK via West Africa.

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. In May 2003, the government launched a \$5.7 million (£3 million) multimedia campaign called “FRANK”, its official national drug awareness campaign. FRANK offers help and advice to anyone who may be affected by drugs. The latest information cites over 739,000 calls to the FRANK help line and 5.7 million hits on its website. The UK now has drug education programs in all schools, supported by a certificate program for teachers. In March 2005, the Department for Education and Skills officially linked FRANK to its “Every Child Matters” education programs to assure regular reviews for effectiveness. A similar information and support program called “Know the Score” operates in Scotland.

“Positive Futures,” a sports-based program started in 2000 to specifically target socially vulnerable young people, has served over 80,000 young people since its inception with 108 projects established in regions throughout the country. As of January 2006, the program will be handed over to a national charity, Crime Concern. The contract will run through March 2008. The charity hopes to use the heightened interest in sports generated by London’s successful 2012 Olympics campaign to promote its agenda.

The UK has rapidly expanded 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 an 89 percent increase of people in drug treatment programs since 1998. The so-called “pooled treatment budget” administered by the Home Office and the Department of Health is targeted to increase from \$448 million (£253 million) nationally in 2004/05 to \$847 million (£478 million) by 2007/08. Additional services are provided through the National Health Service. National Health Service statistics show a 50 percent increase in trained drug treatment professionals (currently 10,106 with a target of 11,000) and a drop in waiting times for treatment from 6-12 weeks to 2.4 weeks since 2002. Waiting times in areas more heavily affected by drugs is lower at 1.8 weeks. Latest statistics indicate that drug-related deaths between 2002 and 2003 continued to fall and have dropped 12 percent since 1998. Among young people under the age of 20, drug-related deaths fell by almost one-third between 2002 and 2003.

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 (GOU) has taken steps to combat the narcotics trade but still relies heavily on multilateral and bilateral financial and technical resources. Law enforcement officers seized approximately 504 kilograms of illegal narcotics in the first six months of 2005. Uzbekistan is a party to the 1988 UN Drug Convention.

II. Status of Country

While there is no significant drug production in Uzbekistan, several transshipment routes for opium, heroin, and hashish originate in Afghanistan and cross Uzbekistan for destinations in Russia and Europe. Drug seizures in 2004 were up 50 percent from 2003. However, they have seemed to slow slightly in 2005. 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 2005

Policy Initiatives. In November 2005, Uzbekistan and Russia signed an agreement on cooperation in the fight against the illegal trafficking of narcotics and psychotropic substances and control of precursors. The agreement obligates the two countries to exchange information and cooperate with each other against drug trafficking. It also calls on the two sides to conduct coordinated operations against organized crime groups involved in the narcotics trade. As of the end of 2005, however, few tangible results have occurred. The United States and Uzbekistan continued counternarcotics cooperation in 2005 under the 2001 US-Uzbekistan Narcotics Control and Law Enforcement Agreement (LOA) and its amendments. These agreements provide for U.S. assistance to Uzbekistan, and are typically amended in the years following their first negotiation to increase assistance levels to ongoing programs, or to agree to begin new assistance programs. The agreements have established the framework to support projects designed to enhance the capability of Uzbek law enforcement agencies in its efforts to fight against narcotics trafficking and organized crime. In 2005, the United States proposed an additional amendment to the agreement whereby the U.S. Government would provide additional funding via the State Department's International Narcotics and Law Enforcement program to the Uzbek Ministry of Interior Special Investigative Unit (SIU), designed to target and dismantle transnational heroin trafficking organizations. The GOU declined for unspecified reasons to sign the proposed amendment. Implementation of various counternarcotics programs, including the provision of technical assistance in investigating and prosecuting narcotics trafficking cases, judicial and legal reform, and enhancement of border security, continue under previous amendments to the 2001 agreement.

The Uzbek criminal justice system continues to suffer from a lack of modernization and 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. The outcomes of court cases are usually not in doubt and conviction rates approach 100 percent. Prosecutions often

rely on coerced confessions by the defendants and conviction is typical even in the absence of evidence. Corruption at all levels of the criminal justice system is rampant.

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 been very successful and has virtually eliminated illicit poppy cultivation. In 2005, the operation only had to eradicate less than 100 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 provided by the GOU show that in the first half of 2005, Uzbek law enforcement seized a total of 504 kilograms of illicit drugs. Unprocessed poppy accounted for 33 percent of the total, cannabis 30 percent, heroin 23 percent and opium 12 percent. 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, but the Center continues to have difficulty accomplishing this goal. In 2005, training and equipment were provided to the State Customs Committee under U.S.-Uzbekistan counternarcotics-related bilateral agreements. In addition, a U.S. Drug Enforcement Administration (DEA)-supported MVD Special Investigation Unit, which became operational in 2003, continues to conduct effective counternarcotics investigations.

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 operations. These rings tend to be located on the border between Uzbekistan and Tajikistan, where poor border controls allow group members to cross between the countries with relative ease. There are indications that smuggling activities are growing along the Turkmen-Uzbek border.

Lack of training and equipment continues to hamper all Uzbek agencies. Basic necessities, even the ability to replace aging Soviet era equipment, remain in short supply or seem administratively impossible. Uzbekistan has relied heavily on international assistance from UNODC, the U.S., the UK, and other countries to supplement their own thinly-funded programs. In 2005 UNODC continued its cooperation with the GOU. However, the GOU has shown greater reluctance to work with the United States and European Union-member countries. As a result, international counternarcotics assistance to Uzbekistan has slowed substantially.

Corruption. As a matter of policy the GOU policy does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances. However, corruption is endemic at all levels of government and the paying of bribes is an accepted practice. There are anecdotal accounts of drug traffickers bribing customs and border officials to look the other way to narcotics shipments. It is likely that some government officials are involved with narcotics trafficking organizations. Uzbekistan is not a party to the UN Convention Against 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.

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 after 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, as of the end of 2004 there were approximately 19,440 drug addicts in Uzbekistan. 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. Over 3,000 people, mostly drug addicts, have tested positive for HIV in the first 11 months of 2005, according to the World Health Organization office in Tashkent. Approximately half of the people infected with HIV are between the ages of 25 and 34. Hospitals with drug dependency recovery programs are inadequate to meet the increasing need. The Ministry of Health and National Drug Control Center have recognized the need to focus increased attention on the drug problem, but do not have sufficient funds to do so adequately. Drug awareness programs are administered through NGOs, schools and the mahalla (neighborhood) support system.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S.-Uzbek bilateral counternarcotics agreements focus on the prevention of illicit drug activities in and through Uzbekistan, and the need to increase the effectiveness of Uzbek law enforcement agencies to combat these activities. In spite of the GOU’s hesitance in 2005 to engage in U.S. sponsored training and programs in a variety of areas, including counternarcotics, some GOU agencies participated in U.S.-sponsored training in 2005. The DEA continues to fully fund, train and equip the SIU in the Ministry of International Affairs. The SIU has conducted a number of undercover and international operations, which have led to substantial increases in the amount of narcotics seized. Also in 2005, the U.S. Department of Defense provided training and equipment for the Border Guard Maritime unit on the Afghan border. In June 2005 the U.S. Government sponsored the travel of fourteen Uzbek Customs officials to El Paso, Texas to observe operations on the U.S.-Mexico border. The Uzbek officials visited all of the border crossings in the El Paso area where they observed U.S. Customs narcotics detection equipment and inspection methods and exchanged information with U.S. counterparts.

The Road Ahead. The U.S. remains committed to providing support to appropriate Uzbek agencies to improve narcotics detection and drug interdiction capabilities. DOD plans further counternarcotics training for 2006.

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. Angola continues to be a transit point for drug trafficking—particularly, cocaine from Brazil into Europe and South Africa. Angola signed and ratified the Southern African Development Community (SADC) counternarcotics protocol in 2003. Angola acceded to the 1988 UN Drug Convention in October 2005.

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. It is however, a transit point for drug trafficking. Various types of narcotics, the largest quantity being cocaine, enter the country from destinations such as Brazil and are then transported to Europe and South Africa. Police continued to seize cocaine and cannabis in 2005. Increased intelligence sharing and the scanning of incoming containers improved the effectiveness of drug interdiction.

III. Country Actions Against Drugs in 2005

Law Enforcement. Angola cooperates with South Africa, Brazil, and Portugal in fighting the flow of cocaine through Angola to various destinations. South Africa has provided intelligence, training, and equipment to the Angolan police. Angola also cooperates on a regional basis via the South African Development Community (SADC).

Corruption. Although cases of public corruption connected to narcotics trafficking are rare, in June three National Department for Criminal Investigation (DNIC) officials were charged with trafficking in cocaine. As a matter of government policy, however, Angola 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.

Agreement and Treaties. In October 2005, Angola acceded 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. Angola has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime and the UN Convention Against Corruption.

Domestic Programs/Demand Reduction. In 2004, Angola enacted legislation mandating treatment for those convicted of narcotics abuse. Drug rehabilitation centers have been established in Luanda, Lubango, and Benguela.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2005, 28 Angolan police officers participated in State Department-sponsored regional training courses, which included segments on counternarcotics.

The Road Ahead. The U.S. will continue to assist Angola through training of law enforcement officials at ILEA Gaborone and in ILEA Roswell to the degree Angola wishes.

Benin

I. Summary

While Benin is a low volume narcotics producer, the country remains a transit point for illegal narcotics. During 2005, no new counternarcotics laws or initiatives were introduced in Benin. Benin's drug enforcement police squad, Office Centrale de Repression du Traffic Illicit de lat Drogue (OCERTID, or Central Office for Repression of Illicit Drug Trafficking) has limited resources. Benin co-hosted the 2005 West African Joint Operations (WAJO) Conference in September, 2005 along with the DEA Attaché from Lagos, Nigeria. The rate of illegal drug seizures remained low in Benin during 2005. Benin is a party to the 1988 UN Drug Convention, and their counternarcotics legislation adopted into law in 1997 is based on the UNDC model.

II. Status of Country

Benin remains a small producer of illegal narcotics with marijuana being the only drug produced in significant quantities. It is cultivated throughout the country, primarily along the borders with Nigeria and Togo and in the central area of the country. The primary market for this cultivation is personal use within Benin. There are no current Beninese government plans to eradicate the drug. Benin's porous borders and lack of port security allow for easy transshipment of narcotics by regional traffickers. All forms of narcotics are known to transit through Benin, but 2005 did not see a significant increase or decrease in this activity.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Benin continued to take few steps towards combating the trafficking of illegal narcotics in 2005. Legislation adopted in 1997, which increased sentences for traffickers, criminalized drug-related money laundering, and permitted the seizure of drug-related assets remains in effect, but little progress has been made towards practically implementing this legislation through enhanced drug law enforcement. Benin does not have a legal mechanism in place to seize assets on behalf of counternarcotics efforts.

Law Enforcement/Accomplishments. Benin continues to work towards the goals of a 2001 bilateral narcotics control agreement signed with the U.S. Of significance in 2005 were Beninese efforts towards regional cooperation. In September, Benin co-hosted the 2005 Western Africa Joint Operations Conference with the U.S.DEA Country Attaché from Lagos, Nigeria. Regional agreements to exchange intelligence between the 19 attending nations and plans for regional training were established. During December, three officers from OCERTID participated in UNODC counternarcotics training in Nigeria. In addition, OCERTID assigned a team to the port of Cotonou during November, 2005. But this team has been hampered by a lack of training in the area of seaport security and container search procedures. The total reported drug seizures in Benin during 2005 were 2,206 kilograms of cannabis; 28.2 grams of cocaine; and 25.2 grams of heroin. Total arrest and prosecution statistics are not available at this time, but sources indicate that existing law enforcement resources are exclusively used to arrest and prosecute small-scale couriers and users.

Corruption. There is no legislation or legal framework in Benin to prevent or punish narcotics-related corruption, and Benin did not take any new steps to prevent narcotics-related corruption in 2005. No known senior Beninese Government official or entity engages in, encourages, or facilitates the illicit

production or distribution of narcotic or psychotropic drugs, but it is likely that corruption facilitates the movement of narcotics through Benin.

Agreements and Treaties. Benin 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. Benin is a party to the UN Convention Against Corruption, and to the UN Convention Against Transnational Crime and its protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. Benin continues to profess its commitment to counternarcotics initiatives but needs to implement counternarcotics legislation and address border and port security controls. The lack of training and resources for counternarcotics units requires attention as well, and if remedied, would put Benin on the road to further supporting the 1988 UN Drug Convention.

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, resulting in the arrest of four individuals, possible indictment of two U.S. citizens, and a secondary ongoing investigation that has already identified more than two million dollars of drug related proceeds. In 2005, several major international investigations were conducted jointly with ANGA. 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 in Egypt. 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 Zone, 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. Despite limited resources, ANGA has continually demonstrated improvements in its capabilities.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Government of Egypt (GOE) continues to aggressively pursue a comprehensive drug control strategy that was developed in 1998. ANGA, as the primary Egyptian drug enforcement agency, coordinates with the Egyptian Ministry of Interior, the Coast Guard, the Customs Service, and select military units on all aspects of drug law enforcement. Government and private sector demand reduction efforts exist but are hampered by financial constraints and logistical challenges.

Accomplishments/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. Egypt is a transit country for narcotics. ANGA 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 operates 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.

According to the GOE, drug seizures in 2004 included cannabis (80.2 metric tons), hashish (1.9 metric tons), 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 of opium poppy plants. 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, a secondary ANGA financial investigation conducted in 2005 with assistance from the DEA country office has identified over two million dollars in drug proceeds located in Egypt. Since 2003, production of illicit pharmaceuticals and counterfeit narcotics are on the rise in Egypt, which 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 have amounted to over 3,000,000 Egyptian Pounds (\$520,000). In October 2005, ANGA seized two metric tons of marijuana that originated in the northern Sinai.

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 cooperate in law enforcement matters under an MLAT and an extradition treaty. Egypt is a party to the 1988 UN Drug Convention since 1991, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by the 1972 Protocol. Egypt is a party to the UN Convention against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in persons. Egypt also is a party to the UN Convention Against Corruption.

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 an ongoing investigation that started 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 2005, 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, annual 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, primarily focused on the Cairo metropolitan area. These centers annually receive thousands of requests from addicts for help.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives/Bilateral Cooperation. 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; and improve intelligence collection and analysis. In 2005, the DEA country office initiated Operation Sphinx, a joint DEA-ANGA operation to collect actionable intelligence for enforcement/interdiction action in the Suez Canal and the Gulf of Aqaba. The operation targets sources of information in the maritime industry throughout the region.

The Road Ahead. In fiscal year 2006, the U.S. Government plans to increase its joint operations with ANGA, moving beyond a previously predominant focus on monitoring the narcotics 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.

Ethiopia

I. Summary

Ethiopia does not play a major role in the production, trafficking or consumption of illicit narcotics or precursor chemicals associated with the drug trade. Although Ethiopia is strategically located along a major narcotics transit route between Southwest/Southeast Asian heroin production and European markets and West African trafficking networks, the amount of drugs transiting Ethiopia remains small. Heroin transits Ethiopia for markets in West Africa, Europe and the United States, primarily due to Ethiopia's good airline connections between those markets and Southwest/Southeast Asia. Nigerian traffickers use Ethiopia as a transit point on a limited basis. Ethiopia now produces more khat than coffee for export. Khat is legal in Ethiopia. Khat is increasingly becoming more popular in the U.S. Seizures are up and illegal importations from Ethiopia, through Europe to the U.S. are rising. Khat is a chewable leaf, with mild narcotic effect. It is part of the culture of several countries bordering the Red Sea. A small amount of cannabis is grown in Ethiopia, but most is consumed in rural areas of Ethiopia itself. The Ethiopian Counter-narcotics Unit (ECNU) maintains an interdiction team at the international airport in the capital. Ethiopia is a party to the 1988 UN Drug Convention.

II. Status of Country

Ethiopia is not now, and is not likely to become, a significant producer, trafficker or consumer of narcotic drugs or diverted precursor chemicals. A small volume of cannabis is produced in rural areas, of which a small portion is being produced for export, primarily to neighboring countries; the majority is consumed at home, but absolute quantities in both cases are moderate. For the first time, in 2001, opium poppy was seized at two locations where it was apparently being grown as an experimental crop. No further seizures have been reported. Indications are that the techniques for growing the opium came from India and that the appearance of these apparent experimental plots may be explained by that year's downturn in coffee prices. No opium gum has been found.

III. Country Actions Against Drugs in 2005

The use of heroin and other hard drugs remains quite low, due primarily to the limited availability of such drugs, its high street price when available, and low incomes of most Ethiopians. To the extent such hard drugs are available it is in large part due to the spillover effect from drug couriers transiting through Bole International Airport in Addis Ababa. Bole is a major air hub for flight connections between Southeast and Southwest Asia and Africa, and according to Ethiopian authorities, much of the heroin entering and/or transiting Ethiopia comes from Asia, although absolute quantities in both cases are low. Some of the flights require up to a two-day layover in Addis Ababa, permitting a limited opportunity for the introduction of these drugs into the local market.

Law Enforcement Efforts. The ECNU has shown solid competence in terms of performance over the previous two years. After changing its leadership in 2002, it has since been more proactive at the federal level. The ECNU was expanded from 50 to 150 police and has plans to carry out some border road interdiction efforts in addition to its work at the airport, where its interdiction team uses its two drug sniffer dogs to examine, with a degree of randomness, cargo and luggage. The ECNU routinely screens passengers, luggage and cargo on flights arriving from "high risk" origins, such as Bangkok, Mumbai, New Delhi and Islamabad. The interdiction unit continues to improve its ability to identify male Nigerian/Tanzanian drug "mules", who typically swallow drugs to smuggle them. The Ethiopian

government does not maintain precise statistics on interdictions, but reports that the overall volume of drugs interdicted has been low, as most seizures involve airline passengers carrying small quantities in luggage or on their person.

Corruption. There is no evidence of government corruption related to illicit drugs. The Anti-Corruption Commission, created in 2001, was given substantial police powers to investigate corruption, and for a short while attracted considerable attention when it arrested and charged several high-level government officials with corruption (unrelated to drugs) in 2001 and 2002. Since then, the Commission seems to have become bogged down bureaucratically and is no longer a formidable organization. There have been no charges of drug-related corruption against government officials.

Agreements and Treaties. Ethiopia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by the 1972 Protocol. Ethiopia has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention Against Corruption.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The United States is working to raise the profile of crime-related issues and encourage criminalization of money laundering. A U.S. Treasury advisor to the Ethiopian Central Bank provided advice to the Ministry of Justice in 2004 on drafting anti-money laundering legislation; the legislation was approved in Parliament and was adopted into law in 2005.

The focus of U.S. programs remains on the law enforcement side, specifically the ECNU. State Department narcotics assistance supports curriculum advice and training for police academy instructors in drug investigations. The objective is to institutionalize training, ensuring that courses will be repeatedly offered by Ethiopian trainers, rather than relying on return visits by DEA trainers from the U.S.

The Road Ahead. Ethiopia is likely to remain a minor trafficking center for Africa because of its airport and the flight arrangements described above. The GOE has a solid plan for using U.S. narcotics assistance to good effect and cooperation with the U.S. has been good.

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 and suspected drug trafficking by a Member of Parliament surfaced this year. Ghana-U.S. law enforcement coordination strengthened in 2005. Interagency coordination among Ghana's law enforcement, however, remained a challenge and attempts to establish an anticorruption unit at the Customs, Excise & Preventive Service were stalled. 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 (KIA) 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. In 2005, Nigerian traffickers continued to strengthen their presence, and some South American narcotics rings trafficking cocaine began operating in Ghana. Trafficking has also fueled increasing domestic drug consumption. Cannabis use is increasing in Ghana as is local cultivation. Law enforcement officials have repeatedly raised concerns that narcotics rings are growing in their size, strength, organization and capacity for violence. The government has mounted significant public education programs, as well as cannabis crop substitution programs. Diversion of precursor chemicals is not a major problem.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Narcotics Control Board (NCB) coordinates government counternarcotics efforts. 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 2005 the UN Office of Drugs and Crime (UNODC) financed three projects: 1) the upgrade of a rehabilitation and treatment center run by REMAR, a Spanish nongovernmental organization; 2) training of judges and officials of the Narcotics Control Board, Ghana Police, the Customs, Excise & Preventive Service and other agencies to combat transnational organized crime, including narcotics and associated financial crimes; and 3) a survey to measure the prevalence of drug abuse and its correlation to HIV/AIDS in Ghana. Each year since 1999, the NCB has proposed to amend the 1990 narcotics law to allow stricter application of bail bond system (i.e., no general granting of bail when flight is a real possibility; higher sureties to assure that defendants appear for trial) and to fund NCB operations using a portion of seized proceeds, but the Attorney General's office has not acted on these proposals. The NCB also called for amendment, without success, of PNDC Law 236 (1990) to enable it to confiscate property and assets purchased by identified drug dealers using illegal proceeds.

Law Enforcement Efforts. In 2005, 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 Ghana Police Service has assigned several investigators to narcotics cases,

holds suspects in its cells and prepares such cases for docket. The NCB continued to work with DHL, UPS, and Federal Express to intercept packages containing narcotics.

The NCB reported that from January to September 2005 arrests rose by 40 percent for cocaine and 20 percent for cannabis compared to the same period the prior year. Meanwhile, arrests for heroin dropped to nearly one-third of their 2004 level. Drug seizure statistics for 2005 show an 11 percent increase in narcotics arrests (782 for January through September 2005 compared to 705 for the same period in 2004). More than 80 percent of these arrests are for cannabis. Despite the upward trend in arrests, the amount of cocaine seized remained steady while that of heroin dropped to one tenth of its 2004 level. The NCB said narcotics rings find trafficking cocaine to Europe easier and more profitable than obtaining heroin from the Far East and trafficking it to the U.S. The Ghana Police Service's campaign to destroy cannabis farms in the Upper East and Eastern Regions accounted for a nearly 18-fold increase in seizures in 2005. Overall, 2005 saw the highest number of drug trafficking arrests on record. In one of the largest drug busts of 2005, Ghana Police arrested two suspected narcotics ring members claiming Venezuelan citizenship on November 12 in Mpaesem, Ghana. The police seized 580 kilograms of cocaine.

The NCB reported that prices of cocaine, heroin and cannabis remained steady. In 2005, a gram of cocaine sold for cedis 168,350 (\$18.50 at the current exchange rate). 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). A heroin booster sold for cedis 10,000 (\$1.10). The price of a small parcel of cannabis in 2005 was approximately cedis 5,000 (\$.55), while a wrapper or joint sold for cedis 1,000 (\$.11). Successful interdiction efforts increased these prices temporarily, but the NCB said they fluctuated near this level throughout the year.

The NCB and other law enforcement agencies continued their successful cooperation with U.S. law enforcement agencies in 2005, sharing information, as well as extraditing individuals wanted on narcotics-related charges. The U.S. extradited one person to Ghana, and Ghana extradited two persons to the U.S.

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. The backlog of cases pending trial and the limited resources facing the judiciary remain problems in controlling drug trafficking in Ghana.

The Customs, Excise & Prevention Service (CEPS) says finding a location away from its headquarters has kept it from establishing an internal affairs unit. In October 2005, a supervisor of KIA's cargo handling company was arrested attempting to smuggle cocaine using an airport tractor and his unusual access to an airplane. Media outlets alleged that this occurred with either the approval or the involvement of ruling party officials. In November 2005, U.S. Immigration and Customs Enforcement officers arrested Eric Amoateng, a Member of Ghana's Parliament in New York, during the seizure of 62 kilograms of heroin. Amoateng has been provisionally charged and arraigned and is expected to face trial for drug trafficking in the U.S. 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 2004, 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 Ghanaian citizen possessing a Dutch passport, has since traveled in and out of

Ghana while on bail. In August 2005, the Attorney General's office filed an appeal to protest a retiring judge's acquittal of two of these suspected traffickers.

In 2004 and 2005, there were no cases of alleged evidence tampering. In April 2005, the Ghana Police interdicted two policemen who allegedly facilitated a suspected Nigerian drug trafficker's escape from custody. In May 2005, the Ghana Police Criminal Investigations Division took into custody two suspected traffickers and four policemen who allegedly demanded a \$60,000 bribe to release the traffickers when they first encountered them with narcotics. In June 2005, all six were granted bail.

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, as amended by the 1972 Protocol. U.S.-Ghana extradition relations are governed by the 1931 U.S.-U.K. Extradition Treaty. In 2003, Ghana signed a bilateral Customs Mutual Assistance Agreement with the United States. Ghana has signed, but has not yet ratified the UN Convention Against Corruption.

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 2005, combined NCB and police teams continued to investigate cannabis production and distribution, and to destroy cultivated cannabis farms and plants. In October 2005, a joint operation between the NCB and police destroyed three acres of cannabis in Akatsi and took two Ghanaians and two Jamaicans into custody. 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 expanded the program from 120 farmers in 2004 to 325 in 2005. The Ministry of Women and Children's Affairs also donated two cassava-processing plants to the Essam, Eastern Region community to provide alternative income to farmers growing cannabis.

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 lucrative concealment method uses carry-on, wheeled luggage. Drug traffickers have grown increasingly inventive. In November 2004, British Customs and Excise seized 23 kilograms of cocaine hidden in live snails from Ghana at London's Heathrow Airport. Investigators have found cocaine packed as fish and packaged cannabis concealed in smocks and sacks of processed cassava.

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 2004, 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. The November 2005 arrest of a Ghanaian parliamentarian indicated a similar flow of heroin to the New York area. In the past, direct flights from Accra played an important role in the transshipment of heroin to the U.S. by West African trafficking organizations. In July 2004, the Federal Aviation Administration banned Ghana's only direct flights to the United States for safety reasons. However, this did not appear to reduce the trafficking of drugs between the two countries. Instead, drug traffickers rerouted the flow through Europe, according to the NCB. In October 2005, the NCB arrested a cargo handling supervisor attempting to smuggle 12 kilograms of cocaine through the country's sole international airport. Combined with almost weekly arrests of drug mules, this arrest

raises concerns about the volume of narcotics transited by air through Ghana. The NCB reports that narcotics air transit through Ghana has reduced somewhat in favor of land routes to Abidjan, largely due to the break down of law and order in Cote d'Ivoire, which favors narcotics traffickers. The biggest challenge in Ghana, however, is the unpatrolled coastline.

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 observed the International Day Against Drug Abuse and Illicit Trafficking in June 2005, in Cape Coast, Central 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. The NCB's national drug education efforts continued in schools and churches, heightening citizens' awareness of the fight against narcotics and traffickers. In 2005, the NCB continued broadcasting TV programs to explain narcotics' effects on the human body, individual users and society, which are being broadcast on state television in local languages. Also in June, the NCB organized an event in Cape Coast to highlight drug abuse in Ghana in conjunction with the UN's International Day Against Drug Abuse and Trafficking.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. 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. 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 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. Future assistance, committed in August 2005, will focus on advanced narcotics investigations skills, airport interdiction and financial crimes investigations. In August 2005, the U.S. government signed an agreement to provide Ghana's law enforcement agencies with an additional \$200,000 in assistance to fight narcotics trafficking.

The Road Ahead. Tougher confiscation provisions, with a portion of such resources dedicated to fighting narcotics trafficking, would strengthen Ghana's counternarcotics regime. Better oversight of financial transactions is particularly important given the potential for any narcotics financial networks to be used by terrorist organizations or for internal corruption.

Jordan

I. Summary

Jordan's geographical location between drug producing countries to the north and drug consuming countries to the south and west, makes it a transit country for illicit drugs. Historically, Jordanians do not consume significant quantities of illicit drugs, and according to the public security officials there are no known production operations in the Kingdom. Statistically speaking, however, drug use continues to grow in Jordan. According to statistics for the first 11 months of 2005, total drug seizures for the year will be slightly below, or close to 2004 seizures, excluding Captagon seizures (fenethylline), a synthetic amphetamine-type stimulant. There was an increase in reported drug-related cases and subsequent arrests. The drugs of choice among users arrested for drug possession in Jordan continue to be cannabis and heroin, and people arrested for drug-related crimes fall predominantly between the ages of 18 and 35 years old. Additionally, drug movement coming from Iraq has picked up seven-fold. Cooperation among neighboring countries in combating the drug trade is ongoing. Jordan is a party to the 1998 UN Drug Convention.

II. Status of Country

There are currently no indications that Jordan will move from a predominantly drug transit country to a drug producing country. Statistics produced by the Public Security Directorate/Anti-Narcotics Department (PSD) appear to confirm this assessment. Jordan's vast desert borders make it vulnerable to illicit drug smuggling operations. Jordanian authorities do not believe that internal drug distribution is a profit-making venture.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Due to sustained usage of hashish and heroin among people predominantly between the ages of 18 and 35, Jordan continues its drug awareness campaign focused at educating young people of the dangers of drug use. 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 have also been developed and broadcast this year. In July 2005, DEA sponsored a one-week Asset Forfeiture and Financial Investigations Seminar in Amman, which was presented to Jordanian law enforcement, financial institutions, and other attendees.

Law Enforcement. Jordan's PSD maintains an active counternarcotics bureau, and it maintains excellent relations with the U.S. DEA, Nicosia Country Office based in Cyprus. In 2004, PSD began utilizing x-ray equipment on larger vehicles at its major border crossings between Syria and Iraq, which netted numerous drug seizures in 2005. 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. Seizures of Captagon tablets are up about 11 percent from last year's statistics, but PSD claims not to have observed any wide-spread use of the drug in Jordan. PSD reports that 80 percent of all seized illicit drugs coming into Jordan are bound for export to other countries in the region. Jordan's general drug traffic trend continues to include cannabis entering from Lebanon, heroin from Turkey entering through Syria on its way to Israel, and Captagon tablets from Bulgaria entering through Syria on the way to the Gulf. The majority of Jordan's drug seizures take place at the Jaber border crossing point between Jordan and Syria, although seizures from Iraq have risen significantly compared to last year.

Since the removal of Saddam Hussein, PSD has observed an increasing trend of trafficking hashish and opium from Afghanistan through Iraq and into Jordan. So far in 2005, there have been 28 seizures at the Iraq border resulting in the arrest of 24 people, up from a total of 4 cases in 2004.

Corruption. As a matter of government policy, Jordan neither encourages nor facilitates the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions. 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, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by the 1972 Protocol. Jordan is a party to the UN Convention against Corruption, and has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. Jordan continues to remain committed to existing bilateral agreements providing for counternarcotics cooperation with Syria, Lebanon, Iraq, Saudi Arabia, Turkey, Egypt, Pakistan, Israel, Iran, and Hungary.

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 main challenge in stemming the flow of illicit drugs through the country remains its vast and open desert borders. While law enforcement contacts confirm continued cooperation with Jordan's neighbors, the desolate border regions and the various tribes, with centuries-old traditions of smuggling as a principle source of income, make interdiction difficult. None of the narcotics transiting Jordan are believed to be destined for the United States.

Domestic Programs. Jordan maintains a robust program of awareness, education, and rehabilitation. Education programs target high school and college-aged kids. Authorities continue to provide educational presentations in schools and universities throughout the country. According to a representative of the local UN Office on Drugs and Crime (UNODC), since 2001 the Jordanian government, in conjunction with the UNODC, has strengthened treatment and rehabilitation services for drug abusers in Jordan. Most notably, a national treatment and rehabilitation strategy and coordination mechanism has been put in place; the Police Treatment Center has been upgraded to provide and facilitate treatment and rehabilitation services to drug abusers referred by the court; and the five primary health centers in Jordan are now able to provide outreach services for early intervention and counseling. In August 2005, the Jordanian Drug Information Network (JorDIN) was officially established. This new UNODC initiative was implemented with the view to support the development of a comprehensive drug use monitoring system covering drug abuse indicators in Jordan, composed of the Ministries of Health and Education, the University of Jordan, and other organizations. In the future, JorDIN will enable the GOJ to better quantify rates of success for rehabilitation and treatment of drug users. The UNODC representative further stated that with each year, Jordan has made real progress in drug abuse treatments.

There are currently three locations at which people in Jordan can receive treatment and rehabilitation services: the National Center for the Rehabilitation of Addicts operated by the Ministry of Health; the Police Treatment Center operated by the PSD's Anti-Narcotics Department, and a private treatment facility operated by Al-Rashid Hospital in Amman.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In July 2005, DEA sponsored a one-week Asset Forfeiture and Financial Investigations Seminar in Amman.

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. The largest single share of opiates leaving Afghanistan (ca. 60 percent) passes through Iran to consumers in Iran itself, 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. There are an estimated 3 million opiate abusers in Iran, with 60 percent reported as addicted to various opiates and 40 percent reported as casual users. The latest opiate seizure statistics from Iran suggest Iran is experiencing an epidemic of drug abuse, especially among its youth.

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. More than 3,400 Iranian law enforcement personnel have died in clashes with heavily armed drug traffickers over the last two decades, and Iran reports that another 48 died in 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 have had excellent seizure results for the last two years by concentrating their interdiction efforts in the eastern provinces.

Iran is a party to the 1988 UN Drug Convention, but its laws do not bring it completely into compliance with the Convention. The UNODC is working with Iran to modify its laws, train the judiciary, and improve the court system.

II. Status of Country

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. Drugs are also smuggled by sea across the Persian Gulf. Iran is itself 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). A sharp increase in the share of unrefined opium in total opiate seizures made by Iranian enforcement in 2005 suggests that drug traffickers in Afghanistan have consciously decided to serve the growing opium market in Iran, rather than ship refined or semi-refined opiates (heroin and morphine base) for ultimate consumption in Europe.

III. Country Actions Against Drugs in 2005

Policy Initiatives. A group of Iran's neighbors, and major narcotics assistance donor countries working together in a regional organization under UNODC sponsorship (the "Paris Pact") organized a visit to Iran to discuss Iran's counternarcotics efforts, and its needs for narcotics-related assistance. Among the policy recommendations to emerge from this review was the need not to overlook exit routes along the Iranian/Turkish border, and to strive for more intelligence-led investigations of trafficking organizations. The Paris Pact review also made recommendations to improve treatment and

drug education, and to encourage more effective courts and decrease corruption. UNODC has put together an assistance program for Iran containing enforcement, demand reduction, and judicial sector projects and requested donors to consider contributions towards the estimated \$22 million cost of the program. Approximately half of the amount necessary has already been pledged, largely by European donors, significantly Great Britain. Iran continues to spend at least 50 percent of its budgeted counternarcotics expenditures on demand reduction activities as a continuing 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. The long-time head of the Drug Control Headquarters, Ali Hashemi, was replaced after this summer's Presidential elections in Iran, by Fada Hussein Maleki, an official with provincial administration experience in a region (Baluchistan) beset by narcotics trafficking.

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 2,645 km of asphalt and gravel roads. It also has relocated numerous border villages to newly constructed sites, so that their inhabitants are less subject to harassment by narcotics traffickers.

Thirty thousand law enforcement personnel are regularly deployed along 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 199 metric tons of opiates (opium equivalent) just during the first seven months of 2005. Opiate seizures in 2005 (projected) were on track to be just 9 metric tons less (-2.54 percent) than the all-time record seizures achieved in 2004. Iran and Pakistan alternate for the right to be the country with the highest volume of opiate seizures in the world.

Iranian opiate seizures in the first seven months of 2005 display some interesting trends:

- Unrefined (raw) opium seizures continued to increase sharply; projected out for the year, they were on track to increase by 17 percent, even though all opiate seizures (opium, heroin, morphine base) were projected to be down by 2.5 percent;
- The share of raw opium in total opiate seizures approached 60 percent, a level not seen in a decade. Given the weight and bulk advantage of shipping opiates as either a fully or partially refined product (1/10th the weight and bulk), it would seem that trafficking groups in Pakistan and Afghanistan have made a conscious decision to serve the large and growing market for opium in Iran;
- Heroin increased from 13.5 percent of all opiates seized in Iran in 2004 to a projected 15 percent in 2005, still a relatively modest share of the total;
- The morphine base share of seized opiates fell to just 25 percent of the total. Since morphine base is the opiate most likely headed for consumption outside of Iran in Russia and/or Europe (after further refining), this sharp decline in a single year from

last year's level of 37 percent, makes clearer the traffickers' focus on the Iranian opium market.

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 seven months of 2005 were 35 metric tons. If hashish seizures are projected out for the whole of 2005 (60 metric tons), and compared with 2004's seizures of 86.5 metric tons, they would register a sharp decline of more than 30 percent.

Drug offenses are under the jurisdiction of the Revolutionary Courts. Punishment for narcotics offenses is severe, with death sentences possible for possession of more than 30 grams of heroin or five kilograms of opium. Those convicted of lesser offenses may be punished with imprisonment, fines, or lashings, although it is believed that lashings have been used less frequently in recent years. Offenders between the ages of 16 and 18 are afforded some leniency. More than 60 percent of the inmates in Iranian prisons are incarcerated for drug offenses, ranging from use to trafficking. Narcotics-related arrests in Iran during 2004 continued a sharp upward trend, mounting to 417,240, an 11 percent increase over drug arrests in 2003. Almost two-and-one-half times more drug abusers were detained than drug traffickers. Iran has executed more than 10,000 narcotics traffickers in the last decade.

Corruption. It would seem that corruption plays a more important role in narcotics trafficking in Iran than heretofore thought. Corruption cases reached the courts in Iran, and were also featured in media reports. The election campaign highlighted incidents of corruption, and to some extent the results can be read as a populist reaction to perceptions of corruption in leadership circles. Although there is no specific indication that senior government officials aid or abet narcotics traffickers, comparison of the situations in other narcotics-transit countries suggests that in addition to corruption among lower/mid-level law enforcement, there is also probably involvement of higher level officials as financiers and protectors of narcotics traffickers. Nevertheless, punishment of corruption can be harsh, and the evidence of Iran's commitment to keep drugs from its people is compelling. A high-profile effort is currently under way in Iran to highlight corruption and discourage its spread, but some cynicism might be justified on the question of its seriousness, with an eye on those in the top infrastructure who escape punishment for apparent corruption. Iran has signed, but has not ratified, the UN Convention Against Corruption.

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. UNODC has also proposed new assistance projects for Iran's courts and prosecutors after the recent Paris Pact review of Iran's counternarcotics efforts. The proposed assistance, which is projected to cost in excess of \$7.5 million, focuses on modernization of the courts, especially increased use of computerization in courts, transparency, and corruption reduction. UNODC is seeking donor commitments currently. Iran is also a party to the 1971 UN Convention on Psychotropic Substance, and the 1961 UN Single Convention as amended by the 1972 Protocol. Iran has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime. 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 as noted above, Iran hosted an expert round table and review of its counternarcotics efforts by 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 armed convoys, and are ready for a fight if challenged.

A large share of the opiates smuggled into Iran from Afghanistan is 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 represented almost 25 percent of all opiates seized in the first seven months of 2005, in Iran, is likely moving towards Turkey, as is some share of the much diminished 15 percent, or so, of opiates moving as heroin. Significant quantities of raw opium are consumed in Iran itself, but some quantities also move 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 and desert, which are sparsely populated 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 Abbas, 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 traditionally used to provide necessities, and to escape high taxation. There are also reports that enforcement authorities accept bribes to pass shipments, and fail to enforce laws that prohibit street sales of narcotics 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 60 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. 3 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 in 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. Recent seizure statistics, where the share of opium seized is up sharply, suggests a return to more traditional patterns of abuse in Iran, namely opium as the predominant drug of abuse. There are also many reports that young people in Iran have turned aggressively to drug abuse as an escape from what they perceive as difficult economic and social conditions. Significant seizures (6 metric tons in 2004) of synthetic drugs have also been reported, again suggesting that young people are driving drug abuse in Iran to even higher levels.

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, Iran focused more aggressively on illegal alcohol use than on 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 now methadone treatment and HIV prevention programs in Iran, in response to growing HIV infection, especially in the prison population.

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 U.S., for its part, has approved licenses which allow U.S. NGOs to work on drug issues in Iran.

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, report that during 2005, 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, hashish and LSD. The INP also reports a continuing demand for ecstasy in 2005, but a lower level of seizure compared with 2004. The amount of marijuana seized is less than half that in 2004, and there was a slight decrease in the amount of hashish seized. The INP reports that the amount of heroin seized has doubled since last year and that the level of demand is unchanged. The quantity of LSD seized in 2005 is considerably less than the previous years. Widespread use of ecstasy by Israeli youths is a continuing source of concern for authorities. There was a decrease from last year in the number of arrests for drug use, and possession, not for personal use, but arrests for trafficking have increased. The number of drug arrests for 2005 was 3,640 (Note: All 2005 data are for the period January through October and were obtained from the Research Department of the Israeli Police Headquarters, unless otherwise indicated.) Israel is a party to the 1988 UN Drug Convention.

II. Status of Country

Israel is not a major producer of narcotics or precursor chemicals. Israeli narcotics traffickers operating outside of Israel continue to be deeply involved in the international ecstasy trade. The INP reports that during 2005, 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, hashish and LSD. The INP estimates the annual demand 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. The INP indicates that most of the hashish in Israel now comes from Afghanistan and Morocco, which have replaced Lebanon as the major source. Another source of concern for law enforcement authorities is the synthetic drug Gamma Hydroxybutyrate (GHB), and its analogues, Gamma Butyrolactone (GBL), and Butanediol (BD), better known as Date-Rape Drugs. This class of drugs has been outlawed in Israel since 2004.

III. Country Actions Against Drugs in 2005

Policy initiatives. In 2005, 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 entered Israel. The INP and the IADA have jointly developed programs to help Israeli youth, especially in the Arab community, where there has been a marked increase in use of illegal drugs and drug-related violence since 2004. Both organizations continue to identify and investigate several major families involved in the drug trade in Israel. In 2005, the INP combined its investigations and intelligence units into one branch called the Special Operations Division (SOD).

Law Enforcement Efforts. INP reported a high demand for cocaine and a total of 158 kilograms seized in 2005, a figure almost six times that of 2004. Other reported seizures for 2005 are as follows:

7,000 kilograms of marijuana; 730 kilograms of hashish; 200,000 ecstasy tablets; 140 kilograms of heroin; and 1,866 LSD blotters. There was a slight change from last year in the number of arrests reported by the INP. In 2005, the INP reported 15,427 arrests for drug use, 3,047 for drug trafficking, and 5,233 for drug possession not for personal use. Israel destroyed 686 illicit labs in 2005, compared with 528 in 2004. The figure for drug arrests in 2004 was 4,340, dropping to 3,640 in 2005. In 2005, there were several high profile drug cases. In one instance, the INP arrested seven members of an ecstasy ring involved in smuggling 90,000 pills from Europe, and the seizure of 30 kilograms of pure heroin at a border crossing between Israel and Jordan, estimated at NIS 3.5 million (\$777,777). In total there were 24,393 felony cases related to the narcotics crimes.

Corruption. As a matter of government policy, Israel does not encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions. Israel does not have specific legislation for public corruption related to narcotics, but vigorously enforces its general laws against malfeasance in government.

Agreements and Treaties. In June 2002, Israel ratified the 1988 UN Drug Convention after passing all the necessary laws to make Israeli laws consistent with the Convention. Israel 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, an extradition treaty and a mutual legal assistance treaty are in force between Israel and the U.S. Israel signed the UN Convention against Transnational Crime and it is in the process of passing the necessary changes to Israeli law required for ratification. Israel has signed, but has not yet ratified the UN Convention against Corruption.

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. Israeli citizens abroad in locations such as France, Spain, Germany, Denmark, Holland, and Belgium serve as brokers and transporters of ecstasy to the U.S. and elsewhere. Israeli officials are particularly concerned about drugs being smuggled into Israel from neighboring countries Lebanon, Jordan and Egypt. Israel also works with Germany and Holland to interdict the flow of ecstasy—with Turkey to interdict the flow the 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 programs. 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 involved in reducing demand. The IADA also seeks to change the public opinion 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 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. The INP has liaison officers in Bangkok, Paris, The Hague, Bogotá, Berlin, Moscow, Ankara, and Washington, DC. Through these offices, there were several significant joint investigations conducted in 2005 leading to arrests of 36 Israelis abroad in 2005.

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.

Kenya

I. Summary

Kenya has become an increasingly significant transit country for cocaine from South America bound for Europe. The seizure of more than one ton of cocaine in December 2004 raises concerns that international drug trafficking rings have made inroads in Kenya and may benefit from a climate of official corruption, which allows them to operate with near impunity. Heroin and hashish transiting Kenya, mostly from Southwest Asia bound for Europe and the U.S., have markedly increased in purity in recent years. Some share of the heroin is destined increasingly for the U.S., even as the overall transit volume is believed to have declined. There is a growing domestic heroin and cocaine market and use of marijuana is becoming more widespread, particularly on the coast and in Nairobi. Although government officials profess strong support for counternarcotics efforts, the overall program suffers from a lack of resources and corruption at various levels. Kenya is a party to the 1988 UN Drug Convention.

II. Status of Country

Kenya is a significant transit country for cocaine and heroin and a minor producer of cannabis. It is believed that Kenya is becoming an increasingly significant transit country for multi-ton shipments of cocaine from South America destined for European and African consumers; however, cocaine seizures have decreased significantly from the dramatic spike in 2004. Kenya's sea and air transportation infrastructure, and the network of commercial and family ties that link some Kenyans to Southwest Asia, make Kenya a significant transit country for Southwest Asian heroin and hashish. 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. Seizures of Southwest Asian cannabis resin transiting Kenya have fallen off dramatically since 2000 and the 2005 figures remain relatively constant with figures for 2004. Cannabis or marijuana is produced in commercial quantities for the domestic and export market, however there is no evidence of its impact on the United States. Kenya does not produce significant quantities of precursor chemicals.

III. Country Actions Against Drugs in 2005

Policy Initiatives. Kenya has abandoned the wholesale adoption of the 2001 National Drug Control Master Plan (NDCMP). Rather, Kenya is currently drafting legislation which would implement select provisions of the NDCMP by creating a Drug Control Authority. Counternarcotics agencies, notably the Anti-Narcotics Unit (ANU) within the Kenyan Police Service, continue to depend on the 1994 Narcotics Drugs and Psychotropic Substances Act (Narcotics Act) for enforcement measures and interdiction guidelines. The twelve year-old Act is generally sufficient to sustain current interdiction efforts, but the Act's major weakness remains its ambiguity and inconsistencies in the area of drug seizure, analysis, and disposal. In 2005, the government of Kenya worked with the United Nations Office for Drugs and Crime (UNODC) to draft revisions to the Narcotics Act covering the seizure, analysis, and disposal of narcotic drugs and psychotropic substances. Despite the recognized need, the revisions have yet to be implemented. Kenya has no crop substitution or alternative development initiatives for progressive elimination of the cultivation of narcotic crops. The ANU remains the focus of Kenyan counternarcotics efforts.

Law Enforcement. As a result of UNODC and bilateral training programs, 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 in recognizing couriers but not major traffickers. Seaport container-profiling has proven difficult. Despite the official estimate that much of the narcotics trafficking through Kenya originates on international sea vessels, ANU maritime interdiction capabilities remain virtually nonexistent. Personnel turnover at the ports is high and Kenya has no functioning maritime interdiction capability. Six officers are assigned to Kenya's (and East Africa's) principal port of Mombasa for profiling purposes only; the two officers who have been trained in maritime interdiction have no boats from which to operate. Corruption continues to thwart the success of long-term port security training and inadequate resources also sap morale, and impose real restrictions on what can be achieved. Both corruption and resource constraints are real problems throughout the Kenyan police force and significantly reduce the ANU's operational effectiveness.

Seizures of heroin and cocaine decreased in 2005, while seizures of cannabis and its derivatives increased. Kenya seized 30 kilograms of heroin in 2005, a 10-kilogram decrease from the quantities seized in 2004 (all statistics on drug seizures in this section reflect the period from January to November 2005 as provided by the ANU) and arrested 103 people on heroin-related charges. The ANU concentrates its antiheroin operations at Kenya's two main international airports. Kenyan authorities seized 49,854 kilograms of cannabis and its derivatives in 2005 and arrested 4,648 suspects. As in the previous year, the ANU saw an increase in cannabis cultivation during targeted raids in 2005, in which 153,720 plants were destroyed. 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. Weak laws, an ineffective and inefficient criminal justice system and widespread corruption are the main impediments to an effective counternarcotics strategy for Kenya.

Seizures of cocaine and arrests for cocaine trafficking were low, compared to 2004. Kenya seized 5 kilograms of cocaine in 2005 and made 4 arrests. However, Kenya has yet to achieve a successful prosecution stemming from the December 2004 record seizure of cocaine. All seven defendants accused of trafficking 295 kilograms of cocaine seized in the Netherlands related to the cocaine shipment seized in Kenya were acquitted in November due to lack of evidence. The presiding magistrate stated that the case was neither adequately investigated nor prosecuted and the state failed to comply with sections of the Narcotics Act. Given the lackluster performance of legal and law enforcement authorities in the case, the magistrate questioned the commitment of the Office of the Attorney General to combating drug trafficking.

The Kenyan government (through Customs and the Criminal Investigations Department of the Kenyan police service) is collaborating with UNODC in setting up a drug law enforcement program targeting key entry points of drugs into the East African region. This program complements another UNODC program focusing on developing drug control capacity in the port of Mombasa.

Corruption. As a matter of government policy, Kenya does not encourage nor facilitate the illicit production or distribution of narcotic or psychotropic substances, or the laundering of proceeds from illegal drug transactions. However, official corruption remains a significant barrier to effective narcotics enforcement at both the prosecutorial and law enforcement level. Despite Kenya's strict narcotics laws that encompass most forms of narcotics-related corruption, reports continue to link public officials with narcotics trafficking. The December 2004 cocaine seizure has heightened public concern that international drug trafficking rings enjoy protection by high-level officials for their activities in Kenya. The November 2005 acquittal of seven suspects accused of trafficking cocaine to the Netherlands raises questions about the ability or willingness of legal and law enforcement

authorities to combat drug trafficking. The December 31 murder of the lead police officer investigating the theft of shipping containers, possibly in connection with a drug trafficking ring, illustrates the challenges facing authorities in interdicting drug trafficking through the Port of Mombasa. The murdered officer was killed after reportedly refusing substantial bribe offers. As in previous years, airport and airline collusion and outright involvement with narcotics traffickers continued to occur in the year covered by this report. Several Kenya Airways employees were arrested for smuggling of small quantities of cocaine into European airports, increasing public concern about the threat that some of last year's one ton cocaine seizure, still warehoused in Kenya, might find its way back out to the streets.

Agreements/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 as amended by its 1972 Protocol, and the 1971 UN Convention Against Psychotropic Substances. Kenya is a party to the UN Convention Against Corruption, and to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons, and illegal manufacturing and trafficking in firearms. The 1931 U.S.-U.K. Extradition Treaty remains in force between the United States and Kenya through a 1965 exchange of notes, but the extradition relationship has not been entirely satisfactory to the U.S. of late. Kenya, Tanzania, and Uganda established a protocol to enhance regional counternarcotics cooperation in 2001.

Cultivation and Production. A significant number of Kenyan farmers illegally grow cannabis 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 identified large cannabis crops in several areas, of which 153,720 plants were destroyed.

Drug Flow and Transit. Kenya is strategically located along a major transit route between Southwest Asian producers of heroin and markets in Europe and North America. Heroin normally transits Kenya by air, carried by individual couriers, but as a result of profiling measures and enhanced counternarcotics efforts, ANU officials believe traffickers are finding Jomo Kenyatta International Airport (JKIA) an increasingly inconvenient exit point for East African drugs. ANU officials continued to intercept couriers transiting newly created land-routes from Uganda and Tanzania, where it is believed the drugs arrive by air. The increased use of land-routes demonstrates, in the minds of ANU officials, that traffickers have noted the increase in security and narcotics checks at JKIA. Postal and commercial courier services are also used for narcotics shipments through Kenya. There is evidence that poor policing along the East African coast makes this region attractive to maritime smugglers, particularly for cocaine shipments. Kenya also remains a transit country for methaqualone (mandrax) en route from India to South Africa. However, total mandrax seizures for 2005 amounted to only 5 tablets, down from 5,000 seized in 2004. Officials have never identified any clandestine airstrips in Kenya used for drug deliveries and believe that no such airstrips exist.

Domestic Programs. The National Campaign Against Drug Abuse (NACADA) continues to combat drug abuse, although the quasi-governmental organization's budget remains negligible. While there are no reliable statistics on domestic consumption of illicit narcotics, NACADA estimates that twenty-one percent of 10 to 21 year olds have used cannabis. Kenya has made some progress in efforts to institute programs for demand reduction. Illegal cannabis and legal khat are the domestic drugs of choice. Heroin abuse is generally limited 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 in the past few years. Nairobi and Mombasa each have an

estimated 10,000 heroin addicts. Cocaine use is also expanding in urban centers. Solvent abuse is widespread (and highly visible) among street children in Nairobi and other urban centers. 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. NACADA continues to pursue demand reduction efforts via national public education programs on drug abuse. Churches and nongovernmental organizations provide limited rehabilitation and treatment programs for heroin addicts and solvent-addicted street children. With the support of USAID, the Ministry of Health is developing two rehabilitation and drug abuse treatment facilities in Nairobi and Mombasa. UNODC supports a youth network on drug demand reduction.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The principal U.S. counternarcotics objective in Kenya is to interdict the flow of narcotics to the United States. A related objective is to limit the corrosive effects of narcotics-related corruption in law enforcement, the judiciary, and political institutions, which has created an environment of impunity for well-connected traffickers. The USG seeks to accomplish this objective through law enforcement cooperation, the encouragement of a strong Kenyan government commitment to narcotics interdiction, and strengthening Kenyan counternarcotics and overall judicial capabilities.

Bilateral Cooperation and Accomplishments. There was a modest expansion of USG bilateral cooperation with Kenya and surrounding countries on counternarcotics matters in 2005. Counternarcotics training opportunities and equipment offers have also been the hallmark of bilateral assistance to the ANU. The United States remains active in the Mini-Dublin Group, which has responsibility for coordinating counternarcotics assistance from several Western donors. Additionally, the USG provided U.S. speaker programming on drug abuse to raise public awareness of the growing rates of heroin addiction in the coastal region. USAID also provides support to projects to develop addiction treatment services to heroin addicts in Nairobi and on the Kenyan coast.

The Road Ahead. The USG will continue to take advantage of its good relations with Kenyan law enforcement to build professionalism, operational capacity, and information sharing. The USG will actively seek ways to maximize counternarcotics efforts both in Kenya and throughout East Africa. Perhaps most significantly, the USG will work with local, regional, and international partners to better understand and combat the flow of international narcotics through Kenya.

Lebanon

I. Summary

Lebanon is not a major illicit drug producing or drug-transit country, but with a history of opium cultivation and its central location, conditions in Lebanon bear close watching. The Lebanese government reported complete success in eradication of poppy and cannabis crops for 2004. It took serious actions to prevent cannabis cultivation and to eradicate illicit crops before harvest in the Biqa' Valley. It appears that crop destruction operations like these will continue to be routine operations. However, illicit crop cultivation is likely to continue to remain an option for local farmers due to an increasingly difficult economic climate and a lack of investment in alternative crops.

Cultivation of illicit crops increased slightly from 2004 to 2005. 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

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, but small quantities of cocaine arrive in Lebanon to meet 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 from Europe, Jordan, and Syria, or directly to Lebanon. Lebanese nationals living in South America, in concert with resident Lebanese traffickers, often finance these operations. According to a report issued by the Judicial Police in 2003, very small quantities of cocaine were smuggled 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.

The stagnating economic situation in rural Lebanon and the lack of investment in alternative crops continues to make illicit crop cultivation appealing to local farmers in the Biqa' Valley in eastern Lebanon, though in ever-lesser quantities due to efforts by the government to eradicate illicit crops. The government also continued a counternarcotics campaign to discourage new planting. According to Lebanon's Internal Security Forces (ISF), approximately 273,555 square meters of opium and 641,890 square meters of hashish were eradicated in 2005.

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 2005

Policy Initiatives. The Ministry of Interior again made counternarcotics a top priority. The Judicial Police reported that no one was exempt from the law, and made narcotics-related arrests in 2004 for the first time in 35 years. The government also continued its vigorous campaign to discourage drug use by expanding public awareness on university campuses, through media campaigns, and in written advertisements.

Accomplishments. In 2005, the Government of Lebanon continued hashish and poppy eradication. Lebanese law enforcement officers cooperated with law enforcement officials bilaterally and through Interpol. Several European and Persian Gulf countries have illicit drug enforcement offices in Beirut with which local law enforcement authorities cooperate. The Government of Lebanon received from the UNODC and the 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 stated that from January to November 2004, they eradicated all cultivated crops during the year. The ISF reported seizures of 900 kilograms of hashish, and significantly lesser quantities of other illicit drugs. The number of arrests for use was 960, for dealing 847, for distribution 142, and lesser numbers for planting, smuggling, and transporting. The total number of persons arrested in 2004 for drug related crimes was 1,424, 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 Bika’ Valley in a joint operation carried out by the ISF and the Lebanese Armed Forces. Results for 2005 were not yet available, as this report neared completion.

Corruption. Corruption remains endemic in Lebanon up to the senior levels of government, but the U.S. is unaware that government corruption is 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, which appear to be genuinely dedicated to combating drugs. Lebanon is not a party to the UN Convention Against Corruption.

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 also is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

Cultivation and Production. There are conflicting reports of illicit crop cultivation. Statistics from the Judicial Police this year show that 273,555 square meters of opium and 641,890 square meters of hashish were eradicated during 2005. 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 crops that they believe will be destroyed. In either case, the end-result is that Lebanon is not believed to be a significant drug producing country any more.

Drug Flow/Transit. Illicit drug trafficking via traditional smuggling routes has been somewhat curtailed by joint Syrian-Lebanese operations in the past. Drug trafficking along the Israel-Lebanon frontier has been negligible since the Israeli withdrawal from Lebanon in May 2000 and the subsequent near-sealing of the UN-demarcated Blue Line. 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 understand that they need to address the problem of illicit drug use. In 2002, the government launched a public awareness campaign to discourage drug use and 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, and assistance to substance users and their families, in addition to setting up a national action plan. Since 2001, the government has been engaged in the establishment of this council; 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 2004 budget, which was \$1,000,000. 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 year-long residential program for hard-core addicts, and sometimes operate above capacity. The program strives for recovery for the residents' physical, psychiatric, spiritual, and social well-being without the use of drug maintenance. 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 offers no outpatient drug withdrawal programs. 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 Biqa' 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 with drug addicts at the hospital. 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 UN Office on Drugs and Crime (UNODC) in May 2003, ISF participants in the study reported that individuals arrested for substance-related offenses most commonly use heroin, hashish/marijuana, and cocaine. Furthermore, the participants noted that synthetics use is on the rise and so is Benzhexol use in prisons. On the other hand, ecstasy use was perceived as uncommon. As for data from treatment/rehabilitation centers, they showed that ecstasy and medicinal opiates are on the rise. Data gathered from street substance users

showed that codeine and other medication abuse are on the rise, and additionally, that 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 any return to the production and transportation of narcotics in Lebanon, and the need for a comprehensive development program for the Bekka' Valley that would provide impoverished residents with alternate sources of income. The USG also stressed the importance of anticorruption efforts.

Bilateral Cooperation. USAID 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. The Sustainable Forage Development Program, ongoing since 2002, has proven the feasibility of forage cultivation as an alternative to illicit cropping, producing an average net income of \$900 per hectare; more than 1,030 farmers in the Biqa' and South Lebanon have joined the program. USAID also helped increase the receiving capacity of one of Oum el Nour's rehabilitation centers (see above on Domestic Programs). In 2003, the Department's INL Bureau funded a narcotics demand reduction program administered by a Beirut-based NGO, the Justice and Mercy Association (AJEM). This ongoing project was designed to create a drug treatment facility in Roumieh prison to provide treatment and social rehabilitation for drug-addicted prisoners incarcerated there. INL also funded a second project aimed at expanding receiving and treatment capacity at Oum el Nour centers. This was the first year that INL funded counternarcotics projects in Lebanon.

The Road Ahead. The success of measures to halt cultivation and trafficking depends on the will of the Lebanese government. The GOL, since the withdrawal of Syrian occupation forces, has new access to areas inside Lebanon where cultivation has historically been centered. 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 98,000 metric tons of cannabis in 2004, providing for potential cannabis resin (hashish) production of 2,760 metric tons, according to the second joint study on cannabis released in May 2005 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). As of December 2005, the Government of Morocco (GOM) was in the process of completing its 2005 study on cannabis production. Available information continues to indicate the United States is not a major recipient of drugs from Morocco. According to the UNODC report, Morocco in 2004 succeeded in decreasing by 10 percent its land dedicated to cannabis cultivation to 120,500 hectares, down from 134,000 hectares in 2003. The UNODC study also states that approximately 800,000 Moroccans (2.5 percent of the country's estimated 2004 population) were involved in cannabis cultivation. Morocco's efforts to combat cannabis cultivation are made more difficult by limited short-term 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 the mountainous northern region of Morocco. Only very small amounts of narcotics produced in or transiting through Morocco reach the United States. According to a UNODC report, the illicit trade in Moroccan cannabis resin generates approximately \$13 billion a year in total revenues. The narcotics trade might well be Morocco's single largest source of hard currency, but Morocco gets only a small share (perhaps \$325 million) of the estimated \$13 billion total turnover of the cannabis trade. Independent estimates indicate that the returns from cannabis cultivation range from \$16,400-\$29,800 per hectare (little of which goes to the growers themselves), 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 2005

Policy Initiatives. The GOM's partnership with UNODC in conducting the 2004 and 2003 cannabis surveys reflects Morocco's desire to compile accurate data about narcotics production and address its narcotics problem. In 2004, Morocco also launched an awareness campaign for cannabis growers— alerting them to the adverse effects of cannabis cultivation for the land and informing them of alternative ways to use the land more productively. 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 continued to 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. To study the viability of medicinal plant substitution the GOM selected Taounate as the site for the construction of the National Institute of Medicinal and Aromatic Plants (INPMA). Morocco and France agreed in 2004 to reinforce bilateral counternarcotics cooperation by deploying liaison officers to Tangiers and France

Law Enforcement Efforts. According to government statistics, Morocco in 2004 seized 318 tons of cannabis, representing a 361 percent increase over the 69 tons seized the previous year. During the same period seizures were also up for cocaine, heroin, and psychoactive drugs. Morocco claims to have arrested 22,526 Moroccan nationals and 356 foreigners in connection with drug-related offenses in 2004.

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 counternarcotics 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. These efforts, however, have not changed the underlying reality of extensive cannabis cultivation and trafficking in northern Morocco. During this past year, according to both Moroccan and French police sources, controlled deliveries of drugs have proven to be a very successful interdiction technique. The GOM in 2005 destroyed more than 7,000 hectares of cannabis, primarily in Larache and Taounate Provinces, and plans to destroy 10,000-25,000 hectares of land cultivated with cannabis during next year's eradication campaign. The Ministry of Interior is also in the final stages of launching a website that will provide the public with information on the government's counternarcotics efforts. Morocco has laws providing a maximum allowable prison sentence for drug offenses of 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 convicted in Morocco.

Corruption. The GOM does not promote drug production or trafficking as a matter of policy, and it contests accusations that government officials in the northern territories are involved in the drug trade. According to Moroccan press reports, the Rabat Court of Appeal in April issued prison sentences ranging from 1 to 10 years to members of a drug trafficking ring; in addition, 25 policemen and 7 gendarmes were given one-year sentences for corruption. Morocco has signed, but has not yet ratified, the UN Convention Against Corruption.

Agreements and Treaties. 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. 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 north in the last two decades 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 mostly 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 in the south. The UNODC survey found that 75 percent of villages and 96,000 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 drug 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 2004 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 continues 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 or private yachts. Shipments of up to two tons increasingly are being confiscated on smaller “zodiac” speedboats that reportedly can make roundtrips to Spain in one hour. Smugglers also continue to transport 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 drug abuse campaigns.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. policy goals in Morocco are to enhance Morocco's counternarcotics capability through 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 anti-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 Moroccan counternarcotics officials, USG-provided border security equipment—particularly new scanners in main ports—improved the effectiveness of security measures at entry points, which directly contributed to increased drug seizures in 2004. Morocco and the U.S. have also begun to expand cooperation on drug investigations of mutual interest. The Drug Enforcement Administration (DEA), which covers Morocco from its Paris office, has enhanced its engagement with the Moroccan National Police, including discussing ways to increase training visits to the U.S. by Moroccan counternarcotics officials and by U.S. officials to Morocco. DEA officials conducted three trips to Morocco in the 2005. During the December 2005 visit, U.S. and Moroccan officials discussed ways in which the two governments can further their mutual cooperation. In September 2005, the U.S. Coast Guard sent a Mobile Training Team to provide training in maritime law enforcement boarding procedures.

The Road Ahead. The United States will continue to monitor the narcotics situation in Morocco, cooperate with the GOM in its counternarcotics efforts, and—together with the EU—provide law enforcement training, intelligence, and other support where possible.

Mozambique

I. Summary

Mozambique is a transit country for illegal drugs such as hashish, herbal cannabis, cocaine, mandrax (methaqualone), and heroin consumed in Europe and South Africa. Some illicit drug 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 population of Mozambique. 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 improved only slightly in the past year. Corruption in the police and judiciary continues to hamper counternarcotics efforts, as has the elimination of visa requirements for South African and Mozambican citizens traveling between those two countries. Mozambique is a party to the 1988 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, Manica, and Zambezia provinces. Limited amounts are exported to neighboring countries, particularly South Africa. There are indications that small quantities of a low quality ecstasy are being manufactured in Southern Africa, with Mozambique as a possible producer. Mozambican authorities took steps during the year to reduce local production of mandrax by raiding facilities and seizing production equipment. Mozambique's role as a drug-transit country has continued to grow. 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. Heroin and other opiate derivatives shipped through Mozambique originate in Southeast Asia. Drugs cultivated in Southeast Asia then typically transit India, Pakistan, or the United Arab Emirates 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.

Mozambique has seen growing abuse of heroin among all levels of urban populations. The abuse of methaqualone continues to be a matter of concern for countries in Southern Africa. Methaqualone, which is usually smoked in combination with cannabis, continues to enter South Africa from India and China, and some shipments of the substances pass through Mozambique. Increasing amounts of cocaine from Brazil and Colombia are smuggled through Portugal into Portuguese-speaking countries in Africa, primarily Angola and Mozambique, then into South Africa. This year's agreement between South Africa and Mozambique to drop visa requirements has complicated interdiction and enforcement efforts, as information on individuals crossing borders has become even more limited.

III. Country Actions Against Drugs in 2005

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 2004, customs officers at Maputo airport and seaport received drug interdiction training under a UNODC program. In July 2005, a 57-person specialized police unit designed to strengthen efforts to fight organized crime, including narcotics trafficking, was introduced at airports in provincial capitals. In the first nine months of 2005, Mozambican authorities seized a total of 29.5 kilograms of cocaine at the Beira and Maputo airports. As interdiction efforts improve at the Maputo airport, traffickers have been forced to identify alternate points of entry, including Beira, Nampula, Quelimane and Vilankulos. Publicized seizures in 2005 include:

- The March seizure of 10 kilograms of cocaine in the "Colombia" neighborhood in Maputo city;
- The April seizure, at Maputo airport, of 1.8 kilograms of cocaine, carried by a 40-year old woman of unknown nationality arriving from Brazil;
- The May arrest at the Beira airport of a 39 year old Mozambican woman arriving from Brazil with 74 capsules of cocaine in her stomach;
- The June arrest at the Beira airport of a 20-year old Mozambican woman arriving from Brazil with 48 capsules of cocaine in her stomach;
- The seizure of 800 kilograms of cannabis sativa at the Changara/Moatize border post.

More than a dozen individuals were reportedly detained at the Beira and Maputo airports in connection with drug smuggling activities in 2005. Most of these were women who arrived from Brazil carrying capsules of cocaine in their stomachs. It is unclear how many of the suspects detained are incarcerated at this time. In November, local newspapers reported that two Mozambican women caught carrying cocaine from Brazil had been sentenced by the Sofala Provincial Court to lengthy prison terms for drug trafficking. Since the beginning of the year, five such "mules" of Mozambican nationality have died from overdoses while carrying cocaine.

Corruption. Corruption is pervasive in Mozambique. However, Mozambique has continued efforts to prosecute police and customs officials charged with drug trafficking offenses. The trial of four officers charged with selling the proceeds of a large Pakistani shipment of hashish began in February. In September, a Mozambican customs official in Tete province was reportedly sentenced to 16 years in prison for drug trafficking resulting from a 2004 mandrax smuggling charge. The official was accused of unlawfully taking into his possession mandrax seized by customs during a routine stop at a checkpoint in Tete province. As official policy, Mozambique seeks to enforce its laws against narcotics trafficking, but as noted above, confronts difficulties in doing so more effectively.

Agreements and Treaties. Mozambique is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Mozambique has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention Against Corruption.

Cultivation/Production. Cannabis is cultivated primarily in Tete, Manica, and Zambezia provinces. The Mozambican government has no estimates on crop size. Intercropping is the most common method of production. Mozambican authorities have made efforts this year to eradicate cannabis crops through controlled burns.

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, often through Lisbon and Johannesburg, 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, nicotine, and herbal cannabis. Heroin, cocaine, and “club drug” usage and prescription drug abuse are also reported across Mozambique’s urban population. The Mozambican Office for the Prevention and Fight Against Drugs (GCPCD) has developed a drug education program for use in schools and with high risk families; the program includes plays and lectures in schools, churches, and other places where youths gather. It has also provided the material to a number of local NGOs for use in their drug education programs. The GCPCD has received some support for community policing and demand reduction from bilateral donors. Drug abuse and treatment options remain limited with the GCPCD providing treatment assistance and reintegration programs for approximately 200 families affected by drug addiction in 2005.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG continues to sponsor 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 support 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. In September, the unit was restructured into the Central Office for the Combat of Corruption and received for the first time line item funding from the state budget.

The Road Ahead. The U.S. will continue working with ACIPOL to provide training and technical assistance, in 2006, in the areas of drug identification and investigation, as well as other areas of criminal sciences. The U.S. will conduct a community policing program in Maputo which will include specialized training for police officers and the delivery of 50 special purpose built bicycles. Technical assistance programs at the police academy will focus on methods to foster better relations between the community and the police. Among other topics, courses provided by technical specialists will include drug interdiction. U.S. assistance in support of the anticorruption unit will continue in 2006, with plans to place a short-term regional legal advisor at the unit for a period of six months. The U.S., using State Department funds, is working with the GOM to improve its border security efforts. The U.S. is also supporting the Mozambican authorities in addressing issues of coastal security.

Namibia

I. Summary.

While occasionally used as a drug transit point, Namibia is not a major drug producer or exporter. Statistics for seizures of illegal drugs in 2005 largely mirrored 2004 figures, with approximately \$500,000 worth of drugs (mostly marijuana and Mandrax (methaqualone), along with smaller amounts of cocaine) seized as of November 2005. 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 2005.

III. Country Actions Against Drugs in 2005

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 Safety and Security and working level officials meet regularly with counterparts from neighboring countries, during which efforts to combat crossborder contraband shipments (including narcotics trafficking) are discussed.

Corruption. As a matter of government policy, the Government of Namibia 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.

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. 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.

Drug Flow/Transit. Namibia's excellent port facilities and road network, combined with weak border enforcement, make it a likely transshipment point for drugs en route to the larger and more lucrative South African market. DLEU (Drug Law Enforcement Unit) 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.

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, but, for whatever reason, they have chosen to pass-up training opportunities, when proffered.

The Road Ahead. The USG will continue to encourage the Namibian Police to take advantage of training opportunities at ILEA Botswana and elsewhere, and will assist the Government of Namibia in any narcotics investigation with a U.S. nexus.

Nigeria

I. Summary

While Nigeria is not an important producer of narcotic drugs, it remains a major transit route for illicit trafficking of narcotics. Available evidence shows that narcotics transiting Nigerian ports and borders reach the United States in amounts sufficient to generate serious concern. Nigeria produces marijuana/cannabis domestically, which is trafficked to the neighboring West African countries and to Europe. Domestic markets for opiates, cocaine and synthetics are small, but growing. Use and demand for marijuana is significant in many cities throughout Nigeria.

Nigeria is party to the 1988 UN Drug Convention. The Nigerian Government has made efforts to stop the transshipment of illicit drugs through Nigeria to other countries. The Nigerian Government established the National Drug Law Enforcement Agency (NDLEA) in 1989. The agency is present in all 36 states of Nigeria, although staffing is uneven throughout the country. The NDLEA lacks an adequate number of personnel to handle all narcotics-related cases, and at times requests special technical assistance from the U.S. Government. The agency is insufficiently funded by the government to handle its most basic priorities, and there have been significant lapses that have hurt the NDLEA's overall performance this year. The agency currently lacks some equipment important to implement its counternarcotics mandate. For example, the seaport unit's boats need outboard motors that function, but the agency has not purchased them. Narcotics-detecting itemizers located at three airports, were donated by the U.S. Government. When U.S.-donated associated consumable supplies were expended, the NDLEA did not purchase additional materials to allow for continued use of the itemizers. They are now idle.

There have been credible allegations of drug-related corruption at NDLEA. However, despite erratic performance, there have been some successes in drug interdiction, mostly at the airports. In late November 2005 NDLEA Chairman Bello Lafiaji was dismissed by President Obasanjo due to allegations of corruption and replaced by Ahmadu Giade, a retired deputy commissioner of police.

II. Status of Country

Nigeria is not a producer of heroin or cocaine, but it is a major drug-transit hub. Heroin transits Nigeria on its way to neighboring countries and the United States. Cocaine transits Nigeria on its way to Southern Africa and Europe. Trafficking of heroin and cocaine into the country is on the increase, organized by Nigerian criminal elements, which play a major role in the worldwide cocaine trade.

The NDLEA is the lead agency charged with drug interdiction, but other agencies are secondarily involved, including the Customs Department, Immigration Department, and the Nigeria Police force (NPF). Heroin and cocaine dominate seizures at the Murtala Mohamed International Airport in Lagos, and other ports of entry to Nigeria. Sale and local consumption of marijuana is on the increase in recent years. The rise in marijuana use domestically in Nigeria is evinced by the increased quantities seized, the number of illicit plots discovered and destroyed, and numbers of arrests made.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The NDLEA did not sustain any major policy initiatives in 2005. A special task force to work with the U.S. and other drug liaison officers was instituted, but quickly disbanded by the

recently dismissed NDLEA Chairman Lafiaji after the Task Force arrested a suspected major drug trafficker in Lagos.

Law Enforcement Efforts. Statistical data from the NDLEA show some progress in drug interdiction, especially at the Lagos International Airport. Apart from the short-lived special task force, the NDLEA did not attempt to develop its capacity to investigate major traffickers or shipments. Rather, the NDLEA's enforcement efforts are concentrated on low-level mules and street traffickers.

Accomplishments. The working relationship between the U.S. Government and the NDLEA this year did not advance to the degree needed to effectively counteract the growing challenges of drug trafficking from Nigeria. In 2005, the NDLEA did not demonstrate significant progress in drug interdiction or in the development of policies aimed at eradicating illicit narcotics trafficking. The NDLEA did participate in a joint international operation to stop a container in a neighboring country. However, the agency did not let the operation continue within Nigerian borders, which could have resulted in arrests in Nigeria. According to NDLEA statistics, the agency made several arrests during the year in which there was a nexus to major sources for heroin, such as Pakistan and Afghanistan, but as a general rule, most enforcement was focused on low-level traffickers and mules, with no enforcement impact on the major traffickers who manage and finance drug trafficking from Nigeria.

Corruption. Corruption is entrenched in Nigerian society, and remains a significant barrier to effective narcotics enforcement. There were serious allegations of corruption in the NDLEA, and the Director of the NDLEA, Dr. Bello Lafiaji, was summarily removed, and replaced by Ahmadu Giade, a retired deputy commissioner of police. Chairman Giade has specific experience in investigating corruption and evidence tampering. It is also fair to say that the Nigerian government intensified its campaign against corruption. This is a general policy, and not specific to drug trafficking. To date, no senior government official has been arrested in connection with drug trafficking, despite some accusations of complicity. There is no evidence of senior government officials facilitating the production, processing, or shipment of narcotics and psychotropic drugs, or other controlled substances. However, there are serious allegations of government officials using their position to discourage the investigation of major traffickers and the prosecution of drug-related cases. Moreover, the quantity of drugs moving through Nigeria, under the control of Nigerian criminal elements, and the absence of any vigorous enforcement efforts against the more senior levels of those involved suggests strongly a certain level of corruption would be necessary to protect those senior level traffickers involved. The NDLEA lacks in-house mechanisms, such as an internal affairs section, to investigate corruption within its own agency.

To combat corruption more generally in Nigerian society, the Nigerian Government established the Independent Corrupt Practices and Other Related Offences Commission (ICPC), through the Corrupt Practices and other Related Offences Act of 2000. The Act prohibits corrupt practices and other related offences, and also provides for punishment for those offenses. Under Section 6, the Commission is empowered to receive and investigate reports of corruption, and where justifiable, prosecute the offenders. It is empowered to educate the public on and against bribery, corruption and other related offences. To date, the Commission has not dealt with any cases related to narcotics trafficking, but has vigorously pursued its mandate to prosecute corruption in other areas of government, despite vigorous attempts by legislators, state governors and some elements in the central government to curtail and frustrate its efforts.

In 2002, the Nigerian Government established the Economic and Financial Crimes Commission (EFCC). The EFCC has not investigated or prosecuted any narcotics-related cases. Similarly, no narcotics-related cases have been prosecuted under the Money Laundering Act of 2004. Major trafficking networks in Nigeria are known to replenish their cache of drugs using elaborate schemes to launder money and legitimize their profits. There are also suspicions of relationships between criminal

elements that run advance fee fraud schemes, the so called “419 Fraud”, and the organized criminal gangs who arrange for large-scale movements of cocaine and heroin.

The NDLEA’s relationships with the Economic and Financial Crimes Commission, Independent Corrupt Practices Commission, Nigerian Customs Department, Nigeria Immigration Department and the Nigeria Police Force have not been optimal; there is little cooperation among the agencies. This failure to cooperate weakens the efforts of all of them.

Agreements and Treaties. Nigeria 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. Nigeria is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons. Nigeria also is a party to the UN Convention Against Corruption. The 1931 U.S.-UK Extradition treaty, which was made applicable to Nigeria in 1935, provides the legal basis for U.S. extradition requests. A U.S.-Nigeria Mutual Legal Assistance Treaty (MLAT) entered into force in 2003.

Cultivation /Production. Marijuana/Cannabis is grown all over Nigeria, but mainly in central and northern states. It is also grown in large quantities in Ondo and Delta states in Southern Nigeria. Cultivation is generally on small fields in remote areas. Its market is concentrated in West Africa and Europe; none is known to have found its way to the United States. However, domestic use is becoming more widespread. The NDLEA has destroyed marijuana fields, but has no regular, organized eradication program in place. There are no reliable figures to determine crop size and yields.

Drug Flow/Transit. Nigeria remains a major transit hub for heroin from Asia and cocaine from Asia and South America. Interdictions are mainly at the Murtala Mohamed International Airport in Lagos, which has a digital X-ray machine. The NDLEA also has sniffer dogs, but they are seldom used. Port Harcourt Airport is currently operating more than eight international flights per week, and has been utilized as a new smuggling route. Seaports are believed to be a significant point for drugs to enter and exit Nigeria, but the NDLEA is not present at seaports to enforce narcotics laws, and customs efforts have yielded zero seizures and arrests during the year.

Low-level drug couriers can make as much as \$5,000 per trip, depending on the quantity of drugs transported. Most couriers come from poor backgrounds, earning as little as \$500 a year in normally available employment opportunities in Nigeria and neighboring countries. The amounts that can be earned as drug couriers therefore are attractive to many people. Sentences and jail terms for drug trafficking are relatively light, and do not act as a strong disincentive. Repeat drug offenders are numerous.

Domestic Programs (Demand Reduction). Drug abuse continues to rise in Nigeria. Drugs are abundant, cheap, and readily available on the local market in Nigeria’s large cities. Marijuana, locally referred to as Indian hemp, is the predominant drug. Local cultivation and use are growing problems in Nigeria. Drug treatment is generally not available.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In 2005, the 2002 Letter of Agreement signed between the U.S. and Nigerian Governments for narcotics-related grant assistance was amended for the fifth and sixth times. In 2005, the U.S. Government provided financial assistance in the amount of \$550,000 to the NDLEA, and provided other assistance to the police and to the ICPC.

Bilateral Accomplishments. Since 2001, the NDLEA has not arrested any major traffickers, and has not interdicted any drug shipment larger than 50 kilograms, although there is evidence that many sizeable shipments move through Nigeria. No significant progress has been achieved on goals

identified in the bilateral agreement between the U.S. and Nigerian Governments, with perhaps the exception of progress in community policing in the State of Kaduna and a successful advisory program at the ICPC. The NDLEA has yet to attempt a joint international controlled delivery with the DEA. In 1993, the Nigerian Government established the NDLEA Training Academy, now located in Jos. The Academy sponsors 4, 6 and 9-month training sessions for up to 140 cadets. On occasion, the NDLEA conducts UN-sponsored training for other countries at the Academy. The U.S. Government has assisted the Academy in attaining international standards.

The NDLEA received 60 VHF radios and 2 Base stations through an INL assistance program in August 2001. During INL end-use monitoring in September 2005, the NDLEA could not locate this equipment. Itemizers donated to the NDLEA, and located at the Lagos, Abuja, and Kano airports were not in use, though in excellent working condition. The NDLEA stated they did not have the consumable supplies to put the equipment to use.

The Road Ahead. With new leadership at the NDLEA, Nigeria has signaled its intention to improve its efforts to target major traffickers and to strengthen coordination between NDLEA and U.S., UK and other international drug law enforcement agencies. It is crucially important that the NDLEA make progress against narcotics traffickers, lest the trafficking situation in Nigeria and all of West Africa drift completely out of control.

Saudi Arabia

I. Summary

Saudi Arabia has no appreciable drug production and is not a significant transit country. Under the Saudi Islamic Legal Code, drug trafficking, dealing, and use are strictly prohibited. The Saudi Government places a high priority on combating narcotics abuse and trafficking. Since 1988, the Saudi Government imposed the death penalty for drug smuggling and dealing. However, Saudi officials acknowledge that domestic drug abuse and trafficking have increased. Saudi officials have stated that the flow of drugs across its borders from Iraq and Yemen has increased. Saudi and U.S. counternarcotics officials maintain good relations, and Saudi law enforcement agencies are playing a larger role in regional interdiction operations. Saudi Arabia is a party to the 1988 UN Drug Convention.

II. Status of Country

Saudi Arabia has no significant drug production. This ultraconservative society, in keeping with its conservative Islamic values and its obligations under the 1988 UN Drug Convention, places a high priority on fighting narcotics abuse and trafficking. Narcotics-related crimes are punished harshly, and narcotics trafficking is a capital offense enforced against Saudis and foreigners alike. Saudi Arabia maintains a network of overseas drug enforcement liaison offices and state-of-the-art detection and training programs to combat trafficking. Saudi officials acknowledge that despite improved counternarcotics efforts, incidences of drug trafficking and domestic drug abuse are increasing. The Saudi Government promotes counternarcotics educational campaigns in the media, health institutes, and schools. Government efforts to treat drug abuse exclusively targets male 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. Heroin and hashish are the most heavily-consumed substances, but Saudi officials report that the use of cocaine, barbiturates, and amphetamines is becoming more widespread.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The Ministry of Interior is the lead agency in Saudi Arabia's drug interdiction efforts and has over 40 overseas liaison officers in countries representing a trafficking threat. In July, the Saudi Council of Ministers passed a new law that provides more flexible and specific sentencing guidelines for drug convictions. The new Anti-Drug and Mental Effects Regulation stipulates the death penalty for Saudi drug traffickers, manufacturers, and recipients of any banned drug substances, but also allows Saudi courts to reduce a death sentence to a minimum of 15 years imprisonment, corporal punishment that consists of a maximum of 50 lashes per session, and a minimum fine of SR100,000 (\$26,667). Previously used regulations, which were based on religious edicts (fatwas) issued by the committee of senior scholars, failed to set maximum and minimum punishments for drug offenders, and relied on the judge's judgment for sentencing. The new law also offers treatment to Saudi drug dealers or users who surrender to Saudi law enforcement authorities.

Law Enforcement Efforts. The Saudi Government continues to play a leading role in efforts to enhance intelligence sharing among the six nations of the Gulf Cooperation Council. Additionally, Saudi and U.S. drug enforcement officials regularly exchange information on narcotics cases. Drug seizures, arrests, prosecutions, and consumption trends are not matters of Saudi public record, in

keeping with the general Saudi practice for all criminal matters. Saudi interdiction efforts tend to focus more on individual carriers than on follow-on investigations designed to identify drug distributors and regional networks.

Corruption. As a matter of government policy, Saudi Arabia does not encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions.

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 against Corruption, and is a party to the UN Convention against Transnational Organized Crime. The Saudi Government has signed bilateral agreements on drugs with Yemen, Pakistan, Libya, Turkey, the Czech Republic, and Iran.

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. Saudi officials have expressed concern to U.S. officials about the increase of drugs coming from Yemen, Iraq, and Bahrain. This supports anecdotal evidence that suggests 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 educational programs directed at school-age children, health care providers, and mothers. The country's conservative religious establishment actively preaches against narcotics use and Government treatment facilities provide free counseling only to male Saudi addicts. As noted above, there are four drug treatment in Riyadh, Jeddah, Dammam, and Qassim.

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. DEA officials work closely with Saudi officials.

The 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. Senegalese authorities have been active in pursuing bilateral cooperation against international traffickers, including signing mutual assistance agreements with France and the UK. Education and strict enforcement of drug laws remain cornerstones of Senegal's counternarcotics goals. Senegal is a party to the 1988 UN Drug Convention.

II. Status of Country

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 the 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 and Guinea Bissau serve as way stations for cocaine bound for Senegal.

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. During 2005 the peace process in the Casamance continued and more areas were opened to agricultural development. It is generally acknowledged that a portion of this development is illicit cannabis cultivation. Police are reluctant to undertake greater enforcement efforts against cannabis cultivation in the Casamance for fear of hampering ongoing peace negotiations. Senegal also serves as a transit country for traffickers due to its location, infrastructure and porous borders. Efforts to tighten security at the Dakar international airport and maritime port have been reasonably effective. However, drug enforcement efforts remain under-funded and undermanned, allowing the illegal cannabis trade and trafficking to continue.

III. Country Actions Against Drugs in 2005

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 also been hampered because of insufficient funding.

Law Enforcement Efforts. 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 real drug problem in the country. Police lack the training and equipment to detect drug smuggling. Historically, Senegal has undertaken few cannabis eradication efforts. As previously mentioned, police forces feel constrained in their efforts to eradicate cannabis cultivation in the southern part of the country because of ongoing peace negotiations between insurgents and the central government. Meetings have been organized, though, with island populations

in the south in accordance with the UN Program for International Control of Drugs to promote substitution of cannabis cultivation with that of other crops.

Corruption. The USG is unaware of any narcotics-related corruption at senior levels of the Senegalese government. 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 is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. Senegal is a party to the UN Convention Against Corruption. Senegal also is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

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. As mentioned above, efforts to eradicate cannabis cultivation are hampered by the civil conflict in the Casamance region.

Drug Flow/Transit. According to the Chief of OCRTIS (Office Central de Repression du Trafic Illicite), the trend in the amount of illicit drugs transiting through Senegal is increasing. OCRTIS is monitoring the transshipment of hashish and cocaine through Senegal. The U.S. is not a destination point for these drugs.

Domestic Programs. NGOs, such as the Observatoire Geostrategique des Drogues et de la Deviance (OGDD), have taken the lead in public education efforts. OGDD continued a program that began in 2001. The first phase involved a campaign of information targeted at cannabis cultivators, arguing that the land had greater potential if it were used for purposes other than drugs, that drugs were bad for the environment and health, and that drugs were degrading the economy. Village committees have been established to convey the above information to sensitize people to the problems associated with drug use.

The focus of the second phase of the program is to encourage farmers to substitute alternative crops for drugs on their land. Due to funding constraints, however, implementation of this part of the program has been impeded. 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

Bilateral Cooperation. USG goals and objectives in Senegal are to strengthen law enforcement capabilities in counternarcotics efforts. In 2002 the USG started a program to train counternarcotics agents in drug investigation and interdiction methods under the State Department's Bureau for International Narcotics and Law Enforcement Affairs (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 fifth 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 the South African Institute for Strategic Studies), most of which is consumed in the Southern African region, but at least some of which finds its way to Europe (UK). 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. According to the Organized Crime Threat Analysis prepared by the South African Police, 369 organized crime groups operate in South Africa; 132 of these crime groups are involved in drug trafficking. Of the 369 criminal groups, 211 were broken-up by enforcement pressure and 158 are still under investigation. 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), 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 (marijuana produced on its own territory).

Despite the progress South Africa has made coping with organized crime, South Africa is the origin, the transit point or the terminus of many major drug smuggling routes. Cannabis, for instance is cultivated in South Africa, and also 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 only used "dagga," the local name for marijuana). The "South African Community Epidemiology Network on Drug Use" (SACENDU) reported that although alcohol remains the dominant substance of abuse, cannabis and Mandrax alone or in combination continue to be significant drugs of abuse. SACENDU also noted that heroin seems to be the primary drug of abuse in Cape Town, Gauteng and Mpumalanga. On the other hand, "club drugs" and methamphetamine abuse is low except in Cape Town where the increase in treatment demand for methamphetamine was dramatic. Methamphetamine has emerged as the main substance of abuse among the young in Cape Town, with two-thirds of drug abusers having it as a primary or secondary substance of abuse.

South Africa is becoming a larger producer of synthetic drugs, mainly mandrax, with precursor chemicals smuggled in and labs established domestically. As in 2004, a number of labs were dismantled in 2005. The SAPS (National Police Service) Annual Report for 2004-2005 reported that 48 clandestine narcotics laboratories were detected and dismantled. 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 2005

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 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, the National Prosecuting Authority and its Directorate of Special Operations (popularly known as "The Scorpions"), the Customs Service, and the Border Police (a part of SAPS). The U.S. helped in the training of the DSO. The Border Police have 55 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. The SAPS 2004/2005 Annual Report states that its first operational priority is to address organized crime by focusing on criminal organizations involved in crimes related to drugs, firearms, vehicles, human trafficking, human organ trafficking, prostitution, endangered species, precious metals and stones.

Law Enforcement Efforts. Although the value of drug seizures according to the SAPS Annual Report for 2004/2005 decreased as compared to those in the period 2003/2004 (from over 3 billion Rands to 675 million Rands), arrests increased from 376 to 401 at the border. SAG authorities, on occasion working closely with other nations to include the U.S., achieved one success—the total street value of drugs seized by various law enforcement agencies during the period April 2004 to March 2005 was over \$12 million.

The SAPS Annual Report (covering the fiscal year from April 1, 2004, to March 31, 2005, and published in August) did not provide seizures of drugs by name. The number of detected drug-related crimes, according to the annual SAPS Report, grew in 2005 to 180.3 per 100,000 of population (from 135.1 in the previous year), or, a 33.5 percent increase over 2004. Border Police made 401 arrests, and

confiscated drugs worth \$112 million. During this period the biggest increase in reported arrests was in respect of drug-related crimes, with 21,243 more arrests reported, or a 33.85 percent increase over the previous year. About 90 percent of those crimes are presented to courts. The conviction rate is about 70 percent (i.e. relatively high).

Additional successes were reported in the press. On May 1 South Africa's Department of Foreign Affairs confirmed that 865 South African "drug mules", i.e., couriers were incarcerated in other countries. The highest number was in Brazil (118) followed by Peru (70), Argentina (51) and Venezuela (36). A 40-year old South African was jailed for life in Indonesia for attempting to smuggle 1.1 kilograms of heroin into Bali. The head of SAPS Narcotics Bureau confirmed that the trend of South Africans being used as mules is on the increase. On July 21, the National Director of Public Prosecutions Vusi Pikoli officiated over the destruction of 45 tons of mandrax powder at Springs on the East Rand seized in 2004 in Durban, with a street value of over \$200 million. SAPS officers in July seized 118 bags of marijuana, with a street value of \$400,000, near the Peka Bridge border post with Lesotho. In April police seized 200 kilograms of dagga near the Swaziland border (street value of \$66,670) and arrested three men. SAPS and members of the South African National Defense Force in April searched a number of schools for drugs. Police said this was part of their Operation Toxic Algae aimed at rooting out drug use. In June, Durban police officers confirmed that the city is a popular distribution point for dagga throughout the country and the rest of the world. Police reported arresting two men with two tons of compressed dagga (with a street value of \$15 million).

Corruption. The Annual Report by the Independent Complaints Directorate (ICD) for 2004-2005 reported an 8 percent decrease in misconduct complaints lodged against police officers. ICD reports that police were found not to be accountable for 80 percent of allegations of criminality made against them. 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 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. 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 a party to the UN Convention Against Corruption, and is also a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms. 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 Counternarcotics 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. Cocaine is constantly available on the local illicit market. Cocaine is mainly brought in by Nigerian syndicates, or the people who work for them. 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. Diverted precursor chemicals, some produced locally and some imported into South Africa, are also a growing problem. 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 that, in addition to “weak enforcement,” has excellent financial, transportation, and communications facilities. The 2004-2005 SAPS report states that a SAPS chemical monitoring program to prevent the diversion of chemicals for the manufacture of illicit drugs, checked 337 import notifications of precursors to South Africa. 245 export notifications of precursor chemicals were forwarded to relevant foreign authorities. 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 nongovernment 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. Education of the public at large about the dangers of drug addiction remains a high priority for the government. SAPS is continuing its visible crime deterrence policy by organizing visits and counternarcotics lectures in more than 35,000 schools; and 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, continues to present 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.

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 (Pretoria), 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.

Syria

I. Summary

In 2005, the Government of the Syrian Arab Republic (SARG) continued to give a high priority to, and devoted significant resources to combating the drug trade. Although drug seizures increased, domestic usage was negligible. Syria remains an important transit country, with a pronounced increase this year in the quantity of illegal narcotics passing through the country. Jordan and the Gulf States remain the primary destinations for drugs transiting from Lebanon and Turkey. Syria continues to have a close working relationship with Saudi Arabia and Jordan, but counternarcotics cooperation with Lebanon has deteriorated since the Syrian withdrawal from Lebanon in April 2005. 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 also a transit country for Captagon (fenethylline), a synthetic amphetamine-type stimulant. Captagon originates in Eastern Europe, primarily Bulgaria and Romania, and is destined for the Gulf Countries, mainly Saudi Arabia via Turkey and Syria. As in 2004, the domestic production of hashish has continued to increase significantly, while production of opium has decreased slightly. Since the withdrawal of Syrian troops from Lebanon, the cooperation between the two countries has diminished.

III. Country Actions Against Drugs in 2005

Policy Initiatives. In 2005, Syrian officials implemented a 2002 draft decree providing financial incentives of up to several million Syrian pounds (\$1 = 57 Syrian Pounds) to anyone providing information about drug trafficking and/or cultivation in Syria. 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. A new police facility for the Syrian Anti-Narcotics Department is set to begin construction in Damascus. This new facility will also house the country's primary drug lab.

Law Enforcement Efforts. Syrian officials characterized cooperation on drug issues with neighboring Saudi Arabia and Jordan as excellent. Relations with Lebanese and Iraqi officials are strained. Syria has strict sentencing guidelines and offers the death penalty for trafficking-type drug offenses. Syria has legislation that provides for seizure of assets financed by profits from the drug trade. The SARG has used this legislation to seize assets. In 2005, hashish, opium, heroin, and cocaine seizures all increased. Seizures of Captagon tablets have also increased significantly this year:

Corruption. The SARG has an Investigations Administration (Internal Affairs Division) responsible for weeding out corrupt officers in the counternarcotics unit and the national police force. The Investigations Administration is independent of both the counternarcotics unit and the national police and reports directly to the Minister of the Interior. According to Syrian authorities, there were no arrests or prosecutions of officers in the counternarcotics unit for corruption in 2005.

Agreements and Treaties. Syria 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. Syria has signed, but not yet ratified the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Cultivation/Production. The SARG has an effective counternarcotics system in place that has reduced cultivation and production in Syria to negligible levels. However, as noted, the production of hashish has continued to increase significantly, while production of opium has decreased slightly.

Drug Flow/Transit. Drug interdiction remains the focus of the Syrian counternarcotics effort. Syrian officials estimate that in 2005, the overall flow of illegal narcotics transiting Syria and destined for other countries had increased. Transshipment of narcotics from Turkey continues to represent the major challenge to Syria's counternarcotics efforts, as the porous Turkish/Syrian border continues to pose a problem by providing an easy entry point for drugs being smuggled into Syria. Narcotics coming from Iraq are transported into Syria either directly or via Jordan. 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. Main shipment routes include the transit of hashish and cocaine 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. There were also reports of an increase in drug transit from Iran to Syria via Iraq, predominantly for onward shipment.

Domestic Programs. Due to the social stigma attached to drug use and stiff penalties under Syria's strict counternarcotics law, the incidence of drug abuse in Syria remains low. The SARG's counternarcotics strategy, which is coordinated by the Ministry of the Interior, uses the media to educate the public on the dangers of drug use, and drug awareness is also part of the national curriculum for school children. 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 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. 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 SARG to maintain its commitment to combating drug transit and production in the region; to implement regulations and establish a financial intelligence unit to actualize their new anti-money laundering law; and to improve its counternarcotics cooperation with neighboring countries.

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, and 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 ever higher. The domestic production of cannabis and drug abuse among younger people is increasing. Substances commonly abused are the more affordable cannabis and Mandrax, but hard drugs like heroin and cocaine, including some crack cocaine (crystallized), are used in small quantities within the affluent classes. The growth of the tourism industry, particularly in Zanzibar, has increased demand for narcotics there, as has drug smuggling along Tanzania's largely un-patrolled coast.

Tanzania is located along trafficking routes with numerous possible points of illegal entry. The drugs originate from Afghanistan, Pakistan, India, Thailand, Burma, and South America en route to Europe, South Africa and, to a lesser extent, the U.S. Drugs enter Tanzania by air, sea, roads and rail. Major points of entry include airports in Dar es Salaam, Zanzibar and Kilimanjaro, and seaports at Dar es Salaam and Zanzibar, as well as smaller ports like Tanga and Mtwara.

Local authorities believe 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" (paid narcotics couriers, who frequently ingest the narcotics they carry) carrying hard drugs into and out of Tanzania. An increasing trend is the use of Tanzanian land border patrols to enter neighboring countries, especially Kenya and Malawi, to catch international and regional flights.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The government did not introduce new initiatives in 2005. In 2004, the Ministry of Home Affairs (on behalf of the counternarcotics unit of the police force) submitted suggestions for amending counternarcotics legislation by increasing penalties and revising asset seizure laws. The government has yet to act on these suggestions. 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.

Law Enforcement Efforts. Law enforcement officials have increased their efforts to combat narcotics trafficking and made sporadic seizures during the year. Police continued cannabis eradication efforts, and uprooted 50 tons of virgin cannabis in Arusha in October 2005. Tanzania's counternarcotics police force consists of 75 officers in three branches located in Dar es Salaam, Zanzibar and Moshi. Additionally, more than 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. The Dar es Salaam police force called on members of the public to cooperate with the police in addressing the illicit drug trade. 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. The Criminal Investigative Police reported that just over 5.5 kilograms of drugs were intercepted from January to November 2005

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 and no jail time.

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. The 1931 U.S.-U.K. Extradition Treaty is applicable to Tanzania.

Cultivation and Production. Traditional cultivation of cannabis takes place in remote parts of the country, mainly for domestic use. No figures 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 due to the combination of sophisticated methods of forging documents, poor controls, and untrained and corrupt officials. Afghan heroin entering Tanzania from Pakistan is 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. 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. Recent trends indicate an increase in consumer use, particularly of the lower cost drugs. The spill-over from trafficking and increased tourism both have contributed to an increase of domestic demand. The tourist industry has brought ecstasy (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 GOT’s request these facilities will include narcotics analysis capabilities. The State Department’s counterterrorism bureau is funding the “PISCES” (Personal Identification Secure Comparison System) 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 2005, however, the drug trade, particularly of hard drugs, increased substantially. The Togolese drug trade is 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. 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 are not numerous. There are three agencies responsible for drug law enforcement: the police, the gendarmerie, and customs. The only locally produced drug is cannabis and approximately one to two metric tons are seized each year. Heroin and cocaine, while not produced in Togo, are available, coming through the Port of Lome—the heroin smuggled from Afghanistan and the cocaine transported from South America. In 2005 Togolese authorities seized 7 kilograms of heroin valued at \$3 million, 17 kilograms of cocaine (value unknown), and six grams of “crack cocaine” (value unknown). 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 long-term Lebanese residents or Nigerians. Togolese buy small amounts for sale to expatriates living in Lome. From January to December 2005, 55 men and 5 women—of whom 37 were Togolese—were arrested for drug distribution. Togo's long and relatively porous borders permit narcotics traffickers easy access/egress. This relatively easy movement through Togo has made Togo a transit point for narcotics such as cocaine and heroin. Many 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 2005

Policy Initiatives. 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 decreased somewhat in 2005. 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 communication 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 and, to USG knowledge, no government officials are involved in the drug trade. Reports abound that unnamed officials in various GOT agencies can be bribed to allow illicit narcotics to transit to or through Togo. At least some of these reports are sourced to prominent expatriated former officials, who were well positioned to know, when they still were in Togo. Given the growing transit of drugs through Togo, if some of these reports were true, they would help explain the growing traffic.

Agreements and Treaties. Togo is a party to the 1988 UN Drug Convention, the 1971 UN Convention Against Psychotropic Substances, and to the 1961 UN Single 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 Corruption. Togo also 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 some cross border distribution by small-scale dealers is suspected.

Drug Flow/Transit. There are sizable expatriate Nigerian and Lebanese populations involved in the drug trade, and they arrange for drug transshipments from many places in the world, through Africa, and onward to final markets. Many observers of drug trafficking in West Africa believe that hard drugs like cocaine and heroin are "warehoused" in the region, before being dispatched to final consumption markets.

Domestic Programs (Demand Reduction). The CNAD opened a youth counseling center that shows films and sponsors counternarcotics discussion groups. The programs have been well attended by NGO's, religious groups, and school groups composed of parents, teachers, and students. Programs designed for high school students focused heavily on prevention/non-use. The CNAD also sponsored programs for security forces that stressed the link between drug use and HIV/AIDS.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The primary goal of the U.S. is to help the GOT combat the international trafficking of drugs. The U.S. seeks to help the GOT in improving its ability to interdict illicit narcotics entering Togo and to prosecute those traffickers who are caught. Togo's emerging willingness to confront the issue of illicit drugs is hampered by the country's ongoing democratic transition and the weak state of GOT finances.

The Road Ahead. U.S. cooperation with Togolese counternarcotics officials will continue. USG funded narcotics assistance will be used for Togolese counternarcotics infrastructure improvements. With the assistance of the regional Drug Enforcement Agency representative based in Lagos, the Embassy will continue to look for ways to provide counternarcotics trafficking training to Togolese law enforcement personnel.

Uganda

I. Summary

Uganda is not a major hub for narcotics trafficking. Nevertheless, Ugandan authorities have detected and confiscated heroin and cannabis transiting the Entebbe Airport and also along the border with Kenya. The only drug known to be produced in Uganda is cannabis which is primarily grown in the Districts of Busia, Bugiri, Kabarole, and Rakai. Uganda is a party to the 1988 UN Drug Convention

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 2005

Policy Initiatives. The Government of Uganda (GOU) is a party to a multilateral agreement with Government of Tanzania (GOT) and the Government of Kenya (GOK). Known as the “the Protocol on Combating Narcotic Drugs in East Africa,” it allows these three countries to share law enforcement intelligence amongst themselves so as to better interdict and arrest drug traffickers. Recently acquired information indicates that the GOU no longer has a Memorandum of Understanding (MOU) with the Government of Nigeria (GON) to share law-enforcement intelligence.

Law Enforcement Efforts. The GOU is making an effort to fight illicit drugs, but there are few resources to support the campaign. The GOU has approximately 120 law enforcement personnel devoted to counternarcotics activities throughout the country, 10 of whom are assigned to Entebbe airport. 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.

The GOU’s Drug Squad claimed the following results in 2005 (through November): Heroin Cases: 5; Heroin Arrests: 6; Heroin Seized: 1.88 kilograms; Heroin Convictions: 2; Heroin Cases Pending: 1. There were no cocaine cases or seizures. Cannabis Cases: 432; Cannabis Arrests: 430; Cannabis Seized: 11,825 kilograms plus 392,674 Plants; Cannabis Convictions: 73; Cannabis Cases Pending: 53.

Corruption. Corruption is a huge problem that affects most aspects of the Ugandan government. Although there is no evidence that there is narcotics-related corruption, it is reasonable to believe that corruption plays the same role there that it does in the other arenas of GOU politics. The GOU, however, 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.

Agreements and Treaties. The GOU 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 its 1972 Protocol. The GOU is a party to the UN Convention Against Transnational Organized Crime and its protocol against illegal manufacturing and trafficking in firearms. The GOU also is a party to the UN Convention Against Corruption

Cultivation/Production. Marijuana is grown for domestic consumption, but there are no accurate estimates of how much.

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 these transshipments. Uganda Police Anti-Narcotics Unit statistics show a decrease in heroin seizures since 2001, which could suggest either police have become more successful or narcotics traffickers have become better at concealment. While detection of illicit goods is a possibility at Entebbe Airport, it is exceedingly difficult to detect 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

Bilateral Cooperation. The U.S. has assisted Uganda's counternarcotics efforts with basic skills training at the Police Academy. The U.S. also is assisting Uganda to develop a forensics capability by establishing a crime/forensics laboratory, and supports a community policing project.

The Road Ahead. The U.S. Government continues to engage with the GOU on a variety of law-enforcement issues with the objective of improving Uganda's capacity to enforce its laws and investigate crime.

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, including Afghanistan and Pakistan. Frequent reports of seizures of illegal drugs in the UAE over the past few years underscore this conclusion. Most seizures have been of hashish. There are several other factors that render the UAE a way station, including its proximity to major drug cultivation regions in Southwest Asia and a long (700 kilometer) coastline. High volumes of shipping render UAE ports vulnerable to exploitation by narcotics traffickers. In February 2005, the UAE signed an MOU with Iran on cooperation against the trafficking of narcotics and psychotropic drugs and their precursor chemicals. In September 2005, the U.S. DEA also established a country office in the UAE to enhance cooperation with UAE law enforcement authorities. The UAE is a party to the 1988 UN Drug Convention.

II. Status of Country

A major regional financial center and hub for commercial shipping and trade, the UAE is a transshipment point for illegal narcotics from the drug-cultivating regions of southwest Asia, to Europe, to Africa, 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 is not usually subjected to the same inspection as other goods that enter the country.

III. Country Actions Against Drugs in 2005

Policy Initiatives. The UAE continued 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 for trafficking, and rehabilitating drug addicts. The UAE’s Federal Supreme Court ruled in 2003 that authorities needed proof that drug use occurred in the UAE before they could prosecute users. A positive blood test is considered evidence of consumption, but not evidence of where the consumption took place. In September of 2005, the UN established a sub-office on Drugs and Crimes in the UAE. The UAE government funded the estimated \$3 million cost of the office and contributed an additional \$50,000 to the UN counternarcotics program. The sub-office is responsible for coordinating national counternarcotics strategies and integrating them into the UN’s comprehensive global program.

Law Enforcement Efforts. In 2004, UAE counternarcotics forces reported 901 drug cases and arresting a total of 1,419 people. This was an increase from 2003, when officials arrested 1,267 people in 786 cases. The largest number of arrestees were Emirati nationals (405) followed by Iranians (264) and Pakistanis (164). About 62 percent of the arrests were for possession or consumption of narcotics. In 2004, UAE officials seized 50 kilograms of opium, 91 kilograms of heroin, and 1,777 kilograms of hashish. In the first five months of 2005, the Emirate of Abu Dhabi announced that it had arrested 97 people on drug-related charges in 68 cases. Punishment for drug offences in the UAE is severe. A 1995 law stipulates capital punishment as the penalty for drug trafficking. No executions for drug

trafficking, however, have ever taken place, and sentences usually are commuted to life imprisonment. UAE authorities continue to take seriously their responsibility to interdict drug smuggling and distribution. In May 2005, Dubai police announced that they had seized 200 kilograms of hashish from two “Asians” who were attempting to sell it. This has been the largest seizure of hashish in Dubai to date. UAE authorities continue to cooperate with other countries to stop trafficking. This cooperation has resulted in several arrests. In one case, Dubai police, cooperating with Jordanian authorities, blocked an attempt to smuggle 2.7 million doses of “Captagon,” which was being smuggled in 2 buses traveling from Eastern Europe to Dubai.

Corruption. The government of the UAE as a matter of policy does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances or the laundering of proceeds from drug transactions. Senior officials are not known to engage in or facilitate illicit production of these drugs or the laundering of proceeds from drug transactions either. 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 Conventions 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 and the UN Convention against Corruption.

Cultivation/Production. There is no evidence of any major drug cultivation and/or production in the UAE. Published records show that there were two cases of “planting” drugs in the Emirate of Ras Al-Khaima in 2004, with a total of three people arrested.

Drug Flow/Transit. High volumes of shipping render the UAE vulnerable to exploitation by narcotics traffickers. The UAE—Dubai, in particular—is a major regional transportation and shipping hub. Narcotics smuggling from South and Southwest Asia continues to Europe and Africa and to a significantly lesser degree to the United States via the UAE. Hashish, heroin, and opium shipments originate in Afghanistan, Pakistan, and Iran and are smuggled in cargo containers, via small vessels and powerboats, and/or sent overland via Oman. According to published figures, Iranians and Pakistanis made up the largest number of nonUAE nationals arrested in drug cases in 2004 at 18.6 percent and 11.6 percent respectively. Recognizing the need for increased monitoring at its commercial ports, airports, and borders, the UAE is making an effort to tighten inspections of cargo containers as well as passengers transiting the UAE. In December 2004, the Emirate of Dubai signed the Container Security Initiative (CSI) with the U.S. CSI inspectors arrived in Dubai in 2005 and are now inspecting containers destined for the U.S. Customs officials randomly search containers and follow-up leads on suspicious cargo.

Domestic Programs (Demand Reduction). A 2003 report noted that the majority of UAE drug users take their first doses abroad, primarily because of peer pressure. Statistics reveal that 75 percent of drug users in the UAE prefer hashish, 13 percent use heroin, while six 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 two percent were university graduates. While the data is a few years old, trends reported are still 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. The UAE has also established rehabilitation centers. In June 2005, the UAE issued a postage stamp to highlight the hazards of drugs as part of its awareness campaign. It also held a high-profile “Drug Awareness Week” with exhibits prominently set up in all of the local shopping malls. UAE officials believe that adherence to Muslim religious morals 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 in to local authorities are referred to the legal system for prosecution. Third-country nationals or “guest workers” who make up approximately 80 percent of the 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

Bilateral Cooperation. The DEA Administrator visited the UAE in July 2005 to enhance counternarcotics cooperation with the UAE. During her visit, she proposed, and the UAE accepted, establishing a DEA presence in the UAE to work closely with UAE authorities. The first DEA office was established in September 2005 in Dubai. A second office will be established in Abu Dhabi in 2006.

The Road Ahead. The USG will continue to encourage the UAE 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

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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
PIF	Pacific Islands Forum
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 Programme 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 2006 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 2006 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 reports. Another key contributor is the U.S. Department of Justice's Asset Forfeiture and Money Laundering Section (AFMLS) of Justice's Criminal Division, which plays a central role in constructing the Money Laundering and Financial Crimes Comparative Table and provides international training. Many other agencies also provided information on international training as well as technical and other assistance including the following: Department of Homeland Security's Bureau of Immigration and Customs Enforcement; Department of Justice's Drug Enforcement Administration, Federal Bureau of Investigation, and 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 the independent regulatory agencies, 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 2006 INCSR is the 23rd 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 2006 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 2005

Afghanistan, 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, Guatemala, 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, St. Kitts and Nevis, 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

International efforts against money laundering grew stronger and more effective in 2005. More countries, 17, have promulgated anti-money laundering and counterterrorist financing laws for the first time, or updated their existing statutes to comply with revised international norms and standards. Contributions from the international coalition of donors to help with these efforts grew as a result of G-8 and other initiatives. The capability for information and intelligence exchanges among countries in support of criminal investigations improved as seven more Financial Intelligence Units (FIUs) became members of the Egmont Group of FIUs, raising its global membership to 101 FIUs. Authorities also undertook some important money laundering investigations leading to significant seizures and prosecutions. The money laundering challenge nevertheless remains formidable. The stakes are high on both sides. Money is the oxygen for most crime, and the most threatening and dangerous criminal networks and terrorist organizations will go to any extreme to ensure that they can protect their profits or secure their financing whether this means ratcheting up retaliation against authorities who are too hot on their trail, or shifting to less visible and penetrable methods even if this means a loss of efficiency or carries other risks.

It is important to sustain and strengthen these gains because focusing on money laundering is one of the most valuable tools law enforcement has to combat international crime. A focus on money laundering can accomplish what many other law enforcement tools cannot. In the “one-size-fits-all” vein, anti-money laundering measures constitute a unique instrument that can be applied equally effectively to a wide variety of crimes—that is essentially any crime that must be financed or that is committed for profit. Once in place, anti-money laundering measures can be used without any special tailoring or tweaking to attack such threats as narcotics trafficking, alien smuggling, intellectual property theft, organized crime, environmental crime, terrorist financing, corruption, and more. Focusing on money laundering plays a supportive role in these investigations, but in many instances, money laundering investigations lead to prosecutions of the underlying crimes. Few other law enforcement measures offer such utility or efficiency.

Money laundering investigations also take advantage of one of the most important vulnerabilities of sophisticated, criminal or terrorist organizations: their risk of exposure. Terrorism and much of organized crime thrive because they take place in the shadows of open society. As long as it stays in the underground of aliases, coded messages, false documents, and clandestine operations it is often undetectable to even seasoned investigators, especially if, in the case of some crimes, its victims do not immediately see or feel its effects, or come forward to report it. When criminal activity breaches this underground, it often provides leads and evidence authorities can use to unravel these cases. The challenge of coping with especially large amounts of money inevitably generates pressure on the criminal organizations to take placement, layering, and integration actions involving record keeping,

meetings, or other events that eventually surface and expose them for identification and tracking. Full exploitation of these vital breakthroughs can lead investigators, armed with incriminating financial intelligence and evidence, to the financiers and managers of these organizations, to the heart of the syndicates. Getting this desirable outcome in many countries around the world still requires a great deal of innovation, training, equipment, and political will.

Building Awareness and Acceptance

Much recent anti-money laundering progress is due to the efforts in the United Nations, the Financial Action Task Force (FATF), the global network of FATF-style regional bodies (FSRBs), and in individual countries, to raise international awareness and inspire national commitment to attack money laundering—and its associated problem of terrorist financing. Indeed, much has already been achieved on this front through the creation and global acceptance of international norms and standards to fight money laundering and terrorist financing. For nearly two decades, the norms and standards have been embodied, with periodic updates and revisions to take into account new money laundering methods, patterns, and threats, in the FATF Forty Recommendations on money laundering and, following the “9/11” attacks, the Special Eight, now Nine, Recommendations on Terrorist Financing. FATF has subsequently succeeded in getting these recommendations universally recognized even though most nations do not belong to this 33-member international body. For instance, the negotiators’ background notes for both the 2000 UN Convention on Transnational Organized Crime (UNTOC) and the 2003 UN Convention Against Corruption (UNCAC) call upon States Parties to use as a guideline the relevant initiatives of regional, inter-regional and multilateral organizations against money laundering, thus, calling upon State parties to use the FATF recommendations. The UNTOC came into force in 2003, 90 days after the 40th country deposited its instrument of ratification, and the UNCAC similarly came into force in 2005. The FATF Recommendations achieved another milestone when the UN Security Council also acknowledged their primacy as the international anti-money laundering and counterterrorist financing gold standard by declaring in UN Security Council Resolution 1617 that the UNSC “ Strongly urges all Member States to implement the comprehensive international standards embodied in the Financial Action Task Force’s (FATF) Forty Recommendations on Money Laundering and the FATF Nine Special Recommendations on Terrorist Financing” .

Meanwhile, FATF’s Non-Cooperative Countries and Territories (NCCT) initiative to spur greater international anti-money laundering cooperation and compliance is phasing down after years of effective implementation. Initiated in 2000, FATF focused this “name and shame” initiative at strategic countries and jurisdictions with woefully inadequate anti-money laundering regimes. Since inception of the NCCT tool, FATF has placed 23 jurisdictions on the NCCT list. Faced with the pressure of international censure and open to training and technical assistance from the United States and other donor nations and organizations, most of the NCCTs have taken the corrective measures FATF prescribed. Consequently, there has been a steady annual reduction in listed jurisdictions. In 2005, FATF removed the Cook Islands, Indonesia, Nauru, and the Philippines from the list leaving only Burma and Nigeria as the remaining NCCTs.

Increasingly, the global network of FATF-style regional bodies is the mechanism responsible for ensuring compliance and implementation of the FATF Recommendations. 129 countries belong to one or another of the seven FSRBs that now cover most of the world. To be a member of one of these FSRBs, a country must commit to adopting and eventually implementing the FATF Forty plus Nine, and to making itself subject to mutual evaluations intended to identify weaknesses and vulnerabilities in its anti-money laundering/counterterrorist financing regimes and ways to correct them. The two newest FSRBs that were formed in 2004—the EurAsian Group on Combating Money Laundering and Financing of Terrorism (EAG) which covers Russia, Central Asia, and China, and the Middle East and North African Financial Action Task Force (MENAFATF) which covers 14 countries in those

regions—have become operational. In its first year, the EAG conducted an assessment of the training and technical assistance needs of its member states, and then held a conference bringing together the member states with observers, international financial institutions, multilateral bodies, and other potential donors. Similarly, MENAFATF issued three detailed working papers on the subjects of hawala, charities and cross-border cash couriers. The efforts are producing results. The number of jurisdictions that have criminalized money laundering to include predicate crimes beyond narcotics increased to 172 in 2005 from 163 in 2004. Similarly, 10 more countries criminalized terrorist financing in 2005, bringing the total number of countries with such laws to 123.

The United States meanwhile continues to exert bilateral pressure through application of Section 311 of the USA PATRIOT Act in appropriate circumstances. Section 311 of the USA PATRIOT Act authorizes the Secretary of Treasury, after consultation with various U.S. agencies including the Board of Governors of The Federal Reserve, the Secretary of State and the Attorney General and other relevant federal agencies, to designate a foreign jurisdiction, financial institution, class of transactions, or type of account as being of “primary money laundering concern,” and to impose one or more of five remedies known as “special measures.” Four of the special measures impose information-gathering and record-keeping requirements upon those U.S. financial institutions that maintain accounts for specific jurisdictions, institutions or types of accounts as described in the 311 designation. Under the fifth special measure, the Secretary of Treasury can issue rules that prohibit U.S. financial institutions from establishing, maintaining, administering or managing any correspondent account or a payable-through account for or on behalf of the designated primary money laundering concern. In 2005, the USG designated two Latvian banks, VEF Banka and Multibanka, and Macau-based Banco Delta Asia S.A.R.L. as primary money laundering concerns. These rules have not yet been finalized. According to the Federal Register Notice, Banco Delta Asia S.A.R.L. provided financial services for more than 20 years to multiple North Korean government agencies and front companies that are engaged in illicit activities, and worked with DPRK officials to accept large deposits of cash, including counterfeit U.S. currency and agreeing to place that currency in circulation. In addition to the activities of the DPRK, investigations revealed that Banco Delta Asia S.A.R.L. serviced a multi-million dollar account on behalf of a known international drug trafficker. The Latvian government has taken steps to improve its anti-money laundering laws and successfully prosecuted four individuals for money laundering in 2005. Shortly after the U.S. Treasury Department published its proposed rule against Macau’s Banco Delta Asia, the bank went into receivership and is governed by three interim managers appointed by the Macau government.

Engineering Structural Change

Once countries have accepted international norms and standards to combat money laundering and terrorist financing, the first level of commitment most of them make to this cause is to institute structural changes in their anti-money laundering regimes so they can legally, administratively, and operationally abide by and implement these standards. Many countries, faced with this often difficult and relatively expensive task turn to the United States and other international donors for help. The United States plays a leading role in this regard by providing assistance bilaterally, regionally, and through contributions to multilateral organizations.

Our bilateral efforts focus mostly on the terrorist-financing threat and are concentrated in some two dozen countries whose financial sectors are particularly vulnerable to abuse. To address those concerns, the State Department works through the Terrorist Finance Working Group, co-chaired by the Office of the Coordinator for Counterterrorism and the Bureau for International Narcotics and Law Enforcement Affairs, and coordinates training and technical assistance provided by experts from various U.S. government (USG) agencies that help these strategic countries develop viable anti-money laundering and counterterrorism finance regimes. Through December 2005, State Department-led

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interagency teams have comprehensively assessed the capabilities and vulnerabilities of 20 of these countries and have provided assistance to 23. The State Department maximizes the institution-building benefits of its assistance by delivering it in both sequential and parallel steps. The steps, while tailored to each country's unique needs as determined by the assessments, include help in the following areas:

- drafting and enacting comprehensive anti-money laundering and terrorist finance laws that have measures that enable states to freeze and seize assets that comply with the FATF's revised Forty Recommendations and its Special Nine Recommendations on Terrorist Financing;
- establishing a regulatory regime to oversee the financial sector;
- training law enforcement agencies, prosecutors and judges so that they have the skills to successfully investigate and prosecute financial crime; and
- creating and equipping Financial Intelligence Units (FIU) so that they can collect, analyze, collate, and disseminate suspicious transactions reports and other forms of financial intelligence to both help develop cases domestically and share information internationally through FIUs in other countries as part of transnational investigations.

Even with the focus on terrorist financing, we continue to address money laundering in its broader context, especially in key narcotics-producing countries (such as Colombia and Mexico) and in countries where powerful organized crime syndicates pose an especially significant threat to the stability of weak or emerging regimes, as in Central Asia. We are increasingly focusing on regional approaches in a cost-saving effort to spread our assistance more widely.

A good example of this effort is the updated anti-money laundering training that now includes an emphasis on counterterrorist financing which the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) funds through its global network of International Law Enforcement Academies (ILEAs). INL funds and manages foreign-based ILEAs in Hungary, Thailand, Botswana, and, coming fully on line in 2006, El Salvador. The ILEA program brings together mid- to senior-level law enforcement officials, including investigators, prosecutors, judges, and legislators, from neighboring countries in a particular region for specialized anti-money laundering and terrorist financing instruction taught by experts from the Departments of Justice, Homeland Security, Treasury, and elsewhere in the U.S. government. ILEA's regional concept is particularly effective in generating trust and networking among participants, which facilitates task-force development and cross-border law enforcement cooperation.

This model inspired the recently completed, five year long Caribbean Anti-Money Laundering Program (CALP), a multilateral undertaking of the United States, the United Kingdom and the European Union. CALP employed a team of resident experts who provided regional and bilateral training to the 21 Caribbean member countries of CARIFORUM for the purpose of developing viable anti-money laundering regimes, including the ability post 9/11, of countering terrorist financing. This training was responsible for helping to remove several countries in the region from the FATF NCCT list. To replicate the success of the CALP in the Pacific, the Department of State is now funding the Pacific Island Forum (PIF) to create the Pacific Anti-Money Laundering Program (PALP). This four-year program, to be coordinated with efforts in the region by the UN Global Programme against Money Laundering, the Asia/Pacific Group on Money Laundering (APG), Australian anti-money laundering agencies, and the International Monetary Fund, is aimed at building comprehensive anti-money laundering/counter terrorist financing regimes in the 14 Pacific Islands Forum member states that are not members of FATF. Six of these 14 PIF countries that will participate in the PALP are also members of the Asia Pacific Group (APG)—the FSRB for this region.

The United States is engaged in other forms of cost-saving "burden sharing." For instance, the G-8, in its 2003 Summit, committed to creating the Counter-Terrorism Action Group (CTAG). Under CTAG,

the G-8 countries and other key donors work to coordinate their provision of counterterrorist financing and other counterterrorism training and technical assistance. The CTAG partnered with the FATF, asking it to assess the needs of a small list of countries to which CTAG wanted to provide coordinated technical assistance. By mid-2005, twelve CTAG members, including the United States, had delivered more than 200 coordinated, cost-saving, technical assistance programs in several aspects of combating terrorism and terrorist finance to more than 150 countries through bi-lateral and regional training. The United States also continues to work closely with the United Kingdom, Australia, Spain, Japan, the UN Global Programme against Money Laundering, the IMF and the World Bank on country and regional programs, coordinating the use of both limited human and financial resources to avoid duplication and provide synergistic programming. The United States ratified the Organization of American States (OAS) InterAmerican Convention Against Terrorism in 2005, and continues to work very closely with the OAS Inter-American Drug Abuse Control Commission (CICAD) Office of Money Laundering and the OAS Counter-Terrorism Committee in developing viable anti-money laundering regimes capable of thwarting terrorist financing in this hemisphere.

Operationalizing Efforts

The biggest hurdle to achieving significant international success against money laundering has been operationalizing these reforms: to actually use the laws, the training, and the resources to undertake important money laundering investigations leading to asset seizures and forfeitures and to arrests, prosecutions, and convictions of major criminals and terrorists. Examples of the effective use of a country's money laundering laws can be seen in the investigative and prosecution work occurring in every part of the world. The Prosecutor General's Office in Latvia maintains a specially-cleared unit to prosecute cases linked to money laundering. In the first ten months of 2005, the unit referred eight criminal cases to court for criminal offenses relating to money laundering. In one court case involving seven defendants, four of them received sentences for money laundering. During 2005, Israel, a former FATF NCCT, has been the nexus of several high profile money laundering cases. In March 2005, the International Crimes Unit (ICU) of the Israeli National Police (INP) raided Bank Hapoalim and its trust company, in what was described as the biggest money laundering scandal ever in Israel. The police froze over 180 accounts with more than \$376 million, and some 24 employees were detained, including the manager and four senior executives. The investigation is ongoing. In South America, Peru continues to make strong efforts at uncovering and recovering millions of dollars believed to be the proceeds of money laundered by Vladmiro Montesinos, former director of the Peruvian Intelligence Service. In 2005, Peru obtained its first two convictions for money laundering. One case was for laundering drug proceeds, the other for public corruption; currently there are three money laundering cases being prosecuted for money laundering. In the Asia/Pacific regions, Thailand had 57 successful money laundering convictions, while Palau had its first successful prosecution. In all these countries, State Department funded training has played an important role in the development of their anti-money laundering regimes.

Yet, the international community is underachieving on this front. Part of the problem is the elusiveness of the threat that continues to thwart efforts by even the best investigators; and part continues to be the lack of political will and corruption. Traditionally, anti-money laundering measures concentrate on the large amounts of money that move through traditional financial institutions. Law enforcement has long understood that the placement of cash into banks is where criminal money launderers and the financiers of terrorism are most vulnerable. However, despite our real success in establishing an international system of financial transparency to detect suspicious activity in banks and increasingly non-bank financial institutions, criminal money launderers continue to find ways to circumvent our financial safeguards, as do the financiers of terrorism. The U.S. Department of Treasury reports that 47 countries worldwide have frozen a total of approximately \$150,000,000 of terrorist assets since

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September 11- \$44 million by the United States. Of the \$150,000,000 frozen, only \$64,600,000 has been forfeited, a figure that Treasury reports has remained essentially unchanged since 2002.

In 2006, we have a clearer understanding of our vulnerabilities and recognize that anti-money laundering laws and regulations do not always reach alternative and underground systems for moving dirty money, or transferring value, or financing terrorism. New tools and techniques are needed to surface and expose this activity. This is particularly true in the battle against terrorist finance. For example, in 2005, the FATF issued Special Recommendation IX on cash couriers. As a result, during the last year, countries around the world have worked to implement cross-border currency reporting requirements that will assist law enforcement in monitoring bulk cash shipments.

Additionally, new and effective anti-money laundering measures must be developed to counter the well-established practice of trade-based money laundering. Trade is the common denominator in many entrenched underground or alternative systems such as hawala, the black market peso exchange, the misuse of the international gold and diamond trade, and other value transfer systems. Over and under invoicing are common techniques to provide countervaluation in value transfer and settling accounts. To help address these vulnerabilities, INL provided funding to the Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE) in 2005 to establish prototype Trade Transparency Units (TTUs) in the Tri-Border countries of Argentina, Paraguay and Brazil. TTUs examine anomalies in trade data that could be indicative of customs fraud and trade-based money laundering. This is also a positive step with respect to compliance with FATF Special Recommendation VI on Terrorist Financing via alternative remittance systems. In a legacy U.S. Customs pilot program examining suspicious trade data in Colombia, investigators were also able to detect examples of the black market movements of value connected to the terrorist organization Revolutionary Armed Forces of Colombia (FARC). TTUs in the Tri-Border area have the potential to reveal discrepancies in trade data that could lead to successful investigations and prosecutions for trade-based money laundering, tax evasion and other crimes, and perhaps reveal links to terrorist financiers and organizations.

At the urging of the United States and others, the international community is beginning to recognize and address the close link between corruption and money laundering. Kleptocrats and other corrupt officials rely on money laundering as a means to stow away and enjoy the fruits of their corrupt actions. Public corruption can facilitate such laundering, and cause regulatory authorities and law enforcement to turn a blind eye. The Financial Action Task Force formally recognized the link between corruption and anti-money laundering at its October 2005 plenary session at which it agreed to explore with the Asia/Pacific Group on Money Laundering the "symbiotic relationship among corruption, money laundering and terrorist financing" and how the FATF's experience could be used to "combat these combined threats". The United Nations Convention Against Corruption (UNCAC), which entered into force in December 2005 and currently has over 180 signatories or parties, calls for extensive action in the area of money laundering and asset recovery, and is quickly becoming the new global international standard for fighting corruption. UNCAC and the growing international anticorruption movement are sure to provide complementary benefits to ongoing anti-money laundering efforts worldwide.

Despite the progress the international community has made to combat money laundering and stanch the flow of terrorist financing, the United States and the global community continue to face a large and dynamic threat that will require a prolonged commitment of resources to sustain and intensify efforts. More innovative methods such as Trade Transparency Units will be required to attack traditional systems of transferring value, laundering money and financing terrorism, and more efficient use of scarce resources, such as emphasizing regional training, will become increasingly necessary. All of this must play out against a backdrop of countries having the political will to go beyond important first steps of accepting their responsibilities to combat money laundering and terrorist financing and

creating the structures to do so, to actually launching and completing the investigations against the powerful criminals and threatening terrorists who put us so much at risk.

Bilateral Activities

Training and Technical Assistance

During 2005, 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) co-chair the interagency Terrorist Finance Working Group, and together are 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 or are vulnerable to being used to finance terrorism. As is the case with the more than 100 other countries to which INL-funded training was delivered in 2005, 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, 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, bank regulatory agencies participated in providing advanced anti-money laundering/counterterrorist financing training to supervisory entities. In addition, INL made funds available for the intermittent or full-time 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.

The success of the now concluded Caribbean Anti-Money Laundering Programme (CALP) convinced INL that a similar type of program for small Pacific island jurisdictions had the potential of developing viable anti-money laundering/counterterrorist regimes. Accordingly, INL contributed \$1.5 million to the Pacific Islands Forum to develop the Pacific Island Anti-Money Laundering Program (PALP). The objectives of the PALP are to reduce the laundering of the proceeds of all serious crime and the financing of terrorist financing by facilitating the prevention, investigation, and prosecution of money laundering. The PALP's staff of resident mentors will provide regional and bilateral mentoring and

training and technical assistance to the Pacific Islands Forum fourteen non-FATF member states for the purpose of developing viable regimes that comport with international standards.

In 2005, INL reserved \$1,000,000 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. GPML mentors provided assistance to the Secretariat of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and to the Horn of Africa countries targeted by the President's East Africa Counterterrorism Initiative. Another GPML resident mentor provided assistance to the Philippine FIU.

INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2005, INL supported 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 Islands 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 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 17,000 officials from over 70 countries in Africa, Asia, Europe, and Latin America. The ILEA budget averages approximately \$16-18 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, Zambia and Djibouti, Ethiopia, Kenya, Uganda in East Africa, and Nigeria in West Africa. Planned country program expansion into sub-Saharan Africa was facilitated through a Training Needs Assessment/Program Expansion conference held in September 2005. As a result of this conference the sphere of influence for ILEA Gaborone was expanded to include countries Cameroon, Comoros, Congo, the Democratic Republic of Congo, Gabon and Madagascar.

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 Federal Law Enforcement Training Center). ILEA Gaborone trains approximately 500 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 about 18 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, 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 approximately 600.

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. 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 U.S. and Hungary, Canada, Germany, United Kingdom, Netherlands, Ireland, Italy, Russia, Interpol as well as 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 Program university/college. These three-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 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, the People's Republic of China (including the Special Autonomous Regions of Hong Kong and Macau), member countries of the Southern African Development Community (SADC), other East and West African countries, and the Caribbean, Central, and South American countries. The students are drawn from pools of ILEA graduates from the Academies in Bangkok, Budapest, Gaborone, and San Salvador. ILEA Roswell trains approximately 450 students annually.

Latin America. At the Organization of American States General Assembly meeting in June 2005, Secretary Rice announced that the new ILEA for Latin America would be located in El Salvador. A Bilateral Agreement between El Salvador and the USG establishing the new ILEA was signed in September 2005 and was ratified by the Salvadoran National Assembly in November, 2005. The training program for the new ILEA in San Salvador will be similar to the ILEAs in Bangkok, Budapest, and Gaborone, and will offer a six-week Law Enforcement Management Development Program (LEMDP) for law enforcement and criminal justice officials as well as specialized courses for police, prosecutors, and judicial officials. In 2006, ILEA San Salvador will deliver one LEMDP session and about 10 Specialized courses that will concentrate on attacking international terrorism, illegal trafficking in drugs, alien smuggling, terrorist financing, financial crimes, culture of lawfulness, and accountability in government. Components of the six-week LEMDP training session will focus on terrorist financing (presented by the FBI), international money laundering (presented by DHS/ICE/Immigration and Customs Enforcement), and financial evidence/money laundering application (presented by DHS/FLETC and IRS). The Specialized course schedule will include courses on financial crimes investigations (presented by DHS/ICE) and money laundering training (presented by IRS). During the initial phase of operation, participants from the following countries are expected to attend: Argentina, Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

Board of Governors of the Federal Reserve System (FRB)

An important component in the United States' efforts to combat and deter money laundering and terrorism financing is to verify that supervised organizations comply with the Bank Secrecy Act and have programs in place to comply with Office of Foreign Assets Control (OFAC) sanctions. The FRB, working with the other bank regulatory agencies, ensures compliance with these statutes for the institutions under its supervision. This task was advanced in 2005 with the issuance of the Bank Secrecy Act Anti-Money Laundering Examination Manual.

Internationally, the FRB conducted training and provided technical assistance to banking supervisors and law enforcement officials in anti-money laundering and counterterrorism financing tactics in partnership with regional supervisory groups or multilateral institutions. In 2005, the FRB provided training and/or technical assistance to Argentina, Jordan, Latvia, Indonesia, Korea, and Uzbekistan. Furthermore, these activities were presented on a regional basis to several Asia Pacific and Latin American countries. Due to the importance that the FRB places on international standards, the FRB anti-money laundering experts participated regularly in the U.S. delegation of the Financial Action Task Force and the Basel Committee's cross-border banking groups. The experts also meet with industry groups to support industry best practices in this area such as the Wolfsberg Group. In addition, the FRB presented at the U.S.-OSCE Conference on Combating Terrorist Financing.

The FRB also presented training courses to domestic 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, the Drug Enforcement Administration, as well as at the Federal Law Enforcement Training Center.

Bureau of Immigration and Customs Enforcement (ICE), Department of Homeland Security (DHS)

During 2005, the Bureau of Immigration and Customs Enforcement (ICE), Financial Investigations Division and the Office of International Affairs delivered extensive money laundering, financial investigations and antiterrorist financing training to domestic and foreign law enforcement organizations, and to the regulatory, banking and trade communities. ICE money laundering and financial investigations training is based on the broad experience achieved while conducting international money laundering and traditional financial investigations techniques as part of the U.S. Customs Service (USCS) legacy.

With the assistance of State Department funding, ICE provided technical assistance, training and instruction on interdicting and investigating bulk cash smuggling seizures in support of the Financial Action Task Force (FATF) Special Recommendation IX on Cash Couriers. During 2005, ICE provided this technical assistance and training to 450 foreign law enforcement officers in seven countries. ICE conducted and/or participated in 52 domestic and international money laundering and financial investigations seminars and conferences which focused on the traditional patterns and trends identified with trade based money laundering schemes, bulk cash smuggling, Black Market Peso Exchange (BMPE) investigations, alternative money remittance systems, and human trafficking. ICE also delivered training to the domestic and international private financial and trade sectors through the Cornerstone Program. The Cornerstone Program was developed and designed to provide the necessary skills to identify and develop a methodology to detect suspect transactions indicative of money laundering and criminal activity within the financial and trade community.

The ICE International Affairs and the Financial Investigations Division planned, coordinated and participated in providing international training and technical assistance through programs sponsored by the State Department Bureau for International Narcotics and Law Enforcement Affairs (INL), and

the International Law Enforcement Academy (ILEA) programs in El Salvador, Thailand, Gaborone, and Hungary. ICE personnel also participated and provided instruction to foreign police, judicial, banking and public sector officials through seminars and conferences sponsored by the FATF and the Asia/Pacific Group on Money Laundering (APG). Through these programs, ICE gave international training and technical assistance on conducting money laundering investigations, bulk cash smuggling, and trade based money laundering investigations to officials from over 100 countries worldwide.

In Lima, Peru, ICE conducted additional financial investigations training of law enforcement officers from 15 Central and South American countries in support of the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD). The ICE Financial and Trade Investigations Division has supported these programs for more than two years.

ICE's Trade Transparency Unit (TTU) identifies anomalies related to cross-border trade that are indicative of international trade-based money laundering. The TTU generates, initiates and supports investigations and prosecutions related to trade-based money laundering, the illegal movement of criminal proceeds across international borders, alternative money remittance systems, terrorist financing, and other financial crimes. By sharing trade data with foreign governments, ICE and participating governments will be able to see both sides, import and export data for, of commodities entering or leaving their countries. This makes trade transparent and will assist in the identification and investigation of international money launderers and money laundering organizations.

The Tri-border area (TBA) of South America is bounded by Ciudad de Este, Paraguay, Foz do Iguacu, Brazil and Puerto Iguazu, Argentina. The TBA is reported as being South America's busiest contraband and smuggling center, generating which generates billions of dollars annually in money laundering, arms and drug trafficking, IPR counterfeiting and piracy. The United States has worked actively and cooperatively with governments in the region to disrupt this fundraising activity and together with Argentina, Brazil and Paraguay, the U.S. Government launched the "3+1" Counterterrorism Dialogue. The "3+1" dialogue is focused on terrorism prevention, counterterrorism policy discussion, increased cross-border cooperation, and mutual counterterrorism capacity building. The participating countries have met several times and are committed to strengthening cooperation among their financial intelligence units, border security officials, counterterrorism case prosecutors, and police investigators. In concert with U.S. policy, ICE, supported by and in conjunction with the Department of State INL Bureau funding, initiated the establishment of TTU's in the Tri-border area countries of Paraguay, Brazil and Argentina. The Governments of Paraguay and Brazil have exchanged trade data with ICE and are in the process of establishing their TTUs. In October 2005, the Government of Argentina formally acknowledged its intended participation in the TTU. The Government of Paraguay is in the process of establishing their TTU.

Drug Enforcement Administration (DEA), Department of Justice

With the assistance of State Department funding, 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 2005, hundreds of participants from Hong Kong, Macau, Jordan, Japan, India, Israel, and Italy received this training. A wide range of DEA international courses contain training elements related to countering money laundering and other financial crimes. The DEA training division also delivers training at the International Law Enforcement Academies in Bangkok, Budapest, Gaborone, and San Salvador.

The basic course curriculum, which was conducted in Jordan, Japan, India, Macau, and Israel, addresses money laundering and its relation to Central Bank operations, asset identification, seizure and forfeiture techniques, financial investigations, document exploitation, and international banking.

The curriculum also includes overviews of U.S. asset forfeiture law, country forfeiture and customs law, and prosecutorial perspectives. The advanced course, conducted in Hong Kong and Italy, included tracing the origin of financial assets, internet/cyber banking, terrorist financing, reverse sting operations, electronic evidence and data exploitation, role of intelligence in money laundering investigations, and case studies with practical exercises.

In addition, DEA presented a three-week International Narcotics Enforcement Management Seminar for officials from Colombia, Mexico, Panama, Bolivia, Ecuador, Chile, the Dominican Republic, Uruguay, Argentina, Brazil, Paraguay, Honduras, El Salvador, Costa Rica, Nicaragua, Belize, and the Netherlands Antilles. The DEA Chief of Financial Operations presented a block of training related to money laundering methods and techniques as well as best practices for investigating these crimes, at a conference sponsored by the UK's Assets Recovery Agency (ARA) to officials from the ARA, The Serious Organized Crime Agency (SOCA), Metropolitan Police, National Crime Squad, Her Majesty's Customs and Revenue (HMCR), and 43 constabularies.

DEA also participated in an exchange of information forum with officials from the People's Republic of China concerning recent trends in drug money laundering, especially related to trade-based money laundering and the Colombian Black Market Peso Exchange (BMPE) as it relates to commodities manufactured in China.

Federal Bureau of Investigation (FBI), Department of Justice

During 2005, with the assistance of State Department funding, Special Agents and other subject matter experts of the FBI continued their extensive international training in terrorist financing, money laundering, financial fraud, racketeering enterprise investigations, and complex financial crimes. The unit of the FBI responsible for international training is the International Training and Assistance Unit (ITAU) in the Training and Development Division, which is located at the FBI Academy in Quantico, Virginia. ITAU coordinates with the Terrorist Financing and Operations Section of the FBI's Counterterrorism Division, as well as other divisions within FBI Headquarters and in the field, to provide instructors for these international initiatives. FBI instructors, who are most often operational special agents or supervisory special agents from headquarters or the field, rely on their experience to relate to the international law enforcement students as peers and partners in the training courses.

The FBI regularly conducts training through International Law Enforcement Academies (ILEA) in Bangkok, Thailand; Budapest, Hungary; and Gaborone, Botswana. In 2005, the FBI delivered training in white collar crime investigations to 248 students from 12 countries at ILEA Budapest. The FBI was proud to participate in the opening session of the ILEA in San Salvador, El Salvador by providing terrorist financing and money laundering training to 36 students from El Salvador, Colombia, and the Dominican Republic. The FBI also delivered terrorist financing and money laundering training to 39 students from 19 Latin American countries through the Latin American Law Enforcement Executive Development Seminar conducted at the FBI Academy.

In other programs, the FBI trained international officials in Thailand, Kuwait, Malaysia, Nigeria, Qatar, Philippines, Bangladesh, United Arab Emirates, Suriname, Sri Lanka, and Slovenia. This included FBI participation in seminars and advanced seminars on terrorist financing, organized crimes, securities fraud, and other financial crimes that the Office of Overseas Prosecutorial Development delivered to 422 students in Nicaragua, Sri Lanka, Austria, and Slovenia. This also includes the one-week terrorist financing and money laundering training initiatives that the FBI regularly conducts with the assistance of the Internal Revenue Service, Criminal Investigative Division. This training reached 225 international students in Thailand, Malaysia, Kuwait, Nigeria, Qatar, Philippines, and Bangladesh. Additionally in 2005, the FBI has begun to develop and conduct advanced versions of this initiative.

Federal Deposit Insurance Corporation (FDIC)

In 2005, the FDIC continued to work in partnership with several agencies to combat money laundering and the global flow of terrorist funds. Additionally, the agency planned and conducted missions to assess vulnerabilities to terrorist financing activity worldwide, and developed and implemented plans to assist foreign governments in their efforts in this regard. To better achieve this end, the FDIC had 38 individuals available to participate in foreign 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 2005, the FDIC gave such presentations to representatives from the Netherlands, Russia, Egypt, Swaziland, Zambia, and China.

In February and December 2005, with the assistance of State Department funding, the FDIC hosted approximately 50 individuals from Egypt, Jordan, Macedonia, Tanzania, Afghanistan, Bangladesh, Indonesia, and Morocco. The two sessions focused on AML and counterfinancing of terrorism, including the examination process, customer due diligence, and foreign correspondent banking. In March 2005, the FDIC participated in an interagency Financial Systems Assessment Team (FSAT) assisting representatives from Tanzania in evaluating and determining future technical assistance. 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 Financial Services Volunteer Corp requested individuals with extensive knowledge of AML legislation from the FDIC to give technical assistance to Macedonia in 2005. FDIC staff reviewed and advised Macedonian regulators and financial institution representatives on the development and implementation of AML requirements, current laws and regulations, organizational structure, and training needs. During 2005, the FDIC assisted the Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) in regional conferences in Sri Lanka and the United Arab Emirates. The FDIC discussed the regulatory requirements of a formal banking system. Countries participating included Bahrain, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates.

Financial Crimes Enforcement Network (FinCEN), Department of Treasury

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 in bilateral efforts is the creation and strengthening of FIUs—a valuable component of a country's anti-money laundering (AML) regimes. 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, terrorist financing, financial crime, and FinCEN's mission and operation; and (2) training regarding FIU operations and analysis training 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 and 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 then integrating them into the Egmont Group and having those units become candidates for membership in the Egmont Group.

During 2005, with the assistance of State Department funding, as well as Treasury, 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 2005, FinCEN conducted several training programs abroad to maximize participation by foreign FIUs.

Over the last twelve months, in an effort to enhance the sharing of information among established FIUs, FinCEN conducted personnel exchanges with a number of Egmont Group members, including the FIUs of from Liechtenstein, Mexico, and Russia. These exchanges offered the opportunity for FIU personnel to see how another FIU operates first-hand. The participants in these exchanges shared ideas, innovations, and insights, leading 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 up to a week 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 for 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 (ICE).

During 2005, FinCEN conducted a week-long training program for over 25 analysts from seven countries in South and Central American and the Caribbean (Argentina, Chile, Costa Rica, the Dominican Republic, Panama, Peru and Venezuela) and, participated along with OTA and the Justice Department's OPDAT in a week-long seminar in Azerbaijan for law enforcement and regulatory personnel. FinCEN coordinated analytical training in Tbilisi for 30 analysts from Georgia's FIU, Prosecutor's Office and National Bank. with the Department of Homeland Security-Immigrations and Customs Enforcement (ICE) and, the Federal Bureau of Investigation (FBI). In Sri Lanka, FinCEN participated in a training seminar on FIU development, organized by the Sri Lankan Central Bank and the U.S. Embassy on FIU development. At the ILEA in Budapest, FinCEN participated in a program, jointly sponsored by ILEA and the Justice Department's Office of Overseas Prosecutorial Development and Asset Forfeiture and Money Laundering Section. Participants included local prosecutors, judges, banking officials, and law enforcement agents.

Thailand's FIU, the Anti-Money Laundering Office, sent three analysts to FinCEN for a week-long series of briefings on information analysis, data mining software and guidance on various regulatory issues. Also, FinCEN hosted officials from China's new FIU, the China Anti-Money Laundering Monitoring and Analysis Center, for a day of training focusing on IT, data storage and analysis

techniques, and the use of software in analyzing data. In 2005, FinCEN continued to collaborate with international organizations in order to enhance its role as a key provider of training and better understand the role of providing anti-money laundering/counterterrorist financing training and technical assistance. To that end, 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 2005, FinCEN hosted representatives from approximately 60 countries. These visits, typically lasting one to two days, 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. The countries included: Argentina, Azerbaijan, Australia, Belgium, Bolivia, Bulgaria, Canada, China, Colombia, Croatia, Czech Republic, Denmark, Dominican Republic, El Salvador, Egypt, Finland, France, Germany, Georgia, Guatemala, Honduras, Hong Kong, India, Italy, Israel, Japan, Jordan, Kazakhstan, Kenya, Latvia, Lithuania, Macedonia, Malaysia, Mexico, Netherlands, Nicaragua, Nigeria, Norway, Panama, Pakistan, Paraguay, Peru, Poland, Romania, Serbia and Montenegro, Slovak Republic, South Korea, Spain, Swaziland, Taiwan, Tanzania, Turkmenistan, Ukraine, United Kingdom, Uruguay, Uzbekistan, and Venezuela. Representatives of the “Turkish Republic of Northern Cyprus” also visited FinCEN in 2005.

Internal Revenue Service (IRS), Department of Treasury

In 2005, the IRS Criminal Investigative Division (IRS-CID) continued its involvement in international training and technical assistance efforts designed to assist foreign law enforcement agents detect money laundering and the financing of terrorism. With the assistance of State Department’s funding, IRS-CID provided training through agency and multi-agency technical assistance programs to foreign law enforcement agencies. Training included basic and advanced financial investigative techniques, and combating money laundering and transnational terrorism.

IRS-CID provided support to the International Law Enforcement Academies (ILEAs) at Bangkok, Budapest and Gaborone by delivering training in Financial Investigative Techniques/Money Laundering and Antiterrorism Financing. At the Bangkok ILEA IRS-CID participated in two Supervisory Criminal Investigator Courses (SCIC) and served as the coordinator of the annual Complex Financial Investigations (CFI) course, which is provided to senior, mid-level, and first-line law enforcement supervisors, inspectors, investigators, prosecutors and customs officers from Cambodia, Hong Kong, Indonesia, Laos, Macau, Malaysia, People’s Republic of China, Philippines, Singapore, Thailand, and Vietnam. At ILEA Budapest IRS-CID participated in five sessions held in Budapest and also provided a class coordinator for one of the sessions to share experience and expertise in financial investigative matters with participants from Albania, Armenia, Azerbaijan, Belarus, Bosnia/Herzegovina, Bulgaria, Czech Republic, Croatia, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Serbia/Montenegro, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

IRS-CID participated in four Law Enforcement Executive Development (LEED) programs and also funded a special agent to serve as a Deputy Director at the ILEA in Gaborone, Botswana. Training was delivered to Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Djibouti, Ethiopia, Kenya, Seychelles, Uganda, Nigeria, Cameroon, Comoros, Congo, DRC, Gabon, and Madagascar. At the INEA in San Salvador, IRS-CID continued to participate in the establishment of ILEA Latin America and participated in several meetings including the Key Leaders and curriculum development conferences. A Supervisory Academy Instructor

participated in the Latin America's Law Enforcement Development Program (LEMEDP) pilot class and also attended the ceremony for the signing of the bi-lateral agreement for the establishment of the ILEA in San Salvador, including Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

Also with Department of State (DOS) funding, IRS-CID participated in the DOS Antiterrorism Assistance (ATA) training to countries attending the ILEAs. As part of this initiative, IRS-CID conducted five separate two-day sessions on Combating Transnational Terrorism Financing, (two at ILEA Budapest and Bangkok and one at ILEA Gaborone). The participants that attended the ILEA Budapest sessions were from Estonia, Latvia, Lithuania, Uzbekistan, Kyrgyzstan, Tajikistan, and Kazakhstan, Participants from Cambodia, China, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand, and Vietnam attended ILEA Bangkok and participants from Ethiopia, Botswana, Kenya, and Tanzania attended the session in ILEA Gaborone.

In Trinidad, IRS-CID conducted a two-week Financial Investigative Techniques (FIT) training course. The overall goal of the course was to provide a forum for development of working relationships between the agencies represented and deliver some familiarization training about basic financial investigative techniques, money laundering and asset forfeiture. In Kuala Lumpur, Malaysia, IRS-CID conducted a basic and an advanced Financial Investigative Techniques (FIT) training course. The majority of the participants were investigators from the Inland Revenue Board assigned to the newly created criminal investigation function, with other participants being attorneys and supervisors. The initial course consisted of various instruction regarding basic financial investigative techniques, while the advanced course consisted of a two-week practical exercise where the participants worked a simulated investigation.

In Rarotonga, Cook Islands, IRS-CID conducted a two-week Money Laundering and Terrorist Financing course. This class was a more in-depth and comprehensive look at financial investigations to supplement the overview course presented the previous year. The two-week course consisted of a presentation by the IRS Attaché for the region on information available through his office for investigative inquiries, and a discussion of trends and emerging issues in terrorist financing and money laundering within the region. The participants included both government officials with responsibilities of financial investigation and oversight, and private sector individuals from banks and trust companies.

IRS-CID conducted Financial Investigative Techniques courses in three countries. One was a week-long course in Asuncion, Paraguay, for tax investigators from the tax administration of Paraguay, general prosecutors, the IRS Attaché for the region, the Director of the Financial Unit in Paraguay; the Resident Enforcement Advisor from the Treasury Office of Technical Assistance, and the Resident Legal Advisor from the Justice Overseas Prosecutorial Development Assistance. In Manila, Philippines, IRS-CID assisted the Philippines government with three classes for Investigative Agents. In Riga, Latvia, IRS-CID presented a class to 22 Latvian investigators and prosecutors.

IRS-CID conducted three Financial Investigations Training courses in Hong Kong in 2005. IRS-CID and the IRS Attaché for the region assisted the Hong Kong Inland Revenue with two days of courses. The courses were attended by 36 examiners and criminal investigators from Inland Revenue and Hong Kong Treasury accountants assigned to the Hong Kong Police Force. IRS-CID and the IRS Attaché for the region also made a presentation at a two-day terrorist financing seminar jointly hosted by the Hong Kong Police Force and the Federal Bureau of Investigation (FBI), and facilitated the seminar discussion regarding the abuse of charities for the financing of terrorism. FBI also held a two-day Advanced Money Laundering Seminar in which IRS-CID participated. Discussions were held with Hong Kong Police Officials on qualifications and training for a Money Laundering Expert Witness Training Program.

In Pretoria, South Africa, IRS-CID participated in a one-week Money Laundering and Asset Forfeiture Training Program sponsored by the U.S. Secret Service. The course was delivered to 70 investigators from the South African Police, with the remainder of the participants from the elite “Scorpion Unit.”

IRS-CID assisted the Office of Overseas Prosecutorial Development Assistance and Training (OPDAT) with a Complex Financial Investigations Course in Balvanyos, Romania, a Terrorist Financing Seminar in Sri Lanka, and two classes with an emphasis on Money Laundering and Terrorism Financing in Manila, Philippines for appellate and trial judges. The training held in the Philippines was funded through the American Bar Association (ABA). IRS-CID assisted the FBI in delivering multiple one-week courses on Anti-Money Laundering and Antiterrorism Financing. During 2005, the course was successfully delivered to participants in Bangladesh, Kuwait, Malaysia, Nigeria, Philippines, Qatar, Turkey, and Thailand.

The IRS-CID Mexico City Attaché delivered financial investigative training courses to 50 bank officials and government attorneys during a one-week Organized Crime Conference sponsored by the Colombian Banking Association (FELABAN), and then to 50 prosecutors from the Mexican Government Attorney General’s Office in charge of Money Laundering’s (PGR’s) International Section (MLAT Unit). The Attaché also participated in a one-week International Financial Fraud training session for 100 prosecutors from PGR’s Economic Crimes Section in Querétaro, and presented Money Laundering/Wire Remittances Investigative Techniques training to both a group of 40 FIU Directors from Central America and Argentina at the Financial Investigative Unit Conference in Vienna, Virginia, as well as to 100 prosecutors and banking officials at the Guatemalan Banker’s Association Conference. In Oaxaca, Mexico, the Attaché gave a one-week International Financial Fraud Seminar where he presented on “International Money Laundering,” “Money Services Business/Money Remitters” and “Black Market Peso Exchange” to over 100 prosecutors. In Ecuador, IRS-CID Bogotá Attaché provided one-week of Investigative Techniques training on money laundering to 50 banking officials.

Office of the Comptroller of the Currency (OCC), Department of Treasury

The Office of the Comptroller of the Currency charters, regulates and supervises all national banks and federal branches and agencies of foreign banks. The OCC’s nationwide staff of examiners conducts on-site reviews of national banks and provides sustained supervision of bank operations, including Bank Secrecy Act (BSA) and anti-money laundering (AML) compliance.

With the assistance of State Department funding, the OCC has conducted AML training for foreign bank supervisors and examiners two to three times per year for the past six years. Over 250 foreign bank supervisors have participated in this training program. In total, the OCC’s AML schools have trained approximately 650 OCC examiners over the past seven years. In addition, the OCC consistently provides instructors for the Federal Financial Institutions Examination Council schools, which are now patterned after the OCC’s school.

The OCC conducted and sponsored a number of anti-money laundering (AML) training initiatives for foreign banking supervisors during 2005. In January 2005, the OCC presented an Anti-Money Laundering/Antiterrorist Financing program to a visiting Chinese delegation. In May 2005, 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-five banking supervisors from the following countries were in attendance: Austria, Bahrain, Canada,

China, Egypt, Guatemala, Japan, Indonesia, Luxembourg, Nigeria, Philippines, Russia, St. Vincent & Grenada, Turkey, and United Kingdom.

The OCC, with the World Bank, also produced a DVD presentation of the March 2004 OCC sponsored Anti-Money Laundering/Terrorist Financing School held in Washington, D.C. This training was produced for distribution to foreign banking supervisors. In November 2005, the OCC provided instructors to a FDIC sponsored Anti-Money Laundering/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 banking supervisors from the following countries were in attendance: Afghanistan, Bangladesh, Indonesia, and Morocco. Also in November, the OCC presented an Anti-Money Laundering/Antiterrorist Financing program to Poland's Department of Financial Information as part of a week-long on-site visitation with FinCEN.

The OCC had originally scheduled an Anti-Money Laundering/Terrorist Financing School for the fourth quarter of 2005 in Lebanon, designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorist financing activities. Due to security concerns, this training was postponed.

Office of Prosecutorial Development Assistance and Training & the Asset Forfeiture and Money Laundering Section (OPDAT and AFMLS), Department of Justice

Training and Technical Assistance

The Overseas Prosecutorial Development Assistance and Training (OPDAT) section is the office within the Justice Department that assesses, designs and implements training and technical assistance programs for our criminal justice sector counterparts overseas. OPDAT draws upon components within the Department, such as the Asset Forfeiture and Money Laundering Section (AFMLS) and the Counterterrorism Section, to provide programmatic expertise and to develop good partners abroad. Much of the training provided by OPDAT and AFMLS is provided with the assistance of the Department of State's funding.

In 2005, OPDAT provided training in the areas outlined below. In addition to programs that are targeted to each country's needs, OPDAT also provides long term, in-country assistance through Resident Legal Advisors (RLAs). RLAs are federal prosecutors who provide in-country technical assistance to improve the skills, efficiency and professionalism of foreign criminal justice systems. RLAs live in a country for one or two years to work with counterparts such as 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. For all programs, OPDAT draws on the expertise of the Department of Justice's Criminal Division and other components as needed. OPDAT works closely with AFMLS, 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 2005, 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 2005 included developments in money laundering legislation and investigations, complying with international standards for 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 2005, OPDAT also cosponsored with the Department of State and the Organization for Security and Cooperation in Europe (OSCE) a money laundering conference for all West and Eastern Europe countries, and Russia and Kyrgyzstan.

AFMLS provides technical assistance directly in connection with legislative drafting on all matters involving money laundering, asset forfeiture and the financing of terrorism. During 2005, AFMLS provided such assistance to 14 countries and actively participated in the drafting of the forfeiture provisions for 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.

With the assistance of Department of State funding, AFMLS provided training to government officials concerned with money laundering issues in the United Arab Emirates, Kenya, Sri Lanka, Afghanistan, Pakistan, Bangladesh, the Maldives, Thailand, Malaysia, Indonesia and the Philippines. These officials attended in-depth sessions on money laundering and international asset forfeiture. AFMLS attorneys participated in the meeting of the Intergovernmental Experts Group on International Asset Sharing which was convened in Vienna, Austria by UNODC. In preparation for the Experts Group meeting, AFMLS crafted the first draft from which experts worked to craft the model agreement. Ultimately, AFMLS was instrumental in the development and adoption of the "Model Bilateral Agreement on the Sharing of Confiscated Proceeds of Crime and Property" by the UN General Assembly in December 2005. Additionally, in 2005, AFMLS provided technical assistance to Afghanistan, Albania, Bangladesh, Brazil, Bulgaria, Pakistan, Indonesia, Iraq, Kenya, Sri Lanka, the Republic of Korea, Tanzania, Thailand, and Turkey.

In an effort to improve international collaboration in investigating and prosecuting intellectual property/counterfeiting cases, and to examine methods for forfeiting the proceeds of those crimes, the AFMLS hosted a conference in Hong Kong, April 12-15, 2005, on Forfeiting the Proceeds of Counterfeiting Crimes for prosecutors and investigators. Practitioners and other experienced government officials from Australia, China, Hong Kong, New Zealand, Singapore, South Korea, Thailand, and the United States participated. This conference brought practitioners and international experts, including those acting on behalf of private sector victims, together to share experiences and ideas to provide practical tools in combating counterfeiting crimes, including the freezing and forfeiting the proceeds of counterfeiting crimes.

During November 2005, AFMLS attorneys conducted a workshop on asset forfeiture, money laundering and terrorist financing in Seoul for 36 prosecutors from the Korean Supreme Public Prosecutor's Office (SPPPO). The agenda was specifically tailored to the prosecutors' needs and in-depth and interactive discussions that took place over three days. The Republic of Korea was in the process of presenting legislative proposals to its parliament on money laundering and forfeiture related issues, and several attorneys working in the legislative office were present at the workshop to follow up on particular questions regarding drafting assistance previously provided by AFMLS, particularly

with respect to the creation and operation of a forfeiture fund and asset sharing. AFMLS is hopeful that this workshop will be the springboard to joint money laundering cases and legislation affording more aggressive and expansive forfeiture opportunities. The two Directors of the SPPO in charge of narcotics, cybercrimes and financial crimes, including money laundering, attended the workshop and pledged enhanced cooperation with the USG in the future.

In November 2005, the RLA in Bulgaria and AFMLS conducted a two-week program in four cities in Bulgaria for approximately 100 prosecutors and police on the importance of conducting a financial investigation in human trafficking cases. Topics included money laundering, asset forfeiture, mutual legal assistance and the importance of conducting complex financial investigations.

In November 2005, OPDAT conducted a conference on Asset Forfeiture for Caribbean prosecutors and police in the Bahamas. It provided substantive technical assistance and promoted collaboration among prosecutors and investigators in the Caribbean in money laundering and forfeiture cases. The conference especially focused on the added benefit of using civil or non-conviction based forfeiture in the disruption of criminal organizations.

As part of Plan Colombia, in 2005, 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. These efforts are complemented by a comprehensive long-range program to assist the country's judges, prosecutors and investigators in making the transition from the inquisitorial to the accusatory system.

Organized Crime

During 2005, 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.

OPDAT RLAs continued to support Bosnia's Organized Crime Anti-Human Trafficking Strike Force and judges, prosecutors and police in Albania, Bulgaria, Kosovo, Macedonia, and Serbia and Montenegro through mentoring and training programs on investigating and developing organized crime case strategies.

Fraud/Anticorruption

OPDAT placed two RLAs overseas to provide technical assistance on a long-term basis specifically on corruption cases. In March 2005, OPDAT conducted a technical assistance program for prosecutors and investigators to improve their investigative and prosecutorial ability to combat public corruption

In May 2004, OPDAT placed the first RLA dedicated to anticorruption issues in Managua, Nicaragua. In January 2005, the RLA 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. This year, the G-8 selected Nicaragua to participate in its Anticorruption/transparency Pilot Program. A finite objective is to establish an Anticorruption Task Force of prosecutors and investigators who will be vetted and specially trained to handle fraud and corruption cases. In September 2005, OPDAT sent a second RLA to Managua to replace the first RLA who departed during the summer.

Additionally, from June-August 2005, the OPDAT RLA to Indonesia provided a weekly seminar series for prosecutors and investigators of the Indonesia Corruption Eradication Commission (known as the KPK). During the summer of 2005 the OPDAT RLA also provided a similar seminar series for the Special Crimes Branch of the South Jakarta District Office.

Terrorism/Terrorist Financing

Since 2001 OPDAT, the Counterterrorism Section (CTS), and AFMLS have intensified their efforts to assist countries in developing their legal infrastructure to combat terrorism and terrorist financing. OPDAT, CTS, and AFMLS, with the assistance of 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, CTS, and AFMLS work as integral parts of the U.S. Interagency Terrorist Financing Working Group (TFWG) in partnership with the Departments of State, Treasury, Homeland Security's ICE, and several other DOJ components.

OPDAT currently has five RLAs assigned overseas who are supported by the interagency Terrorist Financing Working Group (TFWG), co-chaired by State INL and S/CT. Working in countries where governments are vulnerable to or may even be complicit in 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 or resources to terrorist organizations. The RLAs also develop technical assistance programs for prosecutors, judges and, in collaboration with DOJ's International Criminal Investigative Training Assistance Program (ICITAP), police investigators to assist in the implementation of new money laundering and terrorist financing procedures.

In August 2003, an RLA was dispatched to Asuncion, Paraguay, part of the Tri-Border area (with Brazil and Argentina) where its rather porous borders facilitate money laundering and bulk cash smuggling. The second counterterrorism RLA arrived in Nairobi, Kenya in December 2004, to assist with terrorism legislation, training in complex financial crimes and, in general, to bolster the capacity of the prosecutor's office. Both RLAs have conducted significant legislative reform and/or training programs during their tenure. The RLA in Paraguay in 2005 continued his focus on needed reforms to the Paraguayan Criminal Procedure Code, providing counsel and technical assistance to the legislative commission assigned with the task of reform. Two study tours to Puerto Rico allowed Paraguayan legislators from the commission, judges and prosecutors to observe first hand how an effective, efficient criminal justice system functions using modern professional investigative tools. In October 2005, the RLA also arranged for the new Attorney General of Paraguay to visit the United States Attorney General to bolster support for law reform and to begin a new and more cooperative relationship with the USG. The legislative commission in Paraguay is finishing its work on procedural code reform and should begin initiating reforms in 2006.

In September and December 2005, the RLA in Nairobi, Kenya organized two sequential iterations of an advanced trial advocacy course for prosecutors. In addition to U.S. prosecutors, U.S. judges and FBI agents, presenters included two prosecutorial trainers from the Crown Prosecution Service who provided a British perspective on Kenyan legal practice. In January 2005, OPDAT sent a third counterterrorism RLA to the United Arab Emirates (UAE)—OPDAT's first RLA in the Gulf States—to work on financial crimes, terrorist financing, and money laundering issues. Following an initial comprehensive assessment of the legal system in the UAE, including the influence of Sharia law, the RLA organized DOJ participation in a conference on bulk cash smuggling and began planning a workshop on money laundering. The workshop entitled "Regional Conference on Investigating and Prosecuting Advanced Financial Crimes" was held in November 2005 and cosponsored by OPDAT, the UAE Central Bank and MENA-FATF, the regional style FATF body. The 150 participants

included the UAE Ministry of Justice and the Gulf Cooperation Council (GCC) (Saudi Arabia, Bahrain, Oman, Kuwait, Qatar, and the UAE). Presentations by USG Terrorist Financing and GCC experts focused on money laundering, bulk cash smuggling, regulation of hawala, and safeguarding charitable donations from being diverted to fund terrorist activities. Member of the GCC expressed interest in holding a similar event again in 2006.

In March 2005, OPDAT placed its first RLA in South Asia at Embassy Dhaka at strengthening the Government of Bangladesh's anti-money laundering/terrorist financing regime, and improving the capability of Bangladeshi law enforcement to investigate and prosecute complex financial and organized crimes. During 2005, the OPDAT RLA provided extensive advice, materials, guidance and background on the UN International Convention for the Suppression of Terrorist Financing to key Bangladeshi officials as they considered signing that document. The RLA also worked closely with officials from the inter-government consultation group to address concerns about the Convention. As a result, in June 2005, the government announced it would sign the convention, and by August, the instrument was ready for the Foreign Minister's signature and subsequent deposit at the UN.

In June, 2005, our OPDAT program placed an experienced prosecutor in Jakarta, Indonesia for one year to serve as the RLA. His role is to provide assistance to the Indonesian Counter Terrorism Task Force (CTTF) to augment their advanced criminal procedures, criminal laws, and prosecutor skills to prepare and try complex terrorism and other organized crime cases. His role is also to assist the general prosecutors with skill-building and integrity development to ultimately enlarge the cadre of CT prosecutors. The RLA has provided legislative drafting assistance and skills development seminars, and invited in experts from other components of DOJ to demonstrate techniques for effective mutual legal assistance.

In June 2005, OPDAT conducted a South Asia regional conference in Colombo, Sri Lanka on counterterrorist financing. Law enforcement officers, prosecutors, and financial sector officials from Sri Lanka, the Maldives, Bangladesh, Pakistan and Afghanistan participated in the event.

Office of Technical Assistance (OTA), Treasury Department

Treasury's OTA is located within the Office of the Assistant Secretary for International Affairs. OTA has five training and technical assistance programs: 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.

Sixty highly experienced intermittent and resident advisors comprise the Financial Enforcement Team. These advisors provide diverse expertise in development of anti-money laundering/combating terrorist financing (AML/CTF) regimes and the investigation and prosecution of complex financial crimes. The Financial Enforcement Team is divided into three regional areas: Eastern/Central Europe; Asia, Africa and the Middle East; and the Americas. Oversight and coordination of Financial Enforcement activities in each Region is provided by full-time Regional Advisors reporting to the Associate Director for Financial Enforcement.

OTA 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. Recently, OTA has been designated as the recipient of Millennium Challenge Corporation funding to provide assistance to a number of Threshold Countries to enhance their capacity to address corruption and related financial crimes indigenous to developing countries.

Assessing Training and Technical Assistance Needs

The goal of OTA's Financial Enforcement program is to build the capacity of the countries to prevent, detect, investigate, and prosecute complex international financial crimes providing technical assistance in three primary areas:

- Money laundering, terrorist financing, and other financial crimes;
- Organized crime and corruption; and
- Capacity building for financial law enforcement entities.

Before initiating any training or technical assistance to a host government, the OTA Enforcement team conducts a comprehensive needs assessment to identify needs and to formulate a responsive assistance program. These assessments address the legislative, regulatory, law enforcement, and judicial components of the various regimes and include the development of technical assistance work plans to enhance a country's efforts to fight money laundering, terrorist financing, organized crime and corruption. In 2005, such assessments were carried out in Afghanistan, Botswana, Brazil, Malawi, Colombia, Chile, Honduras, Kyrgyzstan, and Sao Tome and Principe. OTA also assessed Colombia's program to supervise financial institutions and formed a proposed program for implementation in 2006, which includes drafting of manuals and procedures for the examination of all supervised entities, as well as the presentation of related training courses. In addition to these OTA Enforcement Team assessments, OTA participated in Department of State led interagency assessments in Tanzania and Nigeria to identify areas in need of future technical assistance.

Anti-Money Laundering and Antiterrorism Financing Training

OTA specialists delivered anti-money laundering and antiterrorism financing courses to government and private sector stakeholders in several countries. The specific training components delivered in any given country depended on a country's specific needs and legal requirements. In formulating training programs OTA experts delivered one or more of several course components including, for example: identifying and developing local and international sources of information; how banks and non-bank financial institutions operate, how they are regulated, and what records they keep and in what form; investigative techniques including pen registers, electronic surveillance, undercover operations; forensic evidence including latent prints, ink and paper analysis; case development, planning and organization; report writing; and, with the assistance of local legal experts, rules of evidence, search and seizure as well as asset seizure/forfeiture procedures.

Such courses, including many of the mentioned course components and others, were delivered in several African countries, including Ethiopia (jointly with the United Nations Global Programme against Money Laundering), Lesotho, Senegal and Zambia. In Asia, OTA provided assistance to the Philippines. An OTA resident advisor posted to the Asian Development Bank (ADB) at its Manila headquarters provided guidance and operational support to the financial and governance sector operations of ADB Regional Departments related to anti-money laundering and border controls.

In Europe, OTA teams conducted a number of training programs, including: financial investigation training programs with financial profiling in Bulgaria; mortgage practice training for examiners and banks to manage the credit risk arising from the dramatic expansion of the mortgage market in Romania; a "train-the-trainer" program on auditing techniques for concerned officials in Armenia; and anti-money laundering seminars for the Ministry of Interior, Customs Administration, Securities Commission, Central Bank, and Tax Administration, both bank and non-bank institutions in Serbia and Montenegro.

In the Caribbean, a Financial Investigations Techniques two week course and comprising all topics identified above was provided to financial crimes investigators from Antigua and Barbuda, Bahamas,

Barbados, Bermuda, Cayman Islands, Grenada, Guyana, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad & Tobago, and Turks and Caicos. Brazil also attended the training course at the REDTRAC training facility in New Kingston, Jamaica. Assisting the Government of Haiti's efforts to combat corruption and to recover substantial assets pilfered from the government's treasury, the OTA technical assistance team has worked with the Unite Centrale de Renseignements Financiers (UCREF) in the identification and gathering of evidence for use in prosecutions in Haiti and abroad. In 2005, OTA revitalized its assistance program in Honduras to improve that country's capacity to effectively prosecute complex financial crimes.

Support for Financial Intelligence Units

In Paraguay and Peru, OTA advisors trained FIU analysts. Advisors worked with the FIUs and other agencies to improve domestic and international communications, establishing memoranda of understanding for other information exchange protocols with relevant authorities including prosecutors and police authorities, other countries, and the Financial Crimes Enforcement Network. In both countries, the assistance provided involved the installation and training in the use of information technology systems, analytical databases and software tools. In Peru and the Republic of Montenegro, this type, and other assistance, helped both strengthen their FIUs and obtain membership in the Egmont Group.

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 Senegal, assistance was provided to assist the FIU achieve operational status and begin receiving suspicious transaction reports, train its staff, and assist in the development of procedures and regulations. In collaboration with the FIU, OTA hosted a series of fora for entities required to report suspicious transactions under the Anti-Money Laundering law, including banks, insurers, microfinance institutions, and the liberal professions (attorneys, accountants, auditors, and notaries), to train them on the new law's requirements. OTA also conducted a 3-day seminar for the FIU and Customs and Tax authorities, with the goal of enhancing cooperation between the services. OTA also participated in two regional seminars on FIU development and financial institutions, hosted by UNGPML and the French government, respectively.

Casino Gaming

In the Casino Gaming Group, OTA combines experts from its Tax and Financial Enforcement Teams and has been providing technical assistance to the international community in the areas of Gaming Industry Regulation since 2000. The program provides assistance in the drafting of gaming legislation, and in drafting the regulations required to implement the laws. The program also includes the provision of technical training to gaming industry regulators to provide the capacity for auditing casino operations, national lotteries and all games of chance. In addition, advanced technical workshops have been conducted in conjunction with the Nevada Gaming Commissioner in Las Vegas involving regulators from participating countries. The program has been well received by host country officials who see it as both a valuable revenue-producing project and an anticorruption measure. In 2005, the OTA Casino Gaming Group conducted an assessment in Antigua and Barbuda, and conducted technical assistance and training as described above in El Salvador, Costa Rica, Honduras, Montenegro, Panama, and Nicaragua. Also during 2005, the OTA Casino Gaming Group brought 15 gaming regulators from Honduras, Panama, Costa Rica and Nicaragua to Las Vegas for a series of lectures, tours and workshops. The Casino Gaming Group conducted an assessment of Chile's newly created regulatory regime for the gaming industry and provided assistance vetting casino license applicants.

Regional and Resident Advisors

OTA resident advisors continued international support in the areas of money laundering and terrorist financing. In 2005, OTA placed a resident advisor in Argentina to work with the GAFISUD Secretariat in the identification and implementation of training and technical assistance initiatives for its member governments. In February 2005, OTA placed a resident advisor in Senegal to work with Inter Government Action Group Against Money Laundering (GIABA), a regional body funded and supported by the Economic Community of West Africa States (ECOWAS), to assist it in reaching recognition as a Financial Action Task Force (FATF)-style regional body. In addition to her primary assignment with GIABA, the advisor also provides assistance to Senegal's nascent FIU. OTA is working jointly Treasury's Office of Financial Crimes and Intelligence to finalize the placement of a resident advisor in Amman, Jordan to assist in the development of the FIU and intelligence sharing capacity. The resident advisors in Bulgaria and Serbia and Montenegro continued efforts to streamline and enhance host governments' FIUs. Supporting national efforts against financial crimes was the focus of the resident advisors in Peru, Paraguay, Albania, Ukraine, Zambia and Romania. Resident advisors for the Caribbean focused on national efforts against financial crimes as well as on bank regulatory compliance. OTA has placed resident advisors in Armenia and Albania to provide technical assistance on internal audit and a resident advisor in Moscow, Russia to work with the Secretariat of the Eurasian Group on Anti-Money Laundering. OTA also concluded plans to place a resident advisor in Kabul, Afghanistan in early 2006, and to focus its technical assistance on the establishment and development of a FIU as a semi-autonomous unit within Da Afghanistan Bank. Lastly, while continuing its intermittent assistance to the Government of Sri Lanka, OTA finalized plans to place a resident advisor in Colombo in the late spring of 2006. This advisor will assist in the development of an effective anti-money laundering and counterterrorism financing regime, to include the establishment of an FIU that meets international standards.

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, India, 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, 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 2005, the international asset sharing program, administered by the Department of Justice, shared \$ 228,354,502.94 with foreign governments which cooperated and assisted in the investigations. In 2005, the Department of Justice transferred \$2,175,599.94 in forfeited proceeds to: Cayman Islands (\$1,707,917.79), Canada (\$22,928.32), Dominican Republic (\$10,000), Guatemala (\$147,176.37), and Indonesia (\$287,577.46). Prior recipients of shared assets include: Anguilla, Antigua and Barbuda, Argentina, the Bahamas, Barbados, British Virgin Islands, Canada, Cayman Islands, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Greece, Guatemala, Guernsey, Hong Kong (SAR), Hungary, Jordan Isle of Man, Israel, Liechtenstein, Luxembourg, Netherlands Antilles, Paraguay, Peru, Romania, South Africa, Switzerland, Turkey, the United Kingdom, and Venezuela.

From Fiscal Year (FY) 1994 through FY 2005, the international asset-sharing program administered by the Department of Treasury shared \$27,408,032 with foreign governments that cooperated and assisted in successful forfeiture investigations. In FY 2005, the Department of Treasury did not report the transfer of any forfeited proceeds to a foreign government. 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.

Multi-Lateral Organizations & 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 2005, the Commission carried out a variety of anti-money laundering and counterterrorist financing initiatives. These included amending the 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 March and October 2005 and developed modifications to the model money laundering regulations, which were approved by the 38th session of the CICAD Plenary. The new legislative guidelines include language on measures for effective asset forfeiture and management of seized assets and international cooperation. At the two meetings, the Money Laundering Group also reviewed international trends concerning special investigative techniques in money laundering cases.

In other activities, CICAD worked with the United Nations and the Governments of France and Spain 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. These seminars were held in Brazil, Colombia, Costa Rica, and El Salvador, and mock trials were carried out in Guatemala, Peru and Venezuela. Similarly, the second stage course work on financial investigations 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. In addition, the first stage of a comparable course was completed in Central America.

In Asuncion, Paraguay, CICAD and GAFISUD co-sponsored the first regional seminar on special investigative techniques in May 2005. Also in 2005, CICAD initiated a two-year project to strengthen Financial Intelligence Units (FIUs) in Costa Rica, El Salvador, Nicaragua, Panama, Dominican Republic, Ecuador, and Uruguay. Activities included the evaluation of strategic plans for the various FIUs as well as the development of training modules. CICAD also advised Ecuador on the drafting of its new anti-money laundering law.

CICAD participated in a variety of laundering law meetings and conferences focused on money laundering and financial crimes, including conferences sponsored by the UN on special investigative techniques and witness protection, FATF meetings in Paris, and GAFISUD meetings in Buenos Aires. At INTERPOL, CICAD was accepted in the Working Group on Money Laundering.

Pacific Islands Forum

The Pacific Islands Forum (PIF) was formed in 1971, and includes the 16 independent and self-governing Pacific Island countries: 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 Department of State continued support of efforts in combating terrorism and transnational organized crime, through funding to the Expert Working Group on Terrorism and Transnational Organized Crime. The U.S. State Department has also provided on-going funding for sub-regional money laundering, terrorist financing and proceeds of crime training for Pacific Islands' investigators and prosecutors.

The U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs contributed \$1.5 million to the PIF to establish the Pacific Anti-Money Laundering Program (PALP) modeled after the successful Caribbean Anti-Money Laundering Program (CALP). The PALP, projected to be a four-year long program, was officially launched during the Associated Leaders' meetings in October 2005 and will target the fourteen non-FATF member states of the PIFs (six of whom are members of the APG). The PALP, will provide regional and bi-lateral mentoring support with a staff comprised of a Coordinator and resident Mentors with demonstrated expertise in all elements required to establish viable anti-money laundering/counterterrorism terrorist financing regimes that comport with international standards. The PALP will be coordinated with efforts in the region by the UN Global Programme against Money Laundering, the Asia/Pacific Group on Money Laundering (APG), the Australian Attorney General's anti-money laundering program, other Australian agencies, and the International Monetary Fund.

United Nations Global Programme against Money Laundering

The United Nations is an experienced global provider of anti-money laundering (AML) training and technical assistance, and since 9-11, terrorist financing. The United Nations Office on Drugs and Crime (UNODC) program established The United Nations Global Programme against Money Laundering (GPML) in 1997 to assist Member States to comply with the relevant 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 International 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 Merida Convention). The GPML is the focal point for anti-money laundering (AML) within the UN system and provides technical assistance and training in the development of related legislation, infrastructure and skills, directly assisting Member States in the detection, seizure and confiscation of illicit proceeds.

Since 2001, the GPML has incorporated a focus on counterterrorist financing (CTF) in all its technical assistance work. In 2005, the GPML, in a collaborative effort with the IMF, completed the revision of a model law on AML/CTF for civil law countries, encompassing worldwide AML/CTF standards and taking into account best legal practices. The GPML 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, Southern Europe and Africa.

Highlights of GPML's work in 2005 include the extensive development of its global computer-based training (CBT) initiative. The program provides 12 hours of interactive AML/CTF training for global delivery. Delivery of CBT continued in the Pacific Region, incorporating training of several thousand officials, law enforcement, legal, and financial personnel in seven jurisdictions, including Fiji, the Cook Islands and Vanuatu. In partnership with the INTERPOL Regional Office, three CBT training classrooms were established in Nairobi, Kenya, and Dar-Es-Salaam, Tanzania.

In 2005, GPML assigned a new 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 Latin America, and assisted in the development of new language versions including Amharic and Arabic.

The GPML entered into a partnership with OAS-CICAD for joint assessment and delivery of the Spanish version of the CBT. Subsequently the partnership completed needs assessment missions in four Latin American countries. 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 2005. 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 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 in order to improve their financial investigations. The mentor provided support to the Office of the General Prosecutors, the law enforcement sector and FIU in Apia, Samoa. In Palau the technical assistance focused on training police officials, advising work on case management and delivering CBT. The mentor also organized a successful series of workshops on financial investigations in partnership with Pacific Islands Forum Secretariat.

In 2005, the Department of State (INL) continued to fund a UN mentor based in Tanzania with the Secretariat of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). The mentor delivered training to all 14 member states and assisted the ESAAMLG Secretariat in completing a three-year strategic plan which the member states adopted at the ESAAMLG Council of Ministers in August, 2005. The mentor also conducted an AML/CTF awareness raising seminar in Ethiopia and a training course on financial investigations for law enforcement officials of Ethiopia (in conjunction with OTA), Eritrea, Kenya, Tanzania, and Uganda together with the Interpol Regional Office in Nairobi, Kenya. The mentor developed a law enforcement train-the-trainer program for the three East African countries. In collaboration with the World Bank and the Department of State (INL), the GPML also placed a regional mentor for Central Asia in Almaty, Kazakhstan. The World Bank and INL have provided funding for a mentor in Hanoi, Vietnam to provide AML/CTF assistance to Vietnam, Lao PDR and Cambodia. At the national level, an INL-funded GPML mentor continued working in the financial intelligence unit of the Government of the Philippines. A FIU expert was also employed on an ad-hoc basis to provide assistance to emerging FIUs in Africa and the Caucasus region. Mentors and experts supported 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 several countries, including Armenia, Azerbaijan, Belarus, Estonia, and Tajikistan., and conducted a two-day workshop on AML/CTF for financial supervisors in Central and Eastern Europe, jointly organized with OSCE in May.

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 and is highly regarded by the AML/CTF community. In 2005, the GPML consolidated this advisory 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 mentors advise governments on legislation and policy, while others focus on operating procedures. By giving in-depth support upon request, the mentors have gained the confidence of the recipient institutions, which enables the achievement of concrete and significant outputs.

The GPML's Mentor Programme has key advantages over more traditional shorter-term 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 technical assistance and training to FIUs a priority. In 2005, the GPML, jointly with the Egmont Group, conducted two awareness-raising training workshops on FIUs in Pretoria, South Africa for ESAAMLG countries and Ethiopia, and in Dakar, Senegal for GIABA countries. The GPML still hosts and acts as rapporteur for the FIU strategic analysis workshop (SAW), which was presented at the Egmont Plenary Meeting in Washington D.C. in June. Two SAW meetings took place in 2005.

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 is working toward the development of CBT modules to address AML/CTF requirements in a cash-based context. GPML contributed to the delivery of mock trials in Latin and Southern America. This tailored-made activity was developed in response to repeated requests from member states for more relevant and realistic AML training. It combines training and practical aspects of the judicial work into one capacity building exercise.

The GPML administers 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 manages and constantly updates this database on behalf of the UN and nine 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 Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the EurAsia Group (EAG), the Financial Action Task Force (FATF), Interpol, and the Organization of American States (OAS). The GPML has initiated the second round of analysis utilizing the recently revised AMLID questionnaire. The updated AMLID questionnaire reflects new money laundering trends and standards, and takes

provisions related to terrorist financing and other new developments in to account, including the revised FATF 40 + 9 Recommendations.

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 2006 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 for 2005

Jurisdictions moving from the Concern Column to the Primary Concern Column: *Afghanistan, Guatemala, and St. Kitts and Nevis.*

Jurisdictions moving from the Other Column to the Concern Column: *Algeria, Angola, Guyana, Laos, and Zimbabwe*

Jurisdiction moving from the Concern column to the Other/Monitored Column: *Nauru*

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.

Note: Country reports are provided for only those countries listed in the “Other/Monitored” column that have received training or technical assistance funded directly or indirectly by INL in 2005.

Country/Jurisdiction Table

Countries/Jurisdictions of Primary Concern		Countries/Jurisdictions of Concern		Other Countries/Jurisdictions Monitored	
Afghanistan	Philippines	Albania	Portugal	Andorra	Maldives
Antigua and Barbuda	Russia	Algeria	Qatar	Anguilla	Mali
Australia	Singapore	Angola	Romania	Armenia	Malta
Austria	Spain	Argentina	Samoa	Azerbaijan	Marshall Islands
Bahamas	St. Kitts & Nevis	Aruba	Saudi Arabia	Benin	Mauritania
Belize	Switzerland	Bahrain	Serbia and Montenegro	Bermuda	Mauritius
Bosnia and Herzegovina	Taiwan	Bangladesh	Seychelles	Botswana	Micronesia FS
Brazil	Thailand	Barbados	Sierra Leone	Brunei	Moldova
Burma	Turkey	Belarus	Slovakia	Burkina Faso	Mongolia
Cambodia	Ukraine	Belgium	South Africa	Burundi	Montserrat
Canada	United Arab Emirates	Bolivia	St. Lucia	Cameroon	Mozambique
Cayman Islands	United Kingdom	British Virgin Islands	St. Vincent	Cape Verde	Namibia
China, People Rep	USA	Bulgaria	Syria	Central African Republic	Nauru
Colombia	Uruguay	Chile	Tanzania	Chad	Nepal
Costa Rica	Venezuela	Comoros	Turks and Caicos	Congo, Dem Rep of	New Zealand
Cyprus		Cook Islands	Uzbekistan	Congo, Rep of	Niger
Dominican Republic		Cote d'Ivoire	Vanuatu	Croatia	Niue
France		Czech Rep	Vietnam	Cuba	Norway
Germany		Dominica	Yemen	Denmark	Oman
Greece		Ecuador	Zimbabwe	Djibouti	Papua New Guinea
Guatemala		Egypt		East Timor	Rwanda
Guernsey		El Salvador		Equatorial Guinea	San Marino
Haiti		Gibraltar		Eritrea	Sao Tome & Principe
Hong Kong		Grenada		Estonia	Senegal
Hungary		Guyana		Ethiopia	Slovenia
India		Honduras		Fiji	Solomon Islands
Indonesia		Iran		Finland	Sri Lanka
Isle of Man		Ireland		Gabon	Suriname
Israel		Jamaica		Gambia	Swaziland
Italy		Jordan		Georgia	Sweden
Japan		Kenya		Ghana	Tajikistan
Jersey		Korea, North		Guinea	Togo
Latvia		Korea, South		Guinea-Bissau	Tonga
Lebanon		Kuwait		Iceland	Trinidad and Tobago
Liechtenstein		Laos		Iraq	Tunisia
Luxembourg		Malaysia		Kazakhstan	Turkmenistan
Macau		Monaco		Kyrgyz Republic	Uganda
Mexico		Morocco		Lesotho	Zambia
Netherlands		Netherlands Antilles		Liberia	
Nigeria		Nicaragua		Lithuania	
Pakistan		Palau		Macedonia	
Panama		Peru		Madagascar	
Paraguay		Poland		Malawi	

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, 2005 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. “Disclosure Protection Safe Harbor”: By law, the jurisdiction provides a “safe harbor” defense to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.
14. “States Parties to 1988 UN Drug Convention”: As of December 31, 2001, a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.¹
15. “Criminalized the Financing of Terrorism.” The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.
16. “States Party to the UN International Convention for the Suppression of the Financing of Terrorism.” As of December 31, 2003, a party to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

¹ The United Kingdom extended its application of the 1988 Convention and the United Kingdom Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat, Turks and Caicos, Isle of Man, Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

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 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
	Government/Jurisdiction															
Afghanistan	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	N	Y	Y	Y	Y
Albania	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Algeria	Y	Y	N	Y	M	N	Y	N	N	Y	N	Y	Y	Y	Y	Y
Andorra	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	N	N
Angola	Y	N	N	N	N	N	N	N	N	N	Y	N	N	Y	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	Y
Armenia	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	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	N	Y	M	Y	Y	Y	Y	Y	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	Y
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	Y	Y	N	N	Y	N	Y
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																
	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	Y	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	Y	Y	M	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y
Botswana	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	N	Y	Y	N	Y
Brazil	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
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	Y	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	Y	N	N
Cameroon	Y	Y	Y	Y	M	N	Y	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		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	Y	Y
Congo (Dem. Republic)	Y	Y	Y	Y	M	N	Y	N	N	N	N	Y	Y	Y	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	Criteria															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	States Party to 1988 UN Convention	Criminalized Financing of Terrorism	Internat'l Terrorism Financing Convention
Cook Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Costa Rica	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Cote D'Ivoire	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Croatia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cuba	Y	Y	N	N	P	N	Y	N	N	Y	N	N	N	Y	Y	Y
Cyprus	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Czech Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Denmark	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Djibouti	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	N
Dominica	Y	Y	Y	Y	M	Y	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	Y	N	N
East Timor	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Ecuador	Y	Y	Y	Y	M	N	N	Y	N	Y	Y	N	N	Y	N	Y
Egypt	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
El Salvador	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Equatorial Guinea	Y	Y	Y	Y	M	N	N	N	N	N	N	N	N	N	N	Y
Eritrea	N	N	Y	Y	N	N	N	N	Y	Y	N	N	N	Y	N	N
Estonia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Ethiopia	Y	Y	Y	Y	M	N	N	N	N	N	N	N	N	Y	N	N
Fiji	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	N	Y	Y	N	N
Finland	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
France	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Gabon	N	N	Y	Y	M	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	N
Georgia	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Germany	Y	Y	Y	Y	M	Y	Y	N	Y	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	Y	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	Y	Y	Y	Y	Y	Y	N	N
Honduras	Y	Y	Y	Y	M	Y	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	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Iran	Y	Y	N	Y	M	Y	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	Y	Y
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	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
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	Y	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	NA	N	NA
Kuwait	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	N
Kyrgyzstan	N	N	N	N	P	N	Y	N	N	N	N	N	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	Y	N	Y	Y	Y	Y	Y	Y	Y	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	Y	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	Y	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	Y	Y	N	N	N	Y	N	Y	N	Y	N	N	Y	Y	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	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	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	Y	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	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	Y	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	NA	N	NA
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	Y	Y	Y	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	Y	Y	N	Y
Peru	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Philippines	Y	Y	Y	Y	M	Y	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	Y	Y	Y	Y	Y	Y	Y	Y	Y
Qatar	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Romania	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Russia	Y	Y	Y	Y	M	Y	Y	Y	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	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
San Marino	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	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	Y	Y	Y	Y	Y	Y	N
Senegal	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Serbia	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	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	Y	N	Y	Y	Y	Y	Y	Y	
Sierra Leone	Y	Y	N	Y	M	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	Y	Y	Y	Y	
Suriname	Y	Y	N	Y	M	N	Y	N	Y	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	N	Y	N	Y	Y	Y	Y	Y	Y	
Switzerland	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	
Syria	Y	Y	Y	Y	M	N	Y	N	N	N	Y	Y	N	Y	N	Y	
Taiwan ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	NA	N	NA	
Tajikistan	Y	Y	N	N	N	N	N	N	N	Y	Y	N	N	Y	Y	Y	
Tanzania	Y	N	Y	Y	N	N	Y	N	Y	N	Y	N	Y	Y	Y	Y	
Thailand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	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	Y	N	

¹ Taiwan is not a member of the UN.

Actions by Governments																
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NIMP)	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	M	N	Y	N	N	Y	N	N	Y	Y	Y	Y
Turkey	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	N	Y	N	Y
Turkmenistan	Y	Y	N	Y	M	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	Y	Y	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	Y
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	Y	Y	Y	Y	Y
Vanuatu	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Venezuela	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Vietnam	Y	Y	Y	Y	M	N	Y	N	N	Y	Y	Y	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		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

Afghanistan

While Afghanistan is not a regional financial or banking center, its informal financial system is extremely large in scope and scale. Afghanistan is a major drug trafficking and drug producing country. Afghanistan passed anti-money laundering and terrorist financing legislation in late 2004, and 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 conflict with more Western-style proposed reforms to the financial sector.

The majority of the money laundering in Afghanistan is linked to the illicit narcotics trade. Afghanistan accounts for a large majority of the world's opium production, and in 2004 and 2005 its internal production of opium increased. Opium gum itself is often used as a currency, especially by rural farmers, and it is used as a store of value in prime production areas. It is estimated that one third of Afghanistan's (licit plus illicit) 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 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.

Afghanistan is widely served by the hawala system, which provides a range of financial and non-financial business services in local, regional, and international markets. Financial activities include foreign exchange transactions, funds transfers, micro and trade finance, as well as some deposit-taking activities. While the hawala network may not provide financial intermediation of the same type as the formal banking system (i.e., deposit-taking for lending and investing purposes based on the assessment, underwriting, and pricing of risk(s)), it is deeply entrenched and widely used throughout Afghanistan.

There are over 330 known hawala 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-principal and partnership relationships with other dealers throughout the country and internationally. Their record keeping and accounting practices 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. Hawaladars are supposed to be registered. However, consistent standards for record keeping and accounting do not exist among these dealers, further complicating the regulatory task.

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 2004.

The Central Bank claims that both the Anti-Money Laundering (AML) and Proceeds of Crime and Combating the Financing of Terrorism (CFT) laws incorporate provisions that are designed to meet the recommendations of the Financial Action Task Force (FATF) and 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 has been established and will 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 will refer cases to the Attorney General's office which will assign it to the appropriate court. The FIU, originally set to be established in January 2005, was actually initiated in October 2005 with assignment of a General Director, office space, and other resources. However, a number of key organizational issues remain to be resolved before the FIU can be considered fully operational.

At present the formal banking sector consists of three recently re-licensed state-owned banks, five branches of foreign banks, and four additional domestic banks. With the possible exception of the foreign bank branches, these banks are equipped with only limited knowledge or technical capacity to produce financial intelligence. Many are looking to both the Central Bank and to the Ministry of Finance to provide training on requirements set forth by anti-money laundering legislation, including customer due diligence and "know your customer" provisions (KYC), record keeping, currency transaction reporting (CTRs), suspicious transaction reporting (STRs), and the establishment of internal AML/CFT controls. The DAB is working to meet these bank demands by developing its anti-money laundering regulatory regime and supporting training curricula. The DAB is not yet fully aware of the compliance capabilities of banks other than those that are state-owned.

The Supervision Department within the DAB was formed at the end of 2003, and is divided into four divisions: Licensing, General Supervision (which includes on-site and off-site supervision), Special Supervision (which deals with special cases of problem banks), 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 examinations, licensing new institutions, overseeing money service providers, and liaising with the commercial banking sector generally. In 2005, two members of the Supervision Department traveled to the U.S. to receive comprehensive AML training. Three more members are scheduled to receive similar training in 2006.

In April 2004, Afghanistan issued new regulations for the licensing of foreign exchange dealers, hawaladars and other money service providers, and required them to submit quarterly transaction reports. Regulations differ for foreign exchange dealers and money service providers, with more stringent requirements placed on the latter. The regulations also require foreign exchange dealers and money service providers 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 the licensing requirements, but to date only one entity-Western Union-has received a license. The DAB is phasing in its regulations and has little communication with the foreign exchange dealers and money service providers themselves, many of whom see the regulations as overly strict, requiring burdensome capital requirements and fees for agents in each province. The

DAB is struggling with administering the regulations and lacks the support of enforcement authorities from the Ministry of Interior, among others.

The Ministry of Interior and the Attorney General's Office are the primary financial 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, a Financial Services Tribunal will be established to review certain decisions and orders of Da Afghanistan Bank (DAB), although there is a need for significant training for judges and administrative staff before this Tribunal can be effectively stood up. The Tribunal will review supervisory actions of DAB, but not prosecute cases of financial crime. At present, all financial crime cases are being forwarded to the Kabul Provincial Court, where there has been little or no activity in the last three years. The process to prosecute and adjudicate cases is long and cumbersome, and significantly underdeveloped. The U.S., along with other countries, is helping to develop these mechanisms and to train prosecutors and judges.

Border security continues to be a major issue throughout Afghanistan. At present there are 21 border crossings that have come under federal control, utilizing international donor assistance as well as local and international forces. However, many 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 invoicing 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 of the Ministry to conduct such examinations is nearly non-existent, and the reality is that any organization applying for a 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 illicit activities are suspected on the part of a number of organizations.

The Government of Afghanistan (GOA) has now become a party to 12 of the UN conventions and protocols against terrorism and is a signatory to the International Convention for the Suppression of Acts of Nuclear Terrorism. Afghanistan 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.

While the Government of Afghanistan has made strides in strengthening its overall AML/CFT regime, much work remains to be done: overseeing the informal hawala system through effective regulation; enabling bank and non-bank financial institutions to produce adequate financial intelligence; developing a fully operational and effective 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 international donors and Afghan authorities is needed to empower rural farmers through effective alternative livelihoods programs and to dismantle 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, prostitution, trafficking in weapons and automobiles, official corruption, tax crimes and fraud. Organized crime groups use Albania as a base of operations for conducting criminal activities in other countries, sending the illicit funds back to Albania. The proceeds from these activities are easily laundered in Albania because of the lack of a strong formal economy and 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 a lack of resources and corruption of Customs officials.

Albania's economy is primarily cash-based. Electronic and ATM transactions are relatively few in number, but are growing rapidly as more banks introduce this technology. At the end of 2004, eight banks were offering ATM service with a total of 76 ATMs all over the country. The number of ATMs rapidly expanded following the decision of the Government of Albania (GOA) to deliver salaries through electronic transfers. Until 2004, the GOA paid its own civil servants in cash, but all central government institutions are now required to convert to electronic pay systems by the end of 2005. According to the Bank of Albania (the Central Bank), 25 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. There are 17 banks in Albania, but only five of them are considered to have a significant national presence. Albania is not considered an offshore financial center, nor do its current laws facilitate such types of activity. Under current law, free trade zones are permissible, but the GOA has not pursued the implementation of free trade zones and none are currently in operation.

The Albanian economy is particularly vulnerable to money laundering activity because it is a cash economy. Estimates place the informal sector at between 30 and 60 percent of GDP. Albania collects 10 to 15 percent less of GDP in taxes than neighboring countries. Relatively high levels of foreign trade activity, coupled with weak Customs controls, presents a gateway for money laundering in the form of fake imports and exports. The Bankers Association estimates that only 20-30 percent of transactions with trading partners take place through formal banking channels, reaching only a small portion of total imports. Likewise, a significant portion of remittances enters the country through unofficial channels. It is estimated that only half of total remittances enter through banks or money transfer companies. Black market exchange is still present in the country, especially in Tirana, despite repeated efforts by GOA institutions (Ministry of Interior, Bank of Albania, and Ministry of Finance) to impede such exchanges. There have been court decisions against illegal money remitters based on information received from foreign financial intelligence units.

Albania previously criminalized all forms of money laundering in Article 287 of the Albanian Criminal Code of 1995. Law No. 8610 "On the Prevention of Money Laundering" (passed in 2000) required financial institutions to report to an anti-money laundering agency all transactions that exceed approximately \$15,000 as well as those that involved suspicious activity. Law No. 8610 required 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. However, financial institutions had no legal obligation to identify customers prior to opening an account. While most banks have internal rules mandating customer identification, Law No. 8610 only required customer identification prior to conducting transactions that exceed 2 million Albanian leke (approximately \$20,000) or when there is a suspicion of money laundering.

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, and improved the Criminal Code and the Criminal Procedure Code. The new law redefined 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. The law also mandates the identification of beneficial owners. Banks and other institutions are required to maintain records of suspicious activity reports for ten years. All other reports are subject to a five-year record retention period. The law also covers informal value transfer systems.

In the case of intermediaries, it is the responsibility of the appropriate licensing authority to supervise such entities for compliance (e.g., Ministry of Justice for notaries, Ministry of Finance for accountants). Although regulations also cover non-bank financial institutions, their enforcement has been poor in practice. The formal banking sector reports accounts for 90 percent of suspicious activity reports filed, while the rest come from state institutions like tax and customs and foreign counterparts. Currently, no law criminalizes negligence by financial institutions in money laundering cases. However, the Bank of Albania has established a task force to confirm banks’ compliance with customer verification rules. Reporting individuals and entities are protected by law with respect to their cooperation with law enforcement agencies. However, given leaks of information from other agencies, reporting entities complain that reporting requirements compromise their client confidentiality and put them into a difficult position.

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. Financial institutions that submit reports are required to do so within 72 hours. In addition to banks, bureaux de change, casinos, tax and customs authorities, accountants, notaries, postal services, insurance companies, and travel agencies are entities that are obligated to comply with the threshold reporting rules.

Law No. 8610 also mandates the establishment of an agency to coordinate the GOA’s efforts to detect and prevent money laundering. The General Directorate for Coordinating the Combat of Money Laundering (DBLKPP) is Albania’s financial intelligence unit (FIU). The DBLKPP 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 2005, the FIU received 30 suspicious activity reports, four of which were passed to the prosecutor’s office.

Law No. 9084 clarifies and improves the role of the FIU and increases its responsibility. It has been given additional status by its designation as the national center to combat money laundering. Also, the duties and responsibilities for the FIU have been clarified. The law also establishes a legal basis for increased cooperation between the FIU and the General Prosecutor’s Office, while creating an oversight mechanism to ensure that the FIU fulfills, but does not exceed, its responsibilities and authority. Previously, coordination against money laundering and terrorist financing among agencies was sporadic. The new law establishes two levels of coordination: on the policy level, an inter-

ministerial group headed by Albania's Prime Minister and including the participation of different ministers, the Central Bank Governor, and the General Prosecutor. On the technical level, a group of experts was established.

The government bodies responsible for investigating financial crimes are the Ministry of Interior (through its Organized Crime and Witness Protection Departments), the General Prosecutor's Office and the State Intelligence Service. Money laundering and terrorist financing are relatively new issues for GOA institutions, and responsible agencies are neither adequately staffed nor fully trained to handle money laundering and terrorist financing issues.

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. The Prosecutor's Office also lacks well-trained prosecutors to efficiently manage cases. There have been no arrests for money laundering or terrorist financing since January 2005.

Through Law No. 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 anti-Mafia law, Law No. 9284, which contains strong civil asset seizure and forfeiture provisions, subjecting the assets of suspected persons and their families and close associates to seizure. The law also places the burden to prove a legitimate source of funding for seized assets on the defendant.

Law No. 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 suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list. 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. In addition to one freeze obtained in 2004, the GOA has frozen the assets of seven additional persons or entities in 2005.

The Ministry of Finance is the main entity responsible for issuing freezing orders, while the FIU is responsible for tracing and seizing assets. In the case of individuals or entities whose names appear on the UNSCR 1267 consolidated list, the freezing orders remain in force as long as their names remain on the list. In the case of individuals under investigation or prosecution for money laundering, properties remain frozen until a court decision to the contrary is issued (such investigative freezes may not exceed three years). If a person is found guilty, his assets are confiscated and all the proceeds transferred to the state budget. The Agency for the Administration of Sequestered and Confiscated Assets (AASCA) was established in June 2005, following a Council of Ministers decision. After a difficult start, the GOA staffed the AASCA in early December 2005.

In the past four years, the GOA has seized \$4.72 million in liquid criminal and terrorist assets (\$3.14 million for terrorism financing and \$1.58 million for money laundering) and about \$5 million in real estate (\$2.3 million in 2005). Some estimates place these figures at even higher values. In 2005, the previous freezing orders were converted under the new law against terrorism financiers. In total, there have been eight freeze orders issued, involving 56 bank accounts frozen in six different commercial banks. Fifty-four of these are related to terrorist financing. Each of the eight freeze orders issued by the Ministry of Finance in relation to persons involved in terrorism financing has been referred to the Prosecutor's Office for further investigation.

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. Additionally, although the GOA does not normally monitor the use of funds by charitable organizations, the Ministry of Finance has explored additional legislation that would include such oversight. Starting from 2006, charitable organizations have to present their books to the tax office. The GOA has aggressively acted against charities that are suspected of wrongdoing, resulting in the removal of three of them from the country.

Contraband smuggling generates funds that are easily laundered in Albania due to highly unregulated transaction overview, lax control in almost all institutions dealing with immovable properties, and corruption in the State Administration. By contrast, the formal banking sector is highly regulated and is continuously under the scrutiny of the Central Bank.

Albanian legislation regarding cash couriers is not yet complete. Law No. 8610 sets the maximum amount of money that individuals (both Albanian and foreign) may possess on crossing borders. Amounts in excess of \$10,000 require formal declaration. Declaration forms are available at border crossing points. There have been cases of individuals sentenced for illegal transfer of money based on information from foreign FIUs. The FIU shares cash smuggling reports with its counterparts in Turkey, Bulgaria and Macedonia.

The Albanian FIU became a member of the Egmont Group in July 2003, and continues to enlarge its cooperation with regional counterparts. The FIU has the ability to enter into bilateral or multilateral information sharing agreements on its own authority and has signed MOUs with 23 countries. The FIU is also participates in personnel exchanges with regional counterparts for training purposes and has also agreed to fight corruption jointly with Italy.

Albania is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime, and became a party to the UN International Convention for the Suppression of the Financing of Terrorism on April 10, 2002. On August 21, 2002, Albania ratified the UN Convention against Transnational Organized Crime. Albania is a party to the 1988 UN Drug Convention and in December 2003 signed the UN Convention against Corruption. Albania is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and participates in the Southeastern Europe Cooperative Initiative (SECI).

The Government of Albania has taken important steps to enhance its anti-money laundering and 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 for a predicate offense. A central police database should be created in order to assist law enforcement in the investigation of financial crimes.

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. The partial convertibility of the Algerian dinar enables the Bank of Algeria (Algeria's Central Bank) to monitor all international financial operations carried out by public and private banking institutions.

Algeria first criminalized terrorist financing through the adoption of Ordinance 95.11 on February 24, 1994, making the financing of terrorism punishable by five to ten years of imprisonment. On February 5, 2005, Algeria enacted public law 05.01, entitled "The Prevention and Fight Against Money

Laundering and Financing of Terrorism.” The law aims to strengthen the powers of the Cellule du Traitement du Renseignement Financier (CTRF), an independent financial intelligence unit (FIU) within the Ministry of Finance (MOF) created in 2002. This law seeks to bring Algerian law into conformity with international standards and conventions. It offers guidance for the prevention and detection of money laundering and terrorist financing, institutional and judicial cooperation, and penal provisions.

Algerian financial institutions, as well as Algerian customs and tax administration agents, are required to report any activities they suspect of being linked to criminal activity, money laundering, or terrorist financing to CTRF and comply with subsequent CTRF inquiries. They are obligated to verify the identity of their customers or their registered agents before opening an account; they must furthermore record the origin and destination of funds they deem suspicious. In addition, these institutions must maintain confidential reports of suspicious transactions and customer records for at least five years after the date of the last transaction or the closing of an account.

The new legislation extends money laundering controls to specific, non-bank financial professions such as lawyers, accountants, stockbrokers, insurance agents, pension managers, and dealers of precious metals and antiquities. Provided information is shared with the CTRF in good faith, the law offers immunity from administrative or civil penalties for individuals who cooperate with money laundering and terrorist finance investigations. Under the law, assets may be frozen for up to 72 hours on the basis of suspicious activity; such freezes can only be extended with judicial authorization. Financial penalties for non-compliance range from 50,000 to 5 million Algerian dinars.

The law also provides significant authority to the Algerian Banking Commission, the independent body established under authority of the Bank of Algeria to supervise banks and financial institutions, to inform the CTRF of suspicious or complex transactions. The law furthermore gives the Algerian Banking Commission, CTRF, and the Algerian judiciary wide latitude to exchange information with their foreign government counterparts in the course of money laundering and terrorist finance investigations, provided confidentiality for suspected entities is insured. A clause excludes the sharing of information with foreign governments in the event legal proceedings are already underway in Algeria against the suspected entity, or if the information is deemed too sensitive for national security reasons.

On November 14, 2005, the Government of Algeria issued Executive Decree 05-442, establishing a ceiling for cash transactions conducted in Algeria. Effective September 1, 2006, any payments in excess of 50,000 Algerian dinars must be made by check, wire transfer, payment card, bill of exchange, promissory note, or other official bank payment. While non-residents are exempt from this requirement, they must (like all travelers to and from the country) report their foreign currency to the Algerian Customs Authority.

The Ministry of Interior is charged with registering foreign and domestic non-governmental organizations in Algeria, although some probably operate beneath its notice. While the Ministry of Religious Affairs legally controls the collection of funds at mosques for charitable purposes, some of these funds probably escape the notice of government monitoring efforts.

In November 2004, Algeria became a member of the Middle East and North Africa Financial Action Task Force (MENA FATF). Algeria is a party to the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the 1988 UN Drug Convention. In addition, Algeria is a signatory to various UN, Arab, and African conventions against terrorism, trafficking in persons, and organized crime. It has also established an interagency council to oversee money laundering and terrorist financing investigations and form a commission that will evaluate all pending cases. The Ministry of Justice is expected to create a pool of judges trained in financial matters.

Over the last two years, Algeria has taken significant steps to enhance its statutory regime against anti-money laundering and terrorist financing. It must now move forward with implementation of those laws, including the coming into force of the law limiting the size of cash transactions.

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 continuous and widespread high-level corruption is a concern, as is the use of diamonds as a vehicle for money laundering. However, the Government of Angola (GOA) has taken steps to guard against money laundering in the diamond industry by participating in the “Kimberley Process,” an international certification scheme designed to halt trade in “conflict” diamonds in countries such as Angola. Angola has implemented a control system in accordance with the Kimberley Process. However, through the process of “mixing parcels” of licit and illicit diamonds, the Kimberly certification process can be compromised. Angola’s long and porous borders further facilitate smuggling and the laundering of diamonds.

Angola currently has no comprehensive laws, regulations, or other procedures to detect money laundering and financial crimes, although some related crimes are addressed through other provisions of the criminal code. Reportedly, additional laws are in draft form. Legislation governing foreign exchange controls allows the Central Bank’s Supervision Division, the governmental entity charged with money laundering issues, to exercise some authority against illicit banking activities. 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. Instead, such crimes are addressed through other provisions of the criminal code. For example, Angola’s counternarcotics laws criminalize money laundering related to narcotics trafficking. One of three draft laws to reform the banking sector specifically targets money laundering. The money laundering bill, which has not yet been approved by the Angolan Parliament, was drafted with the assistance of the World Bank. The GOA expects the money laundering law to be promulgated in 2006.

The high cash flow in Angola makes its financial system a potentially attractive site for money laundering. Because of a lack of a domestic interbank dollar clearing system, even dollar transfers between domestic Angolan banks are logged as “international” transfers, thus creating an incentive to settle transfers in cash. The local banking system imports approximately \$200-300 million in net cash per month, largely in dollars, without a corresponding cash outflow. Reportedly, local bank representatives have noted that clients have walked into banks with up to \$2 million in a briefcase to make a deposit. These massive cash flows occur in a banking system ill equipped to detect and report suspicious activity. The Central Bank has no workable data management system and only rudimentary analytic capability. It cannot develop suspicious transaction reports (STRs), much less analyze them and search for patterns.

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.

The Government of Angola should pass its pending legislation and criminalize money laundering (beyond drug offenses) and terrorist financing. As part of the legislation, the GOA should establish a system of financial transparency reporting requirements. The GOA should then move quickly to implement the legislation and bolster the capacity of law enforcement to better investigate financial crimes. The GOA 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. The GOA should increase efforts to combat official corruption.

Antigua and Barbuda

Antigua and Barbuda has comprehensive legislation in place to regulate its financial sector, but remains susceptible to money laundering because of its offshore financial sectors and 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 International Business Corporations Act of 1982 as amended (IBCA) is the governing legal framework for offshore businesses in Antigua and Barbuda. Antigua and Barbuda has 16 licensed offshore banks in operation, one offshore trust, one offshore insurance company, and 8,000 offshore companies. 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. Registered agents or service providers are required by law to know the names of beneficial owners. Failure to provide information or give false information is punishable by a fine of \$50,000. All licensed institutions are required to have a physical presence, which means presence of at least a fulltime senior officer and availability of all files and records. Shell companies are not permitted.

In 2002, the IBCA was amended to create the Financial Services Regulatory Commission (FSRC), which replaced the previous entity, the International Financial Sector Regulatory Authority. The FSRC is responsible for the regulation and supervision of all institutions licensed under the act to include offshore banking and all aspects of offshore gaming. The FSRC is autonomous and is financed by the revenue generated from registration fees and licensing fees of IBCs. The FSRC is supervised by a four-member Board comprised of public officials and is presently chaired by the Solicitor General. Responsibilities of the FSRC include issuing licenses for international business corporations (IBCs) and maintaining the register of all corporations. 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. Proposed 2005 amendments to the IBCA seek to authorize the FSRC to decline to incorporate a corporation if it has reason to suspect that the corporation may be used for criminal purposes.

In September 2002, the Government of Antigua and Barbuda (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. 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 amended Banking Act 2004 enables the ECCB to share information directly with foreign regulators if a memorandum of understanding is established.

The Money Laundering (Prevention) Act (MLPA) of 1996 as amended is the operative legislation addressing money laundering. 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 narcotics 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 2005, the ONDCP received 21 suspicious activity reports of which 20 were investigated. 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 2005, a number of GOAB civilian and law enforcement officials received anti-money laundering training.

The 2000 and 2001 amendments to the MLPA broadened its definition of supervised financial institutions to include all types of gambling entities and to set financial limits above which customer identification and source of funds information are required. Antigua and Barbuda has five domestic casinos, which are required to incorporate as domestic corporations. Internet gaming operations are required to incorporate as IBCs; as such they are required to have physical presence. Internet gaming sites are considered to have a physical presence when the primary servers and the key person are resident in Antigua and Barbuda. Official sources indicate there are 33 Internet gambling entities, with 14 operating licenses granted in 2005. The GOAB expects to grant 10 new licenses for online gambling companies in 2006. The GOAB receives approximately \$2.8 million per year from license fees and other charges related to the internet gaming industry. 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. 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. Furthermore, the FSRC and DOG have issued Internet gaming technical standards and guidelines. 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. The FSRC recently mandated Internet gaming sites must submit quarterly financial statements in addition to annual statements. Suspicious activity reports from domestic and offshore gaming entities are sent to the ONDCP and FSRC.

In October 2001, the GOAB 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 proposed Prevention of Terrorism Act 2005 requires financial institutions to report possession of assets of persons declared by the Attorney General to be a terrorist. It is also illegal for a financial organization to deal with property belonging to a terrorist or a terrorist organization. Under the Act, the Attorney General may revoke or deny the registration of a charity or non-profit organization if it is believed funds from the organization are being used for financing terrorism. The GOAB circulates lists of terrorists and terrorist entities to all financial institutions in Antigua and Barbuda. No known evidence of terrorist financing has been discovered in Antigua and Barbuda to date. The GOAB does not believe indigenous alternative remittance systems exist in country.

Amendments to the MLPA in 2000, 2001, and 2002 enhanced international cooperation, strengthened asset forfeiture provisions, and created civil forfeiture powers. In 2005, two arrests were made on money laundering charges. Despite the comprehensive nature of the law, Antigua and Barbuda has yet to prosecute a money laundering case on its own.

The GOAB continues its bilateral and multilateral cooperation in various criminal and civil investigations and prosecutions. 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. 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. The GOAB is currently working on asset forfeiture agreements with other jurisdictions. Regardless of its own civil forfeiture laws, currently the GOAB can only provide forfeiture assistance in criminal forfeiture cases. In the past few years, the GOAB has frozen approximately \$6 million in Antigua and

Barbuda 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 2005, the GOAB cooperated extensively with U.S. law enforcement in an investigation that resulted in a seizure of \$1,022,000.

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 chaired in 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. The ONDCP joined the Egmont Group in June 2003.

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 vigorously enforce its anti-money laundering laws by actively prosecuting money laundering and asset forfeiture cases.

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 sector's slow recovery from the 2001-02 financial crisis and post-crisis capital controls may have reduced the incidence of 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. Tax evasion is the predicate crime in roughly two thirds of all Argentine money laundering investigations. Argentina has a long history of capital flight and tax evasion, and Argentines hold billions of dollars offshore, much of it legitimately earned money that was never taxed.

The GOA took several important steps to further combat money laundering and terrorist financing in 2005, including the ratification of the UN International Convention for the Suppression of the Financing of Terrorism and the Inter-American Convention Against Terrorism, and regulatory changes to improve its anti-money laundering and counterterrorist financing systems. Over 100 cases of suspected money laundering have now been passed to prosecutors by the Unidad de Informacion Financiera (UIF), Argentina's financial intelligence unit (FIU). The Central Bank of Argentina (BCRA) established a specialized bank examination unit devoted specifically to money laundering, and expanded its requirements for financial institutions to check transactions against the terrorism lists of the United States, European Union, Great Britain, and Canada, in addition to the UN 1267 Sanctions Committee consolidated list. The two chambers of Congress passed different versions of a law that would lift all bank secrecy and some fiscal secrecy provisions that have prevented the UIF from obtaining information needed for its investigations.

Argentina's primary anti-money laundering legislation is 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 an FIU, the Unidad de Informacion Financiera (UIF), under the Ministry of Justice and Human Rights. This law lay down requirements for customer identification, record keeping, and reporting of suspicious transactions by all financial entities and businesses 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. Reports that are deemed by the UIF to warrant further investigation are forwarded to the public prosecutors' office. As of November 2005, the UIF had received 1416 reports of suspicious or unusual activities, forwarded 102 suspected cases of money laundering to prosecutors for review, and assisted prosecutors with 79 cases.

The UIF, which began operating in June 2002, has issued resolutions widening the range of institutions and businesses required to report of suspicious or unusual transactions to the UIF beyond those identified in Law 25.246. Obligated entities include the tax authority (Administración Federal de Ingresos Públicos or AFIP), banks, currency exchange houses, casinos, securities dealers, dealers in art, antiques, and precious metals, insurance companies, postal money transmitters, accountants, and notaries public. The resolutions issued by the UIF also provide guidelines for identifying suspicious or unusual transactions. In 2005, the UIF eliminated a previous resolution requiring that obligated entities only report suspicious or unusual transactions that exceeded 50,000 pesos (approximately \$16,400); UIF Resolution 4/2005 now requires entities to report all suspicious or unusual transactions regardless of their amount. Suspicious or unusual transactions are now reported directly to the UIF; prior to 2004, all suspicious transactions below a 500,000 peso threshold were first reported to the appropriate supervisory body for pre-analysis due to budget constraints at the UIF. Obligated entities are required to maintain a database of all information related to client transactions, including 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 \$3,350). 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. Law 25.246 requires banks to make available to the UIF upon request records 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 \$3,300).

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 provided 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, it identified some weaknesses in Argentina's current anti-money laundering legislation, as well as the lack of terrorist financing legislation or a national coordination strategy. There have been only two money laundering convictions in Argentina since money laundering was first criminalized in 1989, and none since the passage of Law 25.246 in 2000. Under a strict interpretation of the law, a prior conviction for the predicate offense is required in order to obtain a conviction for money laundering.

Although Law 25.246 of 2000 expands the number of predicate offenses for money laundering beyond narcotics-related offenses and created the UIF, it limits the UIF's role to investigating only money laundering arising from six specific crimes. The law also defines money laundering as an aggravation after the fact of the underlying crime. A person who commits a crime cannot be prosecuted for laundering money obtained from the crime; only someone who aids the criminal after the fact in hiding the origins of the money can be guilty of money laundering. Another impediment to Argentina's anti-money laundering regime is that only transactions (or a series of related transactions) exceeding 50,000 pesos can constitute money laundering; transactions below 50,000 pesos can constitute only concealment, a lesser offense.

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, it fails to resolve conflicts with strict "banking, fiscal, and professional" confidentiality provisions in other laws that require 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), reportedly have been uncooperative in responding to the UIF's requests for assistance, citing these confidentiality provisions. An exception is the Central Bank, which generally cooperates with the UIF by providing regulatory information needed for money laundering investigations. As of November 2005, the UIF had requested additional information from the AFIP in 419 cases and from the Central Bank in 310 cases.

Legislation that would lift all banking secrecy restrictions and partially lift fiscal secrecy restrictions passed both houses of the Congress in 2005—but in different forms. The two bills need to be reconciled and the legislation must be signed by the President before becoming law. The passage of this law would lift or reduce many restrictions that have prevented the UIF from obtaining information needed for money laundering investigations.

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. In 2005, Argentina ratified the UN International Convention for the Suppression of the Financing of Terrorism and the Inter-American Convention Against Terrorism, but it has not yet passed domestic legislation. Several bills have been introduced in the Congress to implement the provisions of those treaties under Argentine law, but there have not yet been votes on any of these draft laws and the GOA has not yet indicated which, if any, of these bills it will support. In an attempt to close this gap, the Central Bank issued Circular 4863 in 2005 that requires banks to report any detected instances of the financing of terrorism. However, bankers have complained that the regulation is not backed by any legal definition of what constitutes terrorist financing in Argentina, and that the absence of domestic legislation means that they are not protected from lawsuits by clients if they report suspected cases of terrorist financing.

The Central Bank of Argentina issued Circular B-6986 in 2004, instructing financial institutions to identify and freeze the funds and financial assets of the individuals and entities listed on the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. It modified this circular with Resolution 319 in October 2005, which expands Circular B-6986 to require financial institutions to check transactions against the terrorist lists of the United Nations, United States, European Union, Great Britain, and Canada. No assets have been identified or frozen to date.

Working with the United States Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE), Argentina began the process of establishing a Trade Transparency Unit (TTU) that will examine anomalies in trade data that could be indicative of customs fraud and trade-based money laundering. This is also a positive step towards complying with FATF Special

Recommendation VI on Terrorist Financing via alternative remittance systems. Trade-based systems such as hawala often use fraudulent trade documents and over and under invoicing schemes to provide counter valuation in value transfer and settling accounts.

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. The GOA is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the Inter-American Convention on Terrorism, and the UN Convention against Transnational Organized Crime, and has signed but not yet ratified the UN Convention Against Corruption. Argentina has been a member of the Egmont Group since July 2003 and participates in the “3 Plus 1” Counter-Terrorism Dialogue between the United States and the Triborder Area countries (Argentina, Brazil and Paraguay). The UIF has signed memoranda of understanding regarding the exchange of information with a number of financial intelligence units, including Australia, Belgium, Bolivia, Brazil, Chile, Colombia, El Salvador, Guatemala, Honduras, Panama, Paraguay, Peru, Romania, Spain, and Venezuela. 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, the ratification of the UN International Convention for the Suppression of the Financing of Terrorism, 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, particularly the passage of domestic legislation that criminalizes 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.

To comport with international standards established by the Financial Action Task Force to which Argentina, as a member of the FATF, is committed to honor, the Government of Argentina needs to amend its anti-money laundering legislation to state that any person who commits a crime and then launders the illicit proceeds of that crime is prosecuted for money laundering. The final passage of pending legislation should reduce disputes over information sharing between the UIF, the financial sector, the Central Bank, the tax agency (AFIP), and other regulatory agencies. In doing so, the Government of Argentina will need to balance the concerns of the UIF 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. Other issues need to be resolved for anti-money laundering efforts to succeed. The lack of coordination and cooperation between GOA agencies, and the lack of a national strategy on money laundering that would link and coordinate GOA resources devoted to intelligence and to counternarcotics and anti-financial crime efforts hinders the separate efforts of the different agencies. There are also needs for 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 the provision of the necessary resources to the UIF to carry out its mission. Additionally, there is a need for increased public awareness of the problem of money laundering and its connection to narcotics, corruption, and terrorism.

Aruba

Aruba is an autonomous, largely self-governing Caribbean island under the sovereignty of the Kingdom of the Netherlands. Due to its geographic location and excellent infrastructure Aruba is both attractive and vulnerable to money launderers and narcotics trafficking. Aruba has four commercial and two offshore banks, one mortgage bank, two credit unions, an investment bank, a finance

company, 11 credit institutions, and 11 casinos. The island also has six registered money transmitters, two exempted U.S. money transmitters (Money Gram and Western Union), eight life insurance companies, 14 general insurance companies, two captive insurance companies, and 11 company pension funds. As of November 30, 2004, there were 5,526 limited liability companies (NVs), of which 493 were offshore limited liability companies or offshore NVs. In addition, there are approximately 4,014 offshore tax-exempt companies referred to as Aruba Exempt Companies (AECs), which mainly serve as vehicles for tax minimization, corporate revenue routing, and asset protection and management.

The offshore NV and the AEC are the primary methods used for international tax planning in Aruba. The offshore NV pays a small percentage tax and is subject to more regulation than the AEC. The AEC is tax exempt as long as all business income arises outside of Aruba and as long as the company is not controlled directly or indirectly by Aruban residents. AECs cannot participate in the economy of Aruba; therefore, no transactions with onshore companies or residents are allowed. AECs are also exempt from several obligations including currency restrictions, filing of annual financial statements, and from disclosure of financial condition and beneficial owners. AECs pay an annual registration fee of approximately \$280, and must have minimum authorized capital of approximately \$6,000. Both offshore NVs and AECs can issue bearer shares. A local managing director is required for offshore NVs. AECs must have a local registered agent, which must be a trust company.

In 2001 the Government of Aruba (GOA) made a commitment to the Organization for Economic Cooperation and Development (OECD), in connection with the Harmful Tax Practices initiative, to modernize its fiscal legislation in line with OECD standards. In 2003 the GOA introduced a New Fiscal Regime (NFR) that contains a dividend tax and imputation credits. As a result of the introduction of the NFR, Aruba no longer has an offshore regime (grandfathered until 2007/2008). As of July 1, 2003, the incorporation of low tax offshore NVs was halted. The NFR contains a specific exemption for the AEC; nevertheless, commitments have been made to the OECD that the AEC will be amended before the end of 2005. The amendments will for the major part relate to transparency and the requirement of a yearly audited financial statement.

Aruba currently has three areas designated as free zones: Oranjestad Free Zone, Bushiri Free Zone, and the Barcadera Free Zone. The free zones of Aruba are managed and operated by Free Zone Aruba (FZA) NV, a government limited liability company. Originally, only companies involved in trade or light industrial activities (which include the servicing, repairing and maintenance of goods with a foreign destination) could be licensed to operate within the Free Zone. However, the State Ordinance Free Zones 2000 extended licensing to service-oriented companies (excluding financial services). Before admittance to operate in the free zone, companies must submit a business plan; submit personal data of managing directors, shareholders, and ultimate beneficiaries; and establish a limited liability company founded under Aruban law that is exclusively intended for free zone operations. 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 Central Bank of Aruba is the supervisory/regulatory authority for credit institutions, insurance companies, company pension funds, and money transfer companies. The State Ordinance on the Supervision of Insurance Business (SOSIB) and the Implementation Ordinance on SOSIB brought insurance companies under the supervision of the Central Bank and require those established after July 1, 2001, to obtain a license from the Central Bank. 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.

Money Laundering and Financial Crimes

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. All financial and non-financial institutions are obligated to report suspicious transactions to Aruba's financial 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. The MOT is authorized to inspect all banks, money remitters, casinos, insurance companies, and brokers for compliance with the unusual reporting requirements and the identification requirements for financial transactions.

The MOT is staffed by 12 employees. In 2004, the MOT received 7,460 suspicious transaction reports (STRs) with 87 investigations conducted and 27 cases transferred to the appropriate authorities. For 2005, the MOT received 6,956 STRs with 60 investigations conducted, 27 cases transferred, and 10 cases still to be worked. 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) to the Customs Department. The law also applies to express courier mail services. Reports generated are forwarded to the MOT to review. In 2005 approximately 872 reports were submitted to the MOT.

The MOT shares information with other national government departments. On April 2, 2003, the MOT signed an information exchange agreement with the Aruba Tax Office, which is in effect and being implemented. Recently, the MOT and the Central Bank signed an information exchange memorandum of understanding (MOU) that is effective January 2006. The MOT is not linked electronically to the police or prosecutor's office. 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 United States and the MOT signed such an MOU in November 2005.

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.

Aruba participates in the FATF through the Netherlands, and therefore, participates in the FATF mutual evaluation program. The GOA has a local FATF committee, comprised of officials from different departments of the Aruban Government that work together under the leadership of the MOT, to oversee the implementation of the FATF recommendations. The local FATF committee reviewed the GOA anti-money laundering legislation and proposed, in accordance with the nine 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 nine FATF Special Recommendations. Aruba will introduce the Sanctions Ordinance to become fully compliant with the Special Recommendations. The GOA and the Netherlands formed a separate committee in 2004 to ensure cooperation of agencies within the Kingdom of the Netherlands in the fight against cross-border organized crime and international terrorism.

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 signed in November 2003 became effective in September 2004.

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 major centers for capital markets in the Asia-Pacific region. Annual turnover across Australia's over-the-counter and exchange-traded financial markets was AUD82 trillion (approximately \$61.50 trillion) in 2005. Australia's total stock market capitalization is over \$500 billion (approximately \$375 billion), making it the ninth largest market in the world, and the second largest in the Asia-Pacific region behind Japan. Australia's foreign exchange market is ranked seventh in the world by turnover; with the U.S. dollar and the Australian dollar the fourth most actively traded currency pair globally. While narcotics offences provide a substantial source of proceeds of crime, the majority of illegal proceeds are derived from fraud-related offences. One Australian Government estimate suggested that the amount of money laundered in Australia ranges between AUD2-3 billion (approximately \$1.5-\$2.25 billion) per year.

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's system has evolved over time to address new money laundering and terrorist financing risks identified through continuous consultation between government agencies and the private sector.

In March 2005, the Financial Action Task Force (FATF) conducted its on-site Mutual Evaluation (FATFME) of Australia's anti-money laundering/counterterrorism financing (AML/CTF) system. Australia is one of the first member countries to be evaluated under FATF's revised recommendations. The FATF's findings from the mutual evaluation of Australia were published in October 2005 and Australia was found to be compliant or largely compliant with just over half of the FATF Recommendations. The FATFME noted that although Australia "has a comprehensive money laundering offense... the low number of prosecutions ...indicates...that the regime is not being effectively implemented".

In response, the GOA has committed to reforming Australia's AML/CTF system to implement the revised FATF Forty plus Nine recommendations. The Attorney General's Department (AGD) is coordinating this process, which is expected to significantly reshape Australia's current AML/CTF regime in line with current international best practices. In December 2003, the Australian Government confirmed its intention to implement the revised FATF standards and an extensive process of consultation with industry has been underway since then.

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 was superseded 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.

Money Laundering and Financial Crimes

The Proceeds of Crime (Consequential Amendments and Transitional Provisions) Act 2002 (POCA 2002), repealed the money laundering offenses that had previously been in the Proceeds of Crime Act 1987 and replaced them with updated offenses that 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 gradually being placed in the Criminal Code. POCA 2002 also enables the prosecutor to apply for the restraint and forfeiture of property from proceeds of crime. POCA 2002 further creates a national confiscated assets account from which, among other things, various law enforcement and crime prevention programs may be funded. Recovered proceeds can be transferred to other governments through equitable sharing arrangements. It also authorizes the seizure and forfeiture of property used in, intended to be used in, or derived from, terrorist offenses. It is intended to implement obligations relating to property that arise under the UN International Convention for the Suppression of the Financing of Terrorism.

Underneath the framework of 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 all international funds transfers into or out of Australia, regardless of value. 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 established the Australian Transaction Reports Analysis Centre (AUSTRAC). Australia's financial intelligence unit (FIU). AUSTRAC collects, retains, compiles, analyzes, and disseminates FTR information. AUSTRAC is Australia's AML/CTF regulator, ensuring compliance with the FTR ACT. 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. As such, AUSTRAC plays a central role in Australia's AML system both domestically and internationally. Between 2004 and 2005, AUSTRAC's FTR information was used in 2,224 investigations. Of these, 578 matters identified FTR information as being very valuable to investigation outcomes. Results from the Australian Taxation Office shows that the FTR information contributed to more than AUD61.65 million (approximately \$45 million) in Australian Taxation Office assessments during the year. By November 2005, AUSTRAC received a total of 12,575,531 financial transaction reports, with 99.5 percent of the reports submitted electronically through the EDDS Web system. AUSTRAC received 17,212 suspect transaction reports (SUSTRs), an increase of 49.9 percent from the previous year.

In 2005, there was a significant increase in the total number of financial transaction reports received by AUSTRAC. Significant cash transactions reports (SCTRs) account for 18 percent of the total number of FTRs reported to AUSTRAC each year and are reported by cash dealers and solicitors. In

2005, AUSTRAC received 2,288,373 SCTR, an increase of 11.3 percent from the previous year. Cash dealers are required to report all international funds transfer instructions (IFTIs) to AUSTRAC. Cash dealers reported 10,243,774 IFTIs to AUSTRAC—a 17.9 percent increase from 2004. The remittances generated 1,229,592 IFTI reports—a 76 percent increase in number from the previous year. International currency transfer reports (ICTR) are primarily declared to the Australian Customs Service by individuals when they enter or depart from Australia. AUSTRAC received 26,172 ICTRs—a 2.3 percent increase from the previous year. In April 2005, the Minister for Justice and Customs launched AUSTRAC's AML eLearning application. This application has been well received by cash dealers as a tool in providing basic education on the process of money laundering, the financing of terrorism, and the role of AUSTRAC in identifying and assisting investigations of these crimes

AUSTRAC 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 in an effort to 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.

APRA is the prudential supervisor of Australia's financial services sector. AUSTRAC regulates anti-money laundering/counterterrorist financing (AML/CTF) compliance. AUSTRAC's powers include criminal, but not administrative sanctions for non-compliance. AUSTRAC has conducted very few compliance audits in recent years and places a great deal of emphasis on educating and continuously engaging the private sector regarding the evolution of AML/CTF regime and the attendant reporting requirements. The FATFME noted that a comprehensive system for AML/CTF compliance for the entire financial sector needed to be established by the GOA, as does an administrative penalty regime for AML/CTF non-compliance.

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. Under this Act three accounts related to an entity listed on the UNSCR 1267 Sanction Committee's consolidated list, the International Sikh Youth Federation, were frozen in September 2002. There have been no arrests or prosecutions under this legislation. The Security Legislation Amendment (Terrorism) Act 2002, also inserted new criminal offenses in the Criminal Code for receiving funds from, or making funds available to, a terrorist organization

The Anti-Terrorism Act (No.2) 2005 (AT Act) recently amended offenses related to the funding of a terrorist organization in the Criminal Code so that they also cover the collection of funds for or on behalf of a terrorist organization. The AT Act also inserted a new offense of financing a terrorist. The SFT Act 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.

Investigations of money laundering reside with the Australian Federal Police (AFP) and Australian Crime Commission (Australia's only national multi-jurisdictional law enforcement agency). The AFP is the primary law enforcement agency for the investigation of money-laundering and terrorist-financing offences in Australia at the Commonwealth level and has both a dedicated Financial Crimes Unit and Financial Investigative Teams (FIT) consisting of 44 members with primary responsibility for asset identification/restraint and forfeiture under the POCA 2002. The Commonwealth Director of Public Prosecutions (CDPP) prosecutes offences against Commonwealth law and to recover proceeds of Commonwealth crime. The main cases prosecuted by the CDPP involve drug importation and money laundering offences. No convictions for money laundering have been reported for 2005.

In April 2003, the AFP established a Counter Terrorism Division to undertake intelligence-led investigations to prevent and disrupt terrorist acts. Eleven Joint Counter Terrorism Teams (JCTT), including investigators and analysts with financial investigation skills and experience, are conducting a number of investigations specifically into suspected terrorist financing in Australia. The AFP also works closely with overseas counterparts in the investigation of terrorist financing, and has worked closely with the FBI on matters relating to terrorist financing structures in South East Asia.

A draft AML/CTF Bill developed by the AGD and a package of draft AML/CTF Rules, developed by AUSTRAC, have recently been released for public comment. The package of draft legislation and rules will form the basis of further consultations on proposed enhancements to current customer due diligence, reporting and record keeping obligations, and deficiencies in regulatory coverage identified in Australia's FATF Mutual Evaluation Report. The consultation package represents a first tranche of reforms, which would apply to financial services, including when provided by professionals such as lawyers and accountants, gambling services and bullion sellers. Businesses providing these designated services would be required to, amongst other obligations, verify the identity of customers, report suspicious matters, keep appropriate records, and maintain rigorous internal AML/CTF Programs.

The release of the draft bill and AML/CTF Rules followed the passing of interim legislation in the form of Anti-Terrorism Act (No 2) 2005 (AT Act). The AT Act contains a range of measures to improve Australia's compliance with the FATF Special Recommendations on Terrorist Financing VI, VII and IX:

- Special Recommendation VI-providers of remittance services (including alternative remittance dealers) will be required to register with AUSTRAC.
- Special Recommendation VII-businesses that send international funds transfers on behalf of customers will be required to include customer information with the funds transfer instructions.
- Special Recommendation IX-travelers will be required to declare bearer negotiable instruments (e.g., travelers checks) that they are bringing into or taking out of Australia, at the request of a Customs or police officer.

The Australian Government will consider a second tranche of reforms, extending to real estate agents, jewelers, and specified non-financial legal and accounting services once the first tranche of AML/CTF reforms are implemented. The proposed legislative framework provides scope for operational detail to be settled in AML/CTF Rules, which will be developed by (AUSTRAC) in consultation with industry.

Australia is a party to 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. In September, 1999, a Mutual Legal Assistance Treaty between Australia and the United States entered into force. Australia participates actively in a range of international fora including the Financial Action Task Force, a member of the Pacific Islands Forum, and the Commonwealth Secretariat. Through its funding and hosting of the Secretariat of the Asia/Pacific Group on Money Laundering, of which it serves as permanent co-chair, the GOA has

elevated money laundering and terrorist financing issues to a priority concern among countries in the Asia/Pacific region. AUSTRAC is an active member of the Egmont Group of Financial Intelligence Units. AUSTRAC has signed Memoranda of understanding (MOUs) allowing the exchange of financial intelligence with FinCEN and the FIUs of 40 other countries.

Following the bombings in Bali in October 2002, the Australian Government announced an ADOL AUD 10 million (approximately \$7.5 million) initiative managed by AusAID, to assist in the development of counterterrorism capabilities in Indonesia. As part of this initiative, the AFP has established a number of training centers such as the Joint Centre for Law Enforcement Cooperation. As part of Australia's broader regional assistance initiatives, AUSTRAC has embarked on a long-term technical assistance program to help Indonesia in developing an effective Financial Intelligence Unit (FIU). AUSTRAC is exploring similar assistance to other regional FIUs, with AUD 7.8 million (approximately \$5.85 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 Southeast Asia, including the Philippine FIU and regional training provided by AUSTRAC through the Malaysian Government's South East Asian Regional Centre for Counter Terrorism. In the Pacific region, AUSTRAC has developed and provided unique software to six nascent Pacific island FIUs to fulfill their domestic obligations and share information with foreign analogs. The AGD received a grant of AUD 7.7 million (approximately \$5.75) to develop an a four year program AML/CTF regimes for the Pacific island jurisdictions. The AGD's program will work cooperatively with the U.S. Department of State funded Pacific Islands Anti-Money Laundering Program (PAPL). The PALP, projected to be a four-year program, will be managed by the Pacific Islands Forum (PIF) and will employ residential mentors to develop or enhance existing AML/CTF regimes in the fourteen non-FATF member states of the PIF.

Simultaneously, the GOA continues to pursue a comprehensive, anti-money laundering/counterterrorist financing regime to meets the objectives of the revised FATF Forty Recommendations and Nine Special Recommendations on Terrorist Financing. To enhance its AML regime, as noted in FATFME, AUSTRAC should conduct more on-site compliance audits and be enabled to levy administrative sanctions for non-compliance with AML/CTF laws and regulations. Additionally, the GOA should consider coordinating all regulatory agencies of its financial, securities and insurance sectors. It should also continue its exemplary 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 jurisdictions in that 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 2004, 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 non-bank 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. The Internet and offshore companies also play an important role in such crime.

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,” because in such 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 (approximately \$17,800) must declare the funds and provide information on their source and use. Spot checks for currency at border crossings will continue. Customs has authority to seize suspect cash at the border.

In implementing the new EU regulation on controls of cash entering or leaving the Community, the Government of Austria (GOA) in 2006 plans to amend the Customs Procedures Act and the Tax Crimes Act to introduce a declaration obligation for anyone carrying cash of 10,000 euros (approximately \$12,000) or more.

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 identification card. 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 identification card.

Some years ago the Financial Action Task Force (FATF) and the European Union (EU) criticized the 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, introduced 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, 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 2005, the AFIU received 372 suspicious transaction reports from banks, and fielded 417 requests for information from Interpol, Europol, the Egmont Group, and other authorities. This represents an increase from the 373 suspicious transactions (349 of them from banks) reported in 2004, which led to five 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, which is a form of forfeiture through 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 2005, Austrian courts froze assets worth 98.3 million euros (approximately \$117 million), nearly four times as much as the 25.4 euros (approximately \$29.8 million) seized in the equivalent period of 2004.

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 can 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, introduced 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 suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 or designated by 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.

During the first 11 months of 2005, the AFIU and a sister agency received 24 reports on suspected terrorism financing transaction reports, of which 15 were from banks, 7 from foreign authorities, and 2 from domestic. No assets were frozen. The increase from the 14 suspicious transactions in 2004 is due to improved control mechanisms in banks and better international cooperation. None of the 2004 reports resulted in a conviction—with many cases being due to mistaken identity.

Money Laundering and Financial Crimes

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 important efforts that may help thwart the misuse of charitable and/or non-profit entities as conduits for terrorist financing. A new law on responsibility of associations, effective January 1, 2006, introduces criminal responsibility for all legal entities, general and limited commercial partnerships, registered partnerships, and Europe economic interest groupings. The law covers all crimes listed in the criminal code, including corruption, money laundering, and terrorist financing. The earlier 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.). This law is similar to its predecessor, but it calls for record keeping and auditing on the part of non-profit entities. The 2002 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 does the Interior Ministry start investigations and, in case of serious violations of laws, it may officially prohibit the association from operating. Reportedly, the GOA has generally implemented the FATF's Special Recommendations on Terrorist Financing, except for certain aspects of the recommendation regarding non-profit organizations.

Adoption of the new EU regulation on wire transfers is imminent. The European Commission hopes the regulation will enter into force on January 1, 2007, at which time it will be immediately and directly applicable in Austria. In 2006 the GOA will start working on domestic implementation of the EU's third money laundering directive (Directive 2005/60/EC on the Prevention of the Use of the Financial System for the Purpose of Money Laundering and Terrorist Financing), which involves a number of legal changes, including of the Banking Act, Insurance Act, Gambling Act, Business Code, and several other laws. During Austria's EU presidency in the first half of 2006, the GOA in various EU committees and bodies will also work to implement guidelines for the third money laundering directive, proceed with implementing the FATF's Special Recommendation Seven on Wire-Transfers, host a workshop on a code of conduct for non-profit organizations, and, together with the U.S. Government, host another workshop on terrorist financing.

Austria has not enacted legislation that provides for sharing forfeited narcotics-related assets with other governments. However, mutual legal assistance treaties (MLATs) can be used as an alternative vehicle to achieve equitable distribution of forfeited assets. Ratification of bilateral protocols to update the bilateral MLAT, which has been in force since August 1, 1998, and the bilateral extradition treaty, which has been in force since January 1, 2000, and bring them in line with the twin U.S.-EU agreements on extradition and mutual legal assistance, is underway. 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) stated 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 is a party to the UN Convention against Corruption. 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 generally 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.

Bahamas

The Commonwealth of the Bahamas is an important regional and offshore financial center. Second to tourism, the economy depends on its financial services sector. 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 is related to financial fraud and the proceeds of drug trafficking. Illicit proceeds from drug trafficking usually take the form of cash or are quickly converted into cash. The strengthening of anti-money laundering laws has made it increasingly difficult for most drug traffickers 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. Other money laundering trends include the purchase of real estate, large vehicles, and jewelry, and the processing of money through a complex national or international web of legitimate businesses and shell companies.

The Bahamas has two 24 hour casinos in Nassau and one in Freeport/Lucaya, with a fourth scheduled to open in 2006. Cruise ships that overnight in Nassau may operate casinos. Reportedly, there are over ten Internet gaming sites based in the Bahamas, although none are licensed with Bahamian authorities. Under Bahamian law, Bahamian residents are prohibited from gambling.

The Central Bank of the Bahamas is responsible for the licensing, regulation, and supervision of banks and trust companies operating in and from within the Bahamas. The Central Bank Act 2000 (CBA) and The Banks and Trust Companies Regulatory Act 2000 (BTCRA) enhanced the supervisory powers of the Central Bank. The CBA gives the Central Bank extensive information gathering powers including on-site inspection of banks and provides for enhanced cooperation between overseas regulatory authorities and the Central Bank. The BTCRA expands the licensing criteria for banks and trust companies, enhances the supervisory powers of the Inspector of Banks and Trust Companies, and enhances the role of the Central Bank's Governor including the right to deny licenses to banks or trust companies he/she deems unfit to transact business in the Bahamas. In 2001, The Central Bank enacted a physical presence requirement that means "managed banks" (those without a physical presence but which are represented by an agent such as a lawyer or another bank) must either establish a physical presence in the Bahamas (an office, separate communications links, and a resident director) or cease operations. The transition to full physical presence was largely complete for all affected banks and

trust companies by the end of 2004. The physical presence requirement is thought to have led to a gradual decline in banks and trusts from 301 in 2003 to 253 in 2005.

The International Business Companies Act 2000 and 2001 (Amendments) enacted provisions that abolish bearer shares, require international business companies (IBCs) to maintain a registered office in the Bahamas, and require a copy of the Register of the names and addresses of the Directors and Officers and a copy of the Shareholders Register to be kept at the registered office. A copy of the Register of Directors and Officers must also be filed with the Registrar General's office. Only banks and trust companies licensed under the BTCRA and financial and corporate service providers licensed under the Financial Corporate Service Providers Act (FCSPA) may provide registration, management, administration, registered agent, registered office, nominee shareholders, and officers and directors for IBCs.

The Financial Transaction Reporting Act 2000 (FTRA) 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, and to report suspicious transactions (STRs) to the FIU and the police. The FTRA also establishes "know your customer" (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 September 2005, the Central Bank reports greater than 95 percent compliance with KYC requirements. KYC requirements initially 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 photo identification among Bahamians contribute to these documentation problems.) In October 2002, the Minister of Financial Services and Investments 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 Government of the Commonwealth of the Bahamas (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 June 2006.

Established by the FIU Act 2000, the Bahamas FIU operates as an autonomous body under the Office of the Attorney General. The FIU is the responsible agency for receiving, analyzing, and disseminating suspicious transaction reports (STRs). The FIU has the administrative power to issue an injunction to stop anyone from completing a transaction for a period of up to three days upon receipt of an STR. From January to May 2005, the FIU received 67 STRs of which 55 were being analyzed, and 8 were forwarded to the police for investigation. 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 able to cooperate and assist foreign FIUs. The FIU became a member of the Egmont Group in 2001.

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 STRs 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. 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.

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. 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.

In November 2004, the Anti-Terrorism Act was passed to implement the provisions of the UN International Convention for the Suppression of the Financing of Terrorism. 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. The Bahamas also ratified the UN International Convention for the Suppression of the Financing of Terrorism on November 1, 2005. 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. The Bahamas is a member of the Caribbean Financial Action Task Force and was Chair in 2003.

The GCOB has enacted substantial reforms that could reduce its financial sector's vulnerability to money laundering; however, it must steadfastly and effectively implement those reforms. The 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 Persian Gulf and the Gulf Cooperation Council (GCC), which consists of Bahrain, Saudi Arabia, United Arab Emirates, Kuwait, Qatar, and Oman. Though the government depends on oil and petroleum processing for nearly 70 percent of its revenue, Bahrain's oil reserves are dwindling. In contrast to the economies of many of its neighbors, oil accounted for just 15.4 percent of Bahrain's gross domestic product (GDP) in 2004. Its financial sector, in contrast, accounted for 24.2 percent. Bahrain has promoted itself as an international financial center in the Gulf region and sees the sector as vital to its future. As of December 2005, the Bahrain Monetary Agency (BMA)—Bahrain's Central Bank and sole regulator for the financial sector—had issued a total of 358 licenses, including 169 banks, of which 51 are offshore banking units (OBUs), 39 are investment banks, 25 are commercial banks, and 32 are representative offices of international banks. In addition, there are 19 money changers, 22 locally operating insurance companies (of which 12 are locally incorporated) and 73 insurance exempt companies (the bulk of whose operations are in Saudi Arabia). With so many financial institutions, and a geographic location in the Middle East as a transit point along the Gulf and into southwest Asia, Bahrain may attract money laundering activities. However, it is thought that the greatest risk of money laundering is not illegal money generated in Bahrain, but rather Bahrain's financial institutions being used to layer illegal foreign money by transiting it through Bahrain.

In January 2001, the Government of Bahrain (GOB) enacted an anti-money laundering (AML) law that criminalizes the laundering of proceeds derived from any predicate offense. The law stipulates punishment of up to seven years imprisonment and a fine of up to one million Bahraini dinars (BD) (about \$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. Notably, the AML law allows Bahrain to prosecute a money laundering violation regardless of whether the act is a crime in Bahrain. For example, there is no income tax in Bahrain, yet someone engaging in illicit financial transactions for the purpose of evading another nation's tax system may be prosecuted for money laundering in Bahrain.

Money Laundering and Financial Crimes

Following enactment of the law, 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. There is no minimum threshold required to file an STR.

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, includes members from the BMA, the Bahrain Stock Exchange, and the Ministries of Finance, Interior, Justice, Industry & Commerce, Labor and Social Affairs, and Foreign Affairs. The law further provides for the confiscation of assets and allows for greater international cooperation. This committee had an initial duration of three years, but its mandate was renewed in March 2005 for an additional three years. In the process of reinstating the committee in 2005, representatives from the Directorate of Customs Inspections, the Terrorist Financing Unit of the National Security Agency, and the Office of the Public Prosecutor were also added to the committee.

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 preliminary 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, money changers, insurance firms, real estate agents, gold dealers, financial intermediaries, and attorneys. Financial institutions must also file STRs with the BMA, which supervises these institutions. In March 2005, the BMA started receiving STRs from banks and financial institutions via a secure website. Non-financial institutions are required under a Ministry of Industry & Commerce (MOIC) 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 MOIC published new anti-money laundering guidelines, which govern all non-financial institutions. The MOIC system of requiring dual STR reporting to both it and the AMLU mirrors the BMA's system. Good cooperation exists between MOIC, BMA, and AMLU, with all three agencies describing the double filing of STRs as a backup system. The AMLU, MOIC, and BMA's compliance units analyze the STRs and work together on identifying weaknesses or criminal activity, but it is the AMLU that conducts a preliminary investigation and then forwards cases of suspected money laundering and terrorist financing for investigation to the Office of Public Prosecutor. The AMLU works with the Office of the Public Prosecutor, which under Bahrain's trial system is the body responsible for gathering and assessing evidence for trial.

From January to December 2005, the AMLU received and investigated 219 STRs. This is a dramatic increase over the 294 STRs received between June 2001 and February 2005. The AMLU attributes this to increased awareness of the need to file STRs within the Bahrain financial and designated non-financial sectors. In 2005, four cases were forwarded to the Office of the Public Prosecutor after preliminary investigation, and are currently undergoing investigation by the public prosecutor, in anticipation of referral to the courts for trial. The AMLU has obtained three court orders to freeze bank accounts of suspected money launderers.

The AMLU has been notably public in its crackdown on narcotics and financial crimes. The AMLU has announced money laundering and narcotics arrests and issued fraud and scam warnings. This activity is significant because it demonstrates strong public action against financial crimes—in a region where most countries are either not targeting financial crimes or do not make their efforts highly public. Despite being hampered by an overburdened criminal court system and a lack of specialized prosecutors and judges, Bahrain has managed to bring four money laundering cases before the courts for prosecution. However, none of these cases has yet reached the trial stage. Nonetheless, members of the Office of the Public Prosecutor recently attended U.S.-sponsored AML/CFT courses, and the Government of Bahrain is contemplating the establishment of a special court to try financial crimes. The Ministry of Justice has also sent Bahraini judges abroad for specialized training to handle such crimes.

There are 51 BMA-licensed offshore banking units (OBUs), representing both international and regional banks, active mainly in commercial and wholesale banking (e.g., project and corporate finance). 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. OBUs are required to maintain a substantive physical presence in Bahrain, including resident management.

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 the 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 the Basel Committee's Core Principles for Effective Banking Supervision.

In January 2002, the BMA issued a circular implementing the Financial Action Task Force (FATF) Special 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. However, the Government of Bahrain has not yet passed its law criminalizing terrorist financing or issued new regulations concerning the FATF Special Recommendation Nine on cash couriers. The amendments to the AML law to create specific antiterrorist financing offenses and offenses to combat cash couriers are currently before the National Assembly, together with a new antiterrorism law that would add to and expand the scope of the predicate offenses of terrorism already contained in the Bahrain penal code.

Regulation No. 1 of 1994 requires all persons or entities providing money exchange and remittance and currency transfer services to be licensed by BMA as money changers. 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. These updates

were issued to banks and insurance companies during the course of 2005. Those for remaining licensees are scheduled to be implemented in early 2006.

Legislative Decree No. 21 of 1989 governs the licensing of non-profit organizations. The Ministry of Social Development (MSD) is responsible for licensing and supervising charitable organizations in Bahrain. 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 MSD has the right to inspect records of the societies to insure their compliance with the laws. Additionally, banks are required to have a registration certificate from the MSD to open an account for a charity, and banks must report to the BMA any transaction by a charitable institution that exceeds BD 3,000 (approximately \$7,950), a reduction from the original BD 20,000 ceiling.

Bahrain is a leading Islamic finance center in the region. The sector has grown considerably since the licensing of the first Islamic bank in 1979. Bahrain has 26 Islamic banks and financial institutions. Given the large share of such institutions in Bahrain's banking community, the BMA has developed a framework for regulating and supervising the Islamic banking sector, applying regulations and supervision the same way 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 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. Bahrain is now a party to 11 of the 12 UN conventions on terrorism. Bahrain is also a party to the Arab Convention for the Suppression of Terrorism and the Convention of the Organization of the Islamic Conference on Combating International Terrorism. In December 2005, Bahrain ratified the GCC Agreement to Combat Terrorism.

Bahrain is also the headquarters for the Middle East and North Africa Financial Action Task Force (MENAFATF) secretariat. MENAFATF held its inaugural meeting in November 2004 and its first plenary in April 2005 in Bahrain. As a FATF-style regional body, MENAFATF promotes best practices on AML/CFT issues, conducts mutual evaluations of its members against the FATF standards, and works with its members to comply with international standards and measures.

Bahrain has shown progress in investigating and publicizing financial crimes. The AMLU has openly published information on narcotic arrests and its actions against financial crimes. The BMA has upgraded its regulatory requirements in line with developments in international standards and has significantly tightened its reporting requirements for charitable transfers. However, the lack of capacity within the Office of the Public Prosecutor and the judiciary has prevented the AMLU from bringing these complicated cases to trial.

Despite the achievements of the AMLU and the BMA, the Bahraini Government has not yet passed a law to combat terrorist financing and the problem of cash couriers. The Bahraini Government should continue its battle against money launderers and terrorist financiers by enacting such laws, by aggressively enforcing both the new laws and the existing AML law and regulations, and by enhancing the prosecutorial and judicial ability to successfully try financial crimes.

Bangladesh

Bangladesh is not an important regional or offshore 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 hundi transactions in Bangladesh are used to repatriate wages from Bangladeshi workers abroad. However, as elsewhere, the hundi 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 hundi 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 hundi and black market money exchanges.

Money exchanges outside the formal banking system are illegal. 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 Government of Bangladesh (GOB) to increase the efficiency of the process.

Bangladeshis are not allowed to carry cash outside of the country in excess of 3,000 taka (approximately \$50). 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.

Since 2004, the Central Bank (CB), Bangladesh Bank, has conducted training for every bank’s headquarters around the county in “know your customer” practices. 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 CB may not in every respect achieve international standards. 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 regular training programs for compliance officers based on the Guidance Notes. In December 2005, the CB called all compliance officers to Dhaka for a discussion about their obligations and heightened police interest in money laundering and terrorist financing.

Currently, Bangladesh does not have a Financial Intelligence Unit (FIU) per se. However, under the 2002 Money Laundering Prevention Act (MLPA), the Anti-Money Laundering Unit (AMLU) of Bangladesh Bank acts as a de facto FIU and has authority to freeze assets without a court order and seize them with a court order. The Bangladesh Bank has received 45 suspicious transaction reports in 2005 to make a total of 193 suspicious transaction reports since the MLPA was passed in 2002. By 2004, 134 were resolved without further action. The remaining reports were transferred from the now defunct Bureau of Anti-Corruption to the newly created Anti-Corruption Commission (ACC). The ACC has advised the bank that it will not investigate these cases and stated it would send the files back to the CB by December 31, 2005. Currently, there are 29 cases pending with the Criminal Investigation Division of Bangladesh Police Headquarters that Bangladesh Bank referred to them after the ACC abruptly refused to investigate.

There have been important developments in 2005 in the anti-money laundering and terrorist financing arena. A new law, The Anti-Money Laundering and Terrorist Financing Act 2005 (AMLTF), has been drafted to replace the MLPA from 2002. The new legislation was to have been presented to the cabinet for approval in mid-December 2005. After Cabinet approval it will be vetted by the Law Ministry and then presented to Parliament. Reportedly, the current draft addresses most of the shortcomings in prior legislation noted in last year's INCSR report.

The AMLTF, if enacted, would criminalize terrorist financing. It would provide powers required for a FIU to meet international recommendations set forth by the Egmont Group, including sharing information with law enforcement at home and abroad. The draft legislation also provides for the establishment of a Financial Investigation and Prosecution Office wherein law enforcement investigators and prosecutors will work as a team from the beginning of the case to trial. The 2005 draft legislation also addresses asset forfeiture and provides that assets, substitute assets (without proving the relation to the crime) and instrumentalities of the crime can be forfeited. The draft legislation does not address the nuts and bolts of asset forfeiture that the CB asserts can be addressed administratively and via regulatory procedures.

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. In 2005, the GOB became a party to the UN International Convention for the Suppression of the Financing of Terrorism and is now a party to twelve UN Conventions on Terrorism. The GOB is a party to the 1988 UN Drug Convention but is not a signatory to the Convention against Transnational Organized Crime. Bangladesh is a member of the Asia/Pacific Group on Money Laundering.

Despite advancements to address shortcomings in the money laundering and terrorist financing regime, the GOB's anti-money laundering/terrorist financing regimes need to be strengthened to comport with international standards, including standards for the criminalization of terrorist finance, for the provision of safe harbor in order to protect reporting individuals, for the conduct of due diligence, and for banker negligence legislation that would make individual bankers responsible under certain circumstances if their institutions launder money. While a lack of training, resources and computer technology, including computer links with the outlying districts, continue to hinder necessary progress, the GOB remains as the most corrupt government on Transparency International's Index.

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 December 31, 2005, the Barbados offshore sector includes 4,635 international business companies (IBCs), 413 exempt insurance companies, three trust companies, 11 finance companies, and 53 offshore banks. The Central Bank regulates and supervises, offshore banks, trust companies and finance companies and the other entities are regulated by the Ministry of Industry and International Business. According to the Central Bank, it is estimated that there is approximately \$32 billion worth of assets in Barbados's 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 2 million Barbadian dollars (BDS) (approximately \$1 million).

The MLPCA applies to a wide range of financial institutions, including domestic and offshore banks, IBCs, and insurance companies. In 2001 the MLPCA was amended to bring non-traditional financial institutions under the supervision of the AMLA including "any person whose business involves money transmission services, investment services or any other services of a financial nature." These institutions are required to identify their customers, cooperate with domestic law enforcement investigations, report and maintain records of all transactions exceeding 10,000 BDS (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 International Business Companies Act (1992) provides for general administration of IBCs. The Ministry of Industry and International 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 conducts off-site surveillance and 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. Additionally, offshore banks must submit quarterly statements of assets and liabilities and annual balance sheets to the Central Bank. The Central Bank may also refer suspicious activity reports (SARs) to the Barbados Financial Intelligence Unit (FIU).

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 2005, the FIU had received 84 SARs. The FIU forwards information to the Financial Crimes Investigation Unit of the police if it has reasonable grounds to suspect money laundering.

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 the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. In 2005, the GOB found no evidence of terrorist financing. Intelligence suggests that a small amount of money is leaving Barbados via an alternative remittance system. However, the GOB has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and nonprofit entities. The GOB is considering amending the Money Laundering and Financing of Terrorism (Prevention and Control) Act.

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 GOB has strengthened anti-money laundering legislation, it should consider adopting civil forfeiture and asset sharing legislation. Barbados must steadfastly enforce the laws and regulations it has adopted. The GOB should be more aggressive in conducting examinations of the financial sector and maintaining strict control over vetting and licensing of offshore entities. In 2005, there was a disproportionate number of SARS reported compared to the number of financial institutions. The GOB should ensure adequate supervision of non-governmental organizations and charities. It should also 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. The GOB should adequately staff its FIU as a first step toward bolstering 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 inflation, excessively high taxes, and the 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 gambling establishments are prevalent.

Economic decision-making in Belarus is highly concentrated within the top levels of government and has become even more so after the President issued Decree 520 "On Improving Legal Regulation of Certain Economic Relations" in November 2005. This decree gives the president broader powers over

the entire economy—including the power to manage, dispose of, and privatize all state owned property—while taking away authority from Parliament, the National Bank of Belarus, and even market forces. The decree also states that any legislation that contradicts the decree will expire in June 2006. From that date, the president will be above the law when it comes to economic regulation. In addition, by the power of the “golden share rule,” government agencies have broad powers to intervene in the management of public and private enterprises, which they often do.

Since the President issued decree 114 “On free economic zones on the territory of the Republic of Belarus” in 1996, Belarus has established six free economic zones (FEZs). The president creates FEZs upon the recommendation of the Council of Ministers and can dissolve or extend the existence of a FEZ at will. The Presidential Administration, the State Control Committee (SCC), and regional and Minsk city authorities supervise the activities of companies in the FEZs. According to the SCC, applying organizations are fully vetted before they are allowed to operate in an FEZ in an effort to prevent money laundering and terrorism finance.

Belarus’ “Law on Measures to Prevent the Laundering of Illegally Acquired Proceeds” (AML Law) was amended in 2005. It establishes the legal and organization framework to prevent money laundering and terrorism financing. The measures described in the AML Law apply to all entities that 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; notary offices (notaries); casinos and other gambling establishments; pawn shops; and other organizations conducting financial transactions.

The AML Law makes individuals and businesses, government entities, and entities without legal status criminally liable for drug and non-drug related money laundering, although the punishments for laundering money or financing terrorism are not explicitly stated in the law. However, Article 235 of the Belarusian criminal code (“Legalization of illegally acquired proceeds”) stipulates that money laundering crimes may be punishable by fine or prison terms of up to ten years. The law defines “illegally acquired proceeds” as money (Belarusian or foreign currency), securities or other assets, including property rights and exclusive rights to intellectual property, obtained in violation of the law.

The AML Law authorizes the following government bodies to monitor financial transactions for the purpose of preventing money laundering: the State Control Committee (Department of Financial Monitoring); the Securities Committee; the Ministry of Finance; the Ministry of Justice; the Ministry of Communications and Information; the Ministry of Sports and Tourism; the Committee on Land Resources; and other state bodies.

In December 2005, Parliament approved a series of amendments to the AML Law to enhance the current legislation on money laundering prevention. The amendments state that individual and corporate financial transactions exceeding approximately \$27,000 and \$270,000, respectively, are subject to special inspection. The amendments, however, exempt most government transactions and transactions sanctioned by the President from extraordinary inspection.

In January 2005, the President 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 Belarusian banking sector consists of 31 banks. Within this number, 27 have foreign investors and nine banks are foreign owned. The state-owned BelarusBank is the largest and most influential bank in Belarus. Four other state banks and one private bank comprise the majority of the remaining banking activities in the country. In addition, 12 foreign banks have representative offices in Belarus in order to facilitate business cooperation with their Belarusian clients.

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In 2003, Belarus established the Department of Financial Monitoring (DFM)—the Belarusian equivalent of a Financial Intelligence Unit—within the State Control Committee and named the DFM as the primary government agency responsible for gathering, monitoring and disseminating financial intelligence. The DFM analyzes information it receives for evidence of money laundering to pass to law enforcement officials for prosecution. The DFM also has the power to penalize those who violate money laundering laws. The DFM cooperates with its counterparts in foreign states and with international organizations to combat money laundering. Belarus' DFM is not a member of the Egmont Group, but it has applied for membership. Russia has agreed to sponsor Belarus' membership and to represent Belarus while the DFM's membership application is pending.

Financial institutions are obligated to register with the DFM transactions subject to special monitoring, such as: transactions whose suspected purpose is money laundering or terrorism finance; cases where the person performing the transaction is a known terrorist or controlled by a known terrorist; cases in which the person performing the transaction is from a state that does not cooperate internationally to prevent money laundering and terrorism financing; and finally, transactions exceeding approximately \$27,000 for individuals and \$270,000 for businesses that involve cash, property, securities, loans or remittances. Belarusian law stipulates that a one-time transaction that exceeds predetermined amounts for individuals and businesses set by the government must be registered in accordance with the law. If the total value of transactions conducted in one month exceeds the set thresholds and there is reasonable evidence to suggest that the transactions are related, then all the transaction activity must be registered.

Financial institutions conducting transfers subject to special monitoring are required to submit information about such transfers in written form to the DFM within one business day of the reported transaction. Financial institutions should identify the individuals and businesses ordering the transaction or the person on whose behalf the transaction is being placed, disclose information about the beneficiary of a transaction, and provide the account information and document details used in the transaction, including 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 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. Under the State Control Committee (SCC), the Department of Financial Investigations, in conjunction with the Prosecutor General's Office, has the legal authority to investigate suspicious financial transactions.

Failure to register and transmit the required information on financial transactions may subject a bank or other financial institution to criminal liability. The National Bank of Belarus is the relevant monitoring agency for the majority of transactions conducted by banking and other financial institutions. 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, including employment. Any member of the Board of the National Bank may be removed from office by the president with a simple notification to the National Assembly.

Terrorism is a crime in Belarus. The AML Law establishes measures to prevent terrorism finance. Belarus' law on counterterrorism also states that knowingly financing or otherwise assisting a terrorist group constitutes terrorist activity. 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. In December 2005, the Belarusian Parliament amended the Criminal Code to stiffen the penalty for the financing of terrorism and thus bring Belarusian regulations into compliance with the International Convention for the Suppression of the Financing of Terrorism. The amendments explicitly define terrorist activities and

terrorism finance and carry an eight to twelve year prison sentence for those found guilty of sponsoring terrorism.

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. A 2002 directive issued by the Board of Governors of the National Bank prohibits all transactions with accounts belonging to terrorists, terrorist organizations and associated persons. This directive also outlines a process for circulating to banks the names of suspected terrorists and terrorist organizations 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. Through 2005, 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 2004, Belarus joined the newly organized Eurasian Regional Group (EAG) Against Money Laundering and the Financing of Terrorism, a FATF-style regional body. The EAG has observer status in FATF.

Belarus has acceded to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. Belarus is a party to the 1988 UN Drug Convention and twelve of the thirteen conventions on counterterrorism. In 2004, Belarus signed the UN Convention against Corruption. On September 15, 2005, Belarus became a signatory to the UN International Convention for the Suppression of Acts of Nuclear Terrorism. Following that accession and in an effort to promote international cooperation in the fight against terrorism, the lower house of Parliament ratified a bill for the Civil Law Convention on Corruption in December 2005. The bill aims to protect those who suffer from acts of corruption and makes the state or appropriate authority liable to compensate individuals affected by a corrupt official, as well as invalidating all scandalous contract agreements.

The Government of Belarus has taken positive and concrete steps to construct an anti-money laundering and counterterrorist financing regime. Belarus should increase the transparency of its business and banking sectors. It should extend the application of its current anti-money laundering legislation to cover more of the governmental transactions that are currently exempted under the law. It should provide adequate resources to its FIU so that it can operate effectively and further improve the coordination between agencies responsible for enforcing anti-money laundering measures.

Belgium

As a member of the Financial Action Task Force (FATF), Belgium was the subject of a mutual evaluation report in June 2005. The report examined Belgium's efforts to combat money laundering and the financing of terrorism. Belgium was found compliant with most of FATF's Forty Recommendations and Nine Special Recommendations. Efforts are now being made to address weaknesses that were identified in the evaluation.

With strong legislative and oversight provisions in place in the formal financial sector, Belgian officials have noted that criminals are increasing their use of the non-financial professions to facilitate access to the official financial sector. For example, 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 relating to diamonds to the public prosecutor, 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, the GOB has distributed typologies outlining its experiences in pursuing money laundering cases involving the diamond trade, especially those involving the trafficking of African conflict diamonds. The Belgian financial intelligence unit (FIU), known in French as Cellule de Traitement des Informations Financières and in Flemish as Cel voor Financiële Informatieverwerking (CTIF-CFI), is active in this area. It has initiated several meetings with the Belgian Ministry of Economic Affairs and the High Council for Diamonds in order to clarify the obligations of diamond traders with respect to anti-money laundering and antiterrorist financing laws. The Belgian FIU also initiated a sector-wide inquiry in order to verify how diamond traders apply this legislation.

Money launderers in Belgium often use notaries to create front companies or buy real estate. 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 socio-economic status of the client, and creating a large number of companies in a short timeframe are common indicators of money laundering in Belgium. While fraud involving claims for fictitious transactions for value-added tax (VAT) reimbursements has also been of concern, VAT fraud has decreased significantly since 2001 as a result of more aggressive investigation.

A growing problem, according to government officials, is the proliferation of illegal underground banking activities. Beginning in 2004, Belgian police made a series of raids on “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. Just 1,500 of these shops are formally licensed, and Belgian authorities are considering enforcing a stricter licensing regime. Some Brussels communes have also proposed heavy taxes on these types of shops in an effort to dissuade illegitimate commerce.

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. In January 2004, Belgian domestic legislation implementing Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive) entered into force, broadening the scope of money laundering predicate offenses beyond drug-trafficking to include the financing of terrorist acts or organizations.

For the purposes of money laundering and terrorist financing, Belgian financial institutions are supervised by the Belgian Banking and Finance Commission (CBFA), which also supervises exchange houses, stock brokerages, and insurance companies. The Belgian Gaming Commission oversees casinos, and CTIF-CFI oversees some professions not supervised by CBFA or other authorities.

Belgian law mandates reporting of suspicious transactions by a wide variety of financial institutions and non-financial entities, including notaries, accountants, bailiffs, real estate agents, casinos, cash transporters, external tax consultants, certified accountant-tax experts, and lawyers. An association of Belgian lawyers has appealed the law to Belgium’s court of arbitration on the grounds that it violates

basic principles of the independence of the lawyer and of professional secrecy. A decision from the court of arbitration is pending.

The January 2004 legislation imposes prohibitions on cash payments for real estate, except for an amount not exceeding 10 percent of the purchase price or 15,000 euros (approximately \$17,700), whichever is lower. Cash payments over 15,000 euros for goods are also illegal.

Entities with reporting obligations must also submit to the FIU information on transactions involving individuals or legal entities domiciled, registered, or established in a country or territory for which FATF has recommended countermeasures. A law passed on May 3, 2002, gives the GOB the authority to invoke countermeasures against countries or territories included on the FATF list of non-cooperative countries and territories (the NCCT List) The FIU regularly submits the NCCT List to its financial institutions.

Belgian financial institutions are required to comply with “know your customer” principles, regardless of the transaction amount. 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 (approximately \$11,790). During the summer of 2005, Fortis Bank blocked 150,000 accounts in Belgium due to insufficient customer identifiers. Records of suspicious transactions that are required to be reported to the FIU must be kept for at least five years.

Financial institutions are 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 also 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 (approximately \$1.47 million).

The financial sector cooperates actively with 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 transactions in good faith to CTIF-CFI. 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.

Belgium had long permitted the issuance of bearer bonds (“titres au porteur”), widely used to transfer wealth between generations and to avoid taxes. In late 2005 the Belgian federal parliament adopted a law to phase out bearer bonds by 2008.

Currently, Belgium has no reporting requirements on cross-border currency movements. In October 2005, the European Parliament and Council of the European Union issued Regulation (EC) No 1889/2005 on controls of cash entering or leaving the Community. Belgium is required to implement this regulation by June 15, 2007.

November 2005 was also marked by the issuance of Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (3rd EU Money Laundering Directive), which EU member states, including Belgium, must implement by December 15, 2007. In another recent EU-wide initiative, the European Commission launched a consultation on the single European payments area. Stakeholder input is being sought to address a licensing/registration regime for alternative remittances. The Commission may introduce draft legislation on this topic sometime in 2006. As for non-profit organizations, the European Commission adopted a communication on non-profit organizations on November 29, 2005. This communication includes recommendations for EU member states and a framework for a code of conduct for the sector.

Belgium’s FIU, CTIF-CFI, was created in 1993. CTIF-CFI’s mission is to receive and analyze all suspicious transaction reports submitted by regulated entities. Operating as a filter between these

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subjects and judicial authorities, CTIF-CFI reports possible money laundering or terrorist financing transactions to the public prosecutor. The FIU is an autonomous and independent public administrative authority, supervised by the Ministries of Justice and Finance. Institutions and persons subject to the reporting obligations fund the FIU. Although these contributions are compulsory, the contributing entities do not exercise any formal control over the FIU.

In terms of personnel, the CTIF-CFI is composed of eight financial experts, including three magistrates (public prosecutors) appointed by the King. A magistrate presides over the body. Terms of service are for six years and may be renewed. Decisions are taken on a majority basis, with the President of the unit holding the power to break a tie. In addition to 20 staff members providing administrative and legal support, the investigative department consists of 11 inspectors/analysts. There are also three liaison police officers, one customs officer, and one officer of the Belgian intelligence service who maintain contacts with the various law enforcement agencies in Belgium.

From its founding in 1993 until the end of 2004, the CTIF-CFI had received 94,389 disclosures and has transmitted 6,430 cases to the public prosecutor aggregating 11.7 billion euros (approximately \$13.8 billion). In 2004, the FIU opened 3,163 new cases and transmitted 664 cases to the public prosecutor, down from 783 cases in 2003. A majority of the notifications generating these cases resulted from disclosures made by banks and foreign exchange offices, with less than 3 percent of notifications originating from non-financial institutions.

Belgium's FIU and federal police both transmit suspected money laundering cases to the public prosecutor. In 2004, the federal police transmitted a total of 1,815 cases to the public prosecutor. The main offenses were: narcotics (31 percent); trafficking in persons (15 percent); money laundering, fraud, and corruption (14 percent); organized crime (13 percent); armed robbery (12 percent); and vehicle theft (11 percent). Terrorism cases accounted for just over one percent of all cases forwarded to the public prosecutor by federal police.

Under Belgium's 1993 anti-money laundering and terrorist finance law (most recently amended in 2004), bank accounts can be frozen on a case-by-case basis if there is sufficient evidence that a money laundering crime has been committed. 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 2004, CTIF-CFI temporarily froze assets in 32 cases, representing 112.34 million euros (approximately \$132 million).

In 2004, the federal police created a terrorist financing unit within its economic crimes department, ECOFIN. Subsequently the ECOFIN personnel were transferred to the federal police's counterterrorism department. The federal police enjoy good cross-border cooperation with other police and investigative services. The federal police and the specialized services of the Central Office for the Fight against Organized Economic and Financial Crimes 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. In 2004, Project Cash Watch, carried out under the auspices of the federal police at international airports and other transit venues, netted seizures of more than 1.1 million euros (approximately \$1.3 million) at Belgian airports and 241,042 euros (approximately \$284,067) in other locations.

Since the creation of CTIF-CFI in 1993, Belgian courts have convicted 1,085 individuals for money laundering on the basis of cases forwarded by the FIU. These convictions have yielded combined total sentences of 2,248 years and combined total fines of 29.82 million euros (approximately \$35 million). Belgian authorities have confiscated more than 517 million euros (approximately \$609 million) connected with money laundering crimes. The majority of convictions in relation to money laundering are based upon disclosures made by the financial institutions and others to CTIF-CFI.

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. The Ministry of Finance can administratively freeze assets of individuals and entities associated with Al Qaeda, the Taliban and Usama Bin Laden on the UN 1267 Sanctions Committee's consolidated list and/or is covered by an EU asset freeze regulation. Seized assets are transferred to the Ministry of Finance. If an entity appears on the UN 1267 Sanctions Committee's consolidated list, but not on the EU list, then the GOB can pass a ministerial decree to freeze assets in order to comply with the UN requirement. Assets of entities appearing on the EU list are automatically subject to a freeze without additional legislative or executive procedures. However, Belgium lacks the legislation to administratively freeze terrorist assets in the absence of a judicial order or UN or EU designation. Belgian officials have noted that modifications in the legislation are underway in order to allow Belgium to establish a national freezing mechanism for assets related to terrorism.

Under the 2004 law, the Ministry of Justice can freeze assets related to terrorist crimes. However, the burden of proof in such cases is relatively high. In order for an act to constitute a criminal offense, authorities must demonstrate that the support was given with the knowledge that it would contribute to the commission of a crime by the terrorist group. Further, as the law does not establish a national capacity for designating foreign terrorist organizations, Belgian authorities must demonstrate in each case that the group that was lent support actually constitutes a terrorist group.

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. In 2001, Belgium became a party to the UN Convention for the Suppression of the Financing of Terrorism. A mutual legal assistance treaty between Belgium and the United States has been in force since May 2000. An extradition treaty between Belgium and the United States has been in force since September 1997. Bilateral instruments amending and supplementing these treaties, in implementation of the U.S.-EU Extradition and Mutual Assistance Agreements, were signed with Belgium in December 2004. Belgium's FIU is active among its European colleagues in sharing information. CTIF-CFI and its U.S. counterpart, FinCEN, have signed a memorandum of understanding that governs their collaborative work. CTIF-CFI heads the secretariat of the Egmont Group from 2005 to 2006.

With the January 2004 anti-money laundering legislation, Belgium has a strong anti-money laundering regime. The Government of Belgium should continue to pursue a tougher and faster independent asset-freezing capability. One obstacle is a widespread perception that once a person is placed on a UN or EU terrorist financing list, it is difficult to remove him from the list.

The Government of Belgium should continue to exert vigilance with regard to uncovering, investigating, and prosecuting illegal banking operations related to its diamond sector. Similar attention should be paid to the informal financial sector and non-bank financial institutions. Belgium should also institute stringent reporting requirements for cross-border currency movements. Finally, Belgium may need to devote more resources, including investigative personnel, to key Belgian agencies that work on money laundering, terrorist financing, and other financial crimes.

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 continues to offer financial and corporate services to nonresidents. Presently, there are eight licensed offshore banks, approximately 38,471 registered international business companies (IBCs), one licensed offshore insurance company and one mutual fund company operating in Belize.

Currently, there are 23 trust companies and agents operating in Belize, and there are also a number of undisclosed Internet gaming sites operating from within the country. 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. The local casas de cambios (money exchange houses), which were suspected of money laundering, were closed effective July 11, 2005. 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. Allegedly, 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 narcotics proceeds, or evidence to indicate significant narcotic-related money laundering. The funds generated from contraband are undetermined. Belizean officials have reported an increase in financial crimes, such as bank fraud, cashing of forged checks, and counterfeit Belizean and United States currency. The Central Bank of Belize has engaged in public awareness activities and trainings to regulate counterfeit currency.

There is one free trade zone presently operating in Belize, at the border with Southern Mexico. There are designated free trade zones in Punta Gorda, Belize City, and Benques Viego, but they are not operational. Data Pro Ltd. is designated as an Export Processing Zone (EPZ) and is regulated in accordance with the EPZ Act, Chapter 278, and revised edition 2000. Commercial Free Zone (CFZ) businesses are allowed to conduct business within the confines of the CFZ provided they have been approved by the Commercial Free Zone Management Agency (CFZMA) to engage in business activities. 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 presently 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. The minimum penalty for a money laundering offense as defined by the MLPA is three years imprisonment. Additional legislation has been enacted to discourage individuals from engaging in money laundering, and there have been two arrests for money laundering in 2005. 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 supervises and examines financial institutions for compliance with anti-money laundering/counterfinancing of terrorism laws and regulations. The banking regulations governing offshore banks are different from the domestic banking regulations in terms of capital requirements. 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 by the Central Bank and be registered with IBCs. Before the Central Bank issues the license, the Central Bank must verify shareholders' and directors' backgrounds, ensure the adequacy of capital, and review the bank's business plan. 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, Belizean laws require that licensed banks and financial institutions are required to monitor their customers' activities and report any suspicious transaction to the Financial Intelligence Unit (FIU). Belize law obligates banks and other financial institutions to maintain records of all large currency 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. The International Financial Services Commission regulates such entities for compliance. 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 preventing 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 \$20,000 (\$10,000) in cash or negotiable instruments, are required to file a declaration with the authorities at the Customs, the Central Bank and the FIU.

As of September 30, 2005, the FIU had received 33 Suspicious Transaction Reports (STRs). Of the 33 STRs filed, 26 became the subject of investigations.

Current laws provide for the establishment of a FIU but not for funding of the same. The FIU has to apply to the Ministry of Finance for funds. The funding allocated to the FIU for fiscal year 2005 was BZ\$400,000 (\$200,000). Due to financial constraints, the FIU is not adequately staffed and the existing staff lacks sufficient training and experience. On November 5, 2005 the director of the FIU resigned, leaving the FIU with only four employees. The Director of the Public Prosecutions Office and the Belizean Police Department are responsible for investigating all crimes. However, the FIU is specifically in charge of financial crimes investigations, including money laundering and the financing of terrorism.

The FIU has access to records and databanks of other government entities and financial institutions. There are no formal mechanisms for the sharing of information with domestic regulatory and law enforcement agencies. The FIU is empowered to share information with FIUs in other countries.

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 names of suspected terrorists and terrorist organizations

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listed on the UN 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. Belize has signed the UN International Convention for the Suppression of the Financing of Terrorism.

Belizean authorities acknowledge the existence and use of indigenous alternative remittance systems that bypass, in whole or part, financial institutions. Such systems are illegal in Belize. However, Belizean authorities, aware of illegal remittances, monitor such activities at both the border with Mexico and Guatemala.

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 does not specify the length of time assets can be frozen. The Ministry of Finance can confiscate frozen assets. 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 Misuse of Drugs Act (MDA) has provisions for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets. The Director of the Public Prosecutions Office and the Belize Police Department are the agencies responsible for enforcing the MDA. New legislation is currently being considered to strengthen the appropriate provisions for identifying, tracing freezing, seizing and forfeiting narcotics-related 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 just over BZ\$240,000 (approximately \$120,000). Assets forfeited and/or seized in 2004 totaled BZ\$16,664,850 (approximately \$8,332,425).

No laws have been enacted specifically for the sharing of seized narcotics assets, or of proceeds of other serious crimes, including the financing of terrorism. However, the Government of Belize actively cooperates with the efforts of foreign governments to trace or seize assets relating to financial crimes.

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. On several occasions, the FIU has cooperated with the United States Department of Justice, the Financial Crimes Enforcement Network (FinCEN), the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS), the Drug Enforcement Administration (DEA), and the Food and Drug Administration (FDA).

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 its FIU is a member of 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.

Bermuda

An overseas territory of the United Kingdom (UK), Bermuda is a major offshore financial center, and has a strong 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. In March 2003, Bermuda welcomed the external review of offshore financial centers by the International Monetary Fund (IMF), published in early 2005. Overall, the report was positive about the Government of Bermuda's (GOB) implementation of financial regulations and anti-money laundering procedures, although it did identify a number of areas requiring action. Many of those points have since been addressed through legislation, and the GOB has committed to introducing additional amendments to address the remaining issues.

As of June 30, 2005, records indicate that 13,996 international businesses were registered in Bermuda, compared to 3,072 local companies. The majority of international businesses (12,768) are exempted companies, which means they are exempt from Bermuda laws that apply to local entities including the restriction that at least 60 percent of local entities must be owned by Bermudan residents. Like local companies, an exempt company is not subject to currency controls or capital controls and is free from all forms of direct taxation on income and capital gains. Therefore, exempt companies are normally prohibited from doing business in the local economy. In addition, there are 612 exempted partnerships, 596 nonresident international companies (incorporated elsewhere to do business in Bermuda), and 19 nonresident insurance companies. These businesses operate in a fashion similar to and are subject to the same rules as an exempt company. 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. Before exempted companies can be established or any shares transferred between nonresidents, the owners and controllers must be vetted by the Bermuda Monetary Authority (BMA), the sole regulatory body for financial services.

As of December 2005, Bermuda has 1,421 international insurers and reinsurers; 1,031 of those are captive insurance companies. The term "captive" refers to companies formed primarily to insure the risks of their parent companies or affiliates. The United States is the biggest single source of captive business for Bermuda, accounting for 63 percent of the island's insurance formations. There are also 1,031 mutual fund companies, and 21 unit trusts in Bermuda. There are 4 banks in Bermuda; offshore banking is not permitted. There are no free trade zones in Bermuda.

The GOB first passed specific money laundering legislation in 1997, enacting the Proceeds of Crime Act (PCA) to apply money laundering controls to financial institutions such as banks, deposit companies, and trust companies. Subsequent amendments added investment businesses, including broker-dealers and investment managers to the list. Amendments in 2000 expanded the scope of the legislation to cover the proceeds of all indictable offenses. The PCA established the National Anti-Money Laundering Committee (NAMLC) for the purpose of advising the Minister of Finance on efforts to combat money laundering domestically and internationally, as well as to issue Guidance Notes. The committee is comprised of government officials from the Ministry of Finance, the Ministry of Labor, Home Affairs and Public Safety, Attorney General's Chambers, Department of Public

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Prosecutions, Her Majesty's Customs, Registrar of Companies, Bermuda Monetary Authority, and the Bermuda Police Service-Financial Investigation Unit (FIU). The NAMLC revised the guidance notes and it is expected that the notes, along with amendments to the PCA and the PCA Regulations, will become effective in 2006. The amendments broaden the scope of the PCA regulations to include gatekeepers such as lawyers and accountants.

The PCA includes "know your customer" (KYC) requirements and provides for the monitoring of accounts for suspicious activity. Furthermore, Bermuda performs due diligence on persons seeking to undertake business on the island. The vetting process is undertaken when an entity is incorporated. A personal declaration form must be submitted for 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 Bermuda Monetary Authority (BMA) is the sole regulatory body for financial services and is responsible for the licensing, supervision, and regulation of financial institutions including those conducting deposit-taking, insurance, investment and trust business in Bermuda. The BMA Amendment Act 2002 formalized the BMA's responsibilities to include assisting with the detection and prevention of financial crime. The BMA conducts on-site reviews and detailed compliance testing of financial institutions' anti-money laundering controls. The BMA engages in active perimeter policing responsibilities and has legal powers to undertake investigations of unlicensed persons suspected of breaching the regulations, although the BMA has not found it necessary to use these legal powers extensively.

The Banks and Deposit Companies Act 1999 implements the Core Principles for Effective Banking Supervision issued by the Basel Committee. Banks and other financial institutions are required to retain records for a minimum of five years. Bermuda has not adopted bank secrecy laws, but like the UK, recognizes a banker's common-law duty of client confidentiality. Bankers and others are protected by law with respect to their cooperation with law enforcement officials. The Insurance Amendment Act 2004 implemented a number of changes to Bermuda's insurance regime pursuant to the International Association of Insurance Supervisors' (IAIS) adoption of revised core principles for supervision, as well as to the comments made by the IMF in their report on Bermuda's insurance provisions. A further series of more substantive amendments to the Insurance Act is currently in preparation and expected to be introduced into Parliament in the spring of 2006, which should complete the overhaul of the island's insurance legislation, consistent with new international standards for this sector.

The amended Investment Business Act 2003 enhances the regulatory powers of the BMA through stronger intervention powers and clarifying certain provisions, such as the BMA's ability to cooperate with foreign regulatory bodies. Other provisions include measures to strengthen criminal and regulatory penalties. The Act also brought the Bermuda Stock Exchange (BSX) under the regulation of the BMA. In 2004 provisions were added to the Criminal Code Amendment Act to create specific 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 sanctions, including expulsion from the BSX.

Collective investment schemes (CISs) are regulated by the BMA, and fund administrators are regulated persons for the purposes of the PCA. To strengthen regulation, CISs, including hedge funds, will be the subject of new legislation anticipated for the spring 2006 session of Parliament. The proposed legislation will expand the definition of collective investment schemes to include, in addition to mutual funds and unit trusts, other business vehicles that pool and manage investment monies. It will require the licensing of fund administrators to 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.

The Bermuda Police Service's Financial Investigation Unit (FIU) serves as the island's financial intelligence unit. The FIU's mandate includes including criminal tax investigations. The FIU is the designated recipient of suspicious activity reports (SARs). 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 operations in Bermuda 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 162 in 2004. The downward trend reversed in 2005 with 181 SARs posted through mid-December. From 2001-2003 a total of 16 arrests were made on money laundering charges; however, Bermuda'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. Ten arrests were made in 2005 for money laundering.

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. Under the Misuse of Drugs Act, physical assets can be seized if used at the time the offense was committed. During 2004, the courts issued two successful confiscation orders, for a total amount of \$52,335. Forfeitures under the Misuse of Drugs Act are holding steady, with six forfeitures in 2004 amounting to \$17,529, compared to the \$13,908 forfeited in three separate 2003 cases. Cash seized in 2004 under PCA detention orders exceeded \$56,600, and in 2005 there were two cash seizures worth \$57,761; both 2004 and 2005 represented a considerable drop from the \$173,000 seized in 2003. Three restraining orders still in place from 2003/2004 are valued at approximately \$1.5 million. One new restraining order was issued in 2005 for approximately \$621,000. Three cash seizures from 2004 were forfeited under the PCA during 2005 amounting to \$47,561.

The Bermuda Police Service, through the FIU and the courts, enforces existing drug-related asset tracing/seizure/forfeiture laws. The PCA will likely be amended in 2006 to strengthen measures to detect/monitor cross-border transportation of cash. At present, the PCA provides for the seizure of cash imported into and exported from Bermuda believed to be the proceeds of criminal activity. Proposed amendments will address cash movements not attributable to criminal activity. Other amendments will widen mandatory reporting requirements relating to the suspicion of money laundering, 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 in connection with foreign criminal proceedings, 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.

Bermuda is a member of the Caribbean Financial Action Task Force (CFATF), and its FIU is a member of the Egmont Group. Bermuda is also a member of regulatory standard-setting bodies for banking, insurance and investment business. Through the UK by extension, Bermuda is a party to the 1988 UN Drug Convention and the U.S./UK Extradition Treaty. The GOB enacted the Anti-Terrorism (Financial and Other Measures) Act 2004 that introduced specific provisions criminalizing terrorist financing and provided the framework to ensure implementation of the FATF Special Recommendations on Terrorist Financing. It makes it an offense to raise funds for terrorism, 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 is to parallel the provisions already in place under the PCA for money laundering and the proceeds of other serious crimes. Financial institutions had previously been asked to conduct full reviews of their clients against officially published lists of terrorist suspects. There has been no known identified evidence of terrorist financing in Bermuda.

The Government of Bermuda should continue its efforts to update its financial services legislation relating to anti-money laundering and counterterrorism. It should also enact the proposed measures to strengthen provisions relating to the 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 bank secrecy and the lack of a government entity with effective oversight of non-bank financial activities facilitate 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 only 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. The director can only be re-elected once. In January 2004, the term of the UIF's first director ended; he was not re-elected, and the UIF's second director took over the operations of the UIF in February 2004.

The UIF is responsible for collecting and analyzing data on suspected money laundering and other financial crimes, forwarding cases that warrant further information to the Public Ministry, and requesting specific information from the financial sector on behalf of the Public Ministry prosecutors. Under Decree 24771, obligated entities—which include banks, insurance companies and securities brokers—are required to identify their customers, retain records of transactions for a minimum of ten

years, and report to the UIF 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). Under the current law, there is no requirement for obligated entities to report cash transactions above a certain threshold, as is commonplace in many countries' anti-money laundering regimes. Although by law Bolivian Customs 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 received 45 reports of suspicious or unusual transactions and sent seven cases to the Public Ministry for further investigation. The UIF is also responsible for implementing anti-money laundering controls, and may request that the Superintendence of Banks sanction obligated institutions for noncompliance with reporting requirements. In 2004, the UIF began on-site inspections of obligated 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 exploited.

Corruption is a serious issue in Bolivia. Traditionally, allegations against high-ranking law enforcement officials were routinely dismissed or forgotten. However, recently created anticorruption task forces have increased the effectiveness of investigations and prosecutions, and the number of convictions related to the crime of corruption is growing. For instance, several major convictions occurred in December 2004: three high-ranking police officials and one judge were convicted on charges related to narcotics trafficking and consorting with narcotics traffickers. 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. In spite of recommendations by both the International Monetary Fund (IMF) and the Financial Action Task Force for South America (GAFISUD), the Government of Bolivia (GOB) has done little to strengthen the UIF. Limitations in its reach and weaknesses in its basic legal 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. To date, there has been only one conviction that involved money laundering. The case is under appeal.

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, and 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 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 department of Santa Cruz, 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 has only auctioned confiscated goods sporadically. The UIF, with judicial authorization, may freeze accounts for up to 48 hours in suspected money laundering cases; this law has only been applied on one occasion.

Although terrorist acts are criminalized under the Bolivian Penal Code, the GOB currently lacks legislation that specifically addresses 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. However, there are no explicit domestic laws that criminalize the financing of terrorism or grant the GOB the authority to identify, seize, or freeze terrorist assets. Nevertheless, the UIF distributes the terrorist lists of the United Nations and the United States, receives and maintains information on terrorist groups, and can freeze suspicious assets under its own authority for up to 48 hours, as it has done in counternarcotics cases. A draft terrorist financing law was created by the UIF and presented to the Superintendence of Banks. However, because of a lack of political will due to the recent presidential elections, the bill has not yet been presented to Congress. There have been no cases of terrorist financing to date.

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 was presented to Congress in 2004, which—if passed—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 UIF; 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.

The GOB remains active in multilateral counternarcotics and international anti-money laundering organizations. Bolivia is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the South America Financial Action Task Force (GAFISUD), and is due to undergo its second mutual evaluation by GAFISUD in 2006. Bolivia is a party to the 1988 UN Drug Convention and the UN Convention for the Suppression of the Financing of Terrorism. In 2005, the GOB ratified the UN Convention Against Corruption and the UN Convention Against Transnational Organized Crime. The GOB has signed, but not yet ratified, the OAS) Inter-American Convention Against Terrorism. The UIF has been a member of the Egmont Group of financial intelligence units since 1999 and has signed memoranda of understanding with several other financial intelligence units, including Argentina, Brazil, Chile, Colombia, Ecuador,

France, Guatemala, Honduras, Korea, Mexico, Panama, Paraguay, Peru, Portugal, Slovakia, Spain and Venezuela. 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 standards of the Financial Action Task Force and GAFISUD. Bolivia should adopt new laws making money laundering a separate offense without requiring a connection to other illicit activities, expand the list of predicate offenses, criminalize terrorist financing, and enable the blockage of terrorist assets. These changes are necessary for an effective anti-money laundering and counterterrorist financing regime. As recommended by the IMF and GAFISUD, the jurisdiction of the UIF should also be expanded to cover reporting by non-banking financial institutions. 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 (BiH) is neither an international, regional, nor offshore financial center. International observers believe the laundering of illicit proceeds from criminal activity through existing financial institutions, as well as the laundering of proceeds from official corruption, is widespread. Other major sources of laundered money include tax evasion, corruption, and smuggling. Money laundering is not related primarily to narcotics proceeds. The economy of BiH is primarily cash-based, and recent studies indicate that as much as 40-60 percent of the economic activity in BiH is in the gray market.

Due to its porous borders and weak rule of law capacities, BiH is a significant market and transit point for illegal commodities including cigarettes, firearms, fuel oils, and trafficking in persons. It is likely that at least some of the proceeds from illicit activities are laundered through the banking system, though supervisory entities have made progress in requiring banks to improve controls of suspect transactions. BiH authorities have had some success in clamping down on money laundering through the formal banking system, especially on the part of suspect non-governmental organizations using direct cash transfers from abroad as a source of funding. Financial crimes overall are not seen to be increasing, though renewed attention from investigators and prosecutors means that more cases are receiving public attention. Governmental authorities throughout BiH are primarily concerned with tax and customs evasion.

There are multiple jurisdictional levels in Bosnia and Herzegovina: the State (or national) 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. The Entity, Brcko District, and State-level criminal and criminal procedure codes were harmonized in 2003. Although State level institutions are becoming more firmly grounded and are gaining increased authority, jurisdictional matters between the entities and State-level institutions remain confused.

Money laundering is a criminal offense in all State and entity criminal codes. New criminal procedure (CPC) and criminal codes were enacted at the State and entity levels in 2003, with tougher provisions against money laundering. Terrorist financing was criminalized in Article 202 of the CPC. The law on the Prevention of Money Laundering came into force on December 28, 2004, and determines the measures and responsibilities for detecting, preventing, and investigating money laundering and terrorist financing. It also prescribes measures and responsibilities for international cooperation and mandates the establishment of the Financial Intelligence Department (FID), the financial intelligence unit (FIU) for BiH. The FID is part of the recently created State Investigative and Protection Agency

(SIPA). The law requires that data on money laundering and terrorist financing offenses be shared by the prosecutor's office with the FIU. The FIU became a member of the Egmont Group in 2005. The FIU is a hybrid body, tasked with performing both analytic and criminal investigative functions. The FIU has no regulatory responsibilities. The FIU receives, collects, records, analyzes, investigates, and forwards to the State prosecutor information and documentation related to money laundering and terrorist financing. It also provides expert support to the prosecutor regarding financial activities and is responsible for international cooperation on money laundering issues. The FIU 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.

The Law on the Prevention of Money Laundering applies to any person who “accepts, exchanges, keeps, disposes of, uses in commercial or other commercial or other activity, otherwise conceals or tries to conceal money or property he knows was acquired through perpetration of a criminal offense, when such a money or property is of larger value or when such an act endangers the common economic space of Bosnia and Herzegovina or has detrimental consequences to the operations or financing of institutions of Bosnia and Herzegovina.”

For amounts above Bosnia Convertible Mark (BAM) 50,000 (approximately \$30,000), the penalty is a term of imprisonment of between one and ten years. For lesser amounts, the penalty is a term of imprisonment of between six months and five years. The money laundering law applies to all individuals and institutions. However, there is no formal supervision mechanism in place for non-bank financial institutions and intermediaries. SIPA and the Federation and RS police bodies are responsible for the investigation of financial crimes.

BiH has not enacted bank secrecy laws that prevent the disclosure of client and ownership information to bank supervisors and law enforcement authorities. The banking community cooperates with law enforcement efforts to trace funds and freeze bank accounts. There is no State-level banking supervision agency. However, a number of banks, including all those 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 report suspicious transactions on a daily basis to regulatory authorities.

The Entity-level banking supervision agencies supervise and examine financial institutions for compliance with anti-money laundering and terrorism finance laws. Banks and other financial institutions are required to know, record, and report the identity of customers engaging in significant transactions, including currency transactions above 30,000 BAM (\$18,000). They are also required to maintain records in order to respond to law enforcement requests. Reporting of all suspicious transactions is mandatory. There is no threshold amount for suspicious transactions. Reporting individuals (bankers and others) are protected by law with respect to law enforcement cooperation. There are no statutory requirements limiting or monitoring the international transportation of currency and monetary instruments. The law requires that information on all transportation of cash and securities in excess of 10,000 BAM (\$6,000) be reported to the FIU by customs administration authorities. Transactions that violate the law may be prosecuted. The taxation authority, which has responsibility for Customs, suffers like other BiH State agencies from a lack of resources and sufficient trained personnel.

The cash threshold for currency transaction monitoring is 30,000 BAM (about \$20,000). In 2004, the Federation Financial Police received reports on 77,422 currency transactions totaling 6.8 billion BAM (about \$4.6 billion) from financial institutions and customs authorities. Out of this number, 128

transactions in amount of 11.1 million BAM (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 1.3 million BAM (about \$870,000) were frozen. Criminal charges were pressed against 67 individuals. In 2005, the FIU received 98,891 currency reports from banks. Of these, 83 were identified as suspicious transactions warranting additional measures such as temporary freezing of assets, seizure and analysis of documentation, and carrying out of interviews with individuals linked to the suspicious transaction. The FIU reports that it froze 1,985,225 BAM (\$1,203,167) in 2005.

In order to avoid misuse of the banking system by multiplication of accounts, the Central Bank of Bosnia and Herzegovina (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.

There have been several multiple-defendant indictments for money laundering, most of which have been disposed of by plea bargain. There were three major money laundering cases in BiH in 2005. In the first case, three persons were indicted for money laundering. One individual was sentenced to two years imprisonment. The trial for the other two has not yet been completed. In a second case, a plea agreement was reached and the defendant was sentenced to two years' imprisonment and a 10,000 BAM (\$6,000) fine. In the third case, three persons were indicted. One defendant was sentenced to two years and agreed to testify against the other two defendants. Their trial remains ongoing. There were no arrests or prosecutions for terrorist financing in 2005.

The BiH has adequate and comprehensive procedures for forfeiture of criminal proceeds. BiH authorities have the authority to identify, freeze, seize, and forfeit terrorist finance-related and other assets. Forfeiture proceedings are initiated and conducted by the Prosecutor. The banking agencies, in particular, have the capability to freeze assets. However, the prosecutor and courts do not have the administrative mechanisms in place to seize assets, maintain them in storage, dispose of them, or route the proceeds to the appropriate authorities. BiH law does not designate any appropriate authority for this purpose. Property may be seized for criminal offenses for which a term of imprisonment of five years or more is prescribed. A specific relationship to the crime does not have to be proven for the assets to be seized. There is no mechanism for civil confiscation in place and none is anticipated in the near future.

On October 21, 2002, the 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. Banking agencies cooperate well with U.S. authorities. The Entity banking agencies are cognizant of the requirements to sanction suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee's consolidated list. However, BiH State authorities do not circulate the consolidated list to them on a regular basis. In 2004, the Government of BiH disrupted the operations of several organizations listed by the UN 1267 Sanctions Committee as having direct links with Al-Qaida. Authorities continue to investigate other organizations and individuals for links to terrorist financing. Non-bank financial transfers are very difficult for BiH law enforcement and customs officials to monitor. BiH authorities have not dealt explicitly with the issue of alternative remittance systems which bypass financial institutions. Any illegal transactions fall under the scope of the money laundering provisions of the BiH criminal procedure code.

A National Action Plan, adopted in October 2003, incorporates the Council of Europe's 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.

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. BiH has signed bilateral agreements for information exchange regarding bank supervision with Croatia, Serbia, and Slovenia.

BiH 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. BiH has signed, but has not yet ratified, the UN Convention against Corruption. BiH is a party to all 12 of the international conventions and protocols relating to terrorism. The Government of BiH adheres to relevant international money laundering standards. However, BiH has historically proven unable or unwilling to pass implementing legislation for the international conventions to which it is a party.

While BiH generally has law and regulations in place that conform to relevant international money laundering standards, it should do a better job of implementing those existing laws and regulations, as well as international conventions to which it is a party. BiH should also fully operationalize and staff its centralized regulatory and law enforcement authorities, including the financial intelligence unit (FIU) within the State Investigative and Protection Agency (SIPA) as soon as possible. At present, both the SIPA and the FIU remain under-funded and under-resourced. Although progress in implementation and enforcement has been made, BiH should continue to strengthen its institutions, particularly those State-level institutions responsible for the prevention of money laundering and terrorist financing. Significant additional training should be implemented so that law enforcement, prosecutors, and judges will have a better understanding of money laundering and terrorist financing and how to pursue it. BiH 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. Neither the narcotics trade nor the laundering of its proceeds appears to be a major problem in Botswana. Financial crimes such as bank fraud and counterfeit currency were down marginally from 2004. Reportedly, illicit diamonds are smuggled from Botswana into South Africa and other neighboring countries.

Section 14 of the Proceeds of Serious Crime Act of 1990 criminalizes money laundering related to all serious crimes. The Bank of Botswana requires financial institutions to report any transaction in which BWP (Botswana Pula) 10,000 (approximately \$2,500) or more is transferred. The Bank of Botswana has the discretion to provide information on large currency transactions to law enforcement agencies. In 2001, Botswana amended the Proceeds of Serious Crimes Act to require identification of financial bodies and owners of corporations and accounts. Additionally, Section 44 of the Banking Act of 1995 requires banks to exercise due diligence, and any bank which acts in breach of the requirements of this section is guilty of an offense and liable for a fine. The Bank of Botswana may revoke the license of a bank that has been convicted by a court of competent jurisdiction of an offense related to the use or

laundering of illegal proceeds. License revocation also applies if the bank is the affiliate, subsidiary, or parent company of a bank that has been convicted.

In 2003, the Government of Botswana enacted the Banking (Anti-Money Laundering) Regulations, which are minimum guidelines to banks on the application of international best practices on anti-money laundering. The regulations require banks to record and verify the identification of all personal and corporate customers. Banks must maintain all records on transactions, both domestic and international, for at least five years. Banks also must comply expeditiously with information requests from the Directorate on Corruption and Economic Crime (DCEC), which bears some of the responsibilities of a financial intelligence unit, and other law enforcement authorities. Implementation assessments by the Government in 2005 found compliance with these regulations to be satisfactory. These regulations do not apply to non-bank financial institutions.

The 2003 Banking Regulations also require banks 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. In practice, banks regularly submit reports of suspicious transactions to the Bank of Botswana, which supervises compliance with anti-money laundering regulations, and to the DCEC. From January to November 2005, the DCEC received 93 reports of suspicious activity, of which 85 were investigated. In 2004, the government established regulations governing bureaux de change, including measures to prevent the use of these institutions to launder money. Customs regulations require travelers carrying the equivalent of P10,000 (approximately \$2,000) or more to declare that currency upon entering Botswana.

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 also applicable to offshore banks. 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 from January to November 2005. Terrorist financing is not criminalized as a specific offense in Botswana. However, acts of terrorism and related offenses, such as aiding and abetting, can be prosecuted under the Penal Code and under the Arms and Ammunitions Act. The Bank of Botswana has circulated to financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee’s consolidated list, the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, and the European Union’s list. Under the Proceeds of Serious Crime Act, courts have the authority to confiscate proceeds of terrorist finance-related assets.

Botswana is a party to both the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Botswana is also a party to the UN Convention against Transnational Organized Crime. Botswana officially became a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) in February 2003.

The Government of Botswana is preparing a draft strategy to combat money laundering and the financing of terrorism, including interagency procedures and coordination. Although Botswana does not yet have a full-fledged financial intelligence unit, the DCEC has responsibility for investigating suspected instances of money laundering, and it can demand access to bank records if needed during the course of an investigation. Currently the law provides for asset forfeiture only after a conviction. During an investigation, the government may appeal to the High Court for a restraining order

effectively freezing the financial assets of a suspect, but only for a non-renewable, seven-day period. Government agencies are actively considering the need for broader asset forfeiture to allow a financial intelligence unit to effectively combat money laundering and the financing of terrorism. Legislation authorizing a financial intelligence unit and granting it sufficient powers to investigate would increase the government's capacity to combat financial crimes.

Brazil

Due to its 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 regulations, retains some controls on capital flows, and requires disclosure of the ownership of corporations. Brazilian authorities report that money laundering in Brazil is primarily related domestic crime, especially drugs-trafficking, corruption, organized crime, and trade in contraband, all of which generate funds that may be laundered through the banking system, real estate investment, or financial asset markets. According to Brazilian authorities, organized crime groups use the proceeds of domestic drug trafficking to purchase weapons from Colombian guerilla groups. The authorities believe that Brazilian institutions do not engage in illegal currency transactions that include significant amounts of U.S. currency derived from illegal drug sales in the United States or that otherwise significantly affect the United States. 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 below average for the region.

In 2005, 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. The year 2005 saw a range of corrupt activities of spectacular scope come to light, as Brazilian congressional and law enforcement authorities began multiple investigations into illicit financing by several political parties of their 2002 presidential campaigns. The campaign financing investigations uncovered a multi-layered corruption scandal involving alleged vote-buying in Congress by elements within the president's Worker's Party (PT) and executive branch, financed by kickbacks on contracts. While the investigations are ongoing, it appears that two medium-sized regional banks served as conduits for illicit payments, making use of a publicity firm's bank accounts. It appears that some payments were made into bank accounts overseas.

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 the border into Brazil, with a significantly smaller amount remaining in Paraguay for sale in the local economy. The area is also suspected by the U.S. and others to be a source of terrorist financing. The GOB, however, has stated that its concern over the Triborder Area is due to the significant loss of tax revenue as a result of the contraband trade (estimated at \$1.2 billion per year), rather than the financing of terrorism, of which the Government says it has not seen any evidence. In 2005, Brazilian customs authorities launched a campaign to reduce contraband smuggling from the Triborder Area into Brazil, with inspections targeting buses used by contraband couriers.

The GOB has a comprehensive anti-money laundering regulatory regime in place. Law 9.613 of 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 \$4,300) in cash, checks, or traveler's checks across the Brazilian border must fill out a customs declaration that is sent to the Central Bank. Law 10.467 of 2002, which modified Law 9.613, put into effect Decree 3,678 of 2000, thereby penalizing

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 10.701 of 2003, which also modifies Law 9.613, criminalizes terrorist financing as a predicate offense for money laundering. The law also establishes crimes against foreign governments as predicate offenses, requires the Central Bank to create and maintain a registry of information on all bank account holders, and enables the Brazilian financial intelligence unit (FIU) to request from all government entities financial information on any subject suspected of involvement in criminal activity.

Law 9.613 also created a financial intelligence unit, the Conselho de Controle de Atividades Financeiras (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 31, comprised of 13 analysts, two international organizations specialists, a counterterrorism specialist, two lawyers and support staff.

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 COAF either via the Internet or using paper forms. Banks are also required to report cash transactions exceeding 100,000 reais (approximately \$43,000) to the Central Bank, and 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. In 2005, COAF issued Resolution 13 of September 30, 2005, which subjects entities engaged in factoring—a growing business of extending credit based on accounts receivable, especially to small and medium-sized enterprises with more limited access to the banking system—to existing “know-your-client” provisions, record keeping requirements, and suspicious transaction reporting.

The COAF has direct access to the Central Bank database, so that it has immediate access to the SARs reported to the Central Bank. In 2006, it will gain access to the Central Bank’s new database of all current accounts in the country. COAF also 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. Complete bank transaction information may be provided to government authorities, including the COAF, without a court order. Domestic authorities that register with COAF may directly access the COAF databases via a password-protected system. The COAF receives roughly 10,000 cash transaction reports and 2500 SARs per month; about 2.5 percent of the latter are referred to law enforcement authorities for investigation.

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. In 2005, DECIF brought on-line a national computerized registry of all current accounts (e.g., checking accounts) in the country. A 2005 change in regulations governing foreign exchange transactions requires that banks must report identifying data on both parties for all foreign exchange transactions and money remittances, regardless of the amount of the transaction.

Money Laundering and Financial Crimes

The GOB has begun to institutionalize its national strategy for combating money laundering, holding its third annual high-level planning and evaluation session in December 2005. The strategy aims to advance 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 main goal for 2006 is the introduction of requirements for banks to more closely monitor accounts belonging to politically exposed persons (PEPs) for patterns of suspicious transactions. The national anti-money laundering strategy has put in place more regular coordination and clarified the division of labor among various federal agencies involved in combating money laundering.

The GOB reported substantial growth in the number of money laundering investigations, trials and convictions over the last three years. The annual number of investigations grew from 198 in 2003 to 310 in 2004 and 359 in 2005. These investigations led to 26 trials in 2003, 74 in 2004 and 48 in 2005, while convictions ranged from 172 in 2003 to 87 in 2004 and 90 in 2005. These numbers represent a substantial increase from the 2000 to 2002 period, in which there was an average of 40 new investigations per year and only nine convictions (all in 2002). To deal with the increasing number of money laundering cases, special money laundering courts were created in 2003. Fifteen of these courts have been established in 14 states, including two in Sao Paulo, with each court headed by a judge who receives specialized training in national money laundering legislation. A 2006 national anti-money laundering strategy goal aims to build on the success of the specialized courts by creating complementary specialized federal police financial crimes units in the same jurisdictions. Brazil has a limited ability to employ advanced law enforcement techniques such as undercover operations, controlled delivery, and the 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.

The GOB credits the increasing number of money laundering investigations, trials, and convictions to the success of the specialized courts, as well as to the large number of money laundering cases from the Banestado bank scandal, which began to move to trial during this period.

Investigations into the scandal involving Banestado, the state bank of Parana, continued in 2005 with many cases moving to prosecution. 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 large portion of which was likely laundered. The GOB believes some of the Banestado money has returned to Brazil in the form of investment or loans from offshore companies. 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 were high-level GOB officials. The Brazilian Federal Police and the Public Ministry have continued with their own investigations and have brought several individuals to trial in the case.

In 2005, the GOB drafted a bill to update its anti-money laundering legislation. If passed, this bill—which was called for in the first national anti-money laundering strategy conference in 2003—would 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 cases by amending the legal definition of money laundering and making it an autonomous offense. The draft law also allows the COAF to receive suspicious transaction reports directly from obligated entities, without their first having to pass through the supervisory bodies. The COAF would also be able to request additional information directly from the reporting entities. The draft law has not yet been presented to Congress.

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 GOB plans to introduce in 2006 a computerized registry of all seized assets to improve tracking and disbursal. The judicial system has the authority to forfeit seized assets, and Brazilian law permits the sharing of forfeited assets with other countries.

The main weakness in Brazil's anti-money laundering regime lies in the lack of legislation criminalizing the financing of terrorism. Some GOB officials have declared that the 1983 National Security Act, which was passed under the military dictatorship and contains provisions criminalizing terrorism, could be used to prosecute terrorists or terrorist financiers, should the need arise. However, because of public resistance and the history of the law, it is generally not used in criminal matters. 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 it. In 2005, the Ministry of Justice announced plans to require all non-profit organizations, which the Financial Action Task Force (FATF) has designated as an area of concern with regard to the financing of terrorism, to submit annual reports for the purposes of detecting the abuse of their non-profit status, including money laundering. These regulations would apply to non-governmental organizations, churches and charitable organizations.

The GOB has responded to U.S. efforts to identify and block terrorist-related funds. Since September 11, 2001, the COAF has run inquiries on hundreds of individuals and entities, and has searched its financial records for entities and individuals on the UNSCR Sanctions Committee's consolidated list. None of the individuals and entities on the consolidated list has been found to be operating or executing financial transactions in Brazil, and the GOB insists there is no evidence of terrorist financing in the area. 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.

In 2005, the GOB ratified the UN International Convention for the Suppression of the Financing of Terrorism and the OAS Inter-American Convention on Terrorism. Brazil is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. In June 2005, the GOB ratified the UN Convention against Corruption, which entered into force on December 14, 2005. Brazil is a full member of the Financial Action Task Force (FATF), and is a founding member of GAFISUD (the Financial Action Task Force Against Money Laundering in South America), and has sought to comply with the FATF Special Recommendations on Terrorist Financing. Brazil will hold the GAFISUD presidency in 2006. 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 of financial intelligence units 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, which was signed in 2002, entered into force in 2005. Using the Customs Agreement framework, the GOB and the U.S. Bureau of Immigration and Customs Enforcement began work in 2005 to implement a trade transparency unit (TTU) to detect money laundering via trade transactions. 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. 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. It should continue the implementation of its TTU. Brazil should also enforce currency controls and cross-border reporting requirements, particularly in the Triborder region. Additionally, Brazil and its financial intelligence unit, the Conselho de Controle de Atividades Financeiras (COAF), must continue to fight against corruption and ensure the enforcement of existing anti-money laundering laws.

British Virgin Islands

The British Virgin Islands (BVI) is a Caribbean overseas territory of the United Kingdom (UK). During 2005, the United States has not developed any new information on money laundering vulnerabilities and countermeasures in the BVI. Yet the BVI remains vulnerable to money laundering, primarily 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, 1,000 registered vessels, 90 licensed general trust companies, and 61,000 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). 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, which is 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) coordinates all anti-money laundering initiatives in 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.

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. 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. 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 its programs and 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.

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 in 2005); 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. Bearer shares are not permitted, but nominee shareholders are allowed for IBCs. Brunei residents are allowed to become shareholders of IBCs. In December 2005, 4,064 IBCs were registered in the BIFC database. Reportedly, many may be inactive. The eight Registered Agents and Licensed Trustees are responsible for filing all IBC compliance documents and for the International Trusts and asset protection trusts

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There are six offshore banks licensed in Brunei. In July 2005, the Overseas Chinese Banking Corporation Ltd (OCBC) was awarded a full international Islamic banking license and opened its inaugural international Islamic banking branch in Brunei.

The BIFC also launched a virtual Stock Exchange in 2002 that offers securities and mutual funds. The Government also recently established the Brunei Economic Development Board to attract more foreign direct investment. There are no exchange controls.

The BIFC also offers International Insurance and Takaful. Comprehensive and imaginative legislation, coupled with a flexible regulatory regime to suit sophisticated business and personal international insurance and insurance related activities are governed by the International Insurance and Takaful Order, 2002 (IITO). There are several types of licenses available, which include the conduct of general insurance, life insurance, life and general insurance and captive insurance businesses. Licenses for the players include the International Insurance Manager, the International Underwriting Manager and the International Insurance Broker. Applicants may be companies including an established foreign or domestic insurance company or licensed registered agent and trust company in Brunei acting as representative for the purpose of license application. Special provision has been provided to the needs of unit-linked life products, reinsurance and captive insurance.

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.

In early 2005, Brunei Darussalam underwent a mutual evaluation by the Asia/Pacific Group on Money Laundering of its Anti-Money Laundering regime. The Government of Brunei has evaluated the report and is adopting recommendations from the evaluation. The Ministry of Finance has been discussing the establishment of a Financial Intelligence Unit (FIU) and the Australian FIU, AUSTRAC, has provided consultation to the Government of Brunei regarding the development of the unit. The Government is drafting a new Banking Order, which will incorporate such provisions as, amongst others, confidentiality of customers and permitted disclosures, confidentiality of inspection and investigation reports.

Under the jurisdiction of the Attorney General's Office, The Mutual Assistance in Criminal Matters Order, 2005 was published in March 2005 and will come into force on January 1, 2006. Brunei has signed the Treaty on Mutual Legal Assistance in Criminal Matters in Kuala Lumpur, Malaysia and will ratify the treaty in early 2006. To date, the treaty has been signed by eight Asian countries.

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 money launderers and financiers of terrorism. For all IBCs, Brunei should provide for identification of all beneficial owners, or immobilized the bearer shares. Brunei should also establish a Financial Intelligence Unit capable of receiving, analyzing and disseminating financial information to law enforcement agencies and to foreign analogs. As a member of the APG, Brunei has committed to

comport with international anti-money laundering/counterterrorist financing standards. The Government of Brunei Darussalam should remedy all deficiencies noted in the APG mutual evaluation report.

Bulgaria

Bulgaria is not considered an important regional financial center. Its significance in terms of money laundering stems from its geopolitical position, a well-developed financial sector relative to other Balkan countries, and lax regulatory control. Although Bulgaria is a major transit point for drugs into Western Europe, it is unknown whether drug trafficking constitutes the primary generator of criminal proceeds and subsequent money laundering in Bulgaria. Financial crimes, including fraud schemes of all types, smuggling of persons and commodities, and other organized crime offenses also generate significant proceeds susceptible to money laundering. Bank and credit card fraud remains a serious problem. Tax fraud and credit card fraud are also prevalent. The sources for money laundered in Bulgaria likely derive from both domestic and 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. While counterfeiting of currency, negotiable instruments, and identity documents has historically been a serious problem in Bulgaria, joint activities of the Bulgarian government and the U.S. Secret Service have contributed to a decline in counterfeiting in recent years. There has been no indication that Bulgarian financial institutions engage in narcotics-related currency transactions involving significant amounts of U.S. currency or otherwise affecting the United States.

Since 2003, the operation of duty free shops has been targeted by the Ministry of Finance (MOF) as part of its efforts to address the gray economy and the smuggling of excise goods. Duty free shops play a major role in cigarette smuggling in Bulgaria, as well as smuggling of alcohol, and to a lesser extent perfume and other luxury goods. Attempts by the MOF to close down shops operating in Bulgaria have been unsuccessful, in part due to political opposition within the ruling coalition. The focus of the Government of Bulgaria (GOB) has been on the use of the duty free shops to violate customs and tax regimes. It is wholly possible that the shops are used to facilitate other crimes, including financial crimes. Credible allegations have linked many duty free shops in Bulgaria to organized crime interests involved in forced prostitution, the illicit drug trade, and human trafficking. There is no indication, however, of links between duty free shops or free trade areas and terrorist financing. The MOF's Customs Agency and General Tax Directorate have supervisory authority over the duty free shops. According to these authorities, reported revenues and expenses by the shops have clearly included unlawful activities in addition to duty free trade. Good identification procedures are lacking. For example, MOF inspections have revealed that it is practically impossible to monitor whether customers at the numerous duty free shops have actually crossed an international border.

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 General Tax Directorate and Customs Agency, the Interior Ministry, and Bulgaria's financial intelligence unit (FIU), the Financial Intelligence Agency (FIA). However, despite the GOB's efforts to address serious crime, lax enforcement remains an issue.

Article 253 of the Bulgarian Penal Code criminalizes money laundering. The article was adopted in 1997 and amended in 1998 and 2004. The most recent amendments broaden the list of activities that constitute money laundering offenses, increase penalties (including in cases of conspiracy and abuse of office), and clarify that predicate crimes committed outside Bulgaria can support a money laundering charge brought in Bulgaria. Article 253 is an "all offense" money laundering provision. As such, drug-trafficking is but one of many recognized predicate offenses.

All financial sectors are susceptible to money laundering. There are 29 categories of reporting entities under the Bulgarian Law on Measures Against Money Laundering (LMML). Under the LMML, lawyers, real estate agents, auctioneers, tax consultants, and security exchange operators are subject to reporting requirements, which include both suspicious and currency transaction reporting requirements. To date, only the banking sector has substantially complied with the law's requirement to file Suspicious Transaction Reports (STRs) in cases of suspected money laundering. Lower rates of reporting compliance by exchange bureaus, casinos, and other non-bank financial institutions can be attributed to a number of factors, including a lack of understanding of or respect for legal requirements, lack of inspection resources, and the general absence of effective regulatory control over the non-bank financial sector.

Banks and the 28 other reporting entities under the LMML are required to apply "know your customer" (KYC) standards. The LMML was amended in 2003 to include provisions to require listed reporting entities to demand an explanation of the source of funds for operations or transactions in an amount greater than 30,000 Bulgarian Leva (BGL) (approximately \$18,072) or foreign exchange transactions in an amount of 10,000 BGL (approximately \$6,024). Reporting entities are also required to notify the Bulgarian FIA of each payment made in cash, in an amount greater than 30,000 BGL (approximately \$18,000).

The LMML requires reporting entities (including banks and other financial institutions) to maintain records on clients and their transactions for five years. Those institutions may also be subject to internally established record keeping requirements. The degree to which such information can be provided expediently to law enforcement is impacted by bank secrecy provisions that limit dissemination absent a court order based on evidence of a committed crime. The legislation also introduces a currency transaction reporting requirement of 30,000 leva (15,000 euros), thus bringing Bulgaria into compliance with Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive). However, the procedures for identifying the origin of funds used to acquire banks and businesses in the privatization process are still inadequate.

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, when it was assessed 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. 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. The amendments also 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 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 it is working on improving its databases and its data management to make them more efficient for analytical use. In 2005, a high-level interagency working group began meeting that will review the LMML and proposed additional amendments in 2006 in order to make the law fully compliant with international standards. Members of the working group (the Legislative Working Group on Amendments to the Law on Measures against Money Laundering and the Law on Measures against Financing of Terrorism) include the following agencies: FIA, Ministry of Justice, Ministry of Interior,

Bulgarian National Bank, Gaming Commission, Financial Supervision Commission, Customs Agency, and the General Tax Directorate.

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. The Prosecutor then has the discretion to open an investigation by referring the case to either law enforcement officers from the Ministry of Interior (MOI) or to investigating magistrates from the National Investigative Service (NIS). The MOI and the NIS are the two agencies responsible for investigating money laundering and any underlying predicate criminal activity. 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. In the time period between January and November 2005, the FIA received 662 STRs and 130,631 currency transaction reports (CTRs). The STRs had a total combined value of approximately \$280 million. On the basis of the forwarded reports, 646 cases were opened. During the same period, the FIA referred 74 cases to the Supreme Prosecutor's Office of Cassation and 265 cases to the Ministry of Interior. The FIA also forwarded 33 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 fact, 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. In 2005, the Prosecution Service has reported indictments of organized crime figures for money laundering. Prosecution figures are also expected to increase in 2006 following a recent Directive issued by the Prosecutor General instructing Bulgarian prosecutors to use multiple count indictments, including indictments that charge money laundering in addition to predicate offenses. This Directive purports to change the current practice of charging only the predicate offenses.

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 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 to money laundering. The GOB also enacted the Law on Measures Against Terrorist Financing (LMATF) in February 2003, which links counterterrorism measures with financial intelligence and compels all covered entities to report a suspicion of terrorism financing or pay a penalty of 25,000 Bulgarian Leva (approximately \$15,000). The law was passed to be consistent with the FATF Special Recommendations on Terrorist Financing. The law also authorizes the FIA to use its resources and financial intelligence to combat terrorism financing, as well as in fighting money laundering.

Under the provisions of the LMATF, the GOB may freeze the assets of a suspected terrorist for up to 45 days. The FIA, in cooperation with the Bulgarian National Bank, circulates to the banking sector the names of suspected terrorists and terrorist organizations on 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, along with those designated by the EU under its relevant authorities. To date, no suspected terrorist assets have been identified, frozen, or seized by Bulgarian authorities. In 2005, a joint task force comprised of representatives from between the FIA and the National Security Service was established to identify possible terrorist financing activities and terrorist supporters.

There are no reported initiatives underway to address alternative remittance systems. Although they may operate there, Bulgarian officials have not officially 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 occasionally used to conceal money laundering. In 2005, as part of its ongoing effort to strengthen its anti-money laundering and counterterrorist financing regime, the GOB made non-bank financial institution oversight deficiencies a top priority. Results of these efforts to date, however, have been mixed.

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. A new criminal asset forfeiture law, targeted at confiscation of illegally acquired property, came into effect in March 2005. The law permits forfeiture proceedings to be initiated against property valued in excess of 60,000 Bulgarian Leva (approximately \$36,000) if the owner of the property is the subject of criminal prosecution for enumerated crimes (terrorism, drug trafficking, human trafficking, money laundering, bribery, major tax fraud, and organizing, leading, or participating in a criminal group) and a reasonable assumption can be made that the property was acquired through criminal activity. The law requires the establishment of a criminal assets identification commission that has the authority to institute criminal asset identification procedures, as well as request from the court both preliminary injunctions and ultimately the forfeiture of assets. Although the Commission has been appointed, it is not yet functional. Key players in the process of asset freezing and seizing, as prescribed in existing law, include the MOI, MOF (including the FIA), Council of Ministers, Supreme Administrative Court, Sofia City Court, and the Prosecutor General.

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 27 countries. Negotiations with five more states are currently in progress. The FIA is authorized by law to exchange financial intelligence on the basis of reciprocity without the need of an MOU. Between January and December 2005, the FIA sent 332 requests for information to foreign FIUs and received 83 requests for assistance from foreign FIUs. Bulgaria has also entered into an intergovernmental agreement with Russia that promotes anti-money laundering cooperation.

Bulgaria participates in the Council of Europe'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 also 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.

On September 21, 2005, the Bulgarian Parliament passed amendments to the 1969 law on Administrative Violations and Penalties, which establishes the liability of legal persons (companies) for crimes committed by their employees. This measure is in accordance with international standards and allows the GOB to implement its obligations under a number of international agreements, including: the OECD Anti-bribery Convention, the European Council Convention on Corruption, the UN International Convention for the Suppression of Terrorist Financing, and the UN Convention against Transnational Organized Crime. Under the amendments, Bulgaria also aligns itself with the provisions of the EU Convention on the Protection of the Communities' Financial Interests and its Protocols, a requirement for EU accession.

Although Bulgaria has done well to enact legislative changes consistent with international anti-money laundering standards, the 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. 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.

Burma

Burma, a major drug producing and trafficking country, has a mixed economy with substantial state-controlled companies, mainly in energy and heavy industry, and with private business primarily in agriculture and light industry. Burma's economy continues to be vulnerable to drug money laundering due to its under-regulated financial system, inadequate implementation of its anti-money laundering regime, and policies that facilitate the funneling of drug money into commercial enterprises and infrastructure investment. The government has addressed key areas of concern identified by the international community by implementing some anti-money laundering measures, but Burma remains on the Financial Action Task Force (FATF) list of Non-Cooperative Countries and Territories (NCCT), and the United States maintains countermeasures against Burma as of December 2005.

Burma enacted a "Control of Money Laundering Law" in 2002. It also established the Central Control Board of Money Laundering in 2002 and a financial intelligence unit (FIU) in 2003. It set a threshold amount for reporting cash transactions by banks and real estate firms, albeit at a high level of 100 million kyat (approximately \$100,000). Since adopting a "Mutual Assistance in Criminal Matters Law" in 2004, Burma has taken additional steps to address money laundering and to combat terrorist financing, including adding fraud to the list of predicate offenses and defining penalties for "tipping off" suspicious transaction reports. As a result, FATF lifted its countermeasures in October 2004. The GOB's 2004 anti-money laundering measures amended regulations, originally 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.

The GOB established a Department Against Transnational Crime in 2004 with a mandate that included anti-money laundering activities. It is staffed by police officers and support personnel from banks, customs, budget, and other relevant government departments. In response to a February 2005 FATF request, the Government of Burma submitted an anti-money laundering implementation plan and progress reports. In 2005, the government also increased the size of the FIU from 10 to 40 staff. In August 2005, the Central Bank of Myanmar issued guidelines for on-site bank inspections and required reports reviewing banks' compliance with AML legislation. Since then, the Central Bank has disbursed teams to instruct on the new guidelines and to inspect banking operations for compliance.

Despite the lifting of countermeasures, Burma remains on the FATF's list of non-cooperative countries and territories because it has not yet implemented all the required reforms in its anti-money laundering regime. As of December 2005, the United States maintains the countermeasures it adopted against Burma in 2004. 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

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respect to all Burmese banks, with particular attention to Myanmar Mayflower and Asia Wealth Bank. These rules were issued by the Financial Crimes Enforcement Network within the Treasury Department pursuant to Section 311 of the 2001 USA PATRIOT Act.

The rules prohibit most 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, for all other Burmese banks. Myanmar Mayflower and Asia Wealth Bank have been directly linked to narcotics trafficking organizations in Southeast Asia. In March 2005, following a GOB investigation, the Central Bank of Myanmar revoked Myanmar Mayflower Bank's and Asia Wealth Bank's licenses to operate, citing infractions of the Financial Institutions of Myanmar Law. As of December 2005, Government of Burma investigations into these two cases continue. In August 2005, the Government of Burma seized the assets of another private institution, the Myanmar Universal Bank (MUB), and arrested the bank's chairman under the Narcotics and Psychotropic Substances Law, charging him with drug-related money laundering crimes. As of December 2005, the case was still in court.

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 2005) and an accompanying Executive Order. These laws imposed additional economic sanctions on Burma following the regime's May 2003 attack on pro-democracy leader Aung San Suu Kyi and her convoy. The 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 those of the ruling junta, and expand visa restrictions to include managers of state-owned enterprises, in addition to senior government officials and family members associated with the regime. In August 2005, the U.S. Treasury amended and reissued the Burmese Sanctions Regulations in their entirety to implement the 2003 Executive Order, which placed sanctions on Burma.

Burma holds observer status in the Asia/Pacific Group on Money Laundering and applied for full membership in 2005. Burma 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 that address cooperation on drug-related money laundering issues. In July 2005, the Myanmar Central Control Board signed an MOU with Thailand's Anti-Money Laundering Office governing the exchange of information and financial intelligence.

Burma is a party to the UN Convention against Transnational Organized Crime and has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Burma plans to sign the ASEAN Multilateral Assistance in Criminal Matters Agreement in early 2006.

The GOB 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 improve enforcement of the regulations and oversight of its banking system, and end all policies that facilitate the investment of drug money into the legitimate economy. It also must discourage the widespread use of informal remittance or "hundi" networks. Burma should continue to work toward full implementation of a viable anti-money laundering/counterterrorist financing regime, and should provide the necessary resources to administrative and judicial authorities that supervise the financial sector, so they can successfully implement and enforce the government's latest regulations to fight money laundering. Burma should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism and criminalize the funding 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 informal banking 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 official 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 and providing security, it exerts little supervision over them. The Cambodian government continues to work on draft legislation that would criminalize money laundering and the financing of terrorism, but the law is not expected to pass until 2006.

Cambodia's banking sector is small but expanding, with fifteen general commercial banks, and four specialized commercial banks and numerous microfinance institutions. However, 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 with one of the largest local business conglomerates, the Royal Group of Companies. Otherwise, the banking sector is largely dominated by a handful of Cambodian-owned banks such as Canadia, Mekong, and ACLEDA, the government-owned Foreign Trade Bank.

The 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. 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. A more likely route for larger scale money laundering in Cambodia is through informal banking activities or business activities. Neither the NBC nor any other Cambodian entity is responsible for identifying or regulating these informal financial networks or activities.

With increased 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 no 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 yet have the authority to apply anti-money laundering controls to non-bank financial institutions such as casinos or other intermediaries, such as lawyers or accountants. However, this authority is included in draft anti-money laundering legislation.

Money Laundering and Financial Crimes

The major non-bank 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 on a 24-hour basis. It does not appear that Interior Ministry staff at the casinos exercise any actual supervision over casino operations, beyond making sure that the Ministry receives its share of casino payouts that ensures security for the casinos.

There are currently 19 licensed casinos in Cambodia, with a few more either under construction or applying for a license. Most are located along Cambodia's borders with Thailand or Vietnam. There is one large casino and other smaller gambling establishments located in Phnom Penh that have avoided the regulation that all casinos be at least 200 kilometers from the capital city.

Reportedly, most casino patrons simply hand-carry their money across borders. For patrons placing large bets, 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. Regardless of whether funds are hand-carried into Cambodia or wired into a Thai bank, the casinos do not practice due diligence.

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. A Sub-Decree on the composition and duties of AMLC has been drafted but is unlikely to be passed until passage of the new anti-money laundering legislation. 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 ratified the 1988 UN Drug Convention in 2005. It has signed the UN International Convention for the Suppression of the Financing of Terrorism. 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 UNSCR 1267 Sanction Committee's consolidated list. 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), a Financial Action Task Force (FATF) regional body. The APG has 30 members, including the U.S. Among its activities, the APG conducts mutual evaluations of members' anti-money laundering and terrorism financing efforts. The APG planned to conduct an evaluation of Cambodia in 2005 but the Cambodian government requested that the APG delay its evaluation until after the passage of the draft Law on

Anti-Money Laundering. The government also plans to work with the APG members to establish a Financial Intelligence Unit (FIU). According to the draft law, the FIU will be placed under the control of the NBC with a permanent secretariat working under the authority of a board composed of the senior representatives from Ministries of Economy and Finance, Justice, and Interior. 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, including the NBC and the Ministries of Economy and Finance, Interior, and Justice, the National Anti-Drug Committee was formed on November 26, 2003 to draft anti-money laundering legislation that meets international standards. 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. The IMF is assisting the NBC in issuing regulations to strengthen the existing anti-money laundering framework while the draft legislation is considered. Absent passage of the draft legislation in 2005, the NBC plans to issue a series of regulations that have the force of law (Praksas) and that will criminalize money laundering and terrorism financing, as well as update existing financial rules and regulations.

Pending legislation on industrial zones would create several free trade zones along Cambodia’s borders. Some observers have raised concerns about the potential for money laundering in the free trade zones, and it is unclear if the pending legislation will address this issue. In May 2005, Prime Minister Hun Sen cited money laundering as a major concern during his remarks at the Ministerial Meeting of Signatory Countries on 1993 MOU on Drug Control Cooperation.

Continuing work on the draft anti-money laundering legislation and becoming a party to the 1988 UN Drug Convention are positive steps. Cambodia should pass the draft anti-money laundering and counterterrorist financing legislation as soon as possible. Cambodia should also ratify the UN Convention Against Transnational Organized Crime. However, the larger questions remain regarding the government’s ability to implement and enforce the measures once they are in place. Cambodia should also engage fully with the Asia/Pacific Group on Money Laundering and take full advantage of its upcoming mutual evaluation and training programs offered by international donors.

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. The growth in Chinese and Colombian criminal organizations inside Canada is being reflected in increased narcotics-related crime and higher seizures. 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 suspected terrorist property, suspicious financial transactions, large cash transactions, large international electronic funds transfers, and cross-border movements of currency and monetary instruments totaling Canadian \$10,000 (approximately \$8,500) 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 (approximately \$200 to \$4,000).

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. Failure to file a suspicious transaction report (STR) could lead to up to five years' imprisonment, a fine of Canadian \$2,000,000 (approximately \$1,730,000), or both. During 2005, the reporting requirements for the legal profession were being clarified.

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 funds transfers and cash transaction and cross-border movements of Canadian \$10,000 (approximately \$8,500) or more. During 2004-2005 FINTRAC received more than 10.8 million reports. The majority of the reports were filed electronically. FINTRAC produced a total of 142 case disclosures in 2004-2005, totaling approximately Canadian \$2 billion (approximately \$1.7 billion), almost triple the value of the previous year. 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. FINTRAC's case disclosures have not yet resulted in prosecutions.

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, concern has focused on 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. A 2005 Memorandum of

Understanding on exchange of cross-border currency declarations expanded the extremely narrow disclosure policy. However, the scope of the exchange remains restrictive.

In order to address these concerns, the GOC has recently proposed a series of legislative changes that would expand information available in FINTRAC disclosures in order to enhance the critical identifiers and investigative links that law enforcement and intelligence agencies can use to further money laundering and terrorist financing investigations while respecting the privacy and Charter rights of Canadians.

The PCMLTFA enables Canadian authorities to deter, disable, identify, prosecute, convict, and punish terrorist groups. As of June 2002, STRs are required on financial transactions suspected to involve the commission of a terrorist financing offense. The GOC has also listed and searched financial records for suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee's consolidated list.

FINTRAC has the authority to negotiate information exchange agreements with foreign counterparts. It has signed 29 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 sharing seized assets, 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 in line with international standards. Canada is currently conducting a comprehensive review and significant updating of its AML/CTF framework in the context of the upcoming parliamentary review of the PCMLTFA. Proposed measures by the GOC include enhanced client identification, increased compliance and enforcement, and strengthening FINTRAC's intelligence function.

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.

Cayman Islands

The Cayman Islands, a United Kingdom (UK) Caribbean overseas territory, continues to make strides in strengthening its anti-money laundering program, including its first successful prosecution of a money laundering case in February 2005. Nevertheless, the islands remain vulnerable to money laundering due to their significant offshore sector. As the world's fifth largest financial center, 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. There are over 500 banks and trust companies, 7,100 mutual and hedge funds, and 727 captive insurance companies licensed in the Cayman Islands.

Money Laundering and Financial Crimes

Since the placement of the Cayman Islands on the FATF list of Non-Cooperative Countries and Territories in 2000 and subsequent removal in 2001, the Cayman Islands has rapidly passed, amended, and revised several anti-money laundering (AML)-related laws and regulations. Recent revisions include: the Money Services Law (2003), the Monetary Authority Law (2004), Building Societies Law (2001), Cooperative Societies Law (2001), Insurance Law (2004), Mutual Funds Law (2003), the Proceeds of Criminal Conduct (2004), and the Anti-Money Laundering Regulations (2003, 2004). A draft bill is currently being reviewed that will increase the ability to confiscate property in money laundering cases including civil forfeitures.

The Cayman Islands Monetary Authority (CIMA) is responsible for the licensing, regulation, and supervision of the Cayman Islands' financial industry, which includes banks, trust companies, mutual funds, insurance companies, money service businesses, and corporate service providers. CIMA received independence to issue and revoke licenses and enforce regulations through the Monetary Authority Law (2003 Revision). Supervision of licensees is carried out through on-site and off-site examinations. A provision of the Banks and Trust Companies Law (2001 Revision) grants CIMA access to audited account information from licensees who are incorporated under the Companies Management Law (2001 Second Revision). The Companies Law (2001 Second Revision) institutes a custodial system in order to immobilize bearer shares. There are no shell banks on the Cayman Islands. CIMA is able to share information with like foreign regulatory authorities through the execution of memoranda of understanding. In June 2005, the CIMA signed a memorandum of understanding (MOU) with the U.S. Securities and Exchange Commission (SEC).

Money laundering regulations entered into force in late 2000 that specify employee training, record keeping, and "know your customer" (KYC) 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.

Established under the Proceeds of Criminal Conduct (Amendment) Law 2003 (PCCL), the Financial Reporting Authority (FRA) replaces the former financial intelligence unit of the Cayman Islands. The FRA opened on January 12, 2004. Staff consists of the director, a legal advisor, an accountant, a senior analyst, a junior analyst, and an administrative officer. The FRA is a separate civilian authority governed by the Anti-Money Laundering Steering Group (AMLSG), which is chaired by the Attorney General. Other members of the AMLSG include the Financial Secretary, the Managing Director of the Cayman Islands Monetary Authority, the Commissioner of Police, the Solicitor General and the Collector of Customs. The FRA is responsible for, among other things, receiving, analyzing, and disseminating disclosures of financial information regarding proceeds or suspected proceeds, including those relating to the financing of terrorism. From June 2004 to June 2005, the FRA received 244 SARs. The FRA completed work on 195 out of 244 SARs. Of the 195, 107 required no further action, 88 were forwarded to foreign FIUs or law enforcement, and 29 were still in progress.

The Cayman Islands is subject to the U.S./UK Treaty concerning the Cayman Islands, relating to Mutual Legal Assistance in Criminal Matters. It is estimated that in approximately 230 cases the United States and the Cayman Islands have cooperated since the MLAT entered into force in 1990, and with respect to those cases, it is estimated that approximately \$10 million has been shared with the Cayman Government. The Cayman Islands, through the United Kingdom, is subject to the 1988 UN Drug Convention. The Cayman Islands is a member of the Caribbean Financial Action Task Force (CFATF), and its FIU is a member of the Egmont Group.

The Cayman Islands is subject to The Terrorism (United Nations Measure) (Overseas Territories) Order 2001 (TUNMOTO). The Cayman Islands criminalized terrorist financing through the passage of

the Terrorism Bill 2003, which extends criminal liability to the use of money or property for the purposes of terrorism. It also contains a specific terrorist financing money laundering provision. In March 2005, the IMF published its assessment of the Cayman Islands (originally conducted in October 2003). The IMF found that the Cayman's regime for combating money laundering and the financing of terrorism is compliant with international standards.

The Cayman Islands should continue its efforts to implement its anti-money laundering regime.

Chile

Chile's large well-developed banking and financial sector stands out as one of the strongest in the region. With rapidly increasing trade and currency flows, the government is actively seeking to turn Chile into a global financial center. However, the Chilean Government continues to believe money laundering is not a significant threat. Stringent bank secrecy laws emphasizing privacy rights have been broadly interpreted and hamper Chilean efforts to identify and combat money laundering and terrorist financing. There is strong evidence that Chile's favorable reputation and incomplete regulatory oversight are attracting an increasing number of money launderers, particularly in the northern free trade zone and in the money exchange house sector. Money laundering in Chile appears to be primarily narcotics-related.

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 Trafico Ilícito de Estupefacientes) within the CDE functioned as Chile's financial intelligence unit (FIU) until a new FIU with broader powers (the Unidad de Análisis Financiero, or UAF) 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.

Law 19.913 requires mandatory reporting of suspicious transactions by banks and financial institutions, 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, firms that carry out factoring operations, credit cards issuers and operators, securities companies, 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. However, the law does not specify the parameters for determining suspicious activity. Each entity independently decides what constitutes irregularities in financial transactions. The law also does not grant any government or supervisory entity the authority to impose penalties for partial or non-compliance; in effect, there is still only voluntary—not compulsory—reporting of suspicious or unusual financial transactions.

In addition to reporting suspicious transactions, Law 19.913 also requires that obligated entities maintain registries of cash transactions that exceed 450 unidades de fomento (approximately \$12,000),

and imposes record keeping requirements of five years. All cash transaction reports (CTRs) contained in the internal registries must be sent to the UAF at least once a year, or more frequently at the request of the UAF. In October 2005, the UAF issued a regulation requiring all banks to file these reports electronically and on a monthly basis. The Chilean tax service (Servicio de Impuestos Internos) has also issued a regulation, Resolution 120, requiring all banks, exchange houses and money remitters to report all transactions exceeding \$10,000 sent to or received from foreign countries. The physical transportation 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. These reports are sent to the UAF on a daily basis. However, Customs and other law enforcement agencies are not permitted to seize or otherwise stop the movement of funds, and the entry or exit of these funds is not subject to taxation.

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 restore some of these powers to the UAF, but it has been stalled in Congress for over eighteen months. The bill was approved by the lower house in August 2005, but it is unlikely that further progress will be made until late 2006 due to the change in presidency that will take place in March.

The UAF began operating in April 2004, and began receiving suspicious transaction reports (STRs) from reporting entities in May 2004. The UAF receives approximately ten STRs from financial institutions per month. Suspicious transaction reports 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 Superintendence of Banks. Banks in Chile are supervised formally by the Superintendence of Banks and informally by the Association of Banks and Financial Institutions. Banks are obligated to abide by “know-your-customer” standards and other money laundering controls for checking accounts. However, savings accounts are not subject to the same compliance standards. Only a limited number of banks rigorously apply money laundering controls to non-current accounts.

The UAF has not yet developed a suspicious transaction disclosure form for entities other than banks and financial institutions, and therefore does not regularly receive STRs from non-financial institutions. Cash transaction reports are only reported upon request of the UAF. A major gap in Chile’s efforts to combat money laundering is that non-bank financial institutions, such as money exchange houses, currently do not fall under the supervision of any regulatory body. The Superintendent of Casinos is the supervisory body for the seven casinos located throughout the country, but has no law enforcement or regulatory authority.

After receiving a suspicious transaction report, the UAF may request account information on the subject of the STR from the institution that filed the report. 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 were deemed by the UAF to require further investigation were sent to the CDE. Beginning in June 2005, the Public Ministry (the public prosecutor's office) is responsible for receiving and investigating all cases from the UAF. To date, the Public Ministry has received only two 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.

Primarily due to the above legislative restrictions and narrow interpretation of Law 19.913, no money laundering cases have been prosecuted to date. At the same time, the Chilean investigative police (PICH) and public prosecutor's office continue to cooperate with U.S. and regional law enforcement in money laundering investigations.

Chile's gaming industry consists of the Superintendent of Casinos, which is a supervisory body without law enforcement or regulatory authority, and seven casinos located throughout the country. However, Chile is engaged in sorting through international and domestic bids for 17 additional casinos legislated by the Chilean congress. There is currently no legal framework for regulating the money moving through the gaming industry.

One free trade zone exists in the northern region of Chile at Arica. The borders within the free trade zone are porous and largely unregulated. Reportedly, there are strong indications that money laundering schemes are rampant in the free trade zone, and Chilean resources to combat this issue are extremely limited.

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 Superintendence of Banks 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. While assets have been frozen during two drug investigations, it is unclear how the new system would operate for a terrorist financing case. 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 property and financial assets. Civil forfeiture is not permitted under current law.

Chile is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the Inter-American Convention on Terrorism. Chile has also signed but not ratified 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 and the South American Financial Action Task Force on Money Laundering (GAFISUD). 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. The UAF has signed memoranda of understanding for the

exchange of financial information with Argentina, Australia, Bolivia, Brazil, Colombia, France, Guatemala, Korea, Mexico, Panama, Paraguay, Peru, Poland, Romania, Slovenia, Spain and the United States.

In the establishment of the UAF, the Government of Chile has created an FIU that meets the Egmont Group's definition of a financial intelligence unit. However, several weaknesses remain that hamper the operations of the UAF, such as its inability to sanction reporting entities or individuals for failure to file reports, its lack of access to information from other government agencies, and, reportedly, a very narrow interpretation of how the FIU should coordinate with law enforcement and other government agencies. Non-bank financial institutions represent a threat and should be subject to regulatory guidance and supervision. The continuation of these limitations will be a step backward, reversing the steps that have been taken in Chile over the past years to create a regime capable of investigating, punishing, and deterring financial crimes. With signs of growing money laundering, Chile lacks the legal ability to obtain necessary information and coordinate efforts to address these issues. Chile should take all necessary steps to ensure that the UAF and other key agencies are capable of effectively combating money laundering and terrorist financing.

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, 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. Continuing speculation following the July adjustment of the renminbi exchange rate system also fueled illicit capital flows into China throughout 2005. Hong Kong-registered companies figure prominently in schemes to transfer corruption proceeds and in tax evasion recycling schemes. The International Monetary Fund recently estimated that money laundering in China may total as much as \$24 billion annually.

In 2005, China drafted a new Anti-Money Laundering Law, under the direction of a ministerial-level coordinating committee created in 2004. This new law is expected to broaden the scope of existing anti-money laundering regulations and to establish more firmly the Central Bank's authority over national anti-money laundering efforts. The new law was submitted to the National People's Congress Standing Committee at the end of 2005, but as of the end of December 2005, the NPC had not reviewed the draft legislation. The authorities expect the law to be passed in 2006.

China has taken steps to enhance its anti-money laundering regime. After conducting studies on how to strengthen the system, the People's Bank of China (PBC) and the State Administration of Foreign Exchange (SAFE) 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.

Measures came into effect in 2004 that further strengthened China's anti-money laundering efforts, including a March 2004 PBC regulation entitled "Regulations on Anti-Money Laundering for Financial Institutions," which strengthens 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 RMB (approximately \$120,500), cash transactions above 200,000 RMB (approximately \$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 PBC 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 approximately \$3,600.

These measures complement the PRC's 1997 Criminal Code, which criminalized money laundering under Article 191 for three categories of predicate offenses, including 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. However, the class of existing predicate offenses needs to be expanded.

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 RMB (approximately \$2,400) in or out of the country on each trip, up from 3,000 RMB (approximately \$360) previously. New provisions allowing the use of RMB 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. To address online fraud, the PBOC tightened regulations governing electronic payments. In 2005, the Central Bank announced new rules that consumers could not make online purchases of more than RMB 1,000 (approximately \$124) in any single transaction or more than 5,000 RMB (approximately \$620) in a single day. Enterprises are limited to electronic payments of no more than 50,000 RMB (approximately \$6,200) in a single day.

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. However, primary authority for anti-money laundering efforts remains with the PBC, the country's Central Bank, along with the Ministry of Public Security in terms of enforcement.

In 2004, the PBC established a central national Financial Intelligence Unit (FIU) -the China Anti-Money Laundering Monitoring and Analysis Center, whose function is to collect, analyze and disseminate suspicious transaction reports and currency transaction reports. 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 PBC and is composed of representatives of the PBC's 15 functional departments

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 PBC 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. Furthermore, the current Anti-Money Laundering Law does not allow certain investigative practices commonly used with success in the United States. 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 increased efforts in recent years to crack down on such underground lending institutions. According to Chinese media reports, authorities shut down 155 underground banks dealing in \$1.5 billion worth of illegal foreign exchange transactions between April and December 2004. Overall in 2004, 50 money laundering cases were jointly investigated by the police, the PBC and SAFE, according to the Chinese press.

A continued 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 PBC'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 launched a national credit-information system in early 2005. The system officially began operation in January 2006. Although still very limited, this system will allow banks to 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 quite possibly larger—makes monitoring of China's cash-based economy very difficult.

The PRC signed the UN International Convention for the Suppression of the Financing of Terrorism on November 13, 2001, but has not ratified it. 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 PRC is a party to the 1988 UN Drug Convention, and in

2003 ratified the UN Convention against Transnational Organized Crime. In January 2006, it ratified the UN Convention against Corruption.

The United States and the PRC cooperate and discuss money laundering and other enforcement issues under the auspices of the U.S.-PRC Joint Liaison Group's (JLG) subgroup on law enforcement cooperation. The JLG meetings are held periodically in either Washington, D.C., or Beijing. In addition, the United States and the PRC have established a Working Group on Counter-Terrorism that meets on a regular basis. The PRC has established similar working groups with other countries as well.

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. In January 2005, China became an observer to the FATF and desires to become a full member of the FATF.

In 2005, China's CBRC signed a memorandum of understanding with the Philippine Central Bank, Bangko Sentral ng Pilipinas, to share information on suspected money laundering activity. China's financial intelligence unit, the China Anti-Money Laundering Monitoring and Analysis Center, also signed its first MOU with a foreign counterpart at the end of 2005, with South Korea's FIU, allowing the two to exchange information related to money laundering, terrorism financing and other criminal financial activity.

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 consistent 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 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, and that a system of STR reporting is adequately implemented. It will be important for China's FIU to join the Egmont Group of Financial Intelligence Units as soon as possible to ensure it has access to vital financial information on possible illicit transactions occurring in other jurisdictions. 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

The Government of Colombia (GOC) 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 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 GOC's efforts. Laundering illicit funds 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 large extent, by officially recognized foreign terrorist organizations. The GOC and U.S. law enforcement agencies are closely monitoring transactions that could disguise terrorist finance activities for local foreign terrorist organizations. The U.S. and Colombia exchange information and cooperation based on Colombia's 1994 ratification of the United Nations Convention against Illicit Trafficking in Narcotics and Psychotropic Substances. This convention extends into most money laundering activities that are the result of Colombia's drug trade.

Colombia's economy is robust and diverse and is fueled by a significant export sector that ships goods such as palm oil, textiles and apparel, 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, especially related to transactions that support the informal or underground economy. Colombian money is also laundered through offshore centers, generally relating to transactions involving drug-related proceeds.

Financial institutions are required by law to maintain records of account holders and financial transactions for five years. This enables them to respond quickly to information requests from appropriate government authorities. Secrecy laws have not been an impediment to bank cooperation with law enforcement officials. They are required to issue suspicious activity reports (SARs) on any transaction that raises concern. Money laundering investigations are often initiated through the details provided by SAR reporting. Colombia's banks have strict compliance procedures, and work closely with the GOC, other foreign governments, and private consultants to ensure system integrity. Financial institutions are not exempted from compliance with law enforcement obligations, but compliance officers are not held liable under Colombian law for the content of their SARs. General negligence laws and criminal fraud provisions ensure the financial sector complies with its responsibilities while protecting consumer rights. Citizens are afforded rights to privacy, and investigations are carried out in accordance with legal requirements to protect those rights.

Colombian law is unclear over the government's authority to block assets of individuals and entities on the UN 1267 Sanctions Committee consolidated list. The government circulates 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 OFAC publications, to ensure that services are denied to criminal elements, through the closing of accounts and denial of services. Charities and NGOs are regulated to ensure compliance with Colombian law and to guard against their involvement in terrorist activity. This regulation consists of several layers of scrutiny, including the regulation of incorporation and the tracing of suspicious financial flows through the collection of intelligence or SAR reporting. Reportedly, the GOC acknowledges that monitoring NGOs and charities is an issue that needs continued work and vigilance. 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 form the backbone of the black market peso exchange.

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, currency dealers, travel agents, investors and others in exchange for Colombian pesos in Colombia, remains a prominent method for laundering narcotics proceeds. Working with the Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE), Colombia established a prototype Trade Transparency Unit (TTU) that examined anomalies in trade data that could be indicative of customs fraud and trade-based money laundering. Analysis of suspect data showed a direct financial relationship between the narcotic cartels and the terrorist organization, the Revolutionary Armed Forces of Colombia (FARC).

Colombia also appears to be a significant destination and transit location for bulk shipment of narcotics-related U.S. currency. Local currency exchangers convert narcotics dollars to Colombian pesos and then ship the U.S. currency to Central America and elsewhere for deposit as legitimate exchange house funds that 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 regulations, or the corruption of low-level officials to move products into the informal economy. Although corruption of government officials remains a problem, it has not been reported as widespread. The GOC has taken dramatic steps to ensure the integrity of its most sensitive institutions and senior government officials.

Colombia has broadly criminalized money laundering. In 1995, Colombia established the “legalization and concealment” of criminal assets as a separate criminal offense. Also, 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 the predicate offenses of money laundering to include 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 acquire proceeds from drug trafficking are subject to a potential sentence of six to fifteen years, while illicit enrichment convictions carry a sentence of six to ten years. Failure to report money laundering offenses to authorities, among other offenses, is itself an offense punishable under the criminal code, with penalties increased in 2002 to imprisonment of two to five years.

Colombian law provides for both conviction-based and non-conviction-based in rem forfeiture, giving it some of the most expansive forfeiture legislation in Latin America. A general criminal forfeiture provision for intentional crimes has existed in Colombian Penal Law since the 1930s. Since then, Colombia has adopted more specific criminal forfeiture provisions in other statutes, most notably those containing 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 established a process that allows for the extinguishing of ownership rights for assets tainted by criminal activity. This process is only a first step in Colombian law that 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 counternarcotics and maritime unit of the prosecutor general’s office used Law 333 to successfully forfeit \$35 million of U.S. currency seized in 2001 with the assistance of DEA.

In 2002, the GOC took additional forceful measures to remove practical obstacles to the effective use of forfeiture to combat crime. In September, the GOC issued a decree to suspend application of Law 333 and implement more streamlined procedures in forfeiture cases. These reforms were refined and formally adopted through the enactment of Law 793 of 2002. Among other things, Law 793 repeals Law 333 and establishes new procedures that eliminate interlocutory appeals that prolonged and impeded forfeiture proceedings in the past, imposes strict time limits on proceedings, and places obligations on claimants to demonstrate their legitimate interest in property. In addition, Law 793 requires expedited consideration of forfeiture actions by judicial authorities, and establishes a fund for the administration of seized and forfeited assets. The amount of time for challenges was shortened and the focus was moved from the accused to the seized item (cash, jewelry, boat, etc.), placing more burdens on the accused to prove the item was acquired with legitimately obtained resources.

In December 2002, the GOC strengthened its ability to administer seized and forfeited assets by enacting Law 785 of 2002. This statute provides clear authority for the National Drug Directorate

(DNE) to conduct interlocutory sales of seized assets and contract with entities for the management of assets. Notably, Law 785 also permits provisional use of seized assets prior to a final forfeiture order, including assets seized prior to the enactment of the new law. 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, has developed a modern asset management and electronic inventory system for seized assets.

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 CNP/SIU, in conjunction with DEA, OFAC, and the Colombian Fiscalía (prosecutor's office) have 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 the name Operation Dinastia.

On October 21, 1995, pursuant to Executive Order 12978, the Treasury Department's Office of Foreign Assets Control (OFAC) added the Colombian drugstore chain Drogas la Rebaja (which later changed its name to evade U.S. sanctions) to its specially designated narcotics traffickers (SDNT) list because it was owned or controlled by Cali cartel leaders Miguel and Gilberto Rodriguez Orejuela (currently in custody in the U.S. awaiting trial). After a lengthy investigation by Colombian Law enforcement, on September 16, 2004, the CNP/SIU mobilized 3,200 police officers and 465 fiscales (Colombian prosecutors) nationwide in order to seize approximately 480 retail stores of the Drogas la Rebaja drug store chain. As part of the operation, the largest pharmaceutical laboratory in Colombia was seized as well. This is the largest asset forfeiture in Colombian history to date. The operation took place in 28 of the 32 Colombian departments over a three day period. The Colombian Direccion Nacional de Estupeficientes (DNE) took control of the stores and has replaced the top 24 company executives with DNE administrators. All 4,200 company employees continue to work, but all company profits will be utilized by the Colombian government in furtherance of counternarcotics programs.

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 order. 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 action taken by criminal elements.

Colombia formally adopted legislation in 1999 to establish a unified, central financial intelligence unit (FIU), the "Unidad de Informacion y Analisis Financiero" (UIAF), that is located within the Ministry of Finance and Public Credit. The UIAF, which currently has 45 personnel, has broad authority to access and analyze financial information from public and private entities in Colombia. Obligated entities (including financial institutions, institutions regulated by the Superintendence of Securities and the Superintendence of Notaries, export and import intermediaries, credit unions, wire remitters, exchange houses and public agencies) are required to file suspicious transaction reports with the UIAF, and are barred from informing their clients of their reports. Most obligated entities are also required to establish "know-your-customer" provisions. Exchange houses must file currency reports for transactions involving \$700 or more. In 2005, 8,227 SARs were filed; however, 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 of financial

intelligence units, and the UIAF director currently serves in the capacity as vice-chair of the Egmont Committee. Although FIUs are not required to sign agreements amongst themselves in order to exchange information under the auspices of the Egmont Group, the Colombian FIU has signed memoranda of understanding with 27 FIUs around the world.

The UIAF is currently working on a project called SCCI (Sistema Centralizado de Consultas de Informacion) that connects 17 governmental entities as well as one private sector association (Asobancaria). SCCI will allow these entities to exchange information online and share their databases in a secure manner. The pilot phase of the project was made possible due to USG financial contributions. It is expected that SCCI will be operational in April 2006.

Currency transactions and cross-border movements of currency in excess of \$10,000 must also be reported to the UIAF, and certified money couriers must be used for the cross-border movements of currency. Colombia has criminalized cross-border cash smuggling and defines it as money laundering. However, customs officials are inadequately equipped to detect cross-border currency smuggling. Workers rotate frequently producing inadequately trained staff. In addition, the individual customs officials are held liable for any inspected article that they damage, causing hesitation in conducting thorough inspections. Reportedly, corruption is also a problem. It has also been noted that customs officials lack the proper technical equipment necessary to do their job. The GOC has been slow to make needed changes.

Bilateral cooperation between the GOC and the USG remains strong and active. In 1998, DEA established a sensitive investigative unit (SIU) within the Colombian administrative security (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.

A financial investigative unit, formed within the Colombian National Police intelligence and investigations unit (DIJIN) in 2002, has worked several cases, some of which have been closed by investigation and arrests. This unit works closely with the Immigration and Customs Enforcement agency (ICE) of the U.S. Department of Homeland Security. The cases are financial in nature and include money laundering and terrorist financing, and many are the subject of extradition proceedings, including several that involve high profile defendants.

Although terrorism is already an autonomous crime under Colombian law, there is no legislation criminalizing the financing of terrorism. A draft law has been introduced to amend the penal code to define and criminalize direct and indirect financing of terrorism, of both national and international terrorist groups. Per GAFISUD and Egmont Group recommendations, the UIAF will receive SARs regarding terrorist financing. The new law will allow the UIAF to freeze terrorists' assets immediately after their designation. In addition, banks will now be held responsible for their client base. Banks will be required to immediately inform the UIAF of any accounts held by newly designated terrorists. Banks will also have to screen new clients against the current list of designated terrorists before the banks are allowed to provide prospective clients with services. Previously, banks were not legally required to comply either of these regulations, but many had complied regardless. The bill has been presented to Congress and currently awaits approval. The proposal may be delayed due to congressional elections in March 2006, with the new congress taking office in July 2006. President Uribe reportedly supports the new legislation.

Colombia plays a strong role in multilateral efforts to combat money laundering. In addition to its membership in Egmont, Colombia is a member of the Financial Action Task Force of South America Against Money Laundering (GAFISUD). In 2004 Colombia was a participant on the GAFISUD Executive Director Selection Committee and on the Budget Committee. Colombia also underwent a mutual evaluation by GAFISUD in 2004, and Colombia continued to provide experts for the mutual

evaluations of other GAFISUD countries. Colombia is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Money Laundering Experts Working Group, which it chaired in 2005. In October 2004, Colombia became a party to the UN International Convention for the Suppression of the Financing of Terrorism. The GOC is a party to the UN Convention Against Transnational Organized Crime and has signed, but not ratified, the UN Convention Against Corruption.

Although Colombia has a strong financial intelligence unit and comprehensive anti-money laundering laws and regulations, there are still several weaknesses that should be corrected. Enforcement continues to be a challenge for Colombia. Limited resources for prosecutors and investigators have made financial investigations problematic. Continued difficulties in establishing the base predicate offense further contributes to Colombia's limited success in achieving money laundering convictions and successful forfeitures of criminal property. Congestion in the court system, procedural impediments and corruption remain continuing problems. Colombia has not yet criminalized the financing of terrorism, although terrorist financing crimes can be prosecuted under other sections of law. The GOC should move promptly on the legislation, specifically criminalize the financing of terrorism, further eliminate procedural impediments, and take other necessary steps to further strengthen its anti-money laundering and counterterrorist financing programs.

Comoros

The Union of Comoros (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 in 2004. However, Comorian authorities lack the capacity to effectively implement and enforce the legislation. Comoros consists of three islands: Grande Comore, Anjouan and Moheli. An ongoing struggle for influence continues between the Union and island presidents. Political instability remains a concern. Since independence from France in 1975, there have been 19 coups or coup attempts. Union President Azali Assoumane took power in a coup in 1999 and subsequently was elected in 2002 Union presidential elections described by international observers as free and fair. Elections for a new Union President are scheduled to occur in 2006, drawing on candidates from Anjouan, as required by the Union constitution in an effort to facilitate power-sharing among the islands. While broad principles have been agreed upon, some 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 security services, economies, and banking sectors.

The 2004 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.

Federal authorities have a limited ability to implement AML laws in Anjouan and Moheli. Similarly, the island governments of Anjouan and Moheli may have limited control over AML matters. 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. In 2005, Anjouan's island president, Bacar Mohamed, recognized Anjouan's inability to regulate its offshore sector and requested USG assistance to combat misrepresentation of his government in connection with the offshore sector. He denied his government was in any way involved with a website portraying itself as the Government of Anjouan's offshore licensing authority and sought to have the site shut down.

Union President Azali has made efforts to bring AML enforcement under Union government jurisdiction. In May 2005, he issued a note to the Ministry of Finance, the islands' presidents, and the Public Prosecution Department urging these institutions to take action with regard to any illegal offshore banking practices. The note indicated that all banking and financial institutions operating within the jurisdiction of the Union of Comoros, whether offshore or onshore, must abide by the provisions of legislation No. 80-7 of May 3, 1980. According to article 7 of this legislation, a bank or any other financial institution cannot operate in the Union of Comoros without prior authorization from the Union of Comoros Finance Minister upon recommendation from the Comoros Central Bank. Thus, offshore banks operating in the autonomous islands of the Union of Comoros without prior authorization from the Union of Comoros Finance Minister contravene the May 3, 1980 legislation. Consequently, Azali's note directed the ministries and other government institutions responsible for banking and financial matters to take (or to see to it that the necessary measures are taken) to put an end to this "blatant illegality which is prejudicial to the Union of Comoros." Also in May 2005, President Azali told the USG that the Comorian government is prepared to bring to justice the beneficiaries of illegal offshore licenses and sought the assistance and support of the USG in this endeavor.

While the Comoros is not a principal financial center for the region, Moheli and Anjouan may have attempted or may be attempting to develop an offshore financial services sector as a means to finance government expenditures. The Anjouan island government's claim that unrelated companies are presenting themselves as licensed by the government of Anjouan makes authoritative information on Anjouan's offshore sector difficult to establish. 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 November 2004, Anjouan island government officials denied island government involvement in the offshore sector. They said the Union of Comoros Central Bank was the only authority for the offshore banking sector in the country and insisted the Anjouan island government had not established its own central bank. They admitted that several years earlier the government of Anjouan considered starting an offshore banking sector, but they had not pursued it.

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).

Comoros 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 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 regulated by federal authorities 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 specifically criminalize the financing of terrorism.

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.

After the Government of the Cook Islands remedied deficiencies in its anti-money laundering regime, the Financial Action Task Force (FATF) removed the Cook Islands from its Non-Cooperative Countries and Territories list in February 2005. The Cooks had been on the list since 2000. The FATF is conducting a year-long program, due to conclude in February 2006, to closely monitor the islands. The Cook Islands is scheduled for a mutual evaluation in 2008.

By enacting The Financial Transactions Reporting Act (FTRA) 2003, and eight other legislative acts on May 7, 2003, and additional legislation in 2004, Cook Islands authorities strengthened its anti-money laundering/counterterrorism financing (AML/CTF) legal and institutional framework. Reviews are underway to consider how the AML/CTF legislation affects other domestic laws. The Financial Supervisory Commission (FSC), regulator of the licensed financial sector, expects new insurance legislation to be drafted beginning in 2006.

The Financial Transactions Reporting Act (FTRA) 2003, and the updated 2004 amendment, require financial and other institutions to conduct due diligence, ongoing monitoring of customers and transactions, suspicious activity reporting, development and maintenance of internal procedures for compliance, and audit and record keeping. The Act provides for administrative and penal sanctions on institutions for noncompliance.

The FTRA imposes certain reporting obligations on institutions in 26 categories, including banks, offshore banking businesses, offshore insurance businesses, casinos, gambling services, insurers, financial advisors, solicitors/attorneys, accountants, financial regulators, lotteries, and money remitters. The Minister of Finance can extend the reporting obligation to other businesses.

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 customer's identity. 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 amended FTRA 2004.

Financial institutions are required to make currency transaction reports and suspicious transaction reports to the Financial Intelligence Unit (FIU). Those requirements apply to all currency transactions

of NZ\$10,000 (approximately \$6870) and above; electronic funds transfers of NZ\$10,000 and above; transfers of currency, into and out of the Cook Islands, in excess of NZ\$10,000; and, any suspicious transactions. Failure to declare such transactions could incur penalties. Institutions obligated to file Suspicious Transaction Reports to the FIU are banks, insurers, financial advisors, bureaux de change, solicitors/attorneys, accountants, financial regulators, casinos, lotteries, money remitters, and pawn shops. In 2005, the FIU received 10 Suspicious Transaction Reports, 566 Cash Transaction Reports, 1,763 Electronic Funds Transaction Reports, and 12 Border Currency Reports. To date, 30 of the 47 Suspicious Transaction Reports have related to non-residents.

The FTRA establishes the supervision and authority of the FIU, including cooperation with supervisors. The FIU is the central unit responsible for processing disclosures of financial information in accordance with anti-money laundering and antiterrorist financing regulations. It became fully operational with the assistance of a Government of New Zealand technical advisor. The FIU has the authority to require reporting institutions to supplement reports. It has broad powers to obtain information required to combat money laundering and the financing of terrorism, including information from any law enforcement agency and supervisory body. The FIU is required to destroy a suspicious transaction report if there has been no activity or information related to the report or to a person named in the report for six years. The FIU does not have an investigative mandate. If it determines that a money laundering offense has been, or is being, committed, it must refer the matter to law enforcement for investigation. The Minister of Finance, who is responsible for administrative oversight, appoints the head of the FIU.

The Cook Islands FIU (CIFIU) is participating in an FIU database project provided by AUSTRAC, the Australian FIU. The CIFIU recently received the database and is now capturing data stored while the database was being developed and tested. The Pacific FIU Database Project includes other jurisdictions that will receive versions of the same database framework.

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 legislation in effect requires offshore banks to have a physical presence in the Cook Islands (the “mind and management” principle), transparent financial statements, and adequate records prepared in accordance with consistent accounting systems. The physical presence requirement was intended to ensure that the Cook Islands would have no shell banks by June 2004. All banks are subject to a vigorous and comprehensive regulatory process, including on-site examinations and supervision of activities.

The legislation established the Financial Supervisory Commission (FSC) as the licensed financial sector’s sole regulator. The FSC is empowered to license, regulate, and supervise the business of banking. It serves as the administrator of the legislation that regulates the offshore financial sector. The FSC can license international banks and offshore insurance companies and register international companies. It also supervises trust and company service providers. The FSC regulates three domestic banks, four international banks, six trustee companies, and eight offshore and three domestic insurance companies. Its policy is to respond to requests from overseas counterparts to the utmost extent possible. The FSC has 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 FTRA requires the FSC to assess the compliance by licensed financial institutions with anti-money laundering regulations. Resulting reports and documentation are provided to the FIU. The FIU is responsible for assessing compliance by non-licensed institutions.

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 a foreign law enforcement agency makes an inquiry regarding the trust, the trust will be transferred automatically to another jurisdiction.

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. Domestic banks are primarily involved in 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.

Progress since June 2004 includes the Cook Islands’ response to the issues surrounding implementation of the AML/CFT regime. The head of the FIU chairs the Coordinating Committee of Agencies and Ministries, which promotes, formalizes and maintains coordination among relevant government agencies, assists the Government in the formulation of policies related to AML/CFT issues, and enables government agencies to share information and training resources gathered from their regional and international networks, including meetings or training seminars attended by their officials. The AML/CFT consultative group of stakeholders facilitates consultation between government and the private sector and ensures all financial sector “players” are involved in the decision making and problem solving process regarding AML/CFT regulations and reporting. The FIU is also a member of the Anti-Corruption Committee, along with the Office of the Prime Minister, Police, Crown Law, Audit Office, and the Financial Secretary.

The GOCI is an active member of the Asia/Pacific Group on Money Laundering (APG) with representation on the Steering Group, chairmanship of the Implementation Issues Working Group, and membership in the Typologies Working Group. The FIU became a member of the Egmont Group in June 2004, has bilateral agreements allowing the exchange of financial intelligence with Australia, and is negotiating a memorandum of understanding (MOU) with Thailand. All other exchanges have not required MOUs and have involved New Zealand, the United States, Hong Kong, Singapore, India, the United Kingdom, and several others. The Cook Islands is considering membership in the Offshore Group of Banking Supervisors (OGBS). The Cook Islands has received eight requests for mutual legal assistance since the Mutual Assistance in Criminal Matters Act came into force in 2003. Four have been answered, and four are pending, two of which were received in late 2005. The Cook Islands has not received any extradition requests, but successfully extradited one person from New Zealand. This court case is due to commence in February 2006

The GOCI is a party to the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. It is a party to the UN Convention against Transnational Organized Crime and to the UN International Convention for the Suppression of the Financing of Terrorism. The Terrorism Suppression Act 2004—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 United Nations (Security Council Resolutions) Act 2003 allows the Cook Islands, by way of regulations, to give effect to the Security Council resolutions concerning international peace and security.

The Cook Islands should continue to implement legislation designed to strengthen its nascent institutions, should maintain vigilant regulation of its offshore financial sector, and should abolish “flee clauses” in new asset protection trusts 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. This is due in part to narcotics trafficking in the region, particularly of South American cocaine, 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. No actions were taken to close this loophole in 2005. 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 250 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. Serious crimes are defined as carrying a sentence of four years or more. 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 Law 8204, Chapter IV, Article 14, apply a restrictive interpretation that covers only those entities that are involved in the transfer of funds as a primary business purpose.

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. Costa Rican authorities acknowledge that they are unable to adequately assess risk. Costa Rican financial institutions are regulated by the Office of the Superintendent of Financial Institutions (SUGEF).

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. These counterpart regulatory authorities occasionally interpret the agreements in ways that limit review by Costa Rican officials. In September 2005, the GOCR’s Attorney General (“Procurador General”) ruled that SUGEF has no authority to regulate offshore operations. The ruling was an attempt to clarify apparent contradictions between the 1995 Organic Law of the Costa Rican Central Bank and Law 8204. Draft legislation to correct the contradiction and reassert SUGEF’s regulatory power is under review in the Legislative Assembly. However, it is unclear when the Legislative Assembly will take action on this draft legislation.

All persons carrying cash are required to declare any amount over \$10,000 to Costa Rican officials at ports of entry. During 2005, officials seized over \$850,000, much of it in undeclared cash. In 2004, the GOCR seized \$1.2 million.

Eighteen free trade zones operate within Costa Rica, primarily producing electronics, integrated circuits, textiles, and medicines for re-export. The Zones are under the supervision of “PROCOMER” an export-promotion entity. Costa Rican authorities report no indications of trade-based money

laundering schemes in the zones. PROCOMER strictly enforces control over the zones, but its measures are aimed primarily at preventing tax evasion.

Costa Rica's Financial Intelligence Unit (FIU) became operational in 1998 and was admitted into the Egmont Group in 1999. The unit is analytical, screening cases for referral to prosecutors. The FIU has access to the records and databases of financial institutions and other government entities but must obtain a court order if the information collected is to be used as evidence in court. The unit has no regulatory responsibilities. The unit remains ill equipped and under-funded to handle its current caseload (over 120 cases for 2005) and to provide the information needed by investigators. Nevertheless, in 2004, the unit developed evidence it considered formidable in four high-profile cases of money laundering. Three of those cases were successfully prosecuted in 2005. Three additional money-laundering cases began judicial proceedings in 2005, and the FIU assisted international investigators to develop evidence in four more cases.

Costa Rican authorities have received and circulated to all 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.

However, these authorities cannot block, seize, or freeze property without prior judicial approval. Thus, Costa Rica lacks the ability to expeditiously freeze assets connected to terrorism. No assets related to designated individuals or entities were identified in Costa Rica in 2005. An interagency effort is underway to reduce the time required to obtain such judicial approval.

The GOCCR has ratified the major UN counterterrorism conventions. In 2002, a government task force drafted a comprehensive counterterrorism law with specific terrorist financing provisions. The draft law would expand existing conspiracy laws to include the financing of terrorism. It would also enhance existing narcotics laws by incorporating the prevention of terrorist financing into the mandate of the Costa Rican Drug Institute. In 2004, the Legislative Assembly considered a separate draft terrorism law. In July of 2005, the Assembly's Narcotics Committee approved a bill combining the two proposals, but no further progress has been made.

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 GOCCR has signed, but not yet ratified, the UN Convention against Corruption. The GOCCR 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 GOCCR should pass legislation that clarifies contradictions regarding 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 finance legislation.

Côte d'Ivoire

Cote d'Ivoire is an important West African regional financial hub. Money laundering occurs, but the government does not consider Cote d'Ivoire to be a financial center for money-laundering.

Money laundering and any terrorist financing present in Cote d'Ivoire are not primarily related to narcotics proceeds. Criminal proceeds that are laundered are reportedly derived from regional criminal activity, such as the smuggling of consumer goods and agricultural exports, which are organized chiefly by nationals from Nigeria and the Democratic Republic of the Congo. As respect for the rule of law continues to deteriorate in Cote d'Ivoire, due to the ongoing political and economic turmoil,

Ivoirians and some Liberian nationals are becoming more and more involved in the laundering of funds. Hizbollah is present in Cote d'Ivoire, and it conducts some fundraising activities, mostly among the large Lebanese expatriate community. Cote d'Ivoire is not an offshore financial center. It does permit the establishment of offshore financial institutions or offshore shell corporations. There are no free trade zones in Cote d'Ivoire. In August 2004, the Ivoirian government adopted a plan for the creation of a free trade zone for information technology and for biotechnology. This project is dormant. Another free trade zone project, which was planned for the port of San Pedro, also remains dormant.

The outbreak of the rebellion in 2002 increased the amount of smuggling of goods across the northern borders, especially of textiles and cigarette products. There have also been reports of an increase in the processing and smuggling of small quantities of diamonds from mines located in the North. Ivoirian law enforcement authorities have no control over the northern half of the country, and therefore they cannot judge what relationship, if any, the funding for smuggled goods might have to narcotics proceeds or other illicit proceeds. Smuggling of sugar, cotton, cocoa, cars, and pirated DVDs occurs in the government-controlled south and is motivated by a desire to avoid the payment of high export or import taxes. This cross-border trade in smuggled goods generates contraband funds that are introduced into the banking system through informal or unregulated moneychangers, fictitious company accounts, and fictitious business contracts.

Criminal enterprises use both the formal and informal financial sector to wash funds. Cash is moved both via the formal banking sector and by cash couriers. Informal money couriers and money transfer organizations similar to hawalas move funds both domestically and within the sub-region. Because of the division of the country, a lack of security, and the lack of a widespread banking system, transportation companies have also stepped in to provide courier services. The standard fee for these services is approximately ten percent. In addition to transferring funds, criminal enterprises launder illicit funds by investing in real estate and consumer goods such as used cars in an effort to conceal the source of funding. The Economic and Financial police have noticed an increase in financial crimes related to credit card theft and foreign bank account fraud, which includes wire transfers of large sums of money primarily involving British and American account holders who are the victims of Internet based advanced fee scams. The Ministry of Finance remains concerned by the high levels of tax fraud, particularly VAT tax fraud by merchants.

The country has seventeen banks and five non-bank financial institutions. Of that number, there are eight foreign-owned banks and two foreign-owned financial institutions in operation. The law requires a capitalization of the CFA equivalent of \$2 million for banks and \$600,000 for financial institutions. Banks provide traditional banking services such as lending, savings and checking accounts and money transfers, while financial institutions offer leasing, payroll and billing services, and project financing for small businesses. The Ivoirian banking law, enacted in 1990, prevents disclosure of client and ownership information, but it does allow the banks to provide information to judicial authorities, such as investigative magistrates. The law also permits the use of client and ownership information as evidence in legal proceedings or during criminal investigations. The Tax and Economic police can request information from the banks.

Until recently, the penal code criminalized only money laundering related to drug-trafficking, fraud, and arms trafficking. On November 29, 2005, the Ivoirian National Assembly recently adopted the West African Economic and Monetary Union's (WAEMU) model law on money-laundering, making money laundering per se a criminal offense. Money laundering is defined as the intention to conceal the criminal origins of illicit funds. The new law became effective on December 15, 2005.

The new law focuses on the prevention of money laundering and also expands the definition of money laundering to include the laundering of funds from all serious crimes. The law does not set a minimum threshold. It includes standard "know your customer" requirements for banks and other financial

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institutions. It establishes procedures, which require these institutions to assist in the detection of money laundering through suspicious transaction reporting, and it creates an Ivoirian FIU. It also provides a legal basis for international cooperation. The new law includes both penal and civil penalties. The law permits the freezing and seizure of assets, which includes instruments and proceeds of crime, including business assets and bank accounts that are used as conduits for money laundering. Substitute assets cannot be seized if there is no relationship with the offense. Legitimate businesses can be seized if used to launder money or support terrorist or other illegal activities.

Under the new money-laundering law, Cote d'Ivoire is required to create and fund an FIU named the "Cellule Nationale de Traitement des Informations Financieres" (CENTIF). The CENTIF will report to the Finance Ministry. On a reciprocal basis, with the permission of the Ministry of Finance, the CENTIF may share information with the FIUs in member states of WAEMU or with those of non-WAEMU countries, so long as those institutions keep the information confidential.

The FIU will take the lead in tracking money laundering, but it will continue to work with previously established investigative units such as the "Centre de Recherche Financiere" (CRF) at the Department of Customs and the Agence Nationale de Strategie et d'Intelligence" (ANSI) at the presidency. The CRF and the ANSI will still continue their missions, which include fiscal and customs fraud and counterfeiting. The Ivoirian Economic and Financial police, the criminal police unit (Police Judiciaire), the Department of Territorial Surveillance (Ivoirian intelligence service), the CRF and ANSI all are responsible for investigating financial crimes, including money laundering and terrorist financing. However, in addition to a lack of resources for training, there is a perceived lack of political will to permit investigative independence.

The Ministry of Finance, the West African Central Bank (BCEAO), and the West African Banking Commission, headquartered in Cote d'Ivoire, supervise and examine Ivoirian compliance with anti-money laundering/counterterrorist financing laws and regulations. Under the new money laundering legislation, Ivoirian banks and financial institutions will be required to verify and record the identity of their customers before establishing new accounts or processing transactions. All Ivoirian financial institutions are now required to begin to maintain customer identification and transaction records for ten years. For example, all bank deposits over approximately CFA 5,000,000 (about \$10,000) made in BCEAO member countries must be reported to the BCEAO, along with customer identification information. Law enforcement authorities can access these records to investigate financial crimes upon the request of a public prosecutor. In 2005, there were no arrests or prosecutions for money laundering or terrorist financing.

The new legislation imposes a ten year retention requirement on financial institutions to retain records of all "significant transactions," which are transactions with a minimum value of CFA 50,000,000 (about \$100,000) for known customers. For occasional customers, the floor value for "significant transactions" is CFA 5,000,000 (about \$10,000).

The new money laundering controls will apply to non-bank financial institutions such as exchange houses, stock brokerage firms, insurance companies, casinos, cash couriers, national lotteries, non-government organizations, travel agencies, art dealers, gem dealers, accountants, attorneys, and real estate agents. The law also imposes certain customer identification and record maintenance requirements on casinos and exchange houses. The tax office (Ministry of Finance) supervises these entities. All Ivoirian financial institutions, businesses, and professionals and non-bank institutions under the scope of the new money-laundering law are required to report suspicious transactions. The Ivoirian banking code protects reporting individuals. Their identities are not divulged with respect to cooperation with law enforcement authorities.

Cote d'Ivoire monitors and limits the international transport of currency and monetary instruments under WAEMU administrative regulation R/09/98/CM/WAEMU. There is no separate domestic law or regulation. When traveling from Cote d'Ivoire to another WAEMU country, Ivoirians and

expatriate residents must declare the amount of currency being carried out of the country. When traveling from Cote d'Ivoire to a destination other than another WAEMU country, Ivoirians 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, without prior approval from the Department of External Finance of the Ministry of Economy and Finance. If additional amounts are approved, they must be in the form of travelers' checks.

Cote d'Ivoire's new money-laundering law encompasses the laundering of funds from all serious crimes, but terrorism and terrorist financing are not considered "serious crimes" for the purposes of this law. Cote d'Ivoire does not have a specific law that criminalizes terrorist financing, as required under UNSC resolution 1373. Until the passage of the new law, the GOCI relied on several WAEMU directives on terrorist financing, which provided a legal basis for administrative action by the Ivoirian government to implement the asset freeze provisions of UNSCR 1373.

The BCEAO and Ivoirian government report that they promptly circulate to all financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list and those on the list of Specially Designated Global Terrorists designated by the U.S. pursuant to Executive Order 13224. A U.S. financial institution present in Cote d'Ivoire confirms the receipt of notices issued by government authorities. In 2005, no assets related to terrorist entities or individuals were discovered, frozen or seized.

The Ivoirian government admits the existence of informal remittance and cash transfer systems that bypass regular financial institutions and agrees that these could be a possible conduit of laundered funds. Currently, domestic informal cash transfer systems are not regulated. Informal remittance transfers from outside Cote d'Ivoire violate BCEAO money transfer regulations. The Ivoirian government has taken no legal action to prevent the misuse of charitable and or other non-profit entities that can be used as conduits for the financing of terrorism. The Ministry of Interior Security is addressing this problem.

Cote d'Ivoire participates in the ECOWAS-Intergovernmental Group for Action Against Money Laundering (GIABA) based in Dakar, which sits as an observer to the OECD's Financial Action Task Force (FATF). The Ivoirian government has neither adopted laws nor promulgated regulations that specifically allow for the exchange of records with United States on money laundering and terrorist financing. However, under the new money laundering law, after obtaining the approval of the Finance Ministry, the CENTIF could share information related to money laundering records with U.S. or other countries on a reciprocal basis and under an agreement of confidentiality between the two governments.

Cote d'Ivoire has demonstrated a willingness to cooperate with the USG 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.

Cote d'Ivoire is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. Cote d'Ivoire has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Cote d'Ivoire should proceed to do so. It should implement its new anti-money laundering law, including the funding and establishing of an FIU. It should expand on the new law by criminalizing terrorist financing.

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 (TRNC)." The U.S. Government recognizes only the Government of the Republic of Cyprus, and does not recognize the "TRNC".

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, although sports betting halls are allowed.

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 the United States, several European Union (EU) nations, 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. This tax revision effectively lifted the 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. A grandfather clause that had allowed existing IBCs to maintain their former tax status of 4.25 percent for a transitional period expired at the end of 2005. As of 1 January 2006, the legal distinction between domestic companies and off shore IBCs ceased.

Similar provisions were introduced for offshore International Banking Units (IBUs), branches or subsidiary companies of established foreign banks, which had cumulative assets of \$16.3 billion at the end of 2005. As with the IBCs, the distinction between domestic banks and IBUs ceased on January 1, 2006 upon the expiration of a transition period that had allowed preferential (4.25. percent) tax treatment for IBUs established before 2002. IBUs can do business locally, but for the time being may not offer any banking services whatsoever in Cypriot pounds to either residents or non-residents. This restriction may soon be lifted, as evidenced by the Central Bank's November 2005 decision to require IBUs to hold two percent of their deposits in local currency as minimum reserves with the Central Bank. IBUs are required to adhere to the same legal, administrative, and reporting requirements as domestic banks. The GOC is currently revising its policy regarding the licensing of new foreign-owned bank branches or subsidiaries. Details are not yet available, but Cyprus has become much more selective in terms of aiming to attract only banks from jurisdictions with proper supervisory authorities. 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 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 2005, 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 approximately \$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 approximately \$21,200 in local currency or approximately \$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 recent years the Central Bank has introduced many new regulations aimed at strengthening anti-money laundering vigilance in the banking sector. Among other things, banks are required to (1) ascertain the identities of the natural persons who are the "principal/ultimate" beneficial owners of corporate or trust accounts; (2) 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; (3) adhere to the October 2001 paper of the Basel Committee on Banking Supervision on “Customer Due Diligence for Banks”; and (4) 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 list of non-cooperative countries and territories 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 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, the Central Bank is legally empowered to conduct unannounced inspections of bank compliance records. 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. MOKAS is responsible for receiving and analyzing SARs and for conducting money laundering or financial fraud investigations. 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 144 in 2005 (through 14 December). During 2005 MOKAS received 190 information requests from foreign FIUs, other foreign authorities, and INTERPOL. Nine of the information requests were related to terrorism, although not specifically involving Cyprus. 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 an unspecified period of time as an administrative measure. 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. In 2005, for the first time, MOKAS issued several warning notices, based on its own analysis, identifying possible trends in criminal financial activity. These notices have already produced results, including the closure of dormant bank accounts. 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 2005, MOKAS opened 373 cases and closed 134. Reportedly, there was an undetermined number of successful prosecutions. During the same period, it issued 16 Information Disclosure Orders (typically involving judiciary proceedings in courts abroad), 12 administrative orders for postponement of transactions, and nine freezing orders, resulting in the freezing of \$1,680,000 in bank accounts and 11 pieces of real estate. Additionally, during 2005 MOKAS issued two confiscation orders for a total amount of \$42,000 (in one of the cases, the GOC shared the money with another jurisdiction that had been involved). 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.

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 UN 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 2005, 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 the United States, Belgium, France, the Czech Republic, Slovenia, Malta, Ireland, Australia, Ukraine, Poland, Canada, Russia, Bulgaria, South Africa, and Israel. Although Cypriot law specifically allows MOKAS to share information with other FIUs without benefit of an MOU, Cyprus is negotiating MOUs with Venezuela, 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 underwent a MONEYVAL mutual evaluation in April 2005, the results of which will be published in a report to be adopted at the MONEYVAL Plenary meeting in January 2006.

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.

Area Administered by Turkish Cypriots. The Turkish Cypriot community continues to lack the legal and institutional framework needed to provide effective protection against the risks of money laundering. Turkish Cypriot authorities have, however, developed a greater appreciation of the dangers of unchecked money laundering and have begun taking limited steps to address these risks. It is

believed that the 23 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 background checks done on applicants are minimal. A significant part of the funds generated by these casinos are reportedly transported directly to Turkey without entering the Turkish Cypriot banking system, and there are few safeguards to prevent the large-scale transfer of cash to Turkey. Another area of concern is the 500 “finance institutions” operating in the area administered by Turkish Cypriots 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. In 2005, there was a huge increase in the number of sport betting halls, which are licensed by the “Ministry of Sports and Youth.” There are currently six companies operating in this sector, each of which has between 15 and 20 branches; licenses for two additional companies are pending. The fact that the “TRNC” is recognized only by Turkey limits the ability of Turkish Cypriot 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 area administered by Turkish Cypriots 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. First Merchant Bank’s license has not been revoked or suspended, and it continues to operate.

In 1999, a money laundering law for the area administered by Turkish Cypriots 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 transaction reports to an “Anti-Money Laundering 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 Finance.” However, the 1999 anti-money laundering law has never been fully implemented or enforced.

In 2005, the “Anti-Money Laundering Committee,” which had been largely dormant for several years, began meeting on a regular basis and encouraging banks to meet their obligations to file SARs. The committee has reportedly referred several cases of possible money laundering to law enforcement for further investigation, but no cases have been brought to court and no individuals have been charged. There have been no successful prosecutions of individuals on money laundering charges, and there are concerns that law enforcement and judicial officials lack the technical skills needed to investigate and prosecute financial crimes.

Although the 1999 money laundering law prohibits individuals entering or leaving the area administered by Turkish Cypriots from transporting more than \$10,000 in currency without prior

“Central Bank” authorization, “Central Bank” officials note that this law is difficult to enforce, given the large volume of travelers to and from Turkey. In 2003, Turkish Cypriot authorities relaxed restrictions that limited travel across the UN-patrolled buffer zone. There is also a relatively large British population in the area administered by Turkish Cypriots and a significant number of British tourists. As a result, an informal currency exchange market has developed.

The “Ministries of Finance and Economy and Tourism” are drafting several new anti-money laundering laws that they say will, among other things, better regulate casinos, currency exchange houses, and both onshore and offshore banks. Turkish Cypriot officials have committed to ensuring that the new legislation meets international standards. However, it is unclear if the new legislation will be adopted, and if it is, whether it will ever be fully implemented and enforced.

There are currently 26 domestic banks in the area administered by Turkish Cypriots. Internet banking is available. The offshore sector consists of 18 banks and approximately 50 IBCs. The offshore banks may not conduct business with residents of the area administered by Turkish Cypriots 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. 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.

The 1999 Turkish Cypriot anti-money laundering law does provide better banking regulations than were previously in force, but it is far from adequate. The major weakness continues to be the area administered by Turkish Cypriots 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 largely unregulated finance institutions, currency exchange houses, and offshore banking sector are also of concern. The Turkish Cypriot authorities should move quickly to enact a new anti-money laundering law and to tighten regulation of casinos, money exchange houses, and the offshore sector.

Czech Republic

The Czech Republic’s central location in Europe and its relatively new status as a functional market economy have left it vulnerable to money laundering. While various forms of organized crime (narcotics trafficking, trafficking in persons, fraud, embezzlement, and smuggling) remain the primary source of laundered assets in the country, Czech officials and media outlets have voiced increasing concern about the ability of extremist groups and terrorists to launder or remit money within the country. Although steadily improving, Czech enforcement and prosecution of money laundering offenses remains relatively weak, with the few convicted offenders receiving only light sentences. Domestic and foreign organized crime groups target Czech financial institutions for laundering activity. Banks, currency exchanges, casinos and other gaming establishments, investment companies, and real estate agencies have all been used to launder criminal proceeds.

The Czech Republic first criminalized money laundering in September 1995 through additions to its 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 (as opposed to those of other parties). The 2002 amendment also stipulated punishments of five to eight years imprisonment for the legalization of proceeds from all serious criminal activity and also called for the forfeiture of assets associated with money laundering.

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 Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (Second 2nd EU 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.

With regard to terrorist financing, in November 2004, the Czech Government amended the Criminal Code and enacted 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 by other means. Also, 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. Multilateral bodies generally agree that the Czech Republic currently possesses an adequate regulatory basis with which to combat money laundering and 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 both the Financial Action Task Force (FATF) and the Basel Committee, and created an on-site inspection team. New due diligence provisions became effective in January 2003. The Czech Government is considering placing a limit of 500,000 Czech crowns (approximately \$19,250) on the amount of cash that can change hands in cash transactions.

Czech authorities require that financial institutions maintain transaction records for a period of ten years. Reporting requirements also apply to persons or entities seeking to enter the Czech Republic. Under the provisions of the anti-money laundering act, anyone seeking to enter or leave the Czech Republic with more than 350,000 Czech crowns (CZK) (approximately \$14,000) in cash, traveler's checks, or other monetary instruments must declare this to customs officials, who are required to forward this information to the FAU of the Ministry of Finance. Similar reporting requirements apply to anyone seeking to mail more than 200,000 CZK (approximately \$800) in cash into or out of the country. In practice, however, the effectiveness of these procedures is difficult to assess. With the accession of the Czech Republic to the EU in 2004, nearly all customs stations on the borders were closed. Although the customs station at the Prague Airport remains operational, detecting the smuggling or transport of large sums of currency by highway is difficult.

Since 2000, financial institutions have been required to report all suspicious transactions to the FAU. As the Czech FIU, the FAU has the statutory authority to enforce money laundering and terrorist finance laws. The 2004 amendments to the Anti-Money Laundering Act also extended the anti-money laundering/counterterrorist financing responsibilities of the FAU. The FAU is now 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 FAU is also authorized to cooperate and share information with all of its international counterparts, including those not part of the Egmont Group. The FAU also has the ability to freeze assets associated with suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list.

The FAU is an administrative FIU without law enforcement authority and can only investigate accounts for which designated entities have filed suspicious transaction reports. Although the FAU can ask the banking sector to check a specific individual or organization's account, it cannot compel it to do so. It has neither the mandate nor the capacity to initiate or conduct criminal investigations. Investigative responsibilities lie with the Financial Police or other Czech National Police body.

Agency reorganizations in 2003 and 2004 resulted in the establishment of the Unit for Combating Corruption and Financial Criminality (UOKFK), as well as a specialized police unit called the Financial Police (also known as the Illegal Proceeds and Tax Crime Unit). The UOKFK has primary responsibility for all financial crime and corruption cases. The Financial Police are the main law enforcement counterpart to the FAU, and the two agencies work closely together on money laundering cases. In 2004, this partnership resulted in the first formal charges under the revised money laundering statutes.

Although the FAU conducts investigations based on suspicious transaction reports filed by the banks, these examinations only cover a relatively small segment of total financial activity within the Czech Republic. Moreover, the FAU's primary responsibility has been, and remains, identifying cases of tax evasion, which is an endemic problem in the Czech Republic. 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 the 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, which 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 1267 Sanctions Committee's consolidated list of suspected terrorists and terrorist organizations.

While the institutional capacity to detect, investigate, and prosecute money laundering and financial offenses has unquestionably increased in recent years, both the FAU and the Financial Police face staffing challenges. Despite recommendations from both the FATF and the Council of Europe's FATF-style regional body (MONEYVAL) regarding the need for FAU staff increases, the government lowered its funding and personnel authorizations in 2005. Although these decisions may be reversed in the future, the FAU remains a relatively small organization, given the scope of its responsibilities. The Financial Police could soon face similar challenges caused by early retirement and the loss of senior investigators. Changes to the police retirement plan and a perceived lack of political support are causing many senior officers to consider early retirement. This could result in potentially devastating effects upon not only the Financial Police, but on organized crime units, anticorruption units, and other critical police organizations as well.

Despite these staffing challenges, an increase in government attention and political will to the problems of money laundering and financial crimes has slightly improved the results of law enforcement and prosecutorial efforts. Prior to 2004, the Czech Republic had not yet had a successful prosecution in a money laundering case. However, in 2004, Ministry of Justice statistics show that prosecutors were able to obtain the first four convictions for attempting to legalize the proceeds from crime. Fifteen people were prosecuted; fourteen were actually accused. One case was suspended and the only penalties imposed were extremely light—only three suspended sentences and a fine. In 2003,

there were 36 money laundering cases. 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 number of suspicious transaction reports transmitted to the FAU in 2005 dropped slightly after a significant jump in 2004. The number of inquiries evaluated and forwarded to law enforcement remained unchanged. This trend 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, 3,267 in 2004, and 2,390 in the period of January through August 2005. 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. From January through August 2005, the figure was again 115 reports. Every case that was passed to law enforcement was investigated.

From January to November 2005, the Department of Criminal Proceeds and Money Laundering investigated 90 cases and seized assets in the value of 900 million CZK (approximately \$36 million). This figure is an increase over 2004 when the Department of Criminal Proceeds and Money Laundering investigated 139 cases and seized assets valued at roughly 2 million CZK (approximately \$90,000). In 2005, the Department participated in 12 cases investigated by the Czech National Drug Headquarters, and seized assets valued at 48 million CZK (approximately \$2 million) and three cars. In comparison, in 2004, the Department participated in 25 cases investigated by the Czech National Drug Headquarters and seized assets valued at 16 million CZK (approximately \$700,000).

In October 2005, the Czech Parliament ratified the UN Convention for the Suppression of the Financing of Terrorism. This was a major step, in that it marked both the implementation of the recommendations from international bodies and the completion of the statutory and organizational reforms required to effectively confront this issue. 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.

In general, Czech authorities have been reliable partners in the battle against terrorist financing. Although the terrorist finance threat in the Czech Republic is generally modest, there is reason to believe that there has recently been an increased possibility of terrorist support activities in the country, and officials have publicly discussed the discovery of small hawala operations remitting funds from the Czech Republic to other parts of the world. The Czech Republic has specific laws criminalizing terrorist financing and legislation permitting rapid implementation of UN and EU financial sanctions, including action against accounts held by suspected terrorists or terrorist organizations. A new government body called the Clearinghouse was instituted in October 2002. It was established under the FAU and functions to streamline the collection of information 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. An amendment to the anti-money laundering law in 2000 requires financial institutions to freeze assets that belong to suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committees consolidated list. To date, no suspect accounts have been identified in Czech financial institutions, and no terrorist assets have been confiscated.

Asset forfeiture is a relatively new instrument in the hands of Czech prosecutors and investigators. In January 2002, further changes to the Criminal Code were effected which allow a judge, prosecutor, or the police (with the 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 the 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 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); in 2001, it 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.

In addition to the UN Convention for the Suppression of the Financing of Terrorism, the Czech Republic is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. The Czech Republic is also a party to the World Customs Organization's Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offenses as well as the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

The United States and the Czech Republic have a Mutual Legal Assistance Treaty (MLAT), which entered into force on May 7, 2000, as well as an extradition treaty that has been in effect since 1925. In late 2005, the United States and the Czech Republic completed negotiations on a supplemental extradition treaty and a supplemental MLAT to implement the U.S.-EU Agreements on these subjects. The supplemental agreements are expected to be signed in early 2006.

The Czech Republic has made progress in its efforts to strengthen its money laundering regime, as demonstrated by its ratification of the UN Convention on the Suppression of the Financing of Terrorism and its expanded capacity to enforce existing money laundering regulation despite the threat of future personnel shortages. However, further improvement is still needed. The Czech Republic has to date made only incremental and limited progress in its law enforcement efforts. Prosecutions are still infrequent and penalties have been far too light to serve as an effective deterrent. Standards of proof remain extremely high and gaps in Czech law still allow family members to effectively shield the proceeds of illicit activity. 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. It should ratify the UN Convention against Transnational Organized Crime.

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 in the DFZ. Two existing commercial banks handle the bulk of financial transactions. The remainder of the demand is met by a growing number of hawaladars. The Central Bank makes efforts to closely monitor the activities of both the commercial banks and hawaladars. 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. Djibouti 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.

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 (approximately \$141,300 to \$282,600). A financial professional who fails to report suspect transactions is liable for fines ranging from DF 10 to 25 million (approximately \$56,500 to 141,300). 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 financial intelligence unit (FIU) in early 2006.

The FIU will be housed within the Central Bank and staffed with senior employees who come under the Governor's direct supervision. The purpose of the FIU is to collect information on potential clandestine or criminal financial networks and to become the expert office on identifying money laundering. The FIU may obtain any record or databank upon request from government entities or financial institutions. It will perform analytical duties and assist the Ministry of Interior (Police) and the Ministry of Justice in any financial criminal investigation. The FIU may enter into agreement with foreign FIUs to share information if the foreign FIUs are bound by similar rules of confidentiality and secrecy. Finally, the FIU will provide guidance to the banking community in the fight against counterfeit money, including American dollars.

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. 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 or trade goods that transfer value 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 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, approximately 9,000 international business companies (IBCs) (a significant increase from 1,435 in 2002), 18 insurance agencies, and one operational Internet gaming company (although reports indicate more Internet gaming sites exist). There are no free trade zones in Dominica. Under Dominica’s economic citizenship program, individuals can purchase Dominican passports and, in the past, 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 2005, 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) placed Dominica on its Non-Cooperative Countries and Territories (NCCT) list. As a result, Dominica implemented and revised anti-money laundering reforms and was removed from the NCCT list in October 2002. One of the reforms created was an Offshore Financial Services Council (OFSC). The OFSC’s 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 Financial Services Unit (FSU). 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 with respect to 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 FSU. The ECCB is unable to share examination information directly with foreign regulators or law enforcement personnel; however, legislation to permit such sharing is being drafted. The Offshore Banking (Amendment) Act No. 16 of 2000 prohibits the opening of anonymous accounts, prohibits IBCs from direct or indirect ownership of an offshore bank, 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.

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The International Business Companies (Amendment) Act No. 13 of 2000 requires that bearer shares be kept with an “approved fiduciary” that is required to maintain a register with the names and addresses of beneficial owners. Additional amendments to the Act in September 2001 require previously issued bearer shares to be registered. The Act empowers the FSU to “perform regulatory, investigatory, and enforcement functions” over IBCs. The FSU staff normally consists of an Acting Manager, two professional staff (supervisors/examiners), and one administrative assistant. The IBU supervises and regulates offshore entities and domestic insurance companies. The IBU also supervises, regulates, and inspects Dominica’s registered agents and visits IBCs to ensure that the companies are operating in compliance with requirements imposed by law.

The Money Laundering Prevention Act (MLPA) No. 20 of December 2000 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 to the financial intelligence unit (FIU).

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, including any offshore institutions, to report suspicious transactions simultaneously to the MLSA and the FIU. Additionally, financial institutions are required to report any transaction over \$5,000.

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 know your customer requirements, 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 mandate 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 a certified financial investigator and a Director. 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. The FIU has access to the records of financial institutions and other government agencies, with the exception of the Inland Revenue Division. In 2005, the FIU received 19 STRs, which is a significant decrease compared to the 109 STRs received in 2004. The FIU is closely examining the relationship between narcotics proceeds and money laundering in Dominican financial institutions. However, the GCOD believes most of the money laundering cases under investigation involves external proceeds from fraudulent investment schemes.

There are no known convictions on money laundering charges in Dominica. In 2005, a Haitian national was arrested for human trafficking and money laundering. The GCOD also filed criminal complaints against St. Regis University for issuing fraudulent degrees and laundering the proceeds in an offshore bank.

Since 2003, the GCOD has collaborated closely with U.S. and foreign law enforcement agencies in a widespread money laundering case involving European fraudulent investment scheme 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 enacted 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. 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.

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. The MLPA authorizes the FIU to exchange information with foreign counterparts. The Exchange of Information Act 2002 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 mutual evaluation in September 2003. Dominica's FIU was accepted into the Egmont Group in June 2003. Dominica is a party to the 1988 UN Drug Convention. Dominica acceded to the UN International Convention for the Suppression of the Financing of Terrorism and to the Inter-American Convention Against Terrorism in September 2004.

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 Internet gaming entities. Dominica should continue to develop the FIU to enable it to fulfill its responsibilities and cooperate with foreign authorities. Dominica should eliminate its program of economic citizenship.

Dominican Republic

The Dominican Republic continues to be a major transit country for drugs. As such, 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 2003 collapse of the country's third largest bank, Banco Intercontinental (Baninter), is a significant example of the corruption and money laundering scandals that continue to plague the financial sector. The Baninter case saw approximately \$2.2 billion evaporate over the course of just a few years due to the fraudulent accounting schemes orchestrated by senior officials. The failure of Baninter and two other banks (Banco Mercantil and Bancredito) cost the Government of the Dominican Republic (GODR) in excess of \$3 billion and severely destabilized the country's finances. Criminal prosecutions are underway in all three cases. Various legal maneuvers delayed but have not dismissed the criminal prosecution of five Baninter banking officials; an October 2005 decision is currently under appeal. Weaknesses in this sector still have not been fully resolved. The GODR negotiated an IMF standby in August 2003, to help cover the costs of the failures. The IMF insisted on extensive changes in laws and procedures in order to improve banking supervision, which included required passage of law setting procedures for cases of systemic risk to the banking system. These changes have been made and full implementation is expected by mid-2006.

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Narcotics-related money laundering was deemed a criminal offense by the enactment of Act 17 of December 1995 (the 1995 Narcotics Law). In 2002, the GODR passed Law No. 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.

Under Decree No. 288-1996, the Superintendence 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 No. 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, as well as suspicious transactions. 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.

Two asset seizure laws were recently clarified by an executive order stating that the measures set forth in Law No. 78-03 prevail over those contained in Law No. 72-02. Law No. 78-03 permits the seizure, conservation and administration of assets which are the product or instrument of criminal acts pending judgment and sentencing. The 1995 Narcotics Law allows preventive seizures and criminal forfeiture of drug-related assets, and authorizes international cooperation in forfeiture cases. While numerous narcotics-related investigations were initiated under the 1995 Narcotics Law, and substantial currency and other assets were confiscated, there have been only three successful money laundering prosecutions under this law. In 2005, nine money laundering cases related to narcotics were submitted to the justice system.

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 continues to support 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 Superintendence of Banks that instruct all financial institutions to continually monitor accounts.

The Unidad de Inteligencia Financiera (UIF) was created in 1997 and is located within the Superintendence of Banks. The UIF is an administrative financial intelligence unit that supervises within the financial sector the application of the rules and regulations against money laundering and terrorist financing. Law No. 72-02 created the Unidad de Analisis Financiero (UAF) under the national drug council (CND), to receive STRs from the newly mandated entities and to ensure efficient function of the system of registrations and analysis of information. The powers of UAF 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 No. 72-02 obligates the UIF to forward all STRs it receives from financial institutions, money exchangers, and remittance companies to the UAF. Since May 2005, the UAF has received 76 STRs and 8505 reports of currency transactions above the legal limit. As of December 2005, the UAF had received only one report from an entity other than the UIF.

The UIF has been a member of the Egmont Group since June 2000; however, it is expected that the UAF will apply for Egmont membership to replace the UIF. 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. The Dominican Republic is a party to the 1988 UN Drug Convention. The GODR has signed, but has not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The UN Convention Against Corruption was submitted to the Congress for ratification on April 18, 2005, and is expected to be ratified in 2006.

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.

Ecuador

With a dollar economy and a geographical situation between two major drug producing countries, Ecuador is highly vulnerable to money laundering but is not considered an important regional financial center. Because thus far there has been no effective control of money laundering, there is no reliable way to judge the magnitude of such activity in the country. In addition to concerns about illicit transactions through financial institutions, there are some indications that money laundering is taking place through trade and commercial activity. Large amounts of unexplained currency entering and leaving Ecuador indicate that transit and laundering of illicit cash are also significant activities. Though smuggled goods are regularly brought into the country, there is no evidence that they are significantly funded by drug proceeds.

On October 18, 2005, Ecuador's new comprehensive law against money laundering was published in the country's Official Register. The new law, Law 2005-13, criminalizes the laundering of illicit funds from any source and penalizes the undeclared entry of more than \$10,000 in cash. The law calls for the creation of a financial intelligence unit (FIU) under the purview of the Superintendence of Banks. Regulations for application of the law and establishment of the FIU have not yet been developed.

A free trade zone law was passed in 1991 in order to promote exports, foreign investment, and employment. The law provides for the import of raw materials and machinery free of duty and tax; the export of finished and semi-processed goods free of duty and tax; and tax exemptions for business activities in the government-established zones. Free trade zones have been established in Esmeraldas, Manabi and Pichincha provinces, and a new zone is planned for the site of the new Quito airport. There is no known evidence to indicate that the free trade zones are being used in trade-based money laundering.

Prior to the passage of the 2005 law, the Narcotics and Psychotropic Substance Act of 1990 (Law 108) criminalized money laundering activities only in connection with illicit drug trafficking. Under the new law, money laundering is now criminalized in relation to any illegal activity, including narcotics trafficking, trafficking in persons, and prostitution, among others. Money laundering is penalized by a prison term of three to nine years, depending upon the amount laundered, as well as a monetary fine. All entities that fall under the 1994 Financial System Law, including financial institutions and insurance companies, are required to report all "unusual and unjustified" transactions to the FIU, once it has been established. Obligated entities are also required to maintain registries of cash transactions exceeding \$10,000, establish "know-your-client" provisions, and maintain financial transaction records for ten years. Any person entering or leaving Ecuador with \$10,000 or more must file a report with the Customs service. Entities or persons who fail to file the required reports or declarations may be sanctioned by the Superintendence of Banks. The FIU may request information from any of the obligated entities to assist in its analysis of suspicious transactions, and cases that are deemed to

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warrant further investigation will be sent to the Public Ministry. The FIU is also empowered to exchange information with other financial intelligence units on the basis of reciprocity.

There are some weaknesses that were not corrected by the 2005 law. For example, the definition of suspicious transactions as “unusual and unjustified,” may allow defendants to use this definition to their advantage in legal proceedings by claiming that the bank did not prove suspicious transactions were “unjustified” and therefore should not have reported the transaction. The wording may also open a loophole for banks and their employees to avoid reporting suspicious transactions by claiming that the transactions were justified to the satisfaction of the bank. Legal protections for financial institutions and their employees who report suspicious transactions are not included in the 2005 law, leaving them vulnerable to legal actions from the subject of the report. Some existing laws may also conflict with the detection and prosecution of 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 Superintendence of Banks. In addition, the Criminal Defamation Law sanctions banks and other financial institutions that provide information about accounts to police or advises 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 has fallen short of the level needed for effective enforcement of money laundering statutes.

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 Superintendence of Banks. 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.

The 2005 law establishes a National Council Against Money Laundering, to be headed by the director of the FIU and include representatives of all government entities involved in fighting money laundering, such as the Superintendence of Banks and the National Police. The National Council Against Money Laundering will be responsible for administering the freezing and seizure of funds that are identified as originating from illicit sources. A special fund for forfeited assets will be set up in the Central Bank, and these assets will be distributed among government entities responsible for combating money laundering.

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. By year-end 2005, a draft law had been completed and sent to the Presidency for review. Pending promulgation of a new law, terrorist financing has not been criminalized in Ecuador. The Superintendence of Banks 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 Executive Order 13224 (on terrorist financing) or as named on the consolidated list maintained by the UN 1267 Sanctions Committee. No terrorist finance assets have been identified to date in Ecuador. The Superintendence would have to obtain a court order to freeze or seize such assets in the event they were identified in Ecuador. Ecuador has ratified the UN International Convention for the Suppression of the Financing of Terrorism. No steps have been taken to prevent the use of gold and precious metals to launder terrorist assets. Currently, there are no measures in place to prevent the misuse of charitable or non-profitable entities to finance terrorist activities.

Ecuador is a party to the 1988 UN Drug Convention and has ratified the UN Convention against Transnational Organized Crime. In September 2005, Ecuador ratified the UN Convention Against

Corruption, which entered into force December 14, 2005. The GOE has signed, but not yet ratified, the Inter-American Convention Against Terrorism. Ecuador is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the Financial Action Task Force of South America Against Money Laundering (GAFISUD). Ecuador and the United States have an Agreement for the Prevention and Control of Narcotic Related Money Laundering that entered into force in 1993 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.

During the past five years, there have not been any serious investigations of money laundering in Ecuador. However, the passage of a comprehensive anti-money laundering law represents a major advancement for Ecuador in 2005. The GOE now needs to develop the supporting rules and regulations to enact the legislation in order to effectively govern the collection, analysis, and dissemination of financial intelligence. Ecuador is one of only two countries in South America that is not a member of the Egmont Group of financial intelligence units. Now that the necessary legislative framework exists, the GOE should strive to establish a fully functioning FIU that meets the standards of the Egmont Group and the Financial Action Task Force. The GOE should also correct the deficiencies that were not accounted for in the new money laundering legislation. Ecuador should criminalize the financing of terrorism in order to fully comply with international anti-money laundering and counterterrorist financing standards.

Egypt, The Arab Republic of

Egypt is not considered a regional financial center. In 2005, the Government of Egypt (GOE) continued financial sector reforms that were initiated in 2004, with the aim of streamlining the financial sector. Despite banking sector reform, 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. According to the Ministry of Finance, however, cuts in tariffs in September 2004, followed by cuts in income and business taxes in June 2005, have encouraged businesses to begin following proper procedures and regulations.

At present, money laundering and terrorist financing are not reported to be widespread in Egypt. However, informal remittance systems are unregulated and therefore pose a potential means for laundering funds. Egyptian authorities claim that informal remittances are not widespread in Egypt, but the number of remittances officially recorded by banks does not match the large number of Egyptians working overseas, in the Gulf and elsewhere. Many overseas workers use informal means to remit earnings, due to a lack of trust in or familiarity with banking procedures or to the lower costs associated with informal remittance systems. Due to the unregulated nature of informal remittance systems, it is unclear if and to what extent money laundering actually occurs through these systems. One conventional non-bank money transfer system, Western Union, is starting to draw more customers.

In May 2002, Egypt passed an 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 did not repeal Egypt's existing law on bank secrecy, but it did provide the legal justification for providing account

information to responsible civil and criminal authorities. The law also provided for the establishment of the Money Laundering Combating Unit (MLCU) as Egypt's financial intelligence unit (FIU), which officially began operating on March 1, 2003.

In June 2003, the administrative regulations of the anti-money laundering (AML) law were issued as Prime Ministerial Decree No. 951/2003. The regulations provided the legal basis by which the MLCU derives its authority, spelled out the predicate crimes associated with money laundering, established a board of trustees to govern the MLCU, defined the role of supervisory authorities and financial institutions, and allowed for the exchange of information with foreign competent authorities.

Under the anti-money laundering law, banks are also required to keep all records for five years, and numbered or anonymous financial accounts are prohibited. In March 2004, the Central Bank of Egypt (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 also monitors bureaux de change and money transmission companies for foreign exchange control purposes, giving special attention to those accounts with transactions above certain limits. The Capital Market Authority (CMA), which is responsible for regulating the securities markets, has also undertaken the inspection of firms under its jurisdiction. The inspections were aimed at explaining and discussing anti-money laundering regulations and obligations, as well as evaluating the implementation of systems and procedures, including checking for an internal procedures manual and ensuring the appointment of compliance officers. An independent insurance regulatory authority is planned, and authorizing legislation will likely be submitted to parliament in 2006.

The executive regulations of the anti-money laundering law lowered the threshold for declaring foreign currency at borders from the equivalent of \$20,000 to \$10,000. The declaration requirement was also extended to travelers leaving as well as entering the country. Enforcement of this provision is not consistent; however, authorities claim that the terrorist attacks of the past year have given extra impetus to law enforcement agencies to thoroughly scrutinize currency imports/exports.

Egypt is not an offshore financial center. Offshore banks, international business companies and other forms of exempt or shell companies are not permitted in Egypt. Egypt has two types of free zones—public and private. Public free zones are specific geographic districts administered by the GOE. Currently, there are ten public free zones in operation. Private free zones are established for a specific project or company to undertake operations such as mixing, repackaging, assembly, and manufacturing for re-export. There is no indication that Egypt's free zones are being used for trade-based money laundering schemes or for financing terrorism.

The MLCU, Egypt's FIU, is an independent entity within the CBE, and has its own budget, staff, and full legal authority to examine all STRs and conduct investigations with the assistance of counterpart law enforcement agencies, including the Ministry of Interior. 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 CMA, the Deputy Governor of the 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.

The Executive Director of the MLCU is responsible for the operation of the FIU and the implementation of the policies drafted by the Council of Trustees. His responsibilities include: proposing procedures and rules to be observed by different entities involved in combating money laundering; presenting them to the Chairman of the Council of Trustees; reviewing the regulations issued by supervisory authorities for consistency with legal obligations and ensuring that 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 periodic 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 in 2003, the MLCU has received over a thousand STRs from financial institutions and has successfully brought three cases to court, one involving proceeds from drug smuggling and the other two involving proceeds from antiquities smuggling. All three cases stemmed from domestic rather than foreign criminal activity and all involved individuals rather than criminal networks.

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 anti-money laundering (AML) department, which includes a contact person for the MLCU 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 has specific responsibility for investigating cases involving the public sector or public funds. It also has a close working relationship with the MLCU. The third law enforcement entity, the National Security Agency, plays a more limited role in the investigation of money laundering cases, where the predicate offense threatens national security. The GOE established a national committee for coordinating issues regarding anti-money laundering, which held its first meetings in late 2005.

In 2002, the GOE passed the law on civil associations and establishments (Law No. 84 of 2002), which governs the procedures for establishing non-governmental organizations (NGOs), including their internal regulations, activities, and financial records. The law places restrictions on accepting foreign donations without prior permission from the proper authorities. Both the Ministry of Social Affairs and the CBE continually monitor the operations of domestic NGOs and charities to prevent the funding of domestic and foreign terrorist groups.

Because of its own historical problems with domestic terrorism, the GOE has sought closer international cooperation to counter terrorism and terrorist financing. The GOE has shown a willingness to cooperate with foreign authorities in criminal investigations, whether they are related to terrorism or to narcotics.

In January 2005, the National Committee for Combating Money Laundering and Terrorist Financing was established within the MLCU to coordinate policy implementation among the various responsible agencies of the GOE. The committee includes representatives from the Ministries of Interior, Foreign Affairs, Social Affairs, Justice, and the National Security Agency, in addition to the MLCU. The same agencies sit on a National Committee for International Cooperation in Combating Terrorism, which was established in 1998.

The GOE is in the process of replacing its original counterterrorism law, an emergency law enacted in 1981, with a new and updated law. It will reportedly include specific measures against terrorist financing.

The United States and Egypt have a Mutual Legal Assistance Treaty. Egyptian authorities have cooperated with U.S. efforts to seek and freeze terrorist assets. The CBE circulates to all financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to Executive Order 13224. No related assets were identified, frozen, seized, or forfeited in 2005.

Egypt was one of the founding members the Middle East and North Africa Financial Action Task Force (MENAFATF). In November 2004, Egypt was elected to a one-year term as the first Vice-President of MENAFATF. In January 2006, it assumed the presidency for a one-year period.

Egypt is a party to the 1988 UN Drug Convention. In March 2004, it ratified the UN Convention against Transnational Organized Crime. In March 2005, it ratified the UN International Convention for the Suppression of the Financing of Terrorism.

The GOE implemented reforms in 2005 to address domestic and international concerns regarding deficiencies in its banking sector and anti-money laundering regime. However, Egypt should follow through with its plans to enact an updated law against terrorism that specifically addresses the threat of terrorist financing. The GOE must also improve its ability to pursue suspicious financial activities and transactions through the entire investigative and judicial process. It should consider ways of improving the MLCU'S feedback on STRs to reporting institutions. It should improve its enforcement of cross-border currency controls, including reporting requirements.

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 2005, more than \$2 billion in remittances were 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 conducted by international criminal organizations. These organizations use bank and wire fund transfers from the United States to disguise criminal revenues as legitimate remittances to El Salvador. The false remittances are collected and transferred to other financial institutions until sufficiently laundered for use by the source of the criminal enterprise, usually a narcotics trafficking organization.

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 financial intelligence unit (FIU) within the Attorney General's Office. The FIU has been operational since January 2000. The National Police (PNC) and the Central Bank also have their own anti-money laundering units.

Under Decree 498, financial institutions 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 FIU. 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 Government of El Salvador (GOES) has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related and other assets of serious crimes. The FIU and PNC have adequate police powers to trace and seize assets, but the PNC lacks the resources to do so. Even if resources were abundant, it remains to be seen if these government agencies can cooperate to achieve their anti-money laundering goals. For example, only one arrest for money laundering was achieved in 2005. The detained individual is accused of establishing wire transfer accounts in fictitious names in order to receive transfers from the United States disguised as remittances. Unfortunately, the Attorney General's Office declined to pursue several leads generated by this person's arrest. As a result, it is likely that any evidence linking others to this scheme has already been destroyed.

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. There exists no legal mechanism to share seized assets with other countries. Salvadoran law currently provides only for the judicial forfeiture of assets upon conviction (criminal forfeiture), and not for civil or administrative forfeiture. A draft law to reform Decree 498 to provide for civil forfeiture of assets has stalled in the national legislature.

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 circulated the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee consolidated list to financial institutions. These institutions are required to search for any assets related to the individuals and entities on the consolidated list. 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, Honduras, Guatemala, Nicaragua, and Panama. Salvadoran law does not require the FIU 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 in Criminal Matters, which provides for parties to cooperate in tracking and seizing assets. The FIU 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. Remittances are an important sector of the economy, which must therefore be carefully supervised. The Government of El Salvador should criminalize the support and financing of terrorists and terrorist organizations.

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 makes 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-related money laundering.

Historically, money laundering has not been a serious problem. However, while reliable data is not available, reportedly incidents of money laundering have increased in the past few years. Lack of data and systematic study make it difficult for the Federal Police to identify trends in money laundering and inadequate police training hampers their investigative abilities. 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.

Article 684 of Ethiopia's new Criminal Code, approved in May 2005, criminalizes money laundering. Under Article 684 (1), an offender could be criminally liable either for both the predicate acts and money laundering offenses or for the principal criminal act. A violation under Article 684(1) is punishable with five to fifteen years imprisonment and a fine not exceeding the equivalent of \$11,560. The Central Bank has drafted separate anti-money laundering legislation, which includes a provision mandating the establishment of a Financial Intelligence Unit (FIU). This legislation is currently being reviewed by relevant government agencies. In conjunction with the UN Office on Drugs and Crime, the Government of Ethiopia is working on the development of a country strategy to help Ethiopia better respond to financial crimes. The plan includes the identification of training and capacity-building activities needed by the Ethiopian authorities, including judges and prosecutors.

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 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 intermediaries. The Government of Ethiopia (GOE) has proposed counterterrorism 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 names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. During 2005, 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 signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Ethiopia should act on the pending terrorist legislation and pass anti-money laundering 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.

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.

Money Laundering and Financial Crimes

As a member of the European Union (EU), France is obligated to implement all three EU money laundering directives, including the revision of 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 transposed into domestic French legislation in 2004. The EU adopted the Third Money Laundering Directive (2005/60/EC) in late 2005, and must be implemented in France by December 15, 2007.

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. The Central Bank (Banque de France) oversees management of the required records to monitor banking transactions, such as for means of payments (checks and ATM cards), or extensions of credit. Bank regulators and law enforcement also can access the system (FICOBA) managed by the French Tax Administration for opening and closing of accounts, which covers depository accounts, transferable securities, and other properties including cash assets that are registered in France. These records are important tools in the French arsenal for combating money laundering and terrorism financing.

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, 9,007 STRs in 2003, and 10,842 in 2004. 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 59 convictions of money laundering; 291 cases were referred in 2002, which resulted in 57 criminal convictions, 308 cases were referred in 2003, which resulted in 63 convictions, and 347 cases were referred in 2004.

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).

Since 1986, French counter terrorist legislation has provided for the prosecution of those involved in the financing of terrorism under the more severe offense of complicity in the act of terrorism. However, in order to strengthen this provision, the Act of 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. In 2005, the GOF moved to strengthen France's antiterrorism legal arsenal with a bill authorizing video surveillance of public places, especially nuclear and industrial sites, as well as airports and railway stations. The bill requires telephone operators and Internet café owners to keep extensive records, allows greater government access to e-communications, and allows flight passenger lists and identification information to become accessible to counterterrorism officials. It stiffens prison sentences for directing a terrorist enterprise to 30 years, and extends the possible period of detention without charge. The bill permits increased surveillance of potential targets of terrorism. It empowers the Minister of the Economy to freeze the funds, financial instruments and economic resources belonging to individuals committing or attempting to commit acts of terrorism, or to companies directly or indirectly controlled by these individuals. By granting explicit national authority to freeze assets, the bill plugs up a potential loophole concerning the freezing of citizen versus resident EU-member assets. It was passed by both chambers of Parliament in December 2005 and only requires review by the Constitutional Council before publication and entry into force.

French authorities moved rapidly to freeze financial assets of organizations associated with al-Qaida and the Taliban under UNSCR 1267. 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, by offering technical assistance. On the operational level, French law enforcement cooperation targeting terrorist financing continues to be good.

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, and opened negotiations in 2004 for information-sharing agreements with Argentina, Bulgaria, Chile, Germany, Japan, Jersey, Liechtenstein, Mauritius, and Thailand.

France is a member of the FATF, and held the FATF Presidency for a one-year term during 2004-05. It is also 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 July 2005, France 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.

Germany

Germany has one of the largest financial centers in Europe, and German authorities have taken several steps in recent years to diminish the risks of money laundering and terrorism financing. Germany is not a major drug trafficking country, nor is it an offshore financial center. Most money laundering in Germany is related to white collar crime, but Eastern European and Turkish crime groups and narcotics traffickers launder their illicit proceeds in Germany. About three-fourths of the suspicious activity reports filed in Germany cite suspected fraud, forgery and tax evasion, according to the German financial intelligence unit's 2004 annual report.

Germany's legislation has fully incorporated the Financial Action Task Force (FATF) Forty Recommendations on Money Laundering and takes active measures to combat terrorist financing. In 2002, the Government of Germany (GOG) enacted a number of laws to improve authorities' ability to combat money laundering and terrorist financing. These 2002 measures brought German laws into line with the first and second European Union money laundering directives (Directive 1991/308/EEC on The Prevention of The Use of The Financial System for The Purpose of Money Laundering, as revised by Directive 2001/97/EC). Germany's 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 increases due diligence and reporting requirements for banks and financial institutions, and requires financial institutions to obtain customer identification for transactions conducted in cash or precious metals exceeding 15,000 euros (approximately \$17,800). 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 Investigative Service (Bundeskriminalamt or BKA), as well as to the State Attorney (Staatsanwaltschaft), who can order a freeze of the account in question.

The first and second EU money laundering directives, which Germany's 2002 amendments incorporated, 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, has shut down thousands of unlicensed money remitters, and has issued anti-money laundering guidelines to the industry. A 1998 German law requires individuals to declare when they are entering, departing, or transiting the country with over 15,000 euros (approximately \$17,800) in cash. A new EU-wide law expected to take effect in June 2007 will lower this amount to 10,000 (approximately \$11,850) 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). Germany's 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, in 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. Many of Germany's banks have independently developed risk assessment software to screen potential and existing clients and to monitor transactions for suspicious activity. 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. Another unit under the Federal Criminal Investigative Service, the Federal Financial Crimes Investigation Task Force, has 20 Federal Criminal Investigative Service officers and customs agents. Germany plans to add seven or eight more investigators to the task force in 2006.

In 2004, more than 8,000 suspicious activity reports (SARs) were submitted to the FIU. Over one-third of the persons cited in Germany's SARs were non-German nationals. Eighty-five percent of the reports resulted in further investigative proceedings. 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. In 2003, the last year that data is available, the number of money laundering convictions totaled 128. U.S. authorities have conducted joint investigations with GFGs on a number of transnational cases.

BaFIN's system allows for immediate identification of financial assets for potential freezes. In cases where law enforcement authorities seize assets for evidentiary purposes, German law requires a direct link to the crime before seizures are allowed. Law enforcement authorities can freeze accounts for up to nine months, but the money cannot be seized until it is proven in court that the funds were derived from criminal activity or intended for terrorist activity. UN sanctions are an exception to the rule, and Germany freezes indefinitely the assets of anyone appearing on a UN list. In the first nine months of 2005, only \$12,000 had been found and frozen in connection with names appearing on the UNSCR 1267 consolidated list. 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 closed 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 suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and those designated by 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. Germany loosened this stance in 2005 when it sought and obtained an EU asset freeze for a German association that the German Federal Interior Ministry had banned.

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.

Germany considers informal money transfer schemes, such as “*hawala*,” to be 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 more than 2,500 cases of unauthorized financial services since 2003. There are 47 legally licensed money transfer services.

Germany, as a member of the EU, is legally bound to implement a recent EU regulation requiring accurate originator information on funds transfers—but only for transfers into or out of the EU, not within the EU. FATF Special Recommendation Seven on Terrorist Financing, governing wire transfers, however, requires such information on all cross-national-border transfers, including intra-EU transfers.

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. At the beginning of 2006, the U.S.-German MLAT was before the German Bundestag and the U.S. Senate for ratification. In addition, the U.S.-EU Agreements on Mutual Legal Assistance and Extradition are expected to improve further U.S.-German legal cooperation. Negotiations for the bilateral instrument to implement the treaty are complete; the document is currently awaiting signature.

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.

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. Germany should continue to enhance its anti-money laundering regime and continue its active participation in international fora. It should ratify 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. All relevant financial records are required to be retained for at least five years from the date of completion of the business. If the obligated institution has submitted a Suspicious Activity Report to the Gibraltar financial intelligence unit (FIU) or when it knows that a client or transaction is under investigation, it is required to maintain any relevant record even if the five year limit has been reached. If the law enforcement agency investigating a money laundering case cannot link the funds passing through the financial system with the original criminal money, then the funds cannot be confiscated.

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.

The 2001 Terrorism (United Nations Measures) (Overseas Territories) Order makes the financing of terrorism a criminal offence. The Order requires a bank to report to the Governor, where it knows or suspects that a person is or has been a customer of that institution or with whom the institution has had dealings with is a terrorist, or a person who receives funds in relation to terrorism or makes funds available for terrorism.

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 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. Gibraltar 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 constituent republics of the Soviet Union, as well as in Albania, Bulgaria, Romania, and other Balkan countries. Money laundering in Greece is controlled by organized local criminal elements associated with narcotics trafficking, and narcotics are a 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. Implementation of regulatory requirements documenting the flow of large sums of cash through financial and other institutions—such as Greece’s five private and two state-owned casinos—is weak. 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 (IBCs) operating within Greece. However, Greek law allows banking authorities to check transactions of companies established within Greece with offshore operations elsewhere. Senior Government of Greece (GOG) officials are not known to engage in or facilitate money laundering. Reportedly, currency transactions involving international narcotics trafficking proceeds are not believed to include significant amounts of U.S. currency.

Greece has three free trade zones, located at the ports of Piraeus, Thessalonica, and Heraklion, where foreign goods may be brought in without payment of customs duties or other taxes if they are subsequently transhipped or re-exported. There is no indication that these zones are being used in trade-based money laundering or in the financing of terrorism.

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 (later extended to nine 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 for possible money laundering. The Ministry of Economy and Finance has issued detailed instructions on the documentation and auditing procedures required for repatriating

capital. According to the Bank of Greece, about 500 million euros have actually been transferred back to Greece under this law, considerably less than anticipated.

In November 2005, the GOG enacted new legislation that revised Law 2331/1995 to bring it in line with European Union (EU) Directive 2001/97/EC (EU Second Money Laundering Directive). The new law, 3424/2005, extends the predicate offenses for money laundering to include terrorist financing, trafficking in persons, electronic fraud, and stock market manipulation. It also extends the suspicious transaction reporting (STR) requirement to include more professionals such as auction dealers and accountants. In addition, it broadens the powers of the supervisory authorities and clarifies previous legislation by ending a conflict between confidentiality rules and anti-money laundering regulations imposed on banks and other financial institutions. The law also provides supervisory authorities with greater authority to block transactions where money laundering is suspected.

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 must provide full identification, including the name of the recipient, in exchanges involving 12,500 euros (approximately \$18,050) 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. In November 2005, the Bank of Greece announced that so far in 2005, it had imposed fines totaling 8.8 million euros against 13 credit institutions and seven *bureaux de change* and had revoked the license of one *bureau de change* for violations of anti-money laundering laws. The Bank had imposed similar fines and administrative sanctions, including prohibiting the opening of new branches, in previous years as well. 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 (approximately \$2,400). 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.

Law 3424 passed in November 2005 upgrades the CC to an independent authority with access to public and private files, with no tax confidentiality restrictions. The law also broadens the CC's authority in the evaluation of information it receives from various organizations within Greece as well as from international organizations. The Committee is now authorized to block suspects' funds and to impose penalties on those who fail to report suspicious transactions. It must also provide feedback to banks by informing them of actions taken with regard to STRS, in order to enhance continuity. 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, Law 3424/2005 harmonizes Greece's laws with relevant EU legislation. It incorporates elements of the EU Framework Decision on the freezing of funds and other financial assets, as well as the EU Council Regulation on the financing of terrorism. The GOG says it will promulgate implementing regulations to Law 3424/2005 in the first quarter of 2006. YPEE has established a mechanism for identifying, tracing, freezing, seizing, and forfeiting assets of narcotics-related and other serious crimes, the proceeds of which are turned over to the GOG. According to the 1995 law, all property and assets used in connection with criminal activities are 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.

In March 2001, the Ministry of Justice unveiled legislation on combating terrorism, organized crime, money laundering, and corruption. 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 (approximately \$24,070 and \$3,610,000), closure for a period of two months to two years, and ineligibility for state subsidies. The law incorporates the first eight of the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing, and Law 3424/2005 completes the process by revising the old law. According to the GOG, it plans to adopt FATF's Special Recommendation Nine on cash couriers at a later date, following the issuance of a relevant EU directive.

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 has made significant progress in expanding and adjusting its legislation to international standards by gradually incorporating all EU directives on money laundering and terrorist financing. However, in 2006 Greece must begin aggressive implementation of the legislative tools it now has at its disposal. 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.

Grenada

Like many other Caribbean jurisdictions, the Government of Grenada (GOG) raises revenue from the offshore sector by imposing licensing and annual fees upon offshore entities. After being placed on the Financial Action Task Force's (FATF) list of non-cooperative countries and territories (NCCT) in the fight against money laundering in September 2001, the GOG implemented and strengthened its legislation and regulations necessary for adequate supervision of Grenada's offshore sector, which prompted the FATF to remove Grenada's name from the NCCT list in February 2003. As of November 2005, Grenada has one inactive offshore bank, one trust company, one management company, and one international insurance company. Grenada is reported to have over 20 Internet gaming sites. There are also 810 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.

Grenada's Money Laundering Prevention Act (MLPA) of 1999 criminalizes money laundering related to offenses under the Drug Abuse (Prevention and Control) Act, whether occurring within or outside of Grenada, or other offenses occurring within or outside of Grenada, punishable by death or at least five years' imprisonment in Grenada. The MLPA also establishes a Supervisory Authority to receive, review, and forward to local authorities suspicious activity reports (SARs) from covered institutions, and imposes customer identification requirements on banking and other financial institutions. Financial 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 (\$93,000), and possibly revocation of the financial institution's license to

operate. The Proceeds of Crime (Amendment) Act of 2003 extends anti-money laundering responsibilities to a number of non-bank financial institutions.

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.

The Grenada International Financial Services Authority (GIFSA) monitors and regulates offshore banking. 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. The GIFSA was brought under stricter management with an amendment to the GIFSA Act (No. 13 of 2001) that eliminated the regulator's role in marketing the offshore sector. 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 2006.

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 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 non-financial 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.

In June 2001, the GOG established a Financial Intelligence Unit (FIU) 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 2005, the FIU had received 39 SARs, which resulted in the investigations of 29 SARs. Two arrests were made on drug-related money laundering charges, and the two cases are currently pending before the court. Approximately ECD \$9,000 (\$3,300) was seized in 2005. The FIU can provide information concerning SARs to any foreign FIU. 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 (CFT) legislation, which provides authority to identify, freeze, and seize terrorist assets. The CFT legislation allows for the exchange of information with another country regardless of the existence of a mutual legal assistance treaty. 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. Money laundering in Grenada is primarily tied to narcotics proceeds. To date the GOG has not identified any indigenous alternative remittance systems, but suspect there are some in operation. Grenada 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 became a member of the Egmont Group in June 2004. 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 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. The GOG should also move forward in adopting civil forfeiture legislation.

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 26 commercial banks (three more in the process of liquidation); approximately 11 offshore banks (all affiliated, as required by law, with a domestic financial group); 6 licensed money exchangers (hundreds exist informally); 27 money remitters, including wire remitters and remittance-targeting courier services; 18 insurance companies; 17 financial societies (bank institutions that act as financial intermediaries specializing in investment operations); 15 bonded warehouses; 213 cooperatives, credit unions, and savings and loan institutions; 11 credit card issuers; seven leasing entities; 12 finanzas (financial guarantors); and 1 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 industries) and logistic center operations, and are not considered by GOG officials to be a money laundering concern; although proceeds from tax-related contraband are probably laundered through them.

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 \$2.8 billion in remittance flows pass through informal channels, although sector reforms are leading to the increasing use of banks and other formal means of transmission. Implementing regulations for the recently passed terrorism finance legislation include measures to increase reporting requirements on remittance transmitters. Money seized at the airports, approximately \$275,000 in 2005, 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 serious 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.

Over time, 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. However, non-banks 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 U.S. \$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 an 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 26. 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 25 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. The IVE may

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impose sanctions on financial institutions for noncompliance with reporting requirements, and has imposed over \$100,000 in civil penalties to date. Terrorist finance legislation passed in August 2005 requires remitters to maintain the sender's name and address information (principally U.S.-based) on transfers equal to or over an amount to be determined by implementing regulations.

Since its inception, the IVE has received approximately 1,600 suspicious transaction reports (STRs) from the 400 covered entities in Guatemala. All STRs are received electronically, and the IVE has developed a system of prioritizing them for analysis. 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.

Sixteen cases have been referred by the IVE to the AML Unit, four of which stem from public corruption. In several cases, assets have been frozen. Nine money laundering prosecutions have been concluded, all of which resulted in a conviction. A sentence has been rendered in one case, with the remaining eight cases awaiting the completion of appeals. Additional cases have been developed with the cooperation of the Public Ministry and the IVE. The Public Ministry's AML Unit had initiated 197 cases as of December 2005. In addition, 93 cases were dismissed and 66 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. Nevertheless, the Constitutional Court ruled that forfeited currency remains under the jurisdiction of the Supreme Court of Justice.

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 2005, Guatemalan authorities seized more than U.S. \$6.5 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.

In June 2005, the Guatemalan Congress passed antiterrorist finance legislation. Implementing regulations were submitted to the Monetary Board in December 2005. According to the GOG, Article

391 of the penal code already sanctioned all preparatory acts leading up to a crime and financing would likely be considered a preparatory act. Technically, both judges and prosecutors could have issued a freeze order on terrorist assets, but no test case ever validated these procedures. The new Terrorism Finance legislation removed potential uncertainty regarding the legality of freezing assets when no predicate offense had been legally established but the assets have been determined destined to terrorists or to support terrorist acts. The GOG has been cooperative in looking for terrorist financing funds. The new legislation is intended to bring Guatemala into compliance with the Nine FATF Special Recommendations on Terrorist Financing and the UNSCR 1373.

The SIB, through the IVE, has signed Memoranda 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 signed MOUs with Albania, Saint Vincent and the Grenadines, Haiti, Bermuda, Italy, Chile, the Lesser Antilles, Lebanon, Ukraine, Romania, and Bulgaria. Guatemalan law enforcement is actively cooperating with U.S. Government 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 GOG 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. In 2005 there was a deepening of this implementation and improvement of monitoring procedures, including expanded antiterrorism finance tools. However, Guatemala should take steps to immobilize bearer shares, and to identify and regulate offshore financial services and gaming establishments.

Guatemala should 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 approximately 16,000 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 on 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 54 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. Although total deposits into the financial institutions of the Bailiwick have remained constant, deposits from Switzerland have increased from one percent in 2003 to four percent in 2004; the increase appears to continue in 2005. There are approximately 650 international insurance companies and approximately 700 collective investment funds. There are also approximately 20 *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 tax evasion) to the Guernsey Financial Intelligence Service (FIS). In 2003, Guernsey incorporated amendments to the Banking Supervision Law and began publishing the Code of Practice for Banks. 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 has given prior approval. The Commission conducts regular on-site inspections and analyzes the accounts of all regulated institutions. In 2004, the Commission conducted 124 on-site inspections of financial institutions to insure compliance with the AML/CFT legislation.

On July 1, 2005, the European Union Savings Tax Directive (ESD) came into force. The ESD is an agreement between the Member States of the European Union (EU) to automatically exchange information with other Member States about EU tax resident individuals who earn income in one EU Member State but reside in another. Although not part of the EU, the three UK Crown Dependencies (Guernsey Jersey, and Isle of Man), have voluntarily agreed to apply the same measures to those in the ESD and have elected to implement the withholding tax option (also known as the "retention tax option") within the Crown Dependencies.

Under the retention tax option, each financial services provider will automatically deduct tax from interest and other savings income paid to EU resident individuals. The tax will then be submitted to local and Member States tax authorities annually. The tax authorities receive a bulk payment but do not receive personal details of individual customers. If individuals elect the exchange of information option, then no tax is deducted from their interest payments but details of the customer's identity, residence, paying agent, level and time period of savings income received by the financial services provider will be reported to local tax authorities where the account is held and then forwarded to the country where the customer resides.

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 STRs in 2002, 705 STRs in 2003, and 757 STRs 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.

Money Laundering and Financial Crimes

There has been counterterrorism legislation covering the Bailiwick since 1974. The Terrorism and Crime (Bailiwick of Guernsey) Law, 2002, replicates equivalent UK legislation.

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, which is not yet in force. 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 Council of Europe Convention on Mutual Assistance in Criminal Matters, the 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 work with the UK to extend the UN International Convention for the Suppression of the Financing of Terrorism to Guernsey.

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. However, the scale of money laundering is thought to be large relative to the size of the economy, with some experts estimating that the informal economy is forty to sixty percent of the size of the formal sector. Money laundering has been linked to trafficking in drugs, firearms and persons, as well as corruption and fraud. Drug trafficking and money laundering appear to be propping up the Guyanese economy. Known drug traffickers have acquired substantial landholdings and timber concessions, are building large hotel and housing developments, and own retail businesses that sell imported goods at impossibly low prices. 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 2005 due to lack of adequate legislation, regulations, and resources, as well as the apparent lack of political resolve to tackle money laundering as a serious crime.

The Money Laundering Prevention Act passed in 2000 is not yet fully in force, due to inadequate implementing regulations, 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 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. Financial institutions must keep suspicious activity reports 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, and international cooperation.

The Government of Guyana established a financial intelligence unit (FIU) within the Ministry of Finance in 2003. The FIU is currently staffed by a director and a police investigator. Building on assistance from U.S. funding through July 2005, the Government of Guyana (GOG) currently funds salaries and operating expenses. As of December 2005, the FIU has conducted preliminary investigations on approximately 36 cases. In addition to the FIU, government bodies responsible for investigating financial crimes include the Guyana Revenue Authority, the Customs Anti-Narcotics Unit, the Attorney General, and the Director for Public Prosecutions.

The Money Laundering Act of 2000 provides for seizure of assets derived as proceeds of crime, including money, investments, and real and personal property, but the guidelines for implementing seizures/forfeitures have not been finalized. The FIU has prepared drafts of legislation related to terrorist finance and money laundering. This more robust legislation is currently under review and is expected to be presented to parliament in spring of 2006. The new legislation is also expected to provide for oversight of export industries, real estate, and alternative remittance systems.

The Ministry of Foreign Affairs and the Bank of Guyana (the Central Bank), continue to assist U.S. efforts to combat terrorist financing by working towards coming into compliance with relevant United Nations Security Council Resolutions (UNSCRs). In 2001 the Bank of Guyana, 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, as no terrorist assets have been identified as located in Guyana. The FIU Director also disseminates the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list to relevant financial institutions.

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 also a member of the Caribbean Financial Action Task Force (CFATF), and recently participated in CFATF's first 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 publish regulations to implement its money laundering law and provide greater autonomy for the FIU by making it an independent unit with its own budget. Guyana should also 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 and other financial crimes occur in the banking system and in casinos, foreign currency, and real estate transactions. Money laundering activity is linked to the drug trade as Haiti continues to be a major drug-transit country. While the informal economy in Haiti is significant and partly funded by narcotics proceeds, smuggling is historically prevalent and predates narcotics trafficking. 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, a common practice in the informal economic sector. 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, representing an estimated 30 percent of Haiti's gross domestic product (GDP).

In March 2004, an interim government was established in Haiti following former President Jean Bertrand Aristide's resignation and departure. The Interim Government of Haiti (IGOH) has taken initiatives to establish improvements in economic and monetary policies as well as working to improve governance and transparency. In response to the corruption that continues to plague Haiti, the IGOH created an Anti-Corruption Unit as well as a commission to examine transactions conducted by the government from 2001 through February 2004. The commission published its report in July 2005, but to date the IGOH has not submitted for prosecution any cases based on the information provided in the report.

Despite political instability, Haiti has taken steps to address its money laundering and financial crimes problems. 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 and applies to a wide range of financial institutions—including banks, money changers, casinos, and real estate agents. Insurance companies are not covered; however, they are only nominally represented in the Haitian economy. 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 \$4,760). It also requires exchange brokers and transfer bureaus to obtain declarations identifying the source of funds exceeding 200,000 gourdes or its equivalent in foreign currency. The nonfinancial sector, nonetheless, remains largely unregulated.

In 2002, Haiti formed a National Committee to Fight Money Laundering, the Comité 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 financial intelligence unit (FIU) created in 2003, the Unite Centrale de Renseignements Financiers (UCREF), is responsible for receiving and analyzing reports submitted in accordance with the law. The UCREF was expanded

since its creation from 8 to 42 employees, including 25 investigators. Entities are required to report to the UCREF any transaction involving funds that appear to be derived from a crime, as well as those exceeding 200,000 gourdes. Failure to report such transactions is punishable by more than three years' imprisonment. Banks are required to maintain records for at least five years and are required to present this information to judicial authorities and UCREF officials upon request. Bank secrecy or professional secrecy cannot be invoked as grounds for refusing information requests from these authorities.

The UCREF assisted in obtaining, validating and certifying Haitian bank records for use as exhibits in U.S. court proceedings. In 2005, UCREF confiscated \$800,000 and froze \$2.86 million related to money laundering offenses. Approximately 400 investigations were underway in 2005. Data provided largely by UCREF in 2005 resulted in the freezing of \$17.6 million in assets of convicted drug trafficker Serge Edouard. The UCREF also assisted the IGOH in filing the first-ever civil lawsuit in a U.S. court for reparation of Haitian Government funds diverted through U.S. banks and businesses. Though these 2005 achievements of the UCREF are a marked improvement, the CNLBA is still not fully functional or funded, and many of the UCREF's employees still lack experience and the ability to independently investigate cases, which translates into slow progress in moving cases into the judicial system.

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. The inability to seize or freeze assets early in the judicial process reduces the government's authority and resources to pursue cases. The IGOH is supportive of a stronger, more proactive asset seizure law, yet its temporary governmental mandate does not allow for the passage of new laws. The IGOH has set-up a Financial Crimes Task Force under the auspices of the Ministries of Justice, Finance, and the Central Bank, charged with identifying and investigating major financial crimes and coordinating with the UCREF in recommending prosecutions.

Supported by the U.S. Embassy Narcotics Affairs Section (NAS) and the U.S. Treasury Office of Technical Assistance (OTA), this task force and UCREF cooperated with the U.S. Internal Revenue Service in 2005 to investigate several significant cases of U.S. tax fraud. One major case developed by the task force, without U.S. assistance, is presently being prosecuted. At least six other significant cases are currently under investigation. With U.S. guidance and support, the IGOH took steps to reorganize the UCREF and the Financial Crimes Task Force. Efforts were underway at the end of 2005 to separate the intelligence gathering and investigative functions to provide for essential checks and balances and reduce the potential for internal fraud abuses.

The UCREF has three memoranda of understanding with the Dominican Republic, Panama and, Honduras. The UCREF has not yet been accepted and accredited to the Egmont Group. 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. Haiti still has not passed legislation specifically 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. Currently, there is no indication of terrorist financing.

Presidential elections are scheduled for early 2006; the incoming administration should work diligently and expeditiously to fully implement and enforce the AML Law, which will require them to confront the rampant corruption present in almost all public institutions. Haiti should also further strengthen the organizational structures and personal skills of employees both in the UCREF and the

Financial Crimes Task Force. The Government of Haiti should criminalize terrorist financing and become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Honduras

Three 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. 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, though there have been recent high-profile smuggling cases involving gasoline and other consumer goods. Money laundering takes place, primarily through the banking sector, but also through currency exchange houses and front companies. 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. Honduras is not experiencing an increase in financial crimes such as bank fraud. Corruption remains a serious problem, particularly within the judiciary and law enforcement sectors.

Money laundering has been a criminal offense in Honduras since 1998, when the passage of Law No. 27-98 criminalized the laundering of narcotics-related proceeds and introduced various record keeping and reporting requirements for financial institutions. However, weaknesses in the law, including a narrow definition of money laundering, make it virtually impossible to successfully prosecute the crime.

In 2002, Honduras passed Decree No. 45-2002, which greatly strengthened its legal framework and available investigative and prosecutorial tools to fight money laundering. Under the new legislation, the definition of money laundering was expanded to include under the crime of money laundering the transfer of assets that proceed directly or indirectly from trafficking of drugs, arms, human organs or persons, 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 also requires all persons entering or leaving Honduras to declare cash and convertible securities (títulos valores de convertibilidad inmediata) that they are carrying if the amount exceeds \$10,000 or its equivalent.

Decree No. 45-2002, created the financial intelligence unit (FIU), Unidad de Información Financiera, within the National Banking and Securities Commission. Banks and other financial institutions are required to report to the FIU currency transactions over \$10,000 in dollar denominated accounts in local currency accounts. The law requires the FIU and reporting institutions to keep a registry of reported transactions for five years. Banks are required to know the identity of all their clients and depositors, regardless of the amount of a client's deposits and to keep adequate records of the information. The law also includes banker negligence provisions that make individual bankers subject to two-to-five-year prison terms if, by "carelessness, negligence, inexperience or non-observance of the law, they permit money to be laundered through their institutions." All of the above requirements apply to all financial institutions that are regulated by the National Banking and Securities Commission, including state and private banks, savings and loan associations, bonded warehouses, stock markets, currency exchange houses, securities dealers, insurance companies, credit associations, and casinos. The law does not, however, extend to the activities of lawyers or accountants.

Decree No. 45-2002 requires that a public prosecutor be assigned to the FIU. In practice, two prosecutors are assigned to the FIU, each on a part-time basis, with responsibility for specific cases divided between 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 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 have alleged that their personal security is put at risk if the information they report leads to the prosecution of money launderers. This issue has not been present in 2005, however, as only cases originating from the police and prosecutors have been presented in court.

There had been some ambiguity in Honduran law 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.

In late December 2004, Decree No. 24-2004 created the Interagency Commission for the Prevention of Money Laundering and Financing of Terrorism (CIPLAFT). The group was tasked as the coordinating entity responsible for ensuring that all anti-money laundering and anti-financing of terrorism organizations operate efficiently and consistent with all relevant laws, regulations, resolutions, and directives. The group meets every three months and includes representatives from the FIU, the Prosecutor's Office, the police and other offices that touch on the subject of money laundering and terrorist financing.

Prior to 2004, there had been no successful prosecutions of money laundering crimes in Honduras. In 2004, however, Honduran authorities arrested 16 persons for money laundering crimes, issued six additional outstanding arrest warrants, and secured five convictions. Six additional convictions were achieved in 2005.

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 for suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224.

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 U.S. \$1.5 billion in 2005), 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, with some cash probably being transported physically from the United States 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.

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. The majority of companies with free trade zone status operate 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.

Honduras cooperates with U.S. investigations and requests for information pursuant to the 1988 United Nations 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. Honduras 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 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism. In November 2004, Honduras became a party to the Organization of American States (OAS) Inter-American Convention on Terrorism. Honduras is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Group of Experts to Control Money Laundering, and the Caribbean Financial Action Task Force (CFATF). In mid-2005, the Honduran FIU was admitted as a member in the Egmont Group.

No specific written agreement exists between the United States and Honduras to establish a mechanism for exchanging adequate records in connection with investigations and proceedings relating to narcotics, terrorism, terrorist financing, and other crime investigations. However, Honduras has cooperated, when requested, with appropriate law enforcement agencies of the U.S. Government and other governments investigating financial crimes.

The Honduran Congress first 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 there has been no test case to date which would set an interpretation. There are currently no new laws being considered regarding seizure of forfeiture of assets of criminal activity.

The total value of assets seized since the 2002 law came into effect is estimated at \$6.4 millions in seized assets (cars, houses, boats, etc.) as of December 2005. The lack of clear records, and differences in accounting between OABI, the Police and the Investigators Office, make prior year comparisons difficult. Most of these seized assets are alleged to have derived from crimes related to drug trafficking; none are suspected of being connected to terrorist activity. The law allows for both civil

and criminal forfeiture, and there are no significant legal loopholes that allow criminals to shield their assets.

OABI 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 more than a year after the passage of the law, and the key regulation that governs the distribution of assets is still pending action by the Attorney General. 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 approved implementing regulations on distribution of assets, the Public Ministry on several occasions used seized cash to pay certain employees' salaries, without the money's first having passed through a proper legal process for disposition. Similarly, assets such as vehicles, properties, and boats that are seized are in many cases are left unused, rather than being distributed for use by government agencies.

In 2005, the Government of Honduras continued its positive steps to implement Decree No. 45-2002. However, the different units involved in the fight against money laundering continue to suffer from lack of resources and limited interagency communication. 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 and an improved ability to target and pursue more cases that have a higher probability of success. Key to enabling these agencies is to free more resources from OABI. The GOH should continue to support the developing government entities responsible for combating money laundering and other financial crimes, and ensure that resources are available to strengthen its anti-money laundering regime.

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, methamphetamine, 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 FATF Forty 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.

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 (approximately \$643,000).

Money laundering ordinances apply to covered institutions 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 issued anti-money laundering guidelines reflecting the revised FATF Forty Recommendations on Money Laundering 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. The filing of a suspicious transaction report cannot be considered 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 HK\$20,000 (approximately \$2,564).

Hong Kong does not require reporting of the movement of currency above any threshold level across its borders, or reporting of large currency transactions above any threshold level. However, the Narcotics Division is preparing a consultation paper regarding proposed money laundering legislation that it plans to introduce to the legislature. The proposed legislation would likely 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 would 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 would not likely mandate currency declarations at the border, but would 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 would face criminal sanctions if they assisted in money laundering through a failure to "know their customers." The new bill would 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 would make the failure of nonfinancial firms 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 registered 7,279 new international business companies (IBCs) in 2005. Many of the more than 500,000 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. In such cases, the Hong Kong Monetary Authority's anti-money laundering guidelines require banks to verify the identity of the owners of the company, including beneficial owners. The bank should also assess whether the intermediary is "fit and proper". However, solicitors and accountants have filed a low number of suspicious transaction reports in recent years, and consequently have become a focus of attention to improve reporting through regulatory requirements and oversight.

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. In November 2005, Hong Kong banks were permitted modest increases in the scope of RMB business they can offer to clients. The new provisions raised daily limits and expanded services. Making loans in Hong Kong in RMB, however, is still not permitted for any bank. 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 September 1, 2005, the value of assets under restraint was \$187 million, and the value of assets under confiscation order, but not yet paid to the government, was \$14.45 million, according to figures from the JFIU. It also reported that as of September 1, 2005, the amount confiscated and paid to the government since the enactment of DTRoP and OSCO was \$52.5 million, and a total of 126 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 generally increased. In the first nine months of 2005, a total of 10,354 STRs were filed, compared to a total of 14,029 for the twelve months of 2004 and 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 35 during the first 8 months of 2005, compared to 40 for the entire year of 2004 and 29 for 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 Eight 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 assets of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224.

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 2005, 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 circular on November 14 noting that banks were obligated to report suspicious transactions, seek legal advice on the implication of foreign laws and orders, be aware of the list of weapons of mass destruction proliferators published under U.S. Executive Order 13382, implement the latest "know your customer" principles, and ascertain the appropriateness of maintaining high-risk accounts. The HKMA circulated a guideline in June 2004 that incorporated the FATF Special Eight Recommendations on Terrorist Financing. The instruction also required banks to verify fund sources before accepting money from offshore companies established with the intention of disguising beneficial ownership, correspondent banks on the FATF's non-cooperative countries and territories list, or prominent politicians and heads of state.

The rule also required banks to maintain a database of terrorist names and 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) circulated guidance notes in 2005 that provided additional guidance on customer due diligence and other issues, reflecting the new requirements in the revised FATF Forty Recommendations on Money Laundering, and Special Recommendations on Terrorist Financing. The Hong Kong government has modified its regulations in order to make them consistent with the revised FATF Forty Recommendations on Money Laundering.

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.

The Hong Kong police assisted the United States in terrorism investigations in 2005. 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 on Money Laundering and the FATF Special 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 Asia Pacific Group on Money Laundering (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 is known to cooperate with foreign jurisdictions in combating money laundering.

Hong Kong's mutual legal assistance agreements generally provide 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 2005, Hong Kong had mutual legal assistance agreements with a total of 19 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, Switzerland, Denmark, Israel and Poland. Hong Kong has also signed surrender-of-fugitive-offenders agreements with 14 countries, and has signed Agreements for the transfer-of-sentenced-persons 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 stop 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 are entrenched in Hungary. Hungarian law enforcement takes these threats seriously, forcing out a major Russian organized crime leader in 2005. The economy is largely cash-based. Money laundering is related to a variety of criminal activities, including narcotics, prostitution, and organized crime. Trafficking in humans is also a growing organized crime threat as women and children are smuggled from Russia, Romania, Ukraine, Moldova, Bulgaria, and the Balkans through Hungary en route to Scandinavian countries. Additional financial crimes such as counterfeiting of euros, real estate fraud, and the copying/stealing of bankcards are also prevalent. Financial crime has not increased in recent years, though there have been some isolated, albeit well-publicized, cases. 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 striven to implement the FATF Forty Recommendations and the Nine 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 ceases at the end of 2005. Beginning in 2006, these companies are being 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 eliminates bearer shares and requires that all such shares be transferred to identifiable shares by the end of 2003. Thus, now all shares are subject to transparency requirements, 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 accessed and 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 allows companies to request new permits that would convert them into normal companies in 2004. The companies affected could have transferred their assets up until the end of April 2004 without a value-added tax (VAT) or customs duty. Upon Hungary's EU accession on May 1, 2004, 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 again planning to propose new free trade zones.

Anti-money laundering legislation in Hungary dates back to Act XXIV of 1994. Hungary's money laundering legislation covers all serious crimes punishable by imprisonment. In 2003, the Government of Hungary (GOH) re-codified its money laundering 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 service 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 one 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 verify customer identity for currency exchange transactions totaling or exceeding HUF 300,000 (approximately \$1,600). These amounts can come either from a single transaction or consecutive separate transactions exceeding this threshold. The exchange booths are also required to file suspicious transaction reports for currency exchange transactions in any amount. 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 two 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 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, which 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. According to Hungarian bank secrecy regulations, financial service providers are obliged to supply law enforcement authorities with relevant data.

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. Currently, however, 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 that 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. Reportedly, the number of STRs received in 2005 was expected to remain similar to that of 2004. An increase in the number of investigators has helped the FIU investigate cases.

In 2003, a money laundering scandal surfaced involving a Hungarian subsidiary, K&H Equities, of a Dutch-owned bank. A broker reportedly skimmed funds from some clients in order to pad the returns of other more favored clients. Money was laundered through several banks. The case is currently

before the courts. 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. According to the Hungarian FIU, this has resulted in over-reporting.

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, sequestration, and precautionary measures against terrorist assets. In cases where terrorist financing is suspected, banks freeze the assets and then promptly notify HFSA, the FIU, and the Ministry of Finance. The FIU must inform the banks within 24 hours whether or not it will conduct an investigation. The GOH circulates to its 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. 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 and the United States have a Mutual Legal Assistance Treaty and a non-binding information-sharing arrangement with the United States that 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 third round mutual evaluation in 2005. 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 and ratified it on April 19, 2005.

Hungary has made progress in developing its anti-money laundering regime. However, continued effort is needed with regard to implementation. Also, an increased level of cooperation and coordination is needed among the different law enforcement entities involved in the anti-money laundering regime in Hungary. Additional training for prosecutors, judges, and police is also necessary in order to promote the successful prosecution of money laundering cases. Increased AML/CFT training for employees of financial institutions and other obliged entities is also necessary in order to effectively combat the rise in defensive reporting.

India

India's status as a growing regional financial center, its large system of informal cross-border money flows and its widely perceived tax avoidance problem all contribute to the country's vulnerability to money laundering activities. Some common sources of illegal proceeds in India are narcotics trafficking, trade in illegal gems (particularly diamonds), smuggling, trafficking in persons, corruption, and income tax evasion. India is a major drug-transit country.

India's historically strict foreign-exchange laws and transaction reporting requirements, together with 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 30 and 40 percent of the formal market. Remittances to India reported through legal, formal channels in 2004-2005 amounted to \$20.5 billion.

Under the hawala system, individuals transfer value from one location to another, often without the actual movement of currency. Key features of the hawala system are that it transfers value without actually moving funds. When accounts need to be balanced between hawaladars, a number of techniques are used including cash and bank transfers. But historically and culturally, trade is the most common vehicle to provide "counter valuation." This is often accomplished through invoice manipulation such as over and under valuation. Any commodity can be used in hawala value transfer but gold remains most popular. The hawala system provides anonymity and security to transacting individuals. Reportedly, 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 remittance service as a bank 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 the widespread hawala dealers operate illegally and therefore cannot be registered and are beyond the reach of regulation. Reportedly, the RBI does intend to increase its regulation of non-bank money transfer operations by entities 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 thought that the growing Indian diamond trade has also been increasingly important in providing countervaluation, 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.

India has both legal and illegal unregulated black market channels for selling goods. Smuggled goods such as food items, computer parts, cellular phones, gold, and a wide range of imported consumer goods are routinely sold through the black market. By avoiding customs duties and taxes and dealing in cash transactions, black market merchants offer better prices than those offered by regulated merchants. However, with trade liberalization and the increase in the number of foreign companies doing business in India, the volume of business in smuggled goods has fallen significantly. Most products previously sold through the black market are now sold through lawful channels.

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 introduced a value added tax (VAT) in April 2005. This tax replaces 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. Twenty-one Indian states have already implemented the VAT, and the GOI anticipates that the remaining nine states will do so by April 2006.

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 (NDPSA) 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.

Amendments to the NDPSA dating from 2001 allow the CA to seize any asset owned or used by a narcotics trafficker immediately 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 appear to lack sufficient training in drafting and expeditiously implementing asset freezing orders. During 2005, the CA held nine asset seizure and forfeiture workshops pursuant to the NDPSA in New Delhi, Himchal Pradesh, Uttar Pradesh, Rajasthan, and Andra Pradesh, to train law enforcement officers in asset seizure and forfeiture procedures and regulations. The GOI hopes the training will lead to increased seizures and forfeitures from illicit narcotics proceeds.

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 MOF’s Directorate of Enforcement (DOE) enforces FEMA and COFEPOSA. 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). Implementing rules and regulations for the PMLA were promulgated in July 2005. Penalties for offenses under the PMLA are severe and may include imprisonment for three to seven years and fines as high as \$10,280. If the money laundering offense is related to a drug offense under the NDPSA, imprisonment can be extended to a maximum of ten years. The PMLA mandates that banks, financial institutions and intermediaries (including stock market intermediaries such as brokers) maintain records of all cash transactions exceeding \$21,740. However, there have been no prosecutions or convictions under the PMLA since its inception.

With the notification of the PMLA in July 2005, India is establishing a central financial intelligence unit (FIU) to centralize and coordinate most of its anti-money laundering and counter terrorist financing strategies. The FIU will be an independent unit located within the Central Economic Intelligence Bureau (CEIB), under the administrative control of the MOF's Department of Revenue. The MOF has authorized 43 positions for the FIU, including a director (joint secretary), seven additional directors, one technical director, ten technical officers, and clerical personnel. This multi-disciplinary team of officers will be seconded for a two-year rotation. The directors are from various government agencies—Police, Revenue Department, Income Tax, Customs, RBI, Intelligence Bureau, Securities and Exchange Board of India (SEBI), and the Legal Affairs Department of the Ministry of Law. The FIU expects to have all these positions filled, and to begin receiving suspicious transaction reports (STRs) by March 2006.

The FIU will be solely responsible for receiving, processing, analyzing, and disseminating information on STRs, and will independently refer suspicious cases to the appropriate enforcement agency. The MOF's Enforcement Directorate will handle the investigations and prosecution of money laundering cases. The GOI has established an Economic Intelligence Council (EIC) to enhance coordination among the various enforcement agencies and directorates in the MOF. The EIC provides a forum for enforcement agencies to strengthen intelligence and operational coordination, to formulate common strategies to combat economic offenses, and to discuss cases requiring interagency cooperation. In addition to the EIC, there are 18 regional economic committees in India. The CEIB will function as the secretariat for the EIC. The CEIB interacts with the National Security Council, the Intelligence Bureau, and the Ministry of Home Affairs on matters concerning national security and terrorism.

The FIU's core team will phase in its operations as follows: Phase 1, beginning in January 2006, will entail the bulk filing of information manually and the securing of this information electronically on CDs. Phase two, with a target date of June 2006, will focus on firming up formats and analytical tools, customization of requirements, and testing of analytical tools. The final phase, to be completed by December 2006, will include the sharing of information domestically and with other FIUs, the latter on a case-by-case basis. The FIU and the MOF are making all efforts to become compliant with Egmont standards with the ultimate goal of becoming a member of the Egmont Group.

The Central Bureau of Investigation, the Directorate of Revenue Intelligence, Customs, and Excise, the RBI, the Competent Authority, and the MOF are all 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 (DHS/ICE). DHS/ICE carried out successful investigations on three of these cases and forwarded tangible results to the MOF's DOE. In 2005, the DOE forwarded two additional hawala-linked money laundering cases to DHS/ICE. DHS/ICE has provided investigative assistance.

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 anti-money laundering regulations are

observed. The RBI issued a notice in 2002 to commercial banks instructing them to adopt the “know-your-customer rules”. 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 drafted to ensure that they comply with Financial Action Task Force (FATF) recommendations. 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. The RBI also asked all commercial banks to become FATF-compliant regarding customer identification for existing as well as new accounts by December 2005.

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 is a party to the UN International Convention for the Suppression of the Financing of Terrorism. In October 2001, the GOI and the United States signed a mutual legal assistance treaty, which entered into force in October 2005. 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 is implementing this convention through the Unlawful Activities Prevention Act. India is a party to 1988 UN Drug (Vienna) Convention. India implements the 1988 UN Drug Convention through amendments to the NDPSA (in 1989 and 2001) and the PMLA. It signed the Palermo Convention in December 2002 but has not yet ratified it.

India is a member of INTERPOL, and the CBI is the official INTERPOL unit in India. All state police forces and other law enforcement agencies have a link through INTERPOL/New Delhi to their counterparts in other countries for purposes of criminal investigations. India’s Customs service is a member of the World Customs Organization, and shares enforcement information with countries in the Asia/Pacific region.

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 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 initiate regulation and increase law enforcement actions in this area. Indian citizens’ involvement in the underworld of the international

diamond trade should be examined. It also needs to quickly finalize the implementing regulations to the anti-money laundering law and ensure that the new FIU is fully operational in order to disseminate suspicious transaction reports to domestic law enforcement and enhance information sharing with other FIUs globally. 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 trade-based money laundering. India should become a party to 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, piracy and counterfeiting, illegal logging and 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.

As a result of Indonesia's ongoing efforts to implement the reforms to its Anti-Money Laundering (AML) regime, the Financial Action Task Force (FATF) removed Indonesia from its list of Non-Cooperative Countries and Territories (NCCT) on February 11, 2005. In order to ensure continued effective implementation of the reforms enacted, the FATF is monitoring Indonesia's progress for one year. The removal of Indonesia from the NCCT list recognized a concerted, interagency effort—personally directed by President Susilo Bambang Yudhoyono—to further develop Indonesia's nascent AML regime.

Indonesia's Financial Intelligent Unit (PPATK), established in December 2002 and fully functional since October 2003, continues to make steady progress in developing its human and institutional capacity. 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 16, the PPATK has received approximately 3,059 suspicious transactions reports (STRs) from 102 banks and 23 non-bank financial institutions. The volume of STRs has increased from an average of 70 per month in 2004, to 160 per month in 2005. The agency also reported that it had received over 1.4 million cash transaction reports (CTRs). Based on their analysis of 646 STRs, PPATK investigators have referred 344 cases to the police. Based on referrals of STRs and other related information from the PPATK, as of September 2005, there has been 1 successful prosecution involving terrorism, 19 successful prosecutions involving bank fraud and/or corruption, and 1 successful prosecution for money laundering. Sentences in these cases ranged from 4 months in prison to the death penalty. Fifteen of the twenty one cases had sentences imposed of 8 years in prison or more; the money laundering verdict handed down a sentence of 8 years in prison.

Indonesia's Anti-Money Laundering and Counter Terrorism Finance (CTF) Donors' Coordination Group, co-chaired by the PPATK and the Australian Agency for International Development (AUSAID), has become a model for AML/CTF donors' coordination groups in other countries. Since Indonesia's removal from the NCCT list, donors and the Government of Indonesia (GOI) have placed greater emphasis on more practical training; technical and capacity building assistance for the non-bank financial sector, police, prosecutors and judges; cash smuggling; and regulation of charities and money changers.

The PPATK is actively pursuing broader cooperation with relevant GOI agencies. The PPATK has signed nine domestic memoranda of understanding (MOUs) to assist in financial intelligence information exchange with the following entities: Attorney General's Office (AGO) Bank Indonesia

(BI), the Capital Market Supervisory Agency (Bapepam), the Directorate General of Financial Institutions, the Directorate General of Taxation, Director General for Customs and Excise the Center for International Forestry Research, the Indonesian National Police, the Ministry of Forestry and the Corruption Eradication Committee.

Sustained public awareness campaigns, new bank and financial institution disclosure requirements, and the PPATK's support for Indonesia's first credible anticorruption drive have led to increased public awareness about money-laundering and, to a lesser degree, terrorism finance. Weak human and technical capacity, poor interagency cooperation, and corruption, however, still remain significant impediments to the continuing development of an effective and credible AML regime.

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 1998 Asian financial crisis when the GOI became interested in controlling capital flight and recovering foreign assets of large-scale corporate debtors or alleged corrupt officials.

In April 2002, Indonesia passed Law No. 15/2002 Concerning the Crime 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. Law No. 15/2002 established the PPATK to develop policy and regulations to combat money laundering and terrorist finance.

In September 2003, Parliament passed Law No. 25/2003 amending Law No. 15/2002 Concerning the Crime of Money Laundering that addressed many FATF concerns. Amending Law No. 25/2003 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 amendment 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 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 \$100,000). Articles 44 and 44A provide for mutual legal assistance with respect to money laundering cases, 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. The Ministry of Justice and Human Rights finalized a draft Mutual Legal Assistance Law in early 2005 and the draft was sent from the President to the Parliament on June 9, 2005, for approval. Until this legislation is formally passed, the GOI uses informal, non-binding procedures to facilitate MLA from other states.

Bank Indonesia (BI), the Indonesian Central Bank, issued Regulation No. 3/10/PBI/2001, "The Application of Know Your Customer Principles," on June 18, 2001. This regulation requires banks to obtain information on prospective customers, including third party beneficial owners, and to verify the identity of all owners, with personal interviews if necessary. The regulation also requires banks to establish special monitoring units and appoint compliance officers responsible for implementation of the new rules and to maintain adequate information systems to comply with the law. Finally, the regulation requires banks to analyze and monitor customer transactions and report to BI within seven days any "suspicious transactions" in excess of Rp 100 million (approximately \$10,000). The regulation defines suspicious transactions according to a 39-point matrix that includes key indicators such as unusual cash transactions, unusual ownership patterns, or unexplained changes in transactional

behavior. BI specifically requires banks to treat as suspicious any transactions to or from countries “connected with the production, processing and/or market for drugs or terrorism.”

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. BI is also preparing Guidelines for Money Changers on Record Keeping and Reporting Procedures and Money Changer Examinations given by BI examiners.

Currently, banks must report all foreign exchange transactions and foreign obligations to BI. With respect to the physical movement of currency, Article 16 of Law No. 15/2002 contains a reporting requirement for any person taking cash into or out of Indonesia in the amount of 100 million Rupiah (approximately \$10,000) or more, or the equivalent in another currency, which must be reported to the Director General of Customs. These reports must be given to the PPATK in no later than five business days and contain details of the identity of the person. Indonesian Central Bank regulation 3/18/PBI/2001 and the Directorate General of Customs and Excise Decree No.01/BC/2005 contain the requirements and procedures of inspection, prohibition, deposit of Indonesia Rupiah into or out of Indonesia. The Decree provides implementing guidance for Ministry of Finance Regulation No.624/PMK.04/2004 of December 31, 2004, which requires individuals who import or export more than rupiah 50 to 100 million in cash (approximately \$5,000-\$10,000) to report such transactions to Customs. This information is to be declared on the Indonesian Customs Declaration (BC2.2) and Customs officials at Jakarta, Batam and Pekanbaru airports submitted 325 such forms between January 19 and August 31, 2005, with 200 submitted after May 2.

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 Law No. 15/2002 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 Law No. 15/2002 exempts providers of financial services from bank secrecy provisions when carrying out their reporting obligations, and Article 15 of their anti-money laundering legislation gives providers of financial services, their officials 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 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 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, Police, and BI, takes several weeks from UN designation to bank notification. The implementation of this process has not led to the discovery of accounts or assets of individuals or entities on UN 1267 consolidated list. However, during the course of terrorism investigations, the Indonesia police have located and frozen accounts of individuals on the UN 1267 consolidated list.

The GOI is currently drafting additional amendments to Law No. 15/2002 that would provide the PPATK with preliminary investigative authority and the ability to temporarily freeze assets. The

amendments are intended to provide technical investigative support to police and prosecutors and to deter capital flight. Indonesia's AML Law and Government Implementing Regulation No. 57/2003 provide protections to whistleblowers and witnesses. The GOI has also finalized a whistleblower and witness protection law, which is now under parliamentary consideration.

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. The GOI recently initiated a dialogue with charities and nonprofit entities on improving regulation and oversight of those sectors.

Indonesia is an active member of the Asia/Pacific Group on Money Laundering (APG) and the Bank for International Settlements. 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 PPATK is actively pursuing broader cooperation with other Financial Intelligence Units (FIUS) and has MOUs with Thailand, Malaysia, Republic of Korea, Philippines, Romania, Australia, Belgium, Italy, Spain, Poland and Peru. The PPATK has also entered into an Exchange of Letters enabling international exchange with Hong Kong. Indonesia has signed Mutual Legal Assistance Treaties with Australia, China and South Korea, and Indonesia joined other ASEAN nations in signing the ASEAN Treaty on Mutual Legal Assistance in Criminal Matter on November 29, 2004. The Indonesian Regional Law Enforcement Cooperation Centre was formally opened in 2005 and was created to develop the operational law enforcement capacity needed to fight transnational crimes.

The GOI should continue its steady progress in strengthening its anti-money laundering regime to make it more effective. 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 and 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. No new information has been reported for Iran in 2005, so this report repeats information from last year and may be therefore be outdated in some aspects.

Iran is not a regional financial center. Iran has a robust underground economy and the use of alternative remittance systems like hawala 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 has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

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 at least 90 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. Iraq has free trade zones in: Basra/Khor al-Zubair, Ninewa/Falafel, Sulaymaniyah, and Al-Quaymen. Under the Free Zone (FZ) Authority Law, goods imported and exported from the FZ are generally exempt from all taxes and duties, unless imported into Iraq. Additionally, capital, profits, and investment income from projects in the FZ are exempt from taxes and fees throughout the life of the project, including in the foundation and construction phases.

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. 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. The constitution, which was ratified

in October 2005 but which does not take effect until a permanent government is formed, also provides for the continuation of existing law, including CPA Regulations and Orders, until the existing law is annulled or amended in accordance with the constitution.

CPA Order No. 93, “Anti-Money Laundering Act of 2004” (AML Act), governs financial institutions in connection with: money laundering, financing of crime, financing terrorism, and the vigilance required of financial institutions in regard to financial transactions. The law also criminalizes money laundering, financing crime, including the financing of terrorism, and structuring transactions to avoid legal requirements. The AML Act covers: banks; asset, investment fund and securities dealers or managers; insurance entities; money transmitters and foreign currency exchanges, as well as persons who deal in financial instruments, precious metals or gems; and persons who undertake hawala transactions. Covered entities are required to verify the identity of any customer opening an account for any amount. Covered entities are also required to verify the identity of non-account holders performing a transaction or series of potentially related transactions whose value is equal to or greater than five million Iraqi dinar (approximately \$3,500). Beneficial owners must be identified upon account opening or for transactions exceeding ten million Iraqi dinar (approximately \$7,000). 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 dinar (approximately \$3,000) that is believed to, for example, involve funds that are derived from illegal activities or money laundering, intended for the financing of crime, including terrorism, or over which a criminal organization has disposal power, or a transaction conducted to evade any law for which there is no apparent business or other lawful purpose. The “tipping off” of customers by bank employees where a transaction has generated a suspicious transaction report is prohibited. However, 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. The 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 for the cross-border transport of currency of more than 15 million Iraqi dinar (approximately \$10,000). Neither Iraqis nor foreigners are permitted to transport more than \$10,000 in currency when exiting Iraq. The CBI is also mandated by the AML Act to distribute the UN 1267 Sanction Committee’s consolidated list of suspected terrorists or terrorist organizations. No asset freezes pertaining to any names on the consolidated list have been reported to date. Order No. 94 gives 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 has yet to become operational. The CBI and the USG are working together to build this capacity and implement the day-to-day functions of a financial intelligence unit (FIU). The MLRO will 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 predicate offenses for the crimes of money laundering and the financing of crime are quite broad and extend beyond “all serious offenses” to include “some form of unlawful activity.” The penalties

for violating the AML Act depend on the specific nature of the underlying criminal activity. For example, “money laundering” is punishable by a fine of up to 40 million dinar (approximately \$27,080), or twice the value of the property involved in the transaction (whichever is greater), or imprisonment of up to four years, or both. Other offenses for which there are specific penalties include the financing of crime (a fine of up to 20 million dinar (approximately \$13,540), two years’ imprisonment, or both) and structuring transactions (up to 10 million dinar (approximately \$6,770), one year imprisonment, or both). No arrests or prosecutions under the AML Act have been reported to date.

The AML Act also includes provisions for the forfeiture of any property, real or personal, including but not limited to funds involved in a covered offense, or any property traceable to the property, or any property gained as a result of such an offense, without prejudicing the rights of bona fide third parties. 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. The lack of automation or infrastructure in the banking sector, however, hinders the government’s ability to identify and freeze assets linked to illicit activity.

Iraq became a member of the Middle East and North Africa Financial Action Task Force (MENAFATF) in September 2005. Iraq is a party to the 1988 UN Drug Convention but not the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime. Iraq should ratify these conventions. It should take an active part in MENAFATF and implement its recommendations. Iraq should continue its efforts to build capacity and actively implement the provisions of the AML Act and related authorities. As a priority, Iraq, should establish the MLRO and FIU, as well as develop increased capacity to investigate financial crimes and enforce the provisions of the AML Act. In addition, it should ensure that any new legislation that either replaces or enhances the AML Act or the Banking Law meets current international standards.

Ireland

Narcotics trafficking, fraud, and tax offenses are the primary sources of funds laundered in Ireland. Money laundering mostly occurs in financial institutions such as 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.

Suspicious Transaction Reports (STRs), received by the Revenue Commissioners and the Garda Bureau of Fraud Investigation (GBFI), cites the use of solicitors, accountants, and company formation agencies in Ireland to create shell companies. 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.

Ireland criminalized money laundering relating to narcotics trafficking and other offenses 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 Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive)

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 euro (approximately \$15,300).

Ireland's international banking and financial services sector is concentrated in Dublin's International Financial Services Centre (IFSC). In 2005, there were approximately 430 international financial institutions and companies operating 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 were phased out over recent years and expired 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 2005, the ODCE had 16 prosecutions resulting in fines of varying amounts, four less than in 2004.

The Garda Bureau of Fraud Investigation (GBFI), Ireland's financial intelligence unit (FIU), analyzes financial disclosures. In 2003, a new Irish legal requirement went into effect, mandating that covered institutions file STRs with the Revenue (Tax) Department in addition to the BFI. Ireland estimates that up to 80 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 increased from 4,254 in 2003 to 5,491 in 2004. Convictions for money laundering offenses under the Criminal Justice Act totaled four in 2001, two in 2002, and two in 2003. In 2004, there were seven prosecutions resulting in three convictions, currently awaiting sentencing. A conviction on charges of money laundering carries a maximum penalty of 14 years' imprisonment and an unlimited fine. To date, the strongest penalty applied for the conviction of money laundering is six years.

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 reports to the Minister for Justice and 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 55 million euro of assets. In 2004, the CAB collected 16.4 million euro 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.

On March 9, the Irish government made strides in strengthening antiterrorism legislation when President Mary McAleese signed the Criminal Justice (Terrorism Offenses) Bill 2002 into law. This legislation brought Ireland in line with United Nations Conventions and European Union Framework decisions on combating terrorism. It enabled Ireland to ratify and accede to the remaining four UN conventions on terrorism. (Ireland had previously acceded to eight of twelve) and significantly strengthened the government's ability to seize assets and prosecute those suspected of supporting terrorism. Until this law passed, GOI authorities could pursue and prosecute suspects of terrorism, notably terrorism financing, only if they also had committed criminal offenses in Ireland or had been designated by the UN 1267 Sanctions Committee's consolidated list or by the EU. Implementation of the new anti terrorism legislation and its anti-money laundering law amendments, plus stringent enforcement of all such initiatives, will enhance Ireland's efforts to maintain an effective anti-money laundering program. The Central Bank, moreover, participates with the Irish Parliament subcommittee in drafting guidance notes for regulated institutions on combating and preventing terrorist financing. These notes were revised and issued to institutions upon the passing of the bill.

The law allows the Irish Police to apply to the courts to freeze assets where certain evidentiary requirements are met. Ireland reported to the European Commission the names of seven individuals, the most recent 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 euro (approximately \$109,000).

In February seven people from the Republic of Ireland were arrested in a police raid on suspects believed to be laundering some of the 26.5 pounds sterling (38 million euro- approximately \$45,260,000) stolen from the Northern Bank, Belfast on December 23, 2004. Over 2.3m pounds sterling and 94,000 (approximately \$120,000) euro was seized in Cork and Dublin. Up to 100 officers from the Criminal Assets Bureau, Garda Bureau of Fraud Investigation, Special Detective Unit and Crime and Security Section were involved in the arrests, with no charges filed, or prosecutions begun.

In July, the United States and Ireland signed instruments on extradition and mutual legal assistance. These instruments are part of a sequence of bilateral agreements that the United States is concluding with all 25 EU Member States, in order to implement twin agreements on extradition and mutual legal assistance with the European Union in 2003. The instruments signed by Ireland will supplement and update the 1983 U.S.-Ireland extradition treaty and the 2001 bilateral treaty on mutual legal assistance (MLAT). The 1983 extradition treaty between Ireland and the U.S. is in force, while the ratification process for the 2001 MLAT has not yet been completed by the GOI. Regarding mutual assistance, the instruments provide for searches of suspect foreign located bank accounts, joint investigative teams, and testimony by video-link.

Ireland is a member of the EU, and the FATF. The FIU is a member of the Egmont Group. Ireland 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. Ireland is also a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

“Shell” companies-companies that have no physical presence and normally have nominee directors are contrary to FATF's international standards. These “paper companies” are convenient vehicles for the

laundering of funds and could be used to finance terrorism. The GOI should consider strengthening measures to prevent the establishment of such companies. Similarly, law enforcement should have a stronger role in identifying the true beneficial owners of shell companies as well as of trusts in the course of investigations.

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. The U.S. dollar is the most common currency used for criminal activity in the IOM. Most of the illicit funds in the IOM are from fraud schemes and narcotics trafficking in other jurisdictions, including the United Kingdom. Identity theft and Internet abuse are growing segments of financial crime activity.

As of September 30, 2004, the IOM's financial industry consisted 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. 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 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 on Money Laundering. The IOM is also assisting the FATF Working Groups considering matters relating to customer identification and companies' issues.

In August 2002, money service businesses (MSBs) not already regulated by the FSC or IPA were required to register with Customs and Excise. This implemented the 1991 EU Directive on Money Laundering, revised by the Second Directive 2001/97/EC, for MSBs 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 Online Gambling Regulation Act 2001 and an accompanying AML (Online Gambling) Code 2002 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 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 in April 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 2,265 suspicious transaction reports (STRs) in 2005, 2,315 STRs in 2004, and 1,920 STRs in 2003. In 2005, the FIU referred approximately 11 percent of the STRs to the United Kingdom, two percent to other European jurisdictions and 12 percent to non-European jurisdictions as referrals to law enforcement for investigation. In 2004, the FIU referred 19 percent of the STRs to the United Kingdom, eight percent to Europe and 31 percent to non-European jurisdictions. There is no minimum threshold for obligated entities to file a STR and reporting individuals (compliance officers, bankers, etc.) are protected by law when filing suspicious transactions.

The FCU is organized under the Department of Home Affairs. The FIU has access to Customs, police and tax information. The STRs are disseminated through agreements to the IOM Customs, Tax Administrators, Financial Supervision Commission (FSC) and the Insurance and Pension Authority (IPA). The FCU is responsible for investigating financial crimes and terrorist financing cases. In 2005, there were four arrests and one prosecution for money laundering involving narcotics.

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 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 charities are registered and supervised by the Charities Commission. 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. Additional amendments are being reviewed that will incorporate the new FATF recommendations and EU directives.

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. Less than a quarter of all Israeli money laundering or terrorist financing seizures are related to narcotics proceeds. The majority of the seizures are related to fraud, theft, embezzlement, and illegal money services providers (MSP). Most significant criminal activities that were investigated in 2005 were related to intentional false property transactions reporting. 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.

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 \$17,200). 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 (\$43,400), or ten times the amount that was not declared, whichever is higher. Alternatively, an administrative sanction of nis 101,000 (\$21,700), or five times the amount that was not declared, may be imposed. In 2003, the Government of Israel (GOI) lowered the threshold for reporting cash transaction reports (CTRs) to nis 50,000 (\$10,500), lowered the document retention threshold to nis 10,000 (\$2,100), and imposed more stringent reporting requirements.

The PMLL also provided for the establishment of the Israeli Money Laundering Prohibition Authority (IMPA) as the country’s financial intelligence unit (FIU). IMPA became operational in 2002. The PMLL requires financial institutions to report “unusual transactions” to IMPA as soon as possible under the circumstances. The term “unusual transactions” is loosely defined. However, it 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 such as 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, the 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.

The Financial Action Task Force (FATF) removed Israel from its Non-Cooperative Countries and Territories (NCCT) list in June 2002. A U.S. advisory issued by the Department of Treasury's Financial Crimes Enforcement Network in 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 also withdrawn in 2002. That same year, IMPA was admitted into the Egmont Group of financial intelligence units.

The PMLL mandates the registration of MSBs through the Providers of Currency Services Registrar at the Ministry of Finance. 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 the past year, Israeli courts convicted several MSBs for violating the obligation to register with the Registrar of Currency Services. In addition, several criminal investigations were brought against other MSBs, some of which resulted in money laundering indictments that are still pending criminal trials.

The Israeli National Police (INP) reports no indications of an overall increase in financial crime relative to previous years. However, during 2005, Israel has been the nexus of several high profile money laundering cases. In March 2005, the International Crimes Unit (ICU) of the Israeli National Police (INP) raided Bank Hapoalim and its trust company, in what was described as the biggest money laundering scandal ever in Israel. The police froze over 180 accounts with more than \$376 million, and some 24 employees were detained, including the manager and four senior executives. The operation came to light with information obtained by the ICU. In addition, the police arrested an Israeli citizen in March in connection with what is considered to be one of the largest robbery attempts in British history. Hackers planned to steal about \$450 million from a Japanese bank in London, and then launder part of the funds through a bank account that belonged to the Israeli citizen's company.

The legislative regime criminalizing the financing of terrorism includes provisions of the defense regulations (state of emergency) (1945), the prevention of terrorism ordinance (1948), the penal law (1977), and the PMLL. On December 29, 2004, the Israeli parliament adopted the prohibition on terrorist financing law 5765-2004, which is geared to further modernize and enhance Israel's ability to combat terrorist financing and to cooperate with other countries on such matters. This law went into effect in August 2005. 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.

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 2005, 6,005 suspicious transaction reports were received by IMPA. During this period IMPA disseminated several hundred intelligence reports to law enforcement agencies in response to requests. In addition, twelve different investigations yielded indictments (some of them multiple indictments). In another case, prosecutors indicted a number of bank officials for money laundering offenses for violation of the obligation to report unusual transactions and for advising their customers on ways of avoiding reporting to IMPA. In 2005, the INP seized

approximately \$75 million in suspected criminal assets. Total seizures for each of the previous three years ranged from \$23-\$27 million each year.

Israel is a party to the 1988 UN Drug Convention and the 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. On November 29, 2005, Israel signed the United Nations Convention against Corruption.

The Government of Israel continued to make progress in strengthening its anti-money laundering and terrorist financing regime in 2005. Israel has entered into several bilateral agreements and memoranda of understanding aimed at combating financial crimes. However, there is a continuing need for more effective bank supervision and proactive investigations of money laundering associated with criminal activity, especially on the part of organized crime figures and syndicates.

Israel should also 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 organizations 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 not directly linked to money laundering, such as credit card and Internet fraud, are increasing.

Money laundering occurs both in the regular banking sector and, more frequently, in the 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. 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 of all suspicious cash transactions and other activity—such as a third party payment on an international transaction—on a case-by-case basis. 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.

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. During 2004, the last year for which complete figures are available, the UIC received 6,816 suspicious transaction reports (STRs) related to money laundering and 288 related to the financing of terrorism. The UIC itself does little filtering of the STRs, but rather sends virtually all of them to the Anti-Mafia Investigative Unit (DIA) and the Guardia di Finanza (GdF), Italy’s financial police. During 2004, law enforcement opened 328 investigations based on STRs, which resulted in 103 prosecutions.

Because of Italy’s strong 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, auction houses, art galleries, antiques dealers, labor advisors, lawyers, and notaries. Not all implementing regulations for the decree have been issued, so while Italy 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 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 the National Anti-Mafia Directorate (local public prosecutors), the Anti-Mafia Directorate, or the GdF for further investigation. The UIC compiles a register of financial and non-financial intermediaries that carry on activities that could be vulnerable to money laundering. The UIC also performs supervisory and regulatory functions such as 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. The GOI is currently involved in multilateral negotiations with the European Union (EU) to enhance asset tracing and seizure.

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. 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 suspected terrorists and terrorist organizations it has submitted to the UNSCR 1267 Sanctions Committee for designation. The UIC transmits to financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 as well as those designated by the EU. 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. A provision of the Italian implementing legislation of the third EU money laundering directive would give the GOI the authority to issue a decree law allowing the freezing, seizing, and forfeiture of non-financial assets belonging to terrorist groups and individuals. This legislation has not yet been enacted by the 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. There are currently 19,000 registered ONLUS. The ONLUS Agency was established in 2000 and has the power to issue guidelines and to draft legislation for the non-profit sector; to maintain data and statistics; to alert other authorities in cases of violation of existing obligations; and to mandate delistings from the ONLUS registry. The ONLUS Agency recently launched a \$240,000 project for the creation of a centralized database, to gather mandatory information related to all Italian ONLUS. The ONLUS Agency has reviewed 1,500 ONLUS and recommended the dissolution of several that were not in compliance with Italian law. Italian authorities believe that, based on analysis by the UIC and on investigations by the GdF, the risk of terrorist financing in the Italian non-profit sector is low.

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. The MLAT provides a basis for the United States to forfeit and share assets with Italy, but Italian law currently precludes Italy from reciprocating.

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. It should ratify the UN Convention Against Transnational Organized Crime.

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 significant illegal drug flows must be legitimated and therefore make Jamaica susceptible to money laundering activities and other financial crimes. Reportedly, Jamaican authorities have seen evidence that persons involved in the drug trade have been trying to legitimize their operations by establishing commercial enterprises and attempting to launder funds through real property transactions. There is a significant black market for smuggled goods, which is due to tax evasion.

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 that surfaced 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 pass through Jamaica in the form of cash shipments to South America. Further complicating the picture are the hundreds of millions of U.S. dollars in remittances sent home to Jamaica by the substantial Jamaican population overseas.

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.

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 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. Jamaica is in the process of further amending and modernizing the MLA.

The GOJ is also attempting to pass the Proceeds of Crime Act that will enable it to identify, trace, freeze, seize and forfeit narcotics related assets as well as assets derived from other serious crimes. The major provisions of this legislation include all property or assets associated with an individual convicted or suspected of involvement with a crime. This includes legitimate businesses used to launder drug money or support terrorist activity. Currently, the Financial Investigations Division (FID) of the Ministry of Finance and the Jamaica Constabulary Force (JCF) are the entities responsible for tracing and seizing assets. The proceeds go to the forfeited asset fund.

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.

In addition to a new Customs arrival form that requires declaration of currency or monetary instruments over \$10,000 (or its equivalent) that was 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 identified cash couriers violating the law and forfeited the cash. Cash smuggling reports are shared between government agencies.

There are two free trade zones that operate in Jamaica, one in Montego Bay and one in Kingston. Due to the demise of the garment industry, the free trade zones are mostly used for warehousing. There are plans to change the operations of the Kingston free zone into a base for logistic services and make Kingston a distribution hub for goods. The Montego Bay free zone is expected to become a major business center and position itself as a call center, focusing on information communication technology.

The FID consists of 14 forensic examiners, six police officers who have full arrest powers, a director and 5 administrative staff. The FID receives, analyses, and disseminates information. Matters requiring investigation are referred to the Financial Crimes Unit which is not a regulatory body. The FID also has responsibility for investigating financial crimes including money laundering and terrorist financing. They are adequately staffed and trained to fulfill their responsibilities.

If the Proceeds of Crime Act and Financial Investigation Division Act are passed, they are expected to lead to additional sharing of information. The Financial Investigation Unit (FIU), part of the FID, has discussed membership in the Egmont Group with Canadian authorities who have agreed to sponsor Jamaica's application.

Jamaica has an on-going continuing education program to ensure compliance with the suspicious transaction reporting (STR) requirements and mandatory reporting of suspicious transactions. The Bank of Jamaica supervises compliance. The FID reports that non-banking financial institutions have a

seventy percent compliance rate with money laundering controls. Reporting individuals are protected by law with respect to their cooperation with law enforcement entities. STRs were filed in 2005 by: banks (125), currency exchanges (355), investment/securities dealers (8), merchant banks (3), building societies (84), credit unions (7) and remittance companies (6,828). The FID claims that the high number of STRs submitted by remittance companies is due to their lack of knowledge of the threshold limits.

June 15, 2005 marked Jamaica's first money laundering conviction. Further action is still required in the area of asset forfeiture. 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. Assets 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 Act, currently circulating in Parliament, will go a long way to address the shortcomings but the legislative process is moving slowly.

The Terrorism Prevention Act of 2005 criminalizes the financing of terrorism consistent with UNSCR 1373. Under this act, Jamaica has the authority to identify, freeze and seize terrorist finance related assets. Jamaica has not encountered any misuse of charitable or non-profit entities as conduits for the financing of terrorism. Jamaica has signed and ratified the UN International Convention for the Suppression of the Financing of Terrorism. Additionally, the Ministry of Foreign Affairs and Foreign Trade circulates, to all relevant agencies, the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee consolidated list. To date, no accounts owned by those included on the consolidated list have been discovered in Jamaica. The Terrorism Prevention Act is not expected to become law in the near future.

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. 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 GOJ has made in fighting money laundering is tempered by stalled legislation. A more aggressive effort is necessary to bring its regime into line with international standards.

Japan

Japan is a large and important world financial center. Although the Japanese government continues to strengthen legal institutions to permit more effective enforcement of financial transaction laws, Japan still faces substantial risk of money laundering by organized crime and other domestic and international criminal elements. The principal sources of laundered funds are narcotics trafficking and financial crimes (illicit gambling, loan-sharking, extortion, abuse of legitimate corporate activities, internet fraud schemes, 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 methamphetamine.

U.S. law enforcement investigations 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 an Internet market. Laws enacted in 2004 now make online sales of bank accounts illegal.

The Financial Services Agency (FSA) and Ministry of Finance are working on measures, expected to be promulgated in 2006, to enable authorities to more closely monitor domestic and international money remittances. In a related move, the Cabinet office published a counterterrorist action plan on December 10, 2004 that states Japan's intention to fully implement certain Financial Action Task Force Special Recommendations on Terrorist Financing by the end of June 2006. Specific measures will be announced this year.

On November 17, 2005, the Japanese Government's (GOJ) headquarters for the Promotion of Measures Against Transnational Organized Crime and Other Relative Issues and the headquarters for International Terrorism agreed that relevant ministries would submit a bill to the 2007 ordinary session of the Diet to enhance compliance with the revised FATF Forty Recommendations and the FATF Nine Special Recommendations on Terrorist Financing.

Drug-related money laundering was first criminalized under The Anti-Drug Special Law that took effect in July 1992. This law also mandates the filing of suspicious transaction reports for suspected proceeds of drug offenses, and authorizes controlled drug deliveries. The legislation also creates a system to confiscate illegal profits gained through drug crimes. The seizure provisions apply to tangible and intangible assets, direct illegal profit, substitute assets, and criminally derived property that have been commingled with legitimate assets.

The narrow scope of the Anti-Drug Special 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 taking advantage of this limitation to launder money.

Japan expanded its money laundering law beyond narcotics trafficking to include money laundering predicates such as murder, aggravated assault, extortion, theft, fraud, and kidnapping when it passed the 1999 Anti-Organized Crime Law, which took effect in February 2000. 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 for approval, and remains under consideration. The amendment would expand the predicate offenses for money laundering from approximately 200 offenses to nearly 350 offenses, with almost all offenses punishable by imprisonment.

Japan's 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. 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.

To facilitate the exchange of information related to suspected money laundering activity, the FSA established the Japan Financial Intelligence Office (JAFIO) on February 1, 2000, as Japan's financial intelligence unit. Financial institutions in Japan forward suspicious transaction reports (STRs) to JAFIO, which analyzes and disseminates STRs as appropriate. At the end of 2005, the GOJ announced plans to transfer JAFIO from the FSA to the National Police Agency, possibly in April 2007.

Money Laundering and Financial Crimes

In 2005, JAFIO received 98,935 STRs, up slightly from the 95,315 STRs received in 2004. Of these, JAFIO disseminated 66,812 STRs to law enforcement authorities in 2005. Some 86 percent of the reports were submitted by banks, 7 percent by credit cooperatives, 4.6 percent from the country's large postal savings system, 1.2 percent from non-bank money lenders, and almost none from insurance companies.

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. In terms of international information exchange on money laundering, in 2004, JAFIO received 75 requests for information from foreign FIUs and provided responses to 70 of the requests.

Japanese financial institutions have 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 legally responsible if their institutions launder money, there are administrative guidelines that require due diligence. Japanese law protects bankers and other financial institution employees who cooperate with law enforcement entities.

In April 2002, the Diet 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 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.

In 2004, the FSA cited Citibank Japan's failure to properly screen clients under anti-money laundering mandates as one of a list of problems that caused the FSA to shut down Citibank Japan's private banking unit. In February 2004, 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.

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 has regularly searched for and designated for asset freeze any accounts that might be linked to all the suspected terrorists and terrorist organizations listed on the UN 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 has signed but not ratified the UN Transnational Organized Crime Convention. Japan is a member of the Financial Action Task Force. JAFIO became a member of 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 January 2006 the FSA and the U.S. SEC and CFTC signed an amendment to their SOI to include financial derivatives.

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. The GOJ should also become a party to the UN Transnational Organized Crime Convention.

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.

In 2005, the financial services industry consists of 50 banks; 953 trust companies, 157 insurance companies (which are largely captive insurance companies); and 833 (2004 statistic) collective investment funds. Other services include investment advice, dealing, and management companies, and mutual fund companies. In addition the financial services, 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. Due to Jersey's investment services, most of the illicit money in Jersey is derived from foreign criminal activity. Domestically, local drugs trafficking and corruption of politically exposed persons (PEP) are sources of illicit proceeds found in the country. In 2004 and 2005, joint operations between Police and Customs led to the apprehension and prosecution of several local drug syndicates. Money laundering mostly occurs with Jersey's banking system, investment companies, and local Trust companies.

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 Corruption (Jersey) Law 2005 was passed in alignment with the Council of Europe Criminal Law Convention on Corruption. The new corruption law is expected to be implemented in the spring of 2006.

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. Upon conviction of money laundering, a person could receive imprisonment of one year or more. The reporting of suspicious transactions is mandatory under the narcotics trafficking, terrorism, and anti-money laundering laws. There is no threshold for filing a suspicious transaction report, and the reporting individual is protected from criminal and civil charges by law. Banks and other financial service companies must maintain financial records of their customers for a minimum of 10 years after completion of business.

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 the 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 2003 the JFCU received 1,272 suspicious transaction reports; 1,248 in 2004; and 1,162 in 2005. Approximately 25 percent of the STRs filed in 2004 and 2005 resulted in further police investigations. The JFCU is a member of the Egmont Group.

On July 1, 2005, the European Union Savings Tax Directive (ESD) came into force. The ESD is an agreement between the Member States of the European Union (EU) to automatically exchange information with other Member States about EU tax resident individuals who earn income in one EU Member State but reside in another. Although not part of the EU, the three UK Crown Dependencies (Jersey, Guernsey and Isle of Man) have voluntarily agreed to apply the same measures to those in the ESD and have elected to implement the withholding tax option (also known as the 'retention tax option') within the Crown Dependencies.

Under the retention tax option, each financial services provider will automatically deduct tax from interest and other savings income paid to EU resident individuals. The tax will then be submitted to local and Member States tax authorities annually. The tax authorities receive a bulk payment but do not receive personal details of individual customers. If individuals elect the exchange of information option, then no tax is deducted from their interest payments but details of the customer's identity, residence, paying agent, level and time period of savings income received by the financial services provider will be reported to local tax authorities where the account is held and then forwarded to the country where the customer resides. In 2005, the JFCU received 137 disclosures relating to individuals who had opted to select the 'retention tax option' of the ESD.

Jersey does not circulate the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, the EU designated list, or other government's designated list. However, Jersey institutions are expected to gather information of designated entities from the Internet and other public sources. Alternate remittance systems do not appear to be prevalent in Jersey.

The JFIU, in conjunction with the Attorney Generals Office, trace, seize and freeze assets. A confiscation order can be obtained if the link to a crime is proven. If the criminal has benefited from a crime, legitimate assets can be forfeited to meet a confiscation order. There is no period of time ascribed to the action of freezing until the assets are released. Frozen assets are confiscated by the Attorney Generals Office on application to the Court. Proceeds from asset seizures and forfeitures are placed in two funds. Drug trafficking proceeds go to one fund, and the proceeds of other crimes go to the second fund. The drug trafficking funds are used to support harm reduction programs, education initiatives, and to assist law enforcement in the fight against drug trafficking. Only limited civil forfeiture is allowed in relation to cash proceeds of drug trafficking located at the ports. Jersey is currently considering the introduction of civil asset forfeiture powers.

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. In 2005, the JFSC and the Jersey FIU worked together in order to deny the licensing of a Trust company and close a medium size business for failure to adhere to the AML legislation and guidance issued by the regulator. 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, were 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.

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 reports that it has checked for assets of the suspected terrorists and terrorist organizations listed on the UNSCR 1267 Sanctions Committee's consolidated list, 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 yet to enact a comprehensive anti-money laundering law (AML). Although Jordan's cabinet has approved the draft law, the Parliament has yet to endorse it. There is hope that Parliament will pass the law during the 2005-06 winter session. Currently, the Central Bank's suspicious transaction follow-up unit acts as a financial intelligence unit (FIU). However, the FIU's authority is only based on a regulatory (instead of legislative) foundation until an AML is passed.

Jordanian officials report that financial institutions file suspicious transactions reports and cooperate with prosecutors' requests for information related to narcotics trafficking and terrorism cases. The Central Bank of Jordan 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) allows judges to waive 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.

Jordan should enact a comprehensive anti-money laundering law. It should ratify the UN Convention against Transnational Organized Crime. Jordanian law enforcement and customs should examine forms of trade-based money laundering.

Kenya

As a regional financial and trade center for Eastern, 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 from the country.

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 to date no clear instances of the laundering of funds from narcotics trafficking have been prosecuted. 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-taking 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 are seldom applied to financial institutions, non-bank institutions or intermediaries outside the banking sector. For example, there are casinos operating in Kenya, but they are under no obligation to file suspicious transaction reports.

Kenya has little in the way of cross-border currency controls. Kenyan regulations require that any amount of cash above \$5,000 be disclosed at the point of entry or departure, but 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 \$10,000, and on cumulative daily foreign exchange inflows and outflows above \$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 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.

In April 2003, the Government of Kenya's (GOK) introduced the Suppression of Terrorism Bill into Parliament. The bill contains provisions that would strengthen the GOK's ability to combat terrorism. While the public does support the government's attempts to increase transparency and to combat corruption, terrorism, and money laundering, the legislation is opposed by many who fear that it could be used to commit human rights violations. A GOK official stated in October 2004 that the bill was in the process of being re-drafted. All charitable and nonprofit organizations are registered with the Government and have to submit annual reports. Noncompliance with the annual reporting requirement

can lead to de-registration; however, such penalties are rarely imposed. 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.

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 actual seizure or forfeiture of assets under current law is rare. There is currently no law authorizing the seizure of the financial assets of terrorists.

The passage of anti-money laundering legislation and the creation of a financial intelligence unit by Kenya will help to formalize its relationship with the U.S. and with other countries. In 2001, the Government of Kenya formed the Anti-Money Laundering (AML) 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. The Task Force meets regularly to discuss AML issues.

After the inception of the task force, a bill on money laundering was drafted, and submitted to the Attorney General for final revision, but the November 21 Constitutional referendum delayed further action. In November 2005, the Attorney General had identified 21 other statutes that would need to be amended to be consistent with the AML bill. In February 2006, the World Bank, International Monetary Fund and the GOK held a workshop with stakeholders to review the draft legislation. The Task Force believes that it has clarified the issues raised by the Attorney General, and is waiting for the Attorney General to finalize the bill and send it to the Cabinet for approval and transmission to Parliament. However, uncertainties over when the President will reconvene Parliament, together with political instability generated by the eruption of multiple major corruption scandals, will likely delay further any action on the AML bill.

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 does not explicitly authorize the seizing of legitimate businesses used to launder money. The draft legislation provides only for criminal forfeiture.

Kenya is a party to the 1988 UN Drug Convention. In 2003, it became a party to the UN International Convention for the Suppression of the Financing of Terrorism. In 2004, it acceded to the UN Convention against Transnational Organized Crime. 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. Kenya has cooperated with the United States and the United Kingdom, but lacks the institutional capacity, investigative skills, and equipment to conduct complex investigations independently.

Kenya should expedite the passage of anti-money laundering and counterterrorism legislation 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. It should do a better job of enforcing the anti-money laundering laws and regulations already in force.

Korea, Democratic Peoples Republic of

For decades, citizens of the Democratic Peoples Republic of Korea (DPRK) have been apprehended trafficking in narcotics and engaged in other forms of criminal behavior, including passing counterfeit U.S. currency and trade in counterfeit products, such as cigarettes.

Substantial evidence exists that North Korean governmental entities and officials have laundered the proceeds of narcotics trafficking and have been engaged in counterfeit and other illegal activities through a network of front companies that use financial institutions in Macau for their operations. On September 20, the U.S. Department of Treasury designated Banco Delta Asia S.A. in Macau as a “primary money laundering concern” under Section 311 of the USA PATRIOT Act. The Department of the Treasury noted that the bank “...has been a willing pawn for the North Korean Government to engage in corrupt financial activities through Macau.” The Federal Register Notice designating the bank cited “the involvement of North Korean Government agencies and front companies in a wide variety of illegal activities, including drug trafficking and the counterfeiting of goods and currency” and noted that North Korea has been positively linked to nearly 50 drug seizures in 20 different countries since 1990, a significant number of which involved the arrest or detention of North Korean diplomats or officials.

In addition, indictments in the United States and the work of several corporate investigative teams employed by the holders of major United States and foreign cigarette and pharmaceutical trademarks have provided further compelling evidence of DPRK involvement in a wide range of criminal activities carried out in league with criminal organizations around the world, including trafficking in counterfeit branded items (cigarettes, Viagra), and high-quality counterfeit U.S. currency (“supernotes”).

Korea, Republic of

South Korea is not considered an attractive location for international financial crimes or terrorist financing because of a recent legacy of foreign exchange controls. 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. As law enforcement authorities have gained more expertise investigating money laundering and financial crimes, they have also become more cognizant of the problem.

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 the Public Prosecutor’s office, and, as of 2006, also to the Korean police.

In 2005, the government further strengthened its anti-money laundering regime by introducing mandatory currency transaction reporting (CTRs) for high-value cash transactions, on top of continued suspicious transaction reporting. Beginning in January 2006, financial institutions must report within 24 hours all cash transactions of 50 million won (\$49,213) or more by individuals to KoFIU. That reporting threshold will be lowered to 30 million won (\$29,528) in 2008 and to 20 million won (\$19,685) in 2010. The new requirement for CTR filing will complement the existing system of suspicious transaction reporting. In January 2004 the government had already tightened its requirements for STRs by lowering the monetary threshold under which financial institutions must file STRs, 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). Beginning in January 2006, financial institutions are also required to

perform enhanced customer due diligence (CDD), which will strengthen previous customer identification requirements set out in the Real Name Financial Transaction and Guarantee of Secrecy Act. Under the enhanced CDD guidelines, financial institutions are required to identify and verify customer identification data such as address and telephone numbers upon account opening and when conducting transactions of 20 million won or more.

Between January 1, 2002, and August 31, 2005, KoFIU received a total of 14,665 STRs from financial institutions. The number of such cases has continued to climb noticeably each year, principally due to the lowering of the threshold for reporting suspicious transactions. For instance, in 2003, there were 1,744 STRs filed. That figure rose to 4,680 STRs in 2004, and then to 7,966 STRs in the first eight months of 2005. During this nearly four-year period, KoFIU completed analysis of 13,681 of these reports, and provided 2,090 reports to law enforcement agencies. Results were disseminated to law enforcement agencies such as the Public Prosecutor's Office (PPO), National Police Agency (NPA), National Tax Service (NTS), Korea Customs Service (KCS), and the Financial Supervisory Commission (FSC).

In December 2004, local police arrested several brokers who arranged for undocumented foreign workers to send illegal remittances abroad via the illegal underground "hawala" system. In mid-May, 2005, police arrested two Iranians on charges of arranging 60 billion won (\$59 million) in illegal hawala transactions for an unknown number of their compatriots living and working in Korea. In November, 2005, ranking officers of five Mongolian banks were charged with violating bank and foreign exchange laws for running a similar illegal remittance system and for illegally operating in Korea without a banking license. The Mongolian financial firms allegedly transferred \$12.1 million in funds to Mongolia from 4,200 Mongolians working in Korea. 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 2004 and 2005 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, and securities companies. In early December, 2005, Finance Ministry officials indicated they were considering more stringent restrictions on casinos in the wake of the arrest of a Korean business executive charged with laundering 8.3 billion won (\$8.17 million) to be used to bribe politicians and bureaucrats. Intermediaries such as lawyers, accountants, or broker/dealers are not covered by Korea's money laundering controls. 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 working in financial institutions are not to 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 continue to languish in Korea's unicameral legislature, the National Assembly. Previous attempts to pass similar bills have not succeeded. Many politicians and nongovernmental organizations (NGOs), recalling past civil rights abuses in Korea by former administrations, oppose the passage of counterterrorism legislation because of fears about possible misuse by the National Intelligence Service. The proposed legislation is crafted to allow the Korean Government 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 government 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 government circulated to its financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 and those listed by the European Union under relevant authorities. Korea 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. 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.

Korean Government 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 and thousands more, mainly ethnic Koreans, from Mongolia, Uzbekistan, and Russia.

South Korea 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, Korea 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 Korean Government 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.

Korea continues to address the problem of the transportation of counterfeit international currency. The National Intelligence Service's (NIS') International Crime Center indicated that through November 2005, there were 123 reported cases of counterfeit dollars worth \$269,840, compared to 141 cases of \$66,525 worth in the first nine months of 2004. Bank experts confirm that the amount of forged U.S. currency is on the rise. The Korea Exchange Bank reported that the number of counterfeit \$100 notes found during the first nine months of 2005—worth \$190,000 total—had tripled compared to all of 2004. In April 2005, the local press reported that police arrested a Korean who had smuggled \$140,000 in \$100 “supernotes” from China—a record amount for South Korea.

South Korea has a number of thriving free economic zones (FEZs) 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 FEZs are being used in trade-based money laundering schemes or for terrorist financing. Korea mandates extensive entrance screening to determine companies' eligibility to participate in FEZ areas, and firms are subject to standard disclosure rules and criminal laws. As of December 2005, Korea had seven FEZs, as a result of the June 2004 recategorization of the three port cities of Busan, Incheon, and Kwangyang as FEZs. They were recategorized from their previous designation of “customs-free areas” in order to avoid confusion from the earlier dual system of production-focused FEZs, and logistics-oriented “customs-free zones.” Incheon International Airport is slated to become the eighth FEZ.

Korea 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. Korea is a party to the UN International Convention for Suppression of the Financing of Terrorism. The ROK also signed in December 2003, but has not ratified, the UN Convention against Corruption. Korea is an active member of the Asia/Pacific Group on Money Laundering (APG), and in 2004 hosted the APG annual meeting. Korea also became a member of the Egmont Group in 2002. 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, and had signed memoranda of understanding with 29 countries—the latest being the People's Republic of China—as of November, 2005.

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 government should extend its anti-money laundering regime to all 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, Korean law enforcement officials and policymakers now understand the potential negative impact of such activity on their country, and have begun to take steps to combat its growth. Their efforts will grow increasingly important due to the rapid growth and greater integration into the world economy of Korea's financial sector.

Kuwait

Kuwait, although not a major regional financial center, is experiencing unprecedented economic growth that is enhancing the country's regional financial influence. Money laundering is not believed to be a significant problem, and that which does take place is reported to be generated largely as revenues from drug and alcohol smuggling into the country and the sale of counterfeit goods.

Kuwait 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 (KREB), 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. With the conversion of KREB, there will be three Islamic banks, including the Kuwait Finance House (KFH) and Bubyian Islamic Bank. As of May 31, 2004, KFH came fully under the supervision of CBK. 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. Since before the terrorist attacks of September 11, 2001, the CBK has been working on bringing Islamic financial institutions under its supervision.

The banking sector was opened to foreign competition under the 2001 Direct Foreign Investment Law, and the Central Bank of Kuwait (CBK) has already granted licenses to four foreign banks. However, while foreign banks may now operate in Kuwait, they are restricted to opening only one branch. BNP Paribas, National Bank of Abu Dhabi and HSBC are already doing business in Kuwait, while Citibank expects to begin operations in 2006.

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 suspicious transaction 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 uniformly 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 (approximately \$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 court. The cases reportedly involved money smuggling and failure to report currency transactions, and did not involve banks. Amendments to Law 35/2002 are under discussion but have yet to be finalized.

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. At the Central Bank's instructions, banks are no longer required to block assets for 48 hours on suspected accounts in an effort to avoid "tipping off" suspected accountholders. The Central Bank, upon notification from the Ministry of Foreign Affairs (MFA), issues circulars to units subject to supervision requiring them to freeze the assets of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. Financial entities are instructed to freeze any such assets immediately and for an indefinite period of time, pending further instructions from the Central Bank, which in turn receives its designation guidance from the MFA.

In addition, CBK issued circular No. (2/sb/95/2003) in 2003, which is directed toward money changing companies (they are permitted to engage in wire transfers, selling and buying drafts and travelers' checks), and 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 (authorized only to exchange foreign currency), 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 also supervises insurance agents, brokers and companies, investment companies, exchange bureaus, jewelry establishments (including gold, metal and other precious commodity traders), brokers in the Kuwait Stock Exchange, and 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.

The supervision of anti-money laundering responsibilities on the part of the Ministry of Commerce and Industry is carried out by its Office of Combating Money Laundering Operations (OMLO), which was established in 2003 to improve private sector awareness and compliance with the provisions of Law No. 35/2002. The office currently has about 2,500 companies under its supervision. All new companies seeking a business license are required to receive AML awareness training from the OMLO before a license is granted. The OMLO also conducts both mandatory follow-up visits and unannounced inspections.

Businesses that are found to be in violation of provisions of Law No. 35/2002 receive an official warning from the Ministry for the first offense. The second and third violations result in closure for two weeks and one month, respectively. The fourth violation results in revocation of the license and closure of the business. Reportedly, three exchange houses were closed recently, one for operating without a license and the other two for violating instructions from the Ministry.

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, Labor and Social Affairs, Office of Public Prosecution, Kuwait Stock Exchange, General Customs Authority, the Union of Kuwaiti Banks, and the CBK. The National Committee is in the process of finalizing a draft legal review of Law No. 35/2002 to ensure its compliance with current international standards.

Since its inception, the National Committee has been pursuing its mandate of: drawing up the country's strategy and policy with regard to anti-money laundering and terrorist financing; drafting the necessary legislation and amendments to Law No. 35/2002, 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, the Chairman is entrusted with issuing regulations and procedures that he deems appropriate for the Committee duties and responsibilities and the organization of its activities.

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 for 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 for charities explaining donation collection procedures and regulating financial activities. The Department is also charged with conducting periodic inspections to insure that charities maintain administrative, accounting, and organizational standards according to Kuwaiti law. Further, the Department mandates the certification of charities' financial activities by external auditors, and limits the ability to transfer funds abroad to select charities approved by the Ministry. The Ministry also requires all fund transfers abroad to be made between authorized charity officials. Banks and money exchange businesses (MEBs) are not allowed to transfer any charitable funds outside of Kuwait without prior permission from the Ministry. In addition, any such wire transactions must be reported to the CBK, which maintains a monthly database of all transactions conducted by charities. Unauthorized public donations, including zakat (alms) collections in mosques, are also prohibited. During the 2005 Ramadan season, the Ministry introduced a new pilot program requiring charities to raise donations through the sale of government-provided coupons.

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 KFIU is comprised of seven part-time CBK officials and headed by the Central Bank Governor. The responsibilities of the KFIU are to receive and analyze reports of suspected money laundering from the 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. Although the KFIU should act as the country's financial intelligence unit, Law No. 35/2002 did not mandate the KFIU to act as the central or sole unit for the receipt, analysis, and dissemination of suspicious transaction reports (STRs); instead, these critical functions were divided between the KFIU and OPP.

Banks in Kuwait are required to file STRs with the OPP, rather than directly with the KFIU. However, based on an MOU with the Central Bank, STRs are referred from the OPP to the KFIU for analysis. The KFIU conducts analysis and reports any findings to the OPP for the initiation of a criminal case, if necessary. The KFIU's access to information is limited, due to its inability to share information abroad without the approval of the OPP. Kuwaiti officials agree that the current limits on information sharing by the FIU are a problem that requires amending of the law, currently under revision by the National Committee.

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), a FATF-style regional body. Kuwait has played an active role in the MENAFATF through its participation in the drafting of regulations and guidelines pertaining to charities oversight and cash couriers. In December 2005, the CBK hosted a training seminar for those who will be

conducting mutual evaluations of MENAFATF members. The Kuwait General Administration of Customs also hosted a separate conference in December 2005 on combating cash smuggling. Kuwait 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 signed the UN International Convention for the Suppression of the Financing of Terrorism.

Kuwait is making progress in enforcing its anti-money laundering program. However, it should significantly accelerate its ongoing efforts to revise its 2002 anti-money laundering law (Law No. 35/2002), improve the sharing of financial information, strengthen the structure and responsibilities of the KFIU, secure Egmont Group membership for the KFIU, and criminalize terrorist financing. Kuwait's National Committee on Combating Money Laundering and Terrorist Financing should complete its analysis of the 2002 law and amend it to conform to current international standards. Kuwait should expand the practice of in-bound currency reporting to include all ports of entry. Kuwait should also make outbound currency and precious metals declarations mandatory. More interagency cooperation and coordination between the KFIU and other concerned parties, including Customs, could yield significant improvements in proactive investigations and international information exchange. The KFIU should be allowed to independently share financial information with its foreign counterparts, and receive, analyze, and disseminate suspicious transaction reports without obtaining prior authorization from the OPP. Kuwait should continue to enhance its charity oversight efforts, including increased coordination and diligence with third countries and organizations receiving assistance from Kuwaiti charities. Kuwait 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.

Laos

Laos is on the fringe of the region's banking network. Its banking sector is dominated by state-owned commercial banks in need of extensive reform. The small scale and poor financial condition of Lao banks may make them more likely to be venues for certain kinds of illicit transactions. Lao banks are not optimal for moving large amounts of money in any single transaction, due to the visibility of such movements in a small, low-tech environment. What money laundering does take place through Lao banks is likely to have been from illegal timber sales or domestic criminal activity, including drug trafficking. In a recent high-profile case involving a foreign-owned company accused of securities fraud, Lao customs authorities seized \$300,000 in cash a businessman was transporting to Thailand, in contravention of Lao law. Subsequent investigation indicated that this business had transferred several million dollars from abroad through the Lao banking system in the past year, much of which was reportedly withdrawn in cash. The case revealed the weakness of the Lao banking system in monitoring suspicious transactions.

Laos has drafted a money laundering law with antiterrorism 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, possibly 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 believed the Department will be augmented and used to help implement the new legislation. Provision will be made for mutual assistance in criminal matters between Laos and other countries.

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 has become a party to the 1988 UN Drug Convention. The GOL participates in Association of Southeast Asian Nations (ASEAN) regional conferences on money laundering. Laos also has observer status in the Asia Pacific Anti-Money Laundering Group, and plans to join fully once its anti-money laundering law is enacted.

Laos should pass anti-money laundering and antiterrorism financing legislation. Laos should also become a party to the UN International Convention for the Suppression of Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Latvia*

[*The Latvia country report was updated on March 31, 2006. See [updated version](#).]

Latvia is a growing regional financial center that has a large number of commercial banks with a sizeable non-resident deposit base. Although these banks continue to face money laundering risks, Latvian government agencies and banks acted in 2005 to significantly strengthen the financial sector and to comply with international anti-money laundering (AML) standards. Many of the improvements addressed money laundering concerns outlined in the Notices of Proposed Rulemaking against two Latvian banks—VEF Banka and Multibanka—that was issued by the U.S. Government on April 26, 2005, under Section 311 of the USA PATRIOT Act.

Sources of laundered money in Latvia primarily involve tax evasion, but also include counterfeiting, corruption, white-collar crime, extortion, financial/banking crimes, stolen cars, contraband smuggling, and prostitution. A significant amount of the proceeds of tax evasion are believed to originate from outside of Latvia. Organized crime is thought to account for a portion of criminal proceeds that are obtained domestically.

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 financial transactions to report suspicious activity. On February 1, 2004, Latvia adopted amendments to the AML law that 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 2004 amendment provides for the inclusion of 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.

In January 2005, the Council of Ministers adopted Regulation 55 that created a Council for the Prevention of Laundering of Proceeds Derived from Criminal Activity, a state-level AML body chaired by the Prime Minister. In April 2005, Latvia made it illegal for banks and individuals to ignore money laundering, and criminalized the misrepresentation of the ownership of funds. Latvia has not specifically criminalized terrorist financing. The GOL maintains that existing laws are sufficient to criminally prosecute cases of terrorist finance, although to date these laws have not been tested.

In May 2005, additional amendments to the AML and the criminal law were adopted that significantly enhanced the ability of Latvian law enforcement agencies to share information with each other and with Latvia's banking regulator, the Financial and Capital Markets Commission (FCMC). In 2005, Latvia also passed a new Criminal Procedures Code, which removed many procedural hurdles that previously made it difficult for Latvian law enforcement agencies to aggressively investigate and prosecute financial crimes. For example, prosecutors no longer need to prove "knowledge" of the criminal origin of funds before charging a person or institution with a financial crime. Reportedly, there are also plans to increase staffing levels for AML units within the Financial Police, the Economic Police, and the FIU.

In November 2005, Latvia passed legislation instituting a cross-border currency declaration requirement, which will take effect on June 30, 2006. The cash declaration law stipulates that any person crossing the Latvian border and either importing into or exporting from the customs territory of the European Union, cash (or bank notes, financial instruments, checks, bonds) equivalent to or exceeding 10,000 euros (approximately \$12,300), is obligated to declare the money to a customs officer, or, where there is no customs checkpoint, to a Border Guard.

Banks are not allowed to open accounts without prior customer due diligence, and the AML law stipulates that banks must obtain client identification documents for both residents and non-residents. For legal entities, banks must collect additional information on incorporation and registration. In June 2005, sanctions against banks that violated the AML statutes were toughened to provide for fines of as much as the equivalent of \$176,000.

In addition to suspicious transactions, the law also mandates institutions to report unusual transactions. Obligated entities must report single cash transactions or several related transactions, if the equivalent is 40,000 lats (approximately \$70,400) or more, or if, due to indicators that suggest unusual transactions, there is cause for suspicion regarding the laundering or attempted laundering of the proceeds from crime. Financial institutions must keep transaction and identification data for at least five years after ending a business relationship with a client. If money laundering or terrorist financing is suspected, financial institutions have the ability to freeze accounts. If a financial institution finds the activity of an account questionable, it may close the account on its own initiative.

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 Riga 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. The FCMC has mandated that financial institutions pay closer attention to suspicious transactions, particularly those involving jurisdictions on the Financial Action Task Force's (FATF) list of Non-Cooperative Countries and Territories (NCCTs). The May 2005 amendments to the AML law gave the FCMC the ability to share information with Latvian law enforcement agencies and to receive data on potential financial crime patterns uncovered by police or prosecutorial authorities. The June 2005 amendments to the Criminal Procedures Code added a new article criminalizing the deliberate provision of false information to a credit or a financial institution about a beneficiary.

Separate from legislative and regulatory requirements, the Association of Latvian Commercial Banks (ALCB) plays an active role in setting standards on AML issues for Latvian banks. Under the leadership of the ALCB and at the urging of the FCMC, Latvian banks collectively undertook a major review of existing customer relationships in the first half of 2005, which resulted in Latvian banks closing more than 10,000 accounts connected to customers unwilling or unable to comply with

enhanced due diligence requirements. In May 2004, the ALCB adopted regulations on the Prevention of Money Laundering as guidance for Latvian banks. In June 2005, the ALCB adopted a Declaration on Taking Aggressive Action against Money Laundering, which was signed by all Latvian banks. In 2005, the ACLB also adopted a voluntary measure, observed by all Latvian banks, to limit cash withdrawals from automated teller machines to 1,000 lats (approximately \$1,760) per day. The ACLB guidelines are respected by member banks. In addition to acting as an industry representative to government and the regulator, the ACLB organizes regular education courses on AML/CFT issues for employees of Latvian banks.

The Control Service, Latvia's FIU, is structurally part of the Latvian Prosecutor General's Office. The Control Service has the overall responsibility to coordinate and elaborate Latvia's AML policy and assess its effectiveness. During the first 11 months of 2005, the Control Service received 24,150 reports, of which 14,436 were reports of suspicious transactions. During that same time frame, the Control Service forwarded 139 cases to law enforcement, which included information from 2,120 unusual or suspicious transactions. The Control Service received 16,128 reports in 2004, and 15,371 reports in 2003. Approximately 40 percent of the reports received in 2004 and 2005 were for suspicious transactions and 60 percent were classified as unusual transactions.

In practice, the Control Service conducts a preliminary investigation of the suspicious and unusual reports and then may pass the information on to various authorities that investigate money laundering cases. The Control Service can forward case information to: specialized Anti-Money Laundering Investigation Units of the State Police, including the Economic Police and the Office for the Combat of Organized Crime; the Financial Police (under the State Revenue Service of the Ministry of Finance); the Bureau for the Prevention and Combat of Corruption (Anti-Corruption Bureau, ACB) for crimes committed by public officials; the Security Police (for cases concerning terrorism and terrorism financing); and other law enforcement authorities.

The Prosecutor General's Office also maintains a specially-cleared staff of seven prosecutors to prosecute cases linked to money laundering. In the first 10 months of 2005, the Prosecutor General's Office referred eight criminal cases to court for criminal offenses connected to money laundering. In one court case involving seven defendants, four of them received sentences for money laundering.

The adoption of Latvia's new Criminal Procedures Code in 2005 provided additional measures for the seizure and forfeiture of assets. The law allows law enforcement authorities better identify, trace, and confiscate criminal proceeds. Investigators have the ability to initiate parallel actions for the seizure of assets recovered during criminal investigations (previously this was possible only when investigations were complete). Latvia continues to work to adapt its legislation to the Framework Decision of the Council of the European Union of July 22, 2003 (2003/577/JHA) on the Execution in the European Union of Orders for Freezing Property or Evidence. Interagency cooperation between Latvian law enforcement agencies is improving, due to new legislative amendments that allow better information sharing and increased resources to conduct investigations. Still, cooperation is best at the highest governmental levels. At the end of 2004, the Latvian Prime Minister announced plans to create a senior (ministerial) level working group on financial crime, including representatives from government ministries, law enforcement, central bank officials and the FCMC, which led to the adoption of Council of Ministers Regulation 55 that formed the Council for the Prevention of Laundering of Proceeds Derived from Criminal Activity. The Council was the driving force behind the legislative amendments passed in May 2005.

The GOL has initiated a number of measures aimed at combating the financing of terrorism. It has issued regulations to implement the sanctions imposed by UNSCR 1267 and the subsequent respective resolutions (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. The regulations require that financial institutions report to the Control Service transactions related to any suspected terrorists or terrorist organizations on the UNSCR 1267 Sanctions Committee’s consolidated list or on certain other terrorist lists, including those shared with Latvia by international partners. The Control Service maintains consolidated terrorist finance and watch lists and regularly sends these to financial institutions. On several occasions, Latvian financial institutions have temporarily frozen monetary funds associated with names on terrorist finance watch lists, including those issued by the U.S. Office of Foreign Assets Control (OFAC). To date, there have been no confirmed matches to names on the list. Article 17 of the AML law authorizes the Control Service to freeze the funds of persons included on one of the terrorist lists for up to six months. Any associated investigations, asset or property seizures, and forfeitures are handled in accordance with the new Criminal Procedure Code.

Only conventional money remitters (such as Western Union and Moneygram) are permitted in Latvia. The remitters work through the banks and not as separate entities. Any other type of alternative remittance service is prohibited in Latvia.

Latvia has a growing legal gambling industry. Through September 2005, the gaming industry accounted for 70,530,000 lats (approximately \$124,200,000) of revenue, a 138 percent increase over the same period in 2004. In 2004, Latvia enacted a new law that restricts slot machines to defined gaming halls (places that have greater than ten gaming machines). New legislation adopted in November 2005 stipulates that no licenses can be issued for gaming businesses outside of casinos and gaming halls beginning in 2006.

The Ministry of Finance’s Department of Lotteries and Gambling Supervisory Inspection regulates the gaming industry in Latvia. Casino inspectors preside over daily cash-out operations at each of the country’s casinos. 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 \$8,800) to the Ministry of Finance and the FIU. The Ministry of Finance has statutory authority to inquire about all casino owners and officers, and it works with the FIU to review licensing applications. In the first nine months of 2005, there were 2,191 inspections, which resulted in 155 violations.

There are four special economic zones in Latvia that provide a variety of significant tax incentives for the manufacturing, outsourcing, logistics centers, and trans-shipment of goods to other free trade zones. These zones are located at the free ports of Ventspis, Riga, and Liepaja, and in the inland city of Rezekne near the Russian and Belarusian Borders. There have been instances of reported cigarette smuggling to and from warehouses in the free trade zones, as well as outside them.

Latvia participates in MONEYVAL (the Council of Europe’s Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures) and underwent a second-round mutual evaluation in 2002, the results of which were discussed during the MONEYVAL committee meeting in May 2004. Latvia is currently participating in a voluntary International Monetary Fund (IMF) evaluation that will further assess the country’s AML regulatory and legal framework. This assessment will also be considered as MONEYVAL’s third-round evaluation of Latvia.

Latvia is a party to the UN International Convention for the Suppression of the Financing of Terrorism and eleven other multilateral counterterrorism conventions. It 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 (MLAT) has been in force between the United States and Latvia since 1999, and new amended extradition and MLAT agreements were signed in December 2005 (the amended agreements are awaiting ratification in Latvia). Latvia is a party to the 1988 UN Drug Convention, and it ratified the UN Convention against Transnational Organized Crime in December 2001.

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 several EU countries to automatically exchange information between the EU financial intelligence units using FIU.NET.

The GOL made substantial improvements in its anti-money laundering and counterterrorist financing regime in 2005. It should specifically criminalize terrorist financing or ensure that existing laws allow for the efficient and effective prosecution of such activity. It should continue to implement and use the 2005 amendments to its AML law and Criminal Procedures Code to increase information sharing and 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.

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 October 2005, there were 64 banks (54 commercial banks and ten investment banks) operating in Lebanon with total deposits of \$57 billion. Four U.S. banks and bank representative offices operate in Lebanon: Citibank, 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, but acknowledge that it does have a number of vulnerabilities. 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.

Laundered criminal proceeds come primarily from domestic criminal activity. Money laundering proceeds are largely controlled by organized crime. During 2005, the banking sector has seen two cases of bank fraud consisting of embezzlement by bank employees in branch offices. There is some smuggling of cigarettes and pirated software, but this does not generate large amounts of funds that are laundered through the banking system. There is a black market for counterfeit goods and pirated software, CDs, and DVDs. Lebanese customs officials have had some recent success in combating counterfeit and pirated goods. The illicit narcotics trade is not a principal source of money laundering proceeds.

Offshore banking is not permitted in Lebanon, nor are 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 on 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 reports it to Lebanon's financial intelligence unit (FIU), the Special Investigation Commission (SIC). Lebanon has no cross-border currency reporting requirements. However, since January 2003, Customs checks travelers randomly and notifies the SIC when large amounts of cash are found.

Lebanon has continued to make progress toward developing an effective money laundering and terrorism finance regime incorporating the Financial Action Task Force (FATF) Recommendations, which culminated in the FATF's removal of Lebanon from the list of Non-Cooperative Countries and Territories (NCCTs) in 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 2004, Lebanon passed a law requiring diamond traders to seek proper certification of origin for imported diamonds; the Ministry of Economy and Trade is in charge of issuing certification for re-exported diamonds. This law, designed to prevent the traffic in conflict diamonds, allowed 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 2001, Lebanon enacted 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 (approximately \$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 are 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 (2001) also established an 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 FIU requests for assistance are processed.

Since its inception, the SIC has been active in providing support to international criminal case referrals. From January through November 2005, the SIC investigated 173 cases involving allegations

of money laundering and terrorist financing activities. Out of these cases, nine were originated at U.S. Government request. Eighteen of the 173 cases were related to terrorist financing. Bank secrecy regulations were lifted in 76 instances. The SIC transmitted the 76 cases to the general state prosecutor for further investigations and to determine if these cases would be referred to the penal judge for indictment. One case relating to drug charges and involving two individuals was transmitted by the general state prosecutor to the penal judge. The general state prosecutor reported two cases to the SIC for the freezing of assets. One case involved individuals convicted of organized crime activities, and the other case involved individuals convicted of drug charges. From January to November 2005, the SIC froze the accounts of 46 individuals in eleven of the 173 cases investigated. Total dollar amounts frozen by the SIC in all these cases is about \$11 million. The SIC has also worked with the UN International Independent Investigation's Commission (UNIIC) investigation into the assassination of Rafiq Hariri, helping the international inquiry lift bank secrecy laws on certain accounts and freeze the assets of suspects.

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 2003, Lebanon joined the Egmont Group of financial intelligence units. The SIC has reported increased inter-agency cooperation with other Lebanese law enforcement units, such as Customs and the police.

In order to more effectively combat money laundering and terrorist financing, Lebanon also adopted two laws important laws in 2003, 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.

In 2005, a SARC (suspicious activity report by casinos) system was put in place for the exchange of information between the SIC, customs, the internal security force (ISF) anti-money laundering and terrorist finance unit, and the general state prosecutor. The cooperation led to an increase in the number of suspicious transactions reports (STRs), and as a result, the SIC initiated several investigations in 2005.

Lebanese law allows for property forfeiture in civil as well as criminal proceedings. The Government of Lebanon (GOL) enforces existing drug-related asset seizure and forfeiture laws. Current 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 can 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-style 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. As it assumed its presidency for the first year, Lebanon hosted the second MENAFATF plenary in September 2005.

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.

The SIC circulates to all financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224 and those that 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.

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 and ratified the UN Convention against Transnational Organized Crime. The Government is still debating signing the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Lebanon continues to improve its efforts to develop an effective anti-money laundering and counterterrorism finance regime. The end of the Syrian military occupation in April 2005 and the gradual decline of Syrian influence over the economy (both licit and illicit), security services, and political life in Lebanon may present an opportunity for the GOL to further strengthen its efforts against money laundering, corruption and terrorist financing. The GOL 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 become a party to 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 "Money Laundering and Proceeds of Crime" bill. The bill was revised in 2004 and a comprehensive draft is currently under review following input by a team of advisors from the International Monetary Fund (IMF) before presentation to the Cabinet. It is hoped that the bill will be passed in 2006.

In 2005, a Pakistani businessman residing in South Africa was arrested at the airport in Lesotho for attempting to smuggle large sums of South African currency out of the country. On another occasion in 2005, a Lesotho citizen of Indian origin was also arrested at airport for carrying large sums of U.S. dollars. They were both charged with violation of the Exchange Control Regulations of the Central Bank of Lesotho.

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.

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.

Liechtenstein

The Principality of Liechtenstein's well-developed offshore financial services sector, relatively low tax rates, liberal 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, 16 public investment companies, and a number of insurance and reinsurance companies. The three largest banks account for 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 or trusts) available primarily to nonresidents of Liechtenstein. Approximately one third of these entities hold controlling interests in separate entities chartered outside of Liechtenstein. Laws permit corporations to issue bearer shares.

Narcotics-related money laundering has been a criminal offense in Liechtenstein since 1993, and the number of predicate offenses for money laundering has increased over time. The Government of Liechtenstein (GOL) is reviewing the Criminal Code in order to further expand the list of predicate offenses. Article 165 criminalizes laundering one's own funds and imposes penalties for money laundering. However, negligent money laundering is not addressed.

The first general anti-money laundering legislation was added to Liechtenstein's laws in 1996. Although the 1996 law applied some money laundering controls to financial institutions and intermediaries operating in Liechtenstein, the anti-money laundering regime at that time suffered from serious systemic problems and deficiencies. In response to international pressure, beginning in 2000, the GOL took legislative and administrative steps to improve its anti-money laundering regime.

Liechtenstein's primary piece of anti-money laundering legislation, the Due Diligence Act (DDA) of November 26, 2004, entered into force on February 1, 2005. The act repealed a number of prior laws, including the 1996 Due Diligence Act and its amendments. The DDA applies to banks, e-money institutions, casinos, dealers in high-value goods, and a number of other classes of entities. Along with a January 2005 ordinance (the Due Diligence Ordinance), the DDA sets out the basic requirements of the anti-money laundering regime: customer identification, suspicious transaction reporting, and record keeping. The act mandates that banks and postal institutions not engage in business relationships with shell banks nor maintain passbooks, accounts, or deposits payable to the bearer.

The GOL announced that by 2008 it would implement a new set of EU regulations requiring that money transfers above 15,000 euro (\$17,678) be accompanied by information on the identity of the sender, including his or her name, address, and account number. The proposed measures will ensure that this information will be immediately available to appropriate law enforcement authorities and will assist them in detecting, investigating, and prosecuting terrorists and other criminals.

Money Laundering and Financial Crimes

The Financial Market Authority (FMA) serves as Liechtenstein's central financial supervisory authority. Beginning operations on January 1, 2005, FMA assumed the responsibilities of several former administrative bodies, including the Financial Supervisory Authority and the Due Diligence Unit, both of which once exercised responsibility over money laundering issues. FMA reports exclusively to the Liechtenstein Parliament, making it independent from Liechtenstein's government. It oversees a large variety of financial actors, including banks, finance companies, insurance companies, currency exchange offices, and real estate brokers. FMA works closely with Liechtenstein's financial intelligence unit (FIU), the Office of the Prosecutor, and the police.

Liechtenstein's FIU, known as the Einheit fuer Finanzinformationen (EFFI), receives suspicious transaction reports (STRs) relating to money laundering and terrorist financing. The EFFI became operational in March 2001 and a member of the Egmont Group three months later. The EFFI has developed a system for STR analysis that involves internal examination, consultation with police, and a five-day period to decide whether to forward the report to prosecutors for further action. The 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. The suspicious transaction reporting requirement applies to banks, insurers, financial advisers, postal services, exchange offices, attorneys, financial regulators, casinos, and other entities. The GOL has reformed its suspicious transaction reporting system to permit reporting for a much broader range of offenses than in the past and based on a suspicion rather than the previous standard of "a strong suspicion."

In 2004, the number of STRs increased by 36 percent from the previous year to 234. Of these 234 reports, the majority were submitted by banks (57 percent) and professional trustees (38 percent). As in 2003, fraud and money laundering remained the most prevalent types of offenses indicated by the entities submitting STRs to the FIU. The share of STRs involving fraud increased from 38 percent to 48 percent, while the share of STRs involving money laundering decreased from 37 percent to 20 percent.

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 economic and organized crime unit of the National Police known as "EWOK." When authorized to do so by a Special Investigative Judge, the police can use special investigative measures.

In 2004, the FIU forwarded 79 percent of the total number of STRs it received to prosecution authorities, up from 72 percent in 2003 and 61 percent in 2002. Three indictments have resulted from those 100 STR referrals. Most of the beneficial owners in transactions resulting in STRs were from Switzerland and Germany. With 8 percent of the total, the United States ranked third in terms of beneficial owners in STR filings. Liechtenstein itself ranked only sixth, with 4 percent of the total. The EFFI reports that about \$120 million worth of suspicious money originated from the United States in 2004, compared to \$260 million in 2003. The Russian Federation was the largest source of money suspected to have been criminally-generated with a total of \$950 million.

In 2004, the EFFI received 119 inquiries from 16 foreign FIUs, slightly fewer than in 2003. In the same period, the EFFI submitted 134 inquiries to 14 different countries, down from 145 inquiries in 2003. The most frequent judicial cooperation requests originated from or were directed to Germany, Switzerland, and Austria.

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. 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).

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 and the Code of Criminal Procedure. Liechtenstein also has issued ordinances to implement United Nations Security Council Resolutions (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, both of which had been designated under UNSCR 1267. 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 FIUs in Belgium, Monaco, Croatia, Poland, and Georgia. Further MOUs are being prepared with Switzerland, France, Italy, San Marino, Canada, Malta, Russia, and Lithuania. Preliminary talks are being held with 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 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 and counterterrorist financing regime. Liechtenstein should accede to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Liechtenstein should require reporting of cross-border currency movements and ensure 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 EFFI, 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.

Luxembourg

Despite its standing as the second-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 \$1.4 trillion under management, Luxembourg is the second largest mutual fund investment center in the world, following

the United States. 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 (STRs) are generated from transactions involving clients in these three countries.

As of December 2005, 154 banks, with a balance sheet total reaching 758 billion euros (approximately \$893 billion), were registered in Luxembourg. In addition, as of November 2005, a total of 2,053 "undertakings for collective investment" (UCIs), or mutual fund companies, whose net assets had reached nearly 1.5 trillion euros (approximately \$1.8 trillion), were operating out of Luxembourg. Luxembourg has about 15,000 holding companies, 97 insurance companies, and 260 reinsurance companies. As of September 2005, the Luxembourg Stock Exchange listed over 35,000 securities issued by nearly 4,100 entities from about 100 different countries. Legislation passed in June 2004 permits the registration of venture capital funds (*société d'investissement en capital à risque*, or "SICAR"). As of December 2005, 40 SICARs had been registered.

While Luxembourg is not a major hub for illicit drug distribution, the size and sophistication of its financial center create opportunities for drug-related and other forms of 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.

Luxembourg's financial sector laws are based to a large extent on EU directives. The Law of July 7, 1989, updated in 1998 and 2004, serves as Luxembourg's primary anti-money laundering (AML) and terrorist financing law, criminalizing the laundering of proceeds for an extensive list of predicate offenses, including narcotics trafficking. The list of predicate offenses has gradually increased over time, encompassing corruption, weapons offenses, organized crime, and fraud against the EU. Most recently, a law was passed on May 23, 2005, implementing the Council of Europe's Criminal Law Convention on Corruption, an action which made private-sector corruption a predicate offense for money laundering. Although only natural persons are currently subject to the law, a draft bill is ready for parliament's consideration in 2006 that would add legal persons to its jurisdiction.

On November 12, 2004, in an effort to bring Luxembourg into full compliance with the requirements of the EU's Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive), Luxembourg's parliament approved legislation updating the nation's AML laws. These legislative amendments formally transferred the requirements of Directive 2001/97/EC 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 considered covered institutions. The 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 covered individuals and entities from legal liability when filing STRs or assisting government officials during the course of a money laundering

investigation. The banking community generally cooperates with enforcement efforts to trace funds and seize or freeze bank accounts; the record of cooperation by notaries and others is still being tested, as the legislation has only been in effect for about a year.

The 2004 AML amendments contain requirements regarding financial institutions' internal AML programs. They impose 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 euros (approximately \$17,678). If a 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" is prohibited.

In late 2005, two new pieces of EU-wide legislation were issued: Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (3rd EU Money Laundering Directive) and Regulation (EC) No. 1889/2005 of the European Parliament and of the Council of 26 October 2005 on controls of cash entering or leaving the European Community. EU member states, including Luxembourg, must implement the Third Anti-Money Laundering Directive by December 15, 2007. The cash reporting regulation is directly applicable under Luxembourg's legal system and applies from June 15, 2007.

Although Luxembourg's strict 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), an independent government body under the jurisdiction of the Ministry of Finance, 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 AML 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. Luxembourg 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.

Established within Luxembourg's Ministry of Justice, the Cellule de Renseignement Financier (CRF) serves as Luxembourg's Financial Intelligence Unit (FIU), receiving and analyzing STRs while also seizing and freezing assets when necessary. While entities to which the FIU is subordinate can require it 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 CRF is responsible for providing members of the financial community with access to updated information on money laundering and terrorist financing practices. The FIU and CSSF work together in investigations involving significant money laundering cases. The CRF is among the most proactive FIUs in sharing information with colleagues from other FIUs.

In 2005, covered institutions filed a total of 831 STRs compared to a total of 943 in 2004. This figure represents a slight decrease in comparison to 2003, but considerably more than were received in 2001 and 2002. Among the 2,471 individuals involved in STRs in 2004, 383 were residents of Luxembourg, 350 of France, and 333 of Belgium. Residents of Germany, Italy, the UK, Russia, and the United States also were associated with a significant number of STRs. The majority of STRs are filed by banks.

In July 2003, Luxembourg's parliament passed a multifaceted counterterrorism financing law. 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 certain terrorism-related crimes, and, with regard to special investigative measures, provides an exception to notification requirements in selected wiretapping cases. The November 2004 AML law amendments bring Luxembourg into compliance with the FATF's Special Recommendation IV by extending the reporting obligations of the financial sector to terrorist financing, independently from any context of money laundering. Covered institutions 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. Justice and Home Affairs ministers from Luxembourg and other EU member states agreed in December 2005 to take into account five principles with regard to implementing FATF Special Recommendation VIII on non-profit organizations: safeguarding the integrity of the sector; dialogue with stakeholders; continuing knowledge development of the sector; transparency, accountability, and good governance; and effective, proportional oversight.

Luxembourg authorities have not found evidence of any widespread use in Luxembourg of alternative remittance systems such as hawala, black market exchanges, or trade-based money laundering. One case awaiting trial in 2005 involved a hawala transaction by a Luxembourg-based suspect using a German-based alternative remittance system. Officials comment that existing AML rules would apply to alternative remittance systems, and no separate legislative initiatives are currently being considered to formally address them. However, given recent interest by EU institutions in alternative remittance systems and wire transfers, the GOL will likely begin to implement FATF Special Recommendation VI in the first part of 2006.

Luxembourg law allows for criminal forfeitures. 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 cooperates with and provides assistance to foreign governments in their efforts to trace, freeze, seize and cause the forfeiture of assets. 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. As of September 2005, illegal drug proceeds totaling over \$22 million were frozen in Luxembourg at the request of U.S. authorities. The GOL worked with the U.S. Department of Justice throughout the year on several drug-related money laundering and asset forfeiture cases. In 2005, based on a U.S. legal assistance request, the GOL repatriated to the U.S. nearly \$1,000,000 to victims of a fraud involving a former officer of Riggs Bank in Washington, D.C. Luxembourg and the United States have had a mutual legal assistance treaty (MLAT) since February 2001. In addition, in 2005 Luxembourg and the U.S. signed supplemental instruments required as part of the

implementation of a U.S.-EU agreement designed to modernize extradition procedures and expand mutual legal assistance.

In an effort to identify and freeze the assets of suspected terrorists, the GOL routinely disseminates to its financial institutions the names of suspected terrorists or terrorist organizations on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O.13224. Luxembourg does not yet have domestic legal authority to designate terrorist groups. The GOL continues to work on draft legislation with regard to this issue. Authorities can and do take action against groups targeted through the EU designation process, the UN, or pursuant to 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 has frozen the bank accounts of certain 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 is a member of the FATF, and its FIU is a member of the Egmont Group. The FIU has negotiated memoranda of understanding with several countries, including Belgium, Finland, France, Andorra, Monaco, and Russia. Luxembourg is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Luxembourg has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. In 2005, Luxembourg ratified the Council of Europe's Criminal Law Convention on Corruption.

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 and counterterrorism financing regime. 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. It should ratify the UN Convention against Transnational Organized Crime.

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 heavily dependent on gaming, but is emerging as a financial center. Its offshore financial sector is not fully developed. Macau's international gambling industry, however, remains particularly vulnerable to money laundering.

Main money laundering methods in the financial system are wire transfers; currency exchange/cash conversion; the use of casinos to remit or launder money; and the use of nominees, trusts, family members, or third parties to transfer cash. Macau has taken several steps over the past three years to improve its institutional capacity to tackle money laundering, but still needs to pass anti-money laundering legislation and establish a financial intelligence unit (FIU). These measures will be helpful if they are passed and if the MSAR supports lead to greater enforcement of the new measures.

In 2005, the Macau Special Administrative Region Government (MSAR) submitted to the Legislative Assembly anti-money laundering legislation that would incorporate some of the aspects of the revised FATF Forty Recommendations. The legislation calls for the establishment of a financial intelligence unit (FIU); however, long-awaited details of the FIU's establishment are not included. These are expected to be finalized in implementing regulations at a later date. The 2005 money laundering bill broadened the definition of money laundering to include all serious predicate crimes that entail a maximum penalty of three years in prison, with heavier penalties for money laundering related to terrorism, illegal narcotics, and the international slave trade. The proposed legislation also allows the defendant to mitigate his criminal exposure if he "redresses" damages done to his victims prior to trial. It also mandated greater customer identification, a duty to refuse to undertake suspicious transactions, and penalties for entities failing to report suspicious transactions. However, it does not appear to criminalize "tipping off" a customer that a suspicious transaction report has been filed.

The draft legislation extended the obligation of suspicious transaction reporting to lawyers, notaries, accountants, auditors, tax consultants and offshore companies. As of December 2005, the bill was being debated in the Legislative Assembly, and the MSAR had not yet decided whether it would create a new entity as the FIU or assign new responsibilities and powers to an existing organization. In 2005, 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 establishing the FIU and continued to exchange information in the FIU's absence.

In 2005, the MSAR also submitted to the Legislative Assembly a new counterterrorism bill aimed at strengthening counterterrorist financing measures. The bill, generally 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 legislation would also allow prosecution of persons who commit terrorist acts outside of Macau in certain cases, and would mandate stiffer penalties. However, the draft legislation does not mention how to freeze without delay terrorist assets, nor does it discuss international cooperation on terrorism financing. In January 2005, the Monetary Authority of Macau issued a circular to all banks and other authorized institutions requiring them to maintain a database of suspicious terrorists and terrorist organizations.

While Macau's proposed laws should create a more robust legal framework to combat money laundering, it will also need to enforce these laws. In an August, 2002 IMF "Assessment of the Regulation and Supervision of the Financial Sector of Macao", the IMF concluded that Macau was "materially noncompliant" with the Basel Committee's anti-money laundering principles, and recommended a number of improvements. On September 15, 2005, the U.S. Department of Treasury designated Macau-based Banco Delta Asia as a primary money-laundering concern under the USA PATRIOT Act. According to the U.S. Treasury Department, Banco Delta Asia provided financial services for more than 20 years to North Korea and has facilitated many of that regime's criminal activities, including circulating counterfeit U.S. currency.

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 MSAR, including pawnbrokers, antique dealers, art dealers, jewelers, and real estate agents. 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 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. Macau law provides for forfeiture of cash and assets that assist in or are intended for the commission of a crime. There is no significant difference between the regulation and supervision of onshore and of offshore financial activities.

The gaming sector and related tourism are critical parts of Macau's economy. Taxes from gaming comprised 75 percent of government revenue in the first ten months of 2005, while revenues from gaming increased 17 percent during the first ten months of 2005, compared with a year earlier. The MSAR 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 began constructing a casino in conjunction with the previous monopoly operator, Sociedade de Jogos de Macau (SJM), owned by local businessperson Stanley Ho. Wynn and MGM are scheduled to open casinos in 2006, and the Venetian will complete its flagship casino in 2007.

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 removed from official scrutiny. As a result, the gaming industry provided an avenue for the laundering of illicit funds and served as a conduit for the unmonitored transfer of funds out of China. Unlike SJM and new entrant Galaxy, the Sands does not cede control of its VIP gaming facilities to outside organizations. This approach impedes organized crime's ability to penetrate the Sands operation.

The MSAR'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, in an effort to prevent loan-sharking by outsiders. 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 MSAR 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 were identified in 2005.

The Macau legislature passed a 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 becomes a party to it.

The increased attention paid to financial crimes in Macau since the events of September 11, 2001, has led to a general increase in the number of suspicious transaction reports (STRs); however, the number

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of STRs remains low. Macau's Judiciary Police received 107 STRs in 2003, and 109 in 2004, and 68 in the first seven months of 2005 from individuals, banks, companies, and government agencies. Of the 109 STRs received during 2004, the Judiciary Police investigated 101 cases. From July 2004 to July 2005, the Public Prosecutors Office initiated seven money laundering legal proceedings, but the Macau Government could not provide accurate data regarding how many of these or previous cases resulted in convictions. The Judiciary Police vetted eight information requests from foreign countries during this period.

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 practice customer due diligence. In 2003, the Macau Monetary Authority examined all money changers and remittance companies to determine their compliance with these regulations. 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 informal 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 the 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, the International Association of Insurance Fraud Agencies, and the South East Asia, New Zealand and Australia Forum of Banking Supervisors (SEAZA). 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. The MSAR 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 MSAR and the private sector in combating money laundering. The Government of Macau should ensure that it expeditiously establishes a financial intelligence unit meeting Egmont standards for information sharing. It should expedite the drafting and issuing of implementing regulations to its anti-money laundering/counterterrorist financing laws, once enacted. The Government of Macau also should be more proactive in finding and freezing accounts related to money laundering of illegal proceeds such as from weapons proliferators and counterfeiters.

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" or official transaction are illegal; traders, therefore, use underground methods 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 first 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.

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 the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. 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 13 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's 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 in order to identify 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 Malaysia's financial intelligence unit, Unit Perisikan Kewangan-Bank Negara Malaysia. 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 investigations.

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, any person or group that engages in, attempts to engage in, or abets the commission of money laundering, would be subject to criminal sanction. All reporting institutions are required to file suspicious transaction reports and are subject to the same review by the FIU and other law enforcement agencies. Reporting institutions include: commercial banks, Islamic 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.

By using a consultative approach, Malaysia's FIU continues to expand the scope of institutions that 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. Other designated professions include public notaries and company secretaries. The Government's consultative approach has minimized potential political fallout from the statute's expansion.

Malaysia's Islamic finance sector, accounting for approximately 11 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 \$1,326). Since April 2003, an individual form is completed for each transfer above RM50,000 (approximately \$13,260). 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 on the island of Labuan, is more vulnerable to money laundering and the financing of terrorism than the rest of the formal financial sector in Malaysia. However, its regulation of the offshore banking sector has improved over the past few years. 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. But 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 5,022 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. Conversely, 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. Bearer instruments are strictly prohibited in Labuan. Over the past few years, LOFSA has injected more formality into the system by working with the FIU to require training on the reporting requirements covered under the AMLA.

Presently, Labuan has 59 offshore banks in operation, along with 112 insurance and insurance-related companies, 68 leasing operations, 37 fund management groups (19 private funds, 3 public funds, and 15 fund management companies), 20 trust companies, and 3 money broking companies. Many of the companies 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 12 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 two to eight 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 they receive lenient tax and customs treatment relative to the rest of the country.

In April 2002, the GOM passed the Mutual Assistance in Criminal Matters Bill and has concluded Mutual Legal Assistance treaties with several regional countries. In 2004, Malaysia made its first money laundering arrest, which ended in a conviction in December 2005. The Government of Malaysia has added five new arrests in 2005, with a total of 188 money laundering charges valued at RM 29.9 million (\$7.9 million). 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, Thailand, and the Philippines. MOUs with the United States, the United Kingdom, China, Japan, South Korea, the Netherlands, Finland, Albania, and Argentina are reportedly pending.

In March 2006, the GOM expects to enact amendments to five different pieces of legislation that will enable it to accede to the UN Convention on the Suppression of the Financing of Terrorism. Parliament passed amendments to the Anti-Money Laundering Act, the Penal Code, 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 amendment before all of the legislation can be incorporated into domestic law (a select committee has finished its review and plans to submit the final draft early 2006). The amendments to the AMLA, once enacted, will make the financing of terrorism one of the 185 predicate offenses for which money laundering can be charged as a crime. 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. Malaysia is also a party to the 1988 UN Drug Convention. Malaysia is a party to the UN Convention against Transnational Organized Crime .

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 and freeze terrorist or terrorist-related assets, and has issued orders to all licensed financial institutions, both onshore and offshore, to freeze the assets of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. The Ministry of Foreign Affairs opened the Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT) in August 2003, which has hosted a series of counterterrorism courses and seminars, including training on counterterrorism finance.

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 may revoke their registration or file a suspicious transaction report. The FIU plans to conduct a review of the non-profit sector with the Registrar and the Companies Commission to ensure that they are well-regulated and following their bylaws. 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. Islamic zakat 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. Labuan Offshore Financial Services Authority serves as a member of the Offshore Group of Banking Supervisors. Malaysia is a member of the Asia/Pacific Group on Money Laundering. Malaysia's FIU gained membership to the Egmont Group of financial intelligence units in July 2003. Malaysia generally follows international standards related to money laundering, including the FATF Forty Recommendations on Money Laundering and the Nine Special Recommendations on Terrorist Financing. The FIU has provided capacity building and training in anti-money laundering efforts to some of its ASEAN partners, including Cambodia, Laos, and Vietnam. In February 2006, the Asian Development Bank (ADB) will be funding a team from the FIU to run a workshop in Laos for two state-owned banks, and then draft Laos's anti-money laundering compliance procedures by the end of September.

The GOM continues to make a broad, sustained effort to combat money laundering and terrorist financing flows within its borders. To further strengthen its anti-money laundering regime, Malaysia should insist on the identification and registration of the true beneficial owners of the more than 5,000 international business companies of Labuan. The Malaysian parliament is expected to enact terrorist financing legislation in 2006, and on that basis, Malaysia should accede to the UN International Convention for the Suppression of the Financing of Terrorism and to all other terrorist-related UN conventions.

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 \$95.4 million and total deposits of \$53.1 million. 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.

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.

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. In December 2005, the DFIU installed a system for banking institutions, under the supervision of the Banking Commission, to electronically submit suspicious activity reports (SAR) and currency transaction

reports (CTRs). The system utilizes Analyst Notebook software that allows the DFIU to review and analyze the data links between related transactions.

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 Federal Deposit Insurance Corporation 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 Counter-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 the Financial Action Task Force (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, led Citizens Security Bank of Guam to discontinue its "payable through" relationship with BOMI, effective February 15th, 2004. Suspension of "payable through" meant that BOMI checks cannot be used outside the country. This situation has disrupted that status quo in the business community. The second largest population center, Ebeye, has no banking services available for international transactions, as there is no Bank of Guam branch on Ebeye. This remained a serious problem to the RMI in 2005, as there are only two financial institutions in operation. Customers on Majuro have shifted deposits to the Bank of Guam, which closes all avenues for healthy competition on demand

deposit accounts between the two available banks. The RMI has limited possibilities to seek reinstatement of a “payable through” for its local bank.

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 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. This initiative has been fully implemented since 2004. The Banking Commission recruited an Assistant Commissioner who is spearheading 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 1988 UN Convention, RMI is a party to all 12 major UN conventions and protocols for terrorism including the UN 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 Association Financial Supervisors of Pacific Islands Countries, a group of regulators from the Pacific Islands Forum countries that will be representing the region in the Basel group.

The GRMI has stabilized 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 plus 9 Recommendations of the Financial Action Task Force on Money Laundering. The Republic of the Marshall Islands should become a party 1988 UN Drug Convention. Additionally, the GRMI should require the identification of the beneficial owners of Non-resident Corporations.

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 29 commercial banks and 71 foreign financial representative offices operating in Mexico, with seven commercial banks representing 89 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 87 insurance companies, 13 bonding institutions, 178 credit unions, and 24 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. However, the informal economy is considered to be much less of a problem overall than that of the narcotics-driven segments of the economy. Beginning in 2005, permits were issued for casinos to operate in Mexico. Gambling is also legally allowed through national lotteries, horse races, and sport pools. Casinos and offshore banks are currently not subject to anti-money laundering reporting requirements.

Since 2000, Mexicans have received an estimated \$52 billion in remittances, and conservative estimates indicate that this amount will increase to over \$80 billion by the end of 2006. Remittances from the United States to Mexico reached a record high \$20 billion in 2005. 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. Corruption is also a concern. In recent years, various Mexican officials, including former officials from the Mexico City government, have come under investigation for alleged money-laundering activities.

In 2005, U.S. authorities observed a significant increase in the number of complex money-laundering investigations by the Financial Crimes Unit of the Office of the Deputy Attorney General Against Organized Crimes (SIEDO), including cases coordinated with U.S. officials. The U.S. Treasury Department's Office of Foreign Asset Control (OFAC) announced in January 2005 the designation of 39 "Tier II" targets involved in significant narcotics trafficking. Some of these designations centered on foreign exchange centers, which fall under the supervision of the Secretariat of Finance and Public Credit (*Hacienda*). The designation of these companies, which are associated with the previously designated Arellano Felix drug trafficking organization, under the Foreign Narcotics Kingpin Designation Act, resulted from cooperation among OFAC, other U.S. government entities and SIEDO. These designations allowed U.S. and Mexican authorities to seek the freezing of assets of Mexican drug cartels, hindering their ability to take advantage of the U.S. and Mexican financial systems.

The Government of Mexico (GOM) continues efforts to implement an anti-money laundering program according to international standards such as those of the Financial Action Task Force (FATF), which Mexico joined in June 2000. Money laundering related to all serious crimes was criminalized in 1996 under Article 400 bis of the Federal Penal Code, and is punishable by imprisonment of five to fifteen years and a fine. Penalties are increased when a government official in charge of the prevention, investigation, or prosecution of money laundering commits the offense.

In 1997, the GOM established a financial intelligence unit (FIU) under the Hacienda. Previously known as the Dirección General Adjunta de Investigación de Operaciones (DGAIO), the FIU was renamed the Unidad de Inteligencia Financiera (UIF) in 2004 with the consolidation of all of the Hacienda offices responsible for investigating financial crimes into the UIF. The UIF is responsible for receiving, analyzing and disseminating financial reports from a wide range of obligated entities. The UIF also reviews all crimes linked to Mexico's financial system and examines the financial activities of public officials. The UIF's personnel number approximately 70—mostly forensic accountants, lawyers, and analysts. Its director reports to the Minister of Finance.

Regulations have been implemented for banks and other financial institutions (mutual savings companies, insurance companies, financial advisers, stock markets, and credit institutions), as well as exchange houses, and money remittance businesses to know and identify customers and maintain records of transactions. These entities must report suspicious transactions, transactions over \$10,000, and transactions involving employees of financial institutions who engage in unusual activity to the UIF. 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. Real estate brokerages, attorney, notaries, accountants and dealers in precious metals and stones are required under a November 2005 provision of the tax law to report all transactions exceeding \$10,000 to the UIF, via the Tax Administration Service. In 2005, the FIU received approximately 4,800,000 CTRs and 57,700 STRs from obligated entities.

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. These reports are also received by the UIF. Efforts are ongoing to compare the declarations filed in Mexico with those filed in the U.S. to determine compliance with this reporting requirement. However, Mexico's reporting requirements include a wider range of monetary instruments (e.g. bank drafts) than those of the United States.

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 56 cases to the PGR in 2005. The PGR's special financial crimes unit is part of SIEDO, which works closely with the UIF in carrying out money laundering investigations. The PGR and SHCP instituted and strengthened coordination between the two ministries with the signing of memoranda of understanding (MOUs) in June 2004 and October 2005. 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. The UIF is also negotiating MOUs with the Ministry of the Economy and the Ministry for Immigration that would allow the UIF access to their databases.

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 were considered impediments to many aspects of Mexico's anti-money laundering/counterterrorist financing system, particularly for law enforcement and prosecutorial and judicial authorities during investigations and prosecutions. As a result of these deficiencies, the GOM must update the FATF on its progress, which it did at the June and October 2005 plenary meetings of the FATF. While Mexico has not yet criminalized terrorist financing, it has made improvements to its bank secrecy laws. Amendments to the Banking Law that were approved in April 2005 now allow specific government entities, such as the PGR and the state attorney generals, to receive records directly from banks without prior approval from the National Banking and Securities Commission (CNBV). Previously, all requests to lift bank secrecy had to be approved by the CNBV. Financial institutions must respond to these requests within three days.

In November 2003, the Senate passed a bill amending the Federal Penal Code that would link terrorist financing to money laundering. However, little progress was made with regard to the passage of this bill by the Congress. In 2005, the draft legislation was re-submitted as two separate draft laws: one to criminalize the financing of terrorism and one to address outstanding international cooperation issues. This legislation, once passed, is intended to bring Mexico into compliance with international standards. The proposed amendments would also create two new crimes: conspiracy to launder assets and international terrorism (when committed in Mexico to inflict damage on a foreign state). The draft legislation is currently under consideration in the Senate.

Although Mexico does not have a specific crime criminalizing the financing of terrorism 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 U.S.-Mexico Mutual Legal Assistance Treaty entered into force in 1991. 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. In February 2005, the UIF and the U.S. financial intelligence unit, FinCEN, signed an

MOU further detailing the procedures for information exchange. The U.S. Customs Service and Mexico City entrepreneurs have established a Business Anti-Smuggling Coalition, including a financial BASC chapter created to deter money laundering, which remained active in 2005.

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, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, the UN International Convention for the Suppression of the Financing of Terrorism, and the Inter-American Convention Against Terrorism. The UIF has signed memoranda of understanding for the exchange of information with the FIUs of Argentina, Bolivia, Brazil Colombia, Chile, Dominican Republic, El Salvador, Guatemala, Honduras, Paraguay, Peru and Ukraine, in addition to the MOU with the United States.

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 terrorist organizations. 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.

Monaco

The second-smallest country in Europe, the Principality of Monaco is known for its tradition of bank secrecy, network of casinos, and favorable tax regime. 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 has a population of approximately 32,000, of which only 7,000 are Monegasque nationals. Monaco’s approximately 60 banks and financial institutions hold more than 300,000 accounts and manage total assets of about 70 billion euros (\$82.5 billion). Approximately 85 percent of the banking customers are nonresident. In 2002, the financial sector represented over 17 percent of Monaco’s economic activity. Monaco’s 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. The real estate sector is another important area because of the high prices for land throughout the principality. There are four casinos run by the Société des Bains de Mer, in which the state holds a 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 operates under 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.

Money Laundering and Financial Crimes

Although the French Banking Commission is the supervisor for Monegasque institutions, Monaco shoulders the responsibility for legislating and enforcing measures to counter money laundering and terrorism financing. The Finance Counselor (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 July 7, 1993, “On the Participation of Financial Institutions in the Fight against Money Laundering,” and Section 218-3 of the Criminal Code, amended by Act 1.253 of July 12, 2002, “Relating to the Participation of Financial Undertakings in Countering Money Laundering and the Financing of Terrorism.” Section 218-3 of the Criminal Code is being reviewed in order to expand the list of predicate offenses.

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. The 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 Act 1.162 expanded the scope of money laundering requirements to include corporate service providers, portfolio managers, certain trustees (those subject to Law 214), and institutions within the offshore sector. New procedural requirements have also been put into place, such as internal compliance, client identification, and records maintenance. Meetings are 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 strengthened 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, which allow the account’s owner to use a pseudonym in lieu of his or her 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 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 increased 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 254 disclosures,

19 of which were referred to the public prosecutors. In 2004, SICCFIN had received an additional 341 disclosures, of which 18 were passed to the public prosecutor for further investigation. In 2004 SICCFIN received 55 requests for financial information from other FIUs.

Investigation and prosecution are handled by the two-officer Money Laundering Unit (Unite de Lutte au Blanchiment) within the police. The Organized Crime Group (Groupe de Repression du Banditisme) 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's legislation allows for the 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 (\$13.8 million) 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 United Nations Security Council Resolution 1373 by outlawing 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.

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. Monaco should continue to enhance its anti-money laundering and confiscation regimes.

Morocco

Morocco is not a regional financial center, and the extent of the money laundering problem in the country is not known. Morocco remains an important producer and exporter of cannabis, with estimated revenues of \$13 billion annually, according to a joint study released in May 2005 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.

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. A Free Trade Agreement with the United States will go into effect in 2006.

There were no reported arrests or prosecutions for money laundering or terrorist financing in Morocco in 2005. Morocco has a relatively effective system for disseminating U.S. Government (USG) and United Nations Security Council Resolution (UNSCR) terrorist freeze lists to the financial sector and law enforcement. Morocco has provided detailed and timely reports requested by the UNSCR 1267 Sanctions Committee. A handful of small value accounts have been administratively frozen based on the U.S. list of Specially Designated Global Terrorists, designated pursuant to E.O. Executive Order 13224.

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.

The CBM issued Memorandum No. 36 in December 2003, in advance of the 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 these are not strictly enforced); and internal bank controls designed to counter money laundering and other illegal/suspicious activities.

In June 2003, Morocco adopted 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 was designed to bring Morocco into compliance with UNSCR 1373 requirements for the criminalization of the financing of terrorism.

As of December 2005, Morocco has enacted two banking/financial sector reform bills that will further strengthen Morocco's anti-money laundering system. A specific anti-money laundering (AML) bill is in the process of being presented to Parliament for passage. The proposed law reportedly includes, among other provisions, a suspicious transaction reporting scheme and the creation of a Financial Intelligence Unit (FIU). All three 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. 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 bills 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 1988 UN Drug Convention, the UN International Convention for the Suppression of Financing of Terrorism, and the UN Convention against Transnational Organized Crime; in fact, Morocco has ratified or acceded to 11 of the 12 UN and international conventions and treaties related to counterterrorism. Morocco 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.

Morocco should strengthen its AML capacity by moving expeditiously to pass the anti-money laundering bill. Upon passage of the AML legislation, and as part of a comprehensive 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. Although there have not been prosecutions, money laundering is believed to be fairly common and is linked principally to customs fraud and narcotics trafficking. Authorities believe the proceeds from these illicit activities have helped finance the recent spate of large-and small-scale commercial real estate developments, particularly in the capital. Multi-million dollar construction projects are allegedly financed with cash, and branch businesses owned by these same developers reputedly conceal illicit proceeds gained by selling imported goods on which no duties have been paid, and by trafficking illegal drugs from South Asia and South America. 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 significant involvement by Pakistani and Indian immigrants. While money laundering in the banking sector is considered to be a serious problem, foreign currency exchange houses, cash couriers, and the hawala remittance system also play a significant role in financial crimes and money laundering. Despite these problems, or perhaps because of them, there are no documented 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 increase in crimes such as money laundering, but a formal assessment of criminal trends is difficult due to a dearth of reporting, investigations or prosecutions. There were no money laundering arrests in 2005, nor any prosecutions. Black markets for smuggled goods and financial services are widespread, dwarfing the formal retail and banking sectors in most parts of the country. The presence of these markets makes it difficult to determine when and where laundering of illicit proceeds from customs fraud and narcotics trafficking—as well as bribes and kickbacks, skimmed money from contracts, undeclared income, and theft—are occurring. Much of the laundering is believed to be happening behind the scenes at foreign currency exchange houses. The government has banned the opening of any new exchange houses, and government officials have publicly discussed the need for more intense scrutiny on those currently in operation. While no evidence has been uncovered through formal investigations, it is widely believed

that corrupt officials are directly involved with customs fraud, narcotics trafficking and the laundering of profits.

Money laundering has long been a criminal offense in Mozambique, but the crime had not been narrowly defined until enactment of the 2002 Anti-Money Laundering Act. The Act contains specific provisions related to narcotics trafficking, in addition to a wider range of offenses considered predicates for money laundering. While the initial set of implementing regulations for the anti-money laundering law were only issued in September 2004, by year's end, all regulations and amendments had been passed, including provisions for the creation of the country's first financial intelligence unit (FIU). The World Bank and International Monetary Fund have worked with the government to help establish the framework for the FIU, which is to begin operating formally in 2006. The FIU will be housed in the prime minister's office, and participating members of the FIU will represent the Central Bank, Ministry of Justice, Ministry of the Interior, Ministry of Finance, and the Office of the Attorney General. The new FIU will reportedly have regulatory and investigative duties, and can, through the Attorney General's office, refer cases for criminal prosecution.

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 monthly minimum wage, or about \$23,000 at current exchange rates. 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).

The 2002 law 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. 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 across the border to file a report with Customs. Taking more than 500,000 meticaís (about \$20) out of the country is prohibited. Cash couriers must comply with these cross-border currency requirements, but it is believed that there is an increasing trend of couriers transporting large amounts of cash outside the country via airline flights.

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-held 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's 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, the Ministry of Finance, and the Ministry of Foreign Affairs. Authorities in these institutions have not positively identified any of the persons or entities on these lists as 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. The hawala system of remittance, for example, is believed to be widely used within the South Asian community. 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 have been no public reports of the MOJ seriously investigating any charities.

Mozambique is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Mozambique is a signatory to the UN Convention against Transnational Organized Crime. It is also a founding 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 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 ensure that the financial intelligence unit to be established in 2006 operates in accordance with international standards. It should deposit the instrument of ratification for 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, and intimidating tactics on the part of organized crime. It should improve interagency coordination, and provide intensive training in forensic audit, analytical, and investigation practices to members of the financial intelligence unit. These practical measures will be necessary to enforce any laws.

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). As a major financial center, several Dutch financial institutions engage in international business transactions involving large amounts of United States currency. There are, however, no indications that significant amounts of U.S. dollar transactions conducted by financial institutions in the Netherlands stem from illicit activity. 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. 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 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. In December 2001, legislation was enacted making facilitating, encouraging, or engaging in money laundering a separate criminal offense, easing the public prosecutor's burden of proof regarding the criminal origins of proceeds. Under the law, the public prosecutor needs only to prove that the proceeds "apparently" originated from a crime; self-laundering is also covered. In two cases in 2004 and 2005, the Dutch Supreme Court confirmed the wide application of the money laundering offenses by stating that the public prosecutor does not need to prove the exact origin of laundered proceeds and that the general criminal origin as well as the knowledge of the perpetrator may be deducted from objective circumstances.

The Netherlands has an "all offenses" regime for predicate offenses of money laundering. The penalty for "deliberate acts" of money laundering is a maximum of four years' imprisonment and a maximum fine of 45,000 euros (approximately \$53,800), 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 (approximately \$53,800). Habitual money laundering may be punished with a maximum imprisonment of six years and a maximum fine of 45,000 euros (approximately \$53,800), 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 anti-money laundering legislation. The Services Identification Act 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 (approximately \$18,800), 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 (approximately \$13,500), or be imprisoned up to two years. Under the Services Identification Act, 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 prior to the transaction, before providing financial services.

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 enacted a number of measures to enhance the effectiveness of the existing system. In November 2005, the Board of Procurators General issued a National Directive on money laundering crime that included an obligation to conduct a financial investigation in every serious crime case, guidelines for determining when to prosecute for money laundering and technical explanations of money laundering offenses, case law, and the use of financial

intelligence. A new set of indicators, which determine when an unusual transaction must be filed, also entered into force in November 2005. These new indicators represent a partial shift from a rule-based to a risk-based system and are aimed at reducing the administrative costs of reporting unusual transactions for the reporting institutions without limiting the preventive nature of the reporting system. The Dutch parliament has also approved amendments that expand supervision authority and introduces punitive damages, to the Services Identification Act and Disclosure Act, scheduled to take effect in 2006.

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 Netherlands does not currently have a currency declaration requirement for incoming travelers. Under the 2004 Dutch European Union (EU) Presidency, the EU reached agreement on a cash courier regulation, which implements the Financial Action Task Force (FATF) Special Recommendation Nine on terrorist financing. The implementation is expected to occur in the Netherlands in 2007.

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 98 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 2006, the MOT and the BLOM will merge and both entities will be integrated within the National Police (KLPD). This new FIU structure (MOT/BLOM) will provide an administrative function that will receive, analyze, and disseminate unusual currency transaction reports. It will also provide a police function that will serve as a point of contact for law enforcement. Foreign FIUs will be able to turn to this new organization with requests for financial and law enforcement information. Over the last five years, the MOT and the BLOM have cooperated closely in responding to international requests for information, so this merger will not change the nature of the Dutch reporting system.

In 2003, the MOT received 177,157 unusual transaction reports, totaling over 1.5 billion euros (approximately \$1.7 billion) and forwarded 37,748 to the BLOM and other police services as suspicious transactions for further investigation. In 2004, the MOT received 174,835 reports, totaling over 3 billion euros (approximately \$3.6 billion), and forwarded 41,003 to the BLOM and other police services. The average amount reported was 79,000 euros (approximately \$94,500) in 2004, an increase from the 41,000 euros (approximately \$49,000) average reported in 2003. Reportedly, this significant increase was due to a few large transactions.

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 2004, the MBA-unit sent 200 reports to the police for further investigations.

In 2004, BLOM opened 712 investigations, which involved 15,203 transactions. BLOM conducted 80 Hit-And-Run Money Laundering (HARM) team actions, including eight involving exchange transactions, 60 involving the physical presence of large amounts of cross border cash money, and six cases involving withdrawals, deposits, wire transfers or offers of bank checks. Of the 80 HARM actions, 58 were the result of BLOM's own investigations. With regard to the cross-border movement of cash, the royal constabulary apprehended 60 outgoing cash couriers at Amsterdam Schiphol Airport and confiscated nearly 10 million euros (approximately \$12 million) in cash. In 2004, the office of the public prosecutor issued summons for money laundering offenses in 244 cases, resulting in 138 convictions with 87 cases still pending.

The Public Prosecutor HARM team was established in 2001. Both the MOT and BLOM are internationally recognized institutions that play a major role in the Dutch anti-money laundering regime. BLOM provides the anti-money laundering division of Europol with suspicious transaction reports, and Europol applies the same analysis tools as BLOM.

The Netherlands has enacted legislation governing asset forfeitures. The 1992 Asset Seizure and Confiscation Act enable 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 integrated into all law enforcement investigations into serious crime.

The system is principally value-based, though property-based orders can also be made. Any tangible assets, such as real estate or other conveyances that were purchased directly with the proceeds of a crime tracked to illegal activities, may be seized. Property subject to confiscation as an instrumentality may consist of both moveable property and claims. Assets can be seized as a value-based confiscation. Asset seizure and confiscation legislation also provides for the seizure of additional assets controlled by drug trafficker. Legislation defines property for the purpose of confiscation as "any object and any property right." Proceeds from narcotics asset seizures and forfeitures are deposited in the general fund of the Ministry of Finance. Dutch authorities have not identified any significant legal loopholes that allow drug traffickers to shield assets.

In order to promote the confiscation of criminal assets, special court procedures have been created, enabling law enforcement to continue financial investigations in order to prepare confiscation after the underlying crimes have been successfully adjudicated. All police services investigating in the field of organized crime rely on the real time assistance of financial detectives and accountants, as well as on the assistance of the Proceeds of Crime Office (BOOM), a special bureau advising the Office of the Public Prosecutor in international and complex seizure and confiscation cases. To further international cooperation in this area, the Camden Asset Recovery Network (CARIN) was set up in The Hague in September 2004. BOOM played a leading role in the establishment of this informal international network of asset recovery specialists, whose aim is the exchange of information and expertise in the area of asset recovery.

Statistics provided by the Office of the Public Prosecutor show that the amount of assets seized in 2004 amounted to 11 million euros (approximately \$13 million), compared to 10 million euros (approximately \$11 million) in 2003. (These figures do not include tax-related confiscations. Dutch Tax Authorities can tax any income, whether legal or illegal.) 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 United Kingdom, 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. The Office of the Public Prosecutor has designed a new centralized approach for large confiscation cases and a more flexible approach for handling smaller cases. Both will take effect in 2006. These measures should significantly increase BOOM's capacity to handle asset forfeiture cases.

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 suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list or designated by the EU 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 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 GON is considering new legislation that would expand, among other things, investigative powers and the use of coercive measures in antiterrorist inquiries.

Unusual transaction reports by the financial sector act as the first step against the abuse of religious organizations, foundations and charitable institutions for terrorist financing. No individual or legal entity (churches or religious institutions included) is exempt from the obligation of identification when using the financial system. Financial institutions must also inquire about the identity of the ultimate beneficial owners. Thus, a paper trail is maintained throughout the payment chain. A second step is provided by Dutch civil law, which 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. Finally, many Dutch charities are registered with or monitored by private "watchdog" organizations or self-regulatory bodies, the most important of which is the Central Bureau for Fund Raising. In April 2005, the GON approved a plan to replace the current initial screening of

founders of private and public-limited partnerships and foundations with an ongoing screening system. The new system will be introduced in the course of 2007 to improve Dutch efforts to fight fraud, money laundering, and terrorist financing.

Data about informal hawala banking as a potential money laundering/terrorist financing source is still scarce. Initial research by the Dutch police and Internal Revenue Service and Economic Control Service (FIOD/ECD) indicates that the number of *hawala*-type banks in the Netherlands is rising. The Dutch Government plans to implement improved procedures for tracing and prosecuting informal (unlicensed) or hawala-type banking, with the Dutch Central Bank, FIOD/ECD, the Financial Expertise Center, and the Police playing a coordinating and central role. The Dutch Finance Ministry plans to participate in a World Bank-initiated international survey on money flows by immigrants to their native countries, with a focus on relations between the Netherlands and Suriname. The Dutch Central Bank will also initiate a study into the number of informal banking institutions in the Netherlands. In Amsterdam, a special police unit has been investigating underground bankers. These investigations have resulted in the disruption of three major underground banking schemes.

Reportedly, the Netherlands is in full compliance with all FATF Recommendations, with respect to both legislation and enforcement. The Netherlands also complies with the Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU 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 2004, the Dutch EU Presidency reached political agreement within the EU on the Third Money Laundering Directive, which was subsequently adopted by the EU in 2005 with full implementation by EU Member States by 2007. The Dutch have already implemented some obligations resulting from this directive, such as effective supervision of currency exchange offices and trust companies.

In December 2003, the International Monetary Fund (IMF) conducted an assessment of the Dutch 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 2005, the Second Round of the Council of Europe's Group of States Against Corruption (GRECO) evaluation of the Netherlands resulted in positive conclusions regarding Dutch seizure and confiscation legislation.

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 has moved forward with the development of the FIU.NET Project, (an electronic exchange of current information between European FIUs by means of a secure intranet).

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 Financial Action Task Force. The GON participates in the Caribbean Financial Action Task Force as a Cooperating and Supporting Nation. The MOT is a

member of the Egmont Group. The MOT has concluded formal information sharing memoranda of understanding (MOUs) with Belgium, Aruba and the Netherlands Antilles. The Netherlands is a party to the 1988 UN Drug Convention and the 1990 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. 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 23 international banks and approximately 207 trust companies providing financial and administrative services to their international clientele, including approximately 15,571 offshore companies, mutual funds, and international finance companies. The islands also have eight local credit institutions, five savings and credit funds, thirteen foreign credit institutions, seven local commercial banks, four foreign commercial banks, two savings banks, seventeen credit unions, 18 consolidated international banks and 19 non-consolidated international banks. There are 31 institutional investors that may carry out insurance business, 19 captive insurance companies, six professional reinsurance companies, 27 pension funds and one other fund.

On February 1st, 2001, the GONA approved the proposed amendments to the free zone law allowing e-commerce activities into these areas (National Ordinance Economic Zone no.18, 2001). As of this date, it is no longer necessary for goods to be physically present within the zone as was required under the former free zone law. Furthermore, the name "Free Zone" was changed to "Economic Zone" (E-Zone). Seven areas within the Netherlands Antilles qualify as e-zones of which five are designated for e-commerce. The remaining two e-zones, which are located at the airport and the harbor, are designated for goods. These zones are minimally regulated; however, administrators and businesses in the zones have indicated an interest in receiving guidance on detecting unusual transactions.

The Central Bank supervises all banking and credit institutions, including banks for local and international business, specialized credit institutions, savings banks, credit unions, savings and credit funds, and pension funds. However, authorities in other countries supervise some mutual funds. The laws and regulations on bank supervision state that international banks must have a physical presence on the island and hold records there. All life insurance and general insurance companies need to apply for a license from the Central Bank. 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.

Money Laundering and Financial Crimes

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.

Suspicious transactions are by law reported to the financial intelligence unit, the Netherlands Antilles Reporting Center, MOT NA. The GONA is amending the national ordinance regarding the MOT NA which should go into effect in 2006. The objective is to add new non-financial reporters, such as lawyers, accountants, notaries, jewelers, and real estate agents. The GONA hopes to have in place all relevant laws and agreements prior to the IMF audit in 2007. 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, pension funds, money transfer services, and financial administrators and now specifically include counterterrorism detectors. The Central Bank also established a Financial Integrity Unit to monitor corporate governance and market behavior. Entities under supervision must submit an annual statement of compliance.

Onshore banks are increasingly using their discretionary authority to protect themselves against money laundering. The largest commercial bank lowered its limits on money grams 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 Meldpunt Ongebruikelijke Transacties (MOT NA), the Netherlands Antilles’s financial intelligence unit (FIU) 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.

The current staff of eight at the MOT NA continues to work to enhance the effectiveness and efficiency of its reporting system. Significant progress has been made in automating suspicious activity reporting; in 2003 reporting institutions sent 99.2 percent of their reports to the MOT NA electronically. Most of the matches with external databases are 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 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 \$281,000) or one year in prison.

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.

The 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. A tax information exchange agreement (TIEA) was signed between the Netherlands Antilles and the United States. As of the end of 2005 implementing legislation in the parliament was pending which would allow this agreement to go into effect.

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. 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 terrorism, and should enact the necessary legislation to implement the UN International Convention for the Suppression of the Financing of Terrorism.

Nicaragua

Nicaragua is not a regional financial center; however this may soon change. The country is not a major drug producing country, but continues to be a significant transshipment point for South American cocaine and heroin destined for the United States, and, on a smaller scale, for Europe. Reportedly, there is evidence that the problem is growing and is increasingly linked to arms trafficking. 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 the strengthening of Nicaragua's legal and institutional frameworks to effectively combat money laundering and the financing of terrorism.

Nicaragua's geographical position, with access to both the Atlantic and the Pacific Oceans, makes it an area heavily used by transnational organized crime groups. Organized crime groups also benefit from Nicaragua's weak legal system and its ineffective fight against financial crimes, money laundering, and terrorism.

While Nicaragua has pledged to fight the financing of terrorism, money laundering and other financial crimes, limited resources, corruption (especially in the judiciary), and the lack of political will in some sectors continue to complicate efforts to counteract these criminal activities. Nicaragua has recently made improvements to its oversight and regulatory control of its financial system. However, money laundering unrelated to drug-trafficking is legally undefined, the country does not have an operational FIU and all attempts to correct this deficiency have been stalled in the National Assembly for years.

In May 2005, GE Consumer Finance, one of the largest financial service firms in the world, announced that it was buying a 49.99 percent stake in Banco de America Central (BAC) which operates in several Central American countries, including Nicaragua, where it is one of the largest banks. Also, Banistmo, a Panamanian bank, recently began operations in Nicaragua. The ratification of the Central America/Dominican Republic Free Trade Agreement (CAFTA-DR) and regional integration suggest more involvement from international financial institutions.

Nicaragua does not permit direct offshore bank operations, but it does permit them to operate through nationally chartered entities. Bank and company bearer shares are permitted. Nicaragua has a well-developed indigenous gaming industry, which remains largely unregulated. There are no known offshore or Internet gaming sites in Nicaragua. On October 26, 2005, the National Assembly reformed Nicaragua's General Banks, Non-banking Financial Institutions, and Financial Groups Law, that if enforced would hold bank officials responsible for their institutions' money laundering. Article 164 of the law calls for sanctions for financial institutions and professionals of the financial sector, including internal auditors who do not develop anti money laundering programs or do not report to the appropriate authorities suspicious and unusual transactions that may be linked to money laundering, as required by the anti-money laundering law.

In 1999, Nicaragua passed Law 285 that requires banks to report cash deposits over \$10,000 to the Superintendence of Banks and Other Financial Institutions (SIBOIF), which then forwards the reports for analysis to the Commission of Financial Analysis (CAF). Law 285 is not, however, being used as an effective tool against money laundering crimes committed by organized criminal organizations. The National Prosecutor's and the Attorney General's legal positions on the Law 285 differ significantly. The National Prosecutor, who also heads the CAF, is loyal to ex-President Arnoldo Aleman (convicted of laundering stolen government funds) and has sought to limit the application of the money laundering law to drug crimes. The Attorney General has led President Bolanos's charge against public corruption and has argued in and out of court that the money-laundering law as written applies to public corruption and other non-drug crimes. However, there were no money laundering prosecutions in Nicaragua in 2005, even when financial transactions have been linked to narcotics trafficking.

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. The CAF is ineffective due to a lack of budget, trained personnel, equipment, and strategic goals. The CAF is headed by the National Prosecutor who receives the reports from banks and decides whether to refer them to the Nicaraguan National Police (NNP) for further investigation. The Economics Crimes Unit within the NNP is in charge of investigating financial crimes, including money laundering and terrorist financing. The Nicaraguan Deputy Attorney General is critical of the inactivity and ineffectiveness of the CAF. He claimed that of the 354 suspicious activity reports received by the CAF from financial institutions in the first part of 2005, not a single criminal money laundering investigation, including those related to drug trafficking, has been initiated by the National Prosecutor.

Legislation that would improve Nicaragua's anti-money laundering regime has been stalled in the National Assembly for years. There are at least two pending bills. An amended drug and anti-money

laundering law would better define the crime of money laundering, and another special bill that creates a central FIU replacing the CAF and would require more stringent reporting of large and/or suspicious bank deposits. Reportedly, it is unlikely that these reform bills will make it out of the Assembly in the foreseeable future.

Draft legislation to criminalize terrorist financing is under consideration by the National Assembly, reportedly without any sign of imminent 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. However, there are informal “cash and carry” networks for delivering remittances from abroad.

Corruption within the judiciary is a serious problem; judges often let detained drug suspects go free after a short detention, a practice that puts drug traffickers back on the streets, increasing the threat of money laundering. In a recent high-profile case judges released over \$600,000 of funds from a suspected drug trafficker. From all indications, a number of judges may have been involved in the case and may have received payoffs. In another judicial scandal, two Mexican citizens were acquitted and had returned over \$300,000 in undeclared currency that Nicaraguan customs seized when they entered the country. This case also involves a judge connected to the first drug-money scandal. Due to the rampant corruption in the Nicaraguan judiciary, the United States has cut off direct assistance to the Nicaraguan Supreme Court.

The SIBOIF is an independent and reputable financial institution regulator. Its financial experts have a good working relationship with the U.S. Government and have reached out to the NNP to work with them. On December 1, the SIBOIF, pursuant to the Nicaraguan Banking Law, closed down a business, Agave Azul, that was operating an illegal Ponzi scheme. Agave Azul opened for business in May 2005 and to date it has over 13,000 investors, according to police accounts. Under the scheme, investors (some of them National Assembly members that had invested up to \$60,000) bought shares with the promise/expectation that they would earn a monthly rate of return of at least 15 percent on their investment. Investors recruited others to buy shares in the fake business that claimed to sell tequila. The investors’ money was collected and sent via wire transfer to two banks in the United States and one in El Salvador.

Since May 2005 approximately \$3,000,000 in U.S. currency has been deposited in Agave Azul accounts in at least two U.S. banks. SIBOIF notified the National Prosecutor about the scheme in early August 2005 and demanded action. The National Prosecutor failed to act. Though Agave Azul was closed by the SIBOIF, continuing inaction by the National Prosecutor is hampering the investigation. Efforts to freeze the business’ bank accounts in the United States were unsuccessful due to the failure of the NNP to provide complete financial information and the unwillingness of the National Prosecutor to seek U.S. Government cooperation. Despite the failures in this investigation, the actions of the SIBOIF in cooperation with NNP show a dedication to investigate financial crimes and substantial level of cooperation between the Attorney General’s Office and the NNP on financial crimes and money laundering issues.

U.S. Government efforts are focused on formalizing the existing cooperation by creating a vetted Anti-Corruption Unit that would be housed within the NNP and also include officials from the Attorney General’s Office, with the aim of leading thorough investigations and strong prosecutions of corruption, money laundering and related crimes. Nicaragua ratified the Inter-American Convention on Mutual Legal Assistance in Criminal Matters in 2002, an agreement that facilitates the sharing of legal information between countries. 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 (OAS) and the Caribbean Financial Action Task Force (CFATF).

In October 2005, a delegation of the U.S. Department of the Treasury, including officials from the Financial Enforcement Network (FinCEN), Office of Technical Assistance (OTA), and the Internal Revenue Service (IRS), went to Nicaragua. They were accompanied by Delia Cárdenas, the Panamanian Superintendent of Banks and the then President of CFATF. Cárdenas went to Nicaragua to express CFATF's dissatisfaction with Nicaragua's refusal to comply with international standards and to develop a functional financial analysis unit to replace the ineffective CAF. Not long after the visit by Cárdenas, the SIBOIF and other members of the CAF sent a letter to a key National Assembly leader seeking action on creation of a financial intelligence unit.

The Government of Nicaragua needs to move to counter money laundering by expanding the predicate crimes for money laundering beyond narcotics trafficking, criminalizing terrorist financing, and allocating the necessary resources to develop an effective FIU. Nicaragua should develop a more effective method of obtaining information/cooperation from foreign law enforcement agencies and banks. Nicaragua should take steps to immobilize its bearer shares and adequately regulate its gambling industry. These steps, coupled with increased enforcement, would significantly strengthen the country's financial system against money laundering and terrorist financing, and would make progress complying with relevant international anti-money laundering standards and controls.

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 country and is a center of criminal financial activity for the entire continent. It is not an offshore financial center. 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 establishment of the Economic and Financial Crimes Commission (EFCC) and of the Independent Corrupt Practices Commission (ICPC) and the improvement in training qualified prosecutors in Nigerian courts has yielded some successes in 2005.

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 frauds 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. The EFCC has tried to combat 419-related cyber crimes, but there have only been a few recorded successes as a result of their cyber crime initiatives.

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.

In December 2002, after placement on the NCCT list and under threat of a FATF recommendation for countermeasures, Nigeria enacted three pieces of legislation: 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 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.

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 bank licenses and freeze suspicious accounts. This legislation also strengthens financial institutions by requiring more stringent identification of accounts, removing a threshold for suspicious transactions, and lengthening the period for retention of records. In November 2004, the EFCC reported that the great majority of Nigeria's banks were not in compliance with the new law, typically by not adhering to the know-your-customer and know-your-customer's-business provisions of the law and by neglecting to file suspicious transactions reports (STRs). The EFCC promised a new initiative to educate bank personnel and the general public about the provisions of the law before imposing sanctions for non-compliance. Nigeria has not yet detected a case of terrorist financing laundered through the banking system.

Under the 2004 Money Laundering (Prohibition) Act and 1995 Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, money laundering controls apply to non-banking financial institutions. These acts effectively cover brokerage houses, stock brokerages, casinos, insurance companies, and

intermediaries such as lawyers and accountants. The Commerce Ministry oversees compliance, which to date has not been very rigorous or effective.

In 2004, the 2002 Economic and Financial Crimes Commission (Establishment) Act was amended. The 2004 EFCC act enlarged the number of EFCC board members, enabled the EFCC police members to bear arms, and banned interim court appeals that hinder the trial court process. The commission's primary mandate is to investigate and prosecute financial crimes, and in particular to coordinate anti-money laundering investigations and information sharing in Nigeria and internationally.

In 2005, the EFCC established the Nigerian Financial Intelligence Unit (NFIU). The NFIU draws its powers from the Money Laundering (Prohibition) Act of 2004 and the Economic and Financial Crimes Commission Act of 2004. It is the central agency for the collection, analysis and dissemination of information on money laundering and terrorism financing. All financial institutions and designated non-financial institutions are required by law to furnish the NFIU with details of their financial transactions. Provisions have been included to give the NFIU power to receive suspicious transaction reports made by financial institutions and non-designated financial institutions, as well as to receive reports involving the transfer to or from a foreign country of funds or securities exceeding \$10,000 in value.

The NFIU is a significant component of the EFCC. It complements the EFCC's directorate of investigations but does not carry out its own investigations. It is staffed with competent officials, many with degrees in accounting and law. The NFIU is playing a pivotal role in receiving and analyzing STRs. As a result, banks have improved their responsiveness to forwarding records to the NFIU. Under the EFCC act, whistle-blowers are protected. Nigeria has no secrecy laws that prevent the disclosure of client and ownership information by domestic financial services companies to bank regulatory and law enforcement authorities. The NFIU has access to records and databanks of all government and financial institutions, and it has entered into memorandums of understandings (MOUs) on information sharing with several other financial intelligence centers. The establishment of the NFIU is part of Nigeria's efforts toward removal from the NCCT list.

Nigeria criminalized the financing of terrorism under the Economic and Financial Crimes Commission (Establishment) Act of 2004. The EFCC has authority under the act to identify, freeze, seize, and forfeit terrorist finance-related assets. Statistics do not exist to show any shift in the number of financial crimes committed that are not related to laundering or terrorist financing. However, due to the recent creation of the EFCC, the enactment of new laws, and a successful public enlightenment campaign, crimes such as bank fraud and counterfeiting are being reported and prosecuted for the first time. In addition to the EFCC, the National Drug Law Enforcement Agency (NDLEA), the Independent Corrupt Practices Commission (ICPC), and the Criminal Investigation Department of the Nigeria Police Force (NPF/CID) are empowered to investigate financial crimes. The NDLEA is adequately staffed to meet the basic requirements of the mandate, but its performance has been uneven this year and there have been allegations of corruption. The NDLEA chairman was recently relieved of his duties after a five-year stint, and a new chairman was appointed to improve the agency's performance. The Nigerian Police Force is incapable of handling financial crimes because of corruption and poor institutional capacity. The EFCC is the agency most capable of effectively investigating and prosecuting financial crimes, including money laundering and terrorist financing. The EFCC coordinates all other agencies in financial crimes investigations.

In 2005, the EFCC marked significant successes in combating financial crime. Two fraudsters in a Brazilian bank scam involving a total of \$242 million in assets were successfully prosecuted and convicted for terms of 25 and 12 years in prison, respectively. Their assets were seized, and they were ordered to give \$110 million in restitution to the bank. Last in 2005, the EFCC returned \$4.481 million to an elderly woman swindled by a Nigerian 419 kingpin in 1995. The kingpin was arrested, prosecuted, convicted, and is serving his prison sentence. A former inspector general of police was

arrested and prosecuted for financial crimes valued at over \$13 million. His assets were seized and bank accounts frozen. He is currently serving a prison sentence of six months and still faces 92 charges of money laundering and official corruption. Two sitting state governors are currently the subject of money laundering investigations. The EFCC, working with the FBI, also has an active case involving a group of money brokers using banks in the United States to launder money. The money laundering legislation of 2004 has given the EFCC the authority to investigate and prosecute such cases. The EFCC also has the authority to prevent the use of charitable and non-profit entities as laundering vehicles, though no such case has yet been reported. There were 23 money-laundering convictions in 2005. The trial court process has improved after several experienced judges were assigned specifically to handle EFCC cases; this has motivated EFCC officials to bring more cases to court. During 2005, the EFCC seized money laundering-related assets worth \$1billion, more than a 100 percent increase from 2004.

Depending on the nature of the case, the tracing, seizing, and freezing of assets may be done by the NDLEA, NPF, or the ICPC, in addition to the EFCC. The proceeds from seizures and forfeitures are remitted to the federal government, and a portion of the recovered sums is used to provide restitution to the victims of the criminal acts. The NDLEA handles all narcotics-related cases. While the NDLEA has adequate resources to trace, seize, and freeze assets, it made no significant asset seizures in 2005.

For cases that are investigated by the EFCC, the seizure of property is governed by the EFCC (Establishment) Act of 2004. Section 20 of the act provides for the forfeiture of assets and properties to the federal government after the accused has been convicted of money laundering, including foreign assets acquired as a result of such crime. The properties subject to forfeiture are set forth in Section 24. They include any real or personal property that represents the gross receipts a person obtains directly as a result of the violation of the act or which is traceable to such gross receipts. They also include any property that represents the proceeds of an offense under the laws of a foreign country within whose jurisdiction such offense or activity would be punishable for a term exceeding one year. Section 25 states that all means of conveyance, including aircraft, vehicles, or vessels that are used or intended to be used to transport or in any manner to facilitate the transportation, sale, receipt, possession or concealment of economic or financial crimes would be punishable. Section 26 provides for circumstances under which property subject to forfeiture may be seized. Under the NDLEA act, farms on which illicit crops are cultivated can be destroyed. The banking community is cooperating with law enforcement to trace funds and seize or freeze bank accounts. It should be noted, however, that forfeiture is currently possible only under the criminal law. There is no comparable law governing civil forfeiture, but a committee has been set up by the EFCC to draft such legislation.

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, and it has 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). Nigeria has also ratified the African Union Convention on Preventing and Combating Corruption, which was adopted in Mozambique in July 2003.

The Government of Nigeria has done a better job preventing and pursuing money laundering both within and outside the country in 2005. It should continue to engage with the FATF to ensure that Nigeria's remaining anti-money laundering deficiencies are corrected. The Nigerian Government should continue to pursue their anticorruption program and support both the ICPC and EFCC in their

mandates to investigate and prosecute corrupt government officials and individuals, while at the same time maintaining the independence of those entities from the realm of politics. The supervision of banking and non-banking financial institutions should be strengthened and moved from the Ministry of Commerce. 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 conforms to all relevant international standards.

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. Reportedly, a network of private unregulated charities has also emerged as a significant source of illicit funds for international terrorist networks.

Pakistan does not have a comprehensive anti-money laundering law. Its current anti-money laundering (AML) regime is weak, outdated and based on a loose patchwork of laws and regulations. The National Accountability Bureau (NAB), the Anti-Narcotics Force (ANF), the Federal Investigative Agency (FIA), and the Customs authorities oversee Pakistan's AML law enforcement efforts. These agencies have had some success in investigating and prosecuting corruption, drug trafficking, and terrorism. The major laws in these areas include: The Anti-Terrorism Act of 1997 which defines the crimes of terrorist finance and money laundering and establishes jurisdictions and punishments (amended in October 2004 to increase maximum punishments); The National Accountability Ordinance of 1999, which requires financial institutions to report suspicious transactions to the NAB and establishes accountability courts; and, The Control of Narcotic Substances Act of 1997, which also requires the reporting of suspicious transactions to the ANF, contains provisions for the freezing and seizing of assets associated with narcotics trafficking, and establishes special courts for offenses (including financing) involving illegal narcotics. All these laws include provisions to allow investigators to access financial records and conduct financial investigations.

Since 2002, Pakistan's Ministry of Finance has been coordinating an inter-ministerial effort to draft AML and counterterrorism financing legislation, with the goal of bringing Pakistan into compliance with international norms. As of December 2005, draft AML legislation was approved by the cabinet and has been transferred to the National Assembly. The draft law provides for the establishment of a Financial Intelligence Unit (FIU). However, the draft legislation does not comport with international standards in several key respects, including its definition of money laundering, which is not consistent with the 1988 UN Drug Convention or the UN Convention on Transnational Organized Crime or the FATF recommendations; the forfeiture scheme, particularly where its application is dependent upon a prosecution for the predicate offense; and, the imposition of a threshold requirement for the filing of suspicious transactions reports.

The State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) are the primary financial regulators. Notwithstanding the absence of stand-alone AML legislation, the SBP and SECP, have independently established AML units to enhance their oversight of the financial sector. The SBP has introduced regulations intended to be consistent with FATF recommendations 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. Pakistan's cooperation in the global war on terrorism 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 are for the repatriation of wages from the roughly five million Pakistani expatriates residing abroad. The U.S. Government has observed an increasing migration of transactions from the informal to the formal financial institutions sector, due to the GOP's increased regulation of the domestic hawala business, post-September 11 changes in the behavior patterns of overseas Pakistanis, and a substantial increase in credit available in the formal financial sector.

Smuggling, trade-based money laundering and physical cross-border cash transfers are prevalent methods used to launder money and finance terrorism in Pakistan. Pakistani criminal networks play a central role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets. Goods such as foodstuffs, electronics, vegetable oils, and other products that are primarily exported from Dubai to Karachi are falsely documented as being forwarded to Afghanistan via the "Afghan transit trade". Through smuggling, corruption, avoidance of customs duties and taxes, as well as 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.

While a range of terrorist financing risks and vulnerabilities continue to exist, Pakistan has taken significant steps to combat organizations used for terrorist financing and a number of groups have been proscribed as terrorist organizations under the Anti Terrorism Act of 1997. As of December 20, 2005, Pakistan's Central Bank had frozen roughly \$10.5 million belonging to 12 entities and individuals associated with Usama Bin Laden, Al Qaeda, or the Taliban, pursuant to UNSCR 1267.

Pakistan is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, either the UN Convention against Transnational Organized Crime or the UN Convention Against Corruption. As of December 2005, Pakistan had not signed the UN International Convention for the Suppression of the Financing of Terrorism. Pakistan is an active member of the Asia/Pacific Group on Money Laundering (APG). In 2005, the APG conducted a peer review (mutual evaluation) of Pakistan's AML/CTF laws, rules and procedures. The APG delegation identified a number of deficiencies and highlighted the need for a comprehensive AML law.

The Government of Pakistan should move quickly to enact an AML law that comports with international standards. It also should issue financial regulations to consolidate and de-conflict the reporting of all suspicious transactions, and establish an FIU consistent with international standards. 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 close those that finance terrorism. Pakistan also needs to exert greater efforts to track and suppress cash couriers and trade-based money laundering. Pakistan should become a party to the UN Convention against Transnational Organized Crime, the UN International Convention for the Suppression of Terrorist Financing, and the UN Convention Against Corruption.

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.

Money Laundering and Financial Crimes

In January 2005, Palau 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 suspicious transactions reporting (for suspicious transactions over \$10,000) 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. The insurance industry is not currently regulated by the FIC and insurance companies in Palau are primarily agents for companies registered in the U.S. or out of the U.S. Territory of Guam. Currently, there are seven fully licensed banks in Palau and one with a conditional license. Seven 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 under a Consent Order. The FIC, Senate and private banks recently met and agreed on revisions to the FIA that are intended to strengthen the supervisory powers of the FIC and promote greater financial stability within Palau's bank market. There has been no indication when these amendments will be heard by the full Senate.

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. The amendments to the MLPCA are have been pending since January 2004 and have no advanced past first reading in the Senate. 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 no dedicated budget. 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.

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. Palau has also entered into an MOU with the Taiwan, R.O.C. and the Philippines for mutual sharing of information and inter-agency cooperation in relation to financial crimes and money laundering.

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. To date the CCA has not advanced past first reading in the Senate.

The Omnibus Terrorism Act is currently pending in the OEK since September 2002. 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

Panama is a major drug-transit country, and particularly vulnerable to money laundering because of its proximity to major drug-producing countries, its sophisticated international banking sector, its U.S. dollar-based economy, and the Colon Free Zone (CFZs). Some goods originating in or transshipped through the CFZ are purchased with narcotics proceeds (mainly via dollars obtained in the United States) through the Colombian Black Market Peso Exchange. Despite significant progress to strengthen Panama's anti-money laundering regime, Panama must remain vigilant to the threat that money laundering continues to pose to the stability of the country's legitimate financial institutions. The economy of Panama is 80 percent service-based, 14 percent industry and 6 percent agriculture. The service sector is comprised mainly of maritime transportation, commerce, tourism, banking, and financial services.

After Hong Kong and the British Virgin Islands, Panama has the highest number of offshore-registered companies, approximately 350,000. Panama's large offshore financial sector includes international business companies, 34 offshore banks, captive insurance companies (corporate entities created and controlled by a parent company, professional association, or group of businesses), and fiduciary 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.

Law No. 41 (Article 389) of October 2, 2000, amends 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, international theft, and trafficking of motor vehicles. Law No. 41 establishes a punishment of 5 to 12 years imprisonment and a fine. Law No. 42 of October 2, 2000, requires financial institutions (banks, trust companies, money exchangers, credit unions, savings and loans associations, stock exchanges and brokerage firms, and investment administrators) to report to the Unidad de Análisis 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 Superintendence of Banks the real and ultimate beneficial owners of trusts.

In June 2003, the Panamanian Legislative Assembly approved the Financial Crimes Bill (Law No. 45 of June 4, 2003), 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 legislation criminalized a wide range of activities related to financial intermediation, including the following: illicit transfers of monies, accounting fraud, insider training, 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.

Also in June 2003, the Panamanian Legislative Assembly approved Law No. 48 that regulates money remitters. On May 25, 2005, the Panamanian Legislative Assembly approved Law No. 16 that regulates activities of pawnshops and establishes the obligation to report suspicious transactions in these businesses to the UAF.

Executive Order 213 of October 3, 2000, amending Executive Order 16 of 1984 relating to trust operations, provides for the dissemination of information related to trusts to appropriate administrative and judicial authorities. Furthermore, in October 2000, Panama's Superintendence of Banks issued Agreement No. 9 of 2000 that defines requirements that banks must follow for identification of customers, exercise of due diligence, and retention of transaction records and increased the number of

finance company inspections. In 2005, the Superintendence of Banks modified that Agreement, in order to include fiduciary companies within the prevention measures and to bring the Banking Center into line with international standards to be in compliance with Financial Action Task Force (FATF) recommendations.

The Ministry of Commerce and Industries, by means of the Resolutions No. 327 and 328 of August 9, 2004, sought to prevent operations of promotional companies, real estate agents, and money remittance houses being used to commit the crime of money laundering and the financing of terrorism. As a result, these companies are now compelled to identify their clients, declare cash transactions over \$10,000, and report suspicious transactions to the UAF.

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. In 2004, the Stock Commission announced that it would begin investigating suspicious activity. During 2005, the National Securities Commission carried out numerous training sessions and workshops for its personnel and regulated entities on money laundering. The CFZ 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.

With support from the Inter-American Development Bank (IDB), the Government of Panama (GOP) is implementing a "Program for the Improvement of the Transparency and Integrity of the Financial System." The Program is targeted, through enhanced communication and information flow, training programs, and technology, at strengthening the capabilities of government institutions responsible for preventing and combating financial crimes and terrorist financed activities. Overall, 1500 employees from 14 institutions have benefited from this training, including representatives of the private sector, stock markets, credit unions, bank compliance officials etc. In addition, with the help of this program, Panama has launched an educational campaign to prevent money laundering and terrorist financing. The program began in 2002 and is intended to raise citizens' awareness of these crimes. In 2004, this program included a training course for the Gaming Control Board and a Hemispheric Congress on Prevention of Money Laundering.

In 2005, a pilot program was developed for money laundering prevention training that was financed by the IDB and executed by the Caribbean Financial Action Task Force (CFATF). Over 5,000 public and private sector employees were trained through this program. Participants included representatives from banks, credit unions, real estate agencies, stockbrokers, insurance companies, CFZ trading companies, financial institutions, and money order companies. The U.S. Government also provided anti-money laundering training in 2005, through the Departments of Justice and Homeland Security.

By means of Law No. 22 of 9 of May of 2002, the GOP adopted the UN International Convention for the Suppression of the Financing of Terrorism. 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 in meeting the reporting requirements under Law No. 42.

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. Panamanian Customs continued a program at Tocumen International Airport 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.

Money Laundering and Financial Crimes

Executive Order No. 163 of October 3, 2000, which amends 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. The UAF routinely transfers cases to the financial investigations unit (Unidad de Investigaciones 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. Since money laundering was criminalized in 2000, there have been, to May 2005, ten investigations of money laundering and one conviction. Seven of those cases were tried to a conclusion, one case remains active, and two cases were dismissed. The average prosecution time for money laundering cases is 18.9 months.

GOP cooperation in the investigation of the Western Hemisphere's largest Black Market Peso Exchange money laundering scheme was instrumental in the U.S. conviction in 2002 of Yardena Hebroni, owner of Speed Joyeros, a CFZ enterprise. The GOP also revoked the Panamanian residency of Hebroni, an Israeli national, after she was ordered deported from the United States. In an investigation that was initiated in 2004, the GOP received cooperation from the Government of Nicaragua in a money laundering case against former Nicaraguan President Arnoldo Aleman. In 2005, the Panamanian Judicial System formally indicted Aleman for money laundering and he awaits a preliminary hearing to determine whether the case should go to trial. Also during 2004-2005, there were investigations into possible money laundering and corruption by high-level Costa Rican and Peruvian government officials.

During November 2005, Panamanian authorities initiated their takedown of Operation Nino, which resulted in the arrest of 12 defendants and the seizure of over \$1 million as well as a cache of small arms. This case was initiated in late 2004, when Mexican and Colombian-based narcotics traffickers solicited a Panamanian customs inspector to facilitate the smuggling of bulk currency into Panama. The case was significant because over \$13 million was smuggled into Panama in an eight-month period. The investigation involved multiple agencies, used Panamanian undercover authority, and targeted bulk currency.

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 devoting \$2.3 million to anti-money laundering projects, the largest being institutional development of the UAF. The UAF currently maintains inter-institutional cooperation agreements with the Attorney General's Office and the Superintendence of Banks, and have signed a cooperation agreement with the Public Registry of Panama.

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. The 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.

The GOP also 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 FATF Forty Recommendations on Money Laundering and its nine 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 Financial Crimes Enforcement Network (FinCEN), the U.S. FIU.

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.

In May 2005, the International Monetary Fund (IMF) conducted an assessment of Panama's Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) regime.

The Government of Panama should continue its regional assistance efforts. It should also continue implementing the 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 crimes, including money laundering and potential terrorist financing.

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 (the Triborder Area) 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 it is difficult to determine the percentage of the total amount of laundered funds 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 2005, it will need to pursue more aggressive policies in 2006 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.

A new law to improve the effectiveness of Paraguay's anti-money laundering regime was drafted in late 2003 and was formally introduced to Congress in May 2004. The new money laundering legislation, if approved, will institute important reforms. In addition to confirming the UAF's role as the sole FIU, it establishes SEPRELAD as 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.

Other provisions of the draft law include penalties for failure to file or falsification of 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 financial crimes investigative unit of SENAD is the principal authority for carrying out all counternarcotics and other financial investigations, including money laundering, 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 positions available for prosecutors dedicated to financial crimes, of which only six are filled, Paraguay currently has limited resources to investigate and prosecute money laundering and financial crimes. New criteria were issued in 2005 for the selection of judges, prosecutors and public defenders; however, the process remains one that is largely based on politics, nepotism and influence peddling, affording the ruling party an opportunity to manipulate the justice system to its advantage.

Moreover, 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 typically prosecuted on tax evasion charges. For example, 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 began investigating several tax evasion cases involving suspected money laundering by both authorized and unauthorized money exchange offices in Ciudad del Este. A preliminary hearing is scheduled in December 2005 for Kassem Hijazi, who is suspected of having laundered proceeds from illicit activities in the Triborder Area and sending a portion of those funds to support Lebanese Hizbollah activities.

In 2005, in cooperation with the U.S. Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE), Paraguay began the process of developing a prototype Trade Transparency Unit (TTU) that will examine discrepancies in trade data that could be indicative of customs fraud or trade-based money laundering. The development of such a unit constitutes a positive step with respect to Special Recommendation VI of the Financial Action Task Force (FATF) on the use of alternative remittance systems. Trade-based systems such as hawala and black market exchanges often use fraudulent trade documents and over and under-invoicing schemes to provide countervaluation in transferring value and settling accounts.

In 2003, the GOP noted that it was trying to introduce "maquilas" (assembly line industries). In 2005, the maquilas sector experienced rapid growth with 23 maquilas currently in operation. The largest maquila, a synthetic rubber factory, is Brazilian-owned and located just outside of Ciudad del Este. The company has invested \$18 million in the project, one of the largest foreign investments in the Paraguayan economy. 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. The new customs code implemented in early 2004 provides for the creation of formal free trade zones. One zone currently exists in Ciudad del Este and another is planned for the town of Villeta, near Asuncion. Paraguay's customs agency is responsible for monitoring these zones; however, there is little oversight. As a result, 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, is 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 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. Under Paraguay’s Commercial Law 1023 and Law 1015, banks are required to maintain account records for five years, but there is little government enforcement of this regulation. However, 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). In recent years, the GOP has made significant efforts to strengthen SEPRELAD, which for years had suffered from a burdensome bureaucratic structure, lack of financial support, and the inability to keep trained personnel. As a result, cooperation between SEPRELAD and other government agencies on anti-money laundering issues has improved significantly over the last two years. Initially reluctant to seek SEPRELAD’s assistance due to past weaknesses, most government entities are increasingly prepared to work with SEPRELAD. Reporting from obligated entities has also increased, with the UAF receiving over 1,000 suspicious activity reports in 2005. 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 Financial Crimes Investigation Unit of the National Anti-Drug Secretariat (SENAD), the Assistant Attorney General for Economic Crimes, the Superintendent of Banks, the Vice Minister for Tax Administration of the Ministry of Finance, the director of Customs, and a criminal appellate judge. SEPRELAD has signed several agreements with other government entities to strengthen interagency cooperation, including memoranda of understanding with the Public Ministry and the Superintendence of Banks.

The UAF and the Superintendence of Banks have also improved cooperation between their two entities, which had been strained by the creation of a second FIU in the Superintendence in 2001. In 2003, the “Risk Control Division” was created to replace the Superintendent of Banks’ FIU and eliminate its duplicative function with the UAF. The Risk Control Division has the primary responsibility of reviewing the records of national financial institutions for suspected terrorist activity and is empowered to coordinate information exchange with the Central Banks of other MERCOSUR countries. According to SEPRELAD officials, cooperation between the UAF and the Risk Control Division improved significantly in 2005. The two groups signed a memorandum of understanding (MOU) in October 2005, laying out the provisions for increased cooperation. The MOU includes provisions for SEPRELAD to issue regulations for the banking industry, including the designations of a compliance officer and utilizing due diligence and “know your customer” policies. The UAF has since issued these regulations in Resolution 233 of October 11, 2005.

The UAF is seeking to strengthen its relationship with other financial intelligence units and has signed agreements for information exchange with regional financial intelligence units. In March 2005, the UAF and the U.S. financial intelligence unit, the Financial Crimes Enforcement Network (FinCEN), signed an MOU to resume information exchange following a four-year suspension. The sharing of financial information between the two units had been suspended by FinCEN in May 2001 following an unauthorized disclosure of FinCEN information by the GOP. Information exchange was resumed following an evaluation of the progress made by the UAF and the strengthening of internal procedures for disseminating financial information. 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 participates in the GAFISUD FIU Working Group and a committee within the Egmont Group, further expanding Paraguay's role in these organizations. GAFISUD conducted its second mutual evaluation of Paraguay in September 2005. The results of this evaluation, which have not yet been made public, were presented at the GAFISUD plenary meetings in December.

Under current laws, the GOP has limited authority to freeze, seize, or forfeit assets of suspected money launderers. In most cases, assets that the GOP is permitted to freeze, seize, 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. 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, or forfeit assets related to the financing of terrorism. 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 the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee consolidated list. Through 2005, 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 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 Inter-American Convention on Terrorism in January 2005. In June 2005, Paraguay ratified the UN Convention against Corruption. Paraguay is also a party to the UN Convention against Transnational Organized Crime, which it ratified in September 2004, as well as the 1988 UN Drug Convention. The GOP participates in Summit of the Americas and Inter-American Drug Abuse Control Commission (CICAD)-related meetings on money laundering, and is a member of the South American Financial Action Task Force (GAFISUD), the Egmont Group, and the "3 Plus 1" Security Group between the United States and the Triborder Area countries.

While the Government of Paraguay took a number of positive steps in 2005, there are other initiatives that should be pursued 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 intended to meet international standards. Uneven political support for the new money laundering law has hindered its passage in Congress. Paraguay also needs to continue its efforts to combat corruption and increase information sharing among concerned agencies when and if the corruption issues are resolved. Paraguay does not have a counterterrorism law or a law criminalizing terrorist financing; while the new money laundering law would increase the GOP'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. Further reforms in the selection of judges, prosecutors and public defenders are needed. 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 (UAF) 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 reliable and adequate mechanisms are 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 is believed to occur on a significant scale in order to integrate these illegal proceeds into the Peruvian economy.

Money laundering has historically been facilitated by a number of factors, primarily Peru's cash-based economy. 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.

Corruption remains an issue of serious concern in Peru. It is estimated that 15 percent of the public budget is lost due to corruption. 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, anti-money laundering legislation was very limited prior to 2002. Therefore, obtaining money laundering convictions for crimes committed prior to 2002 will be challenging.

In 2005, the GOP obtained its first two convictions against money laundering. One case was related to public corruption, the other involved the laundering of drug proceeds. There are three cases currently being prosecuted in the Peruvian court system.

Beginning in June 2002, Peru has adopted substantial changes to its existing anti-money laundering regime, significantly broadening the definition of money laundering beyond a crime associated with narcotics trafficking. Prior to the changes, money laundering was only a crime when directly linked to narcotics trafficking and "narcoterrorism." It also included nine predicate offenses that did not include corruption, bribery or fraud. Under Law 27.765 of 2002, predicate offenses for money laundering were expanded to include the laundering of assets related to all serious crimes, such as narcotics trafficking, terrorism, corruption, trafficking of persons, and kidnapping. However, there remains confusion on the part of some GOP officials and attorneys as to whether money laundering must still be linked to the earlier list of predicate offenses. The law's brevity and lack of implementing regulations are also likely to limit its effectiveness in obtaining convictions. However, reportedly, money laundering is an

autonomous offense. There does not have to be a conviction relating to the predicate offense. Rather it must only be established that the predicate offense occurred and that the proceeds of crime from that offense were laundered.

The penalties for money laundering were also revised in 2002. 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 of 2002 provided for the creation of Peru’s financial intelligence unit, the Unidad de Inteligencia Financiera (UIF). Reportedly, recent changes have the UIF under the Ministry of Justice. The UIF began operations in June 2003 and today has 52 personnel. As Peru’s financial intelligence unit, the UIF is the government entity responsible for receiving, analyzing and disseminating suspicious transaction reports (STRs) filed by obligated entities. Law 27.693 and Law 28.306 of 2004 expanded the entities obligated to report suspicious transactions beyond just banks and financial institutions. In addition to financial institutions, insurance companies, stock funds and brokers, the stock and commodities exchanges, credit and debit card companies, money 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, notary publics, and dealers in precious stones and metals are all required to report suspicious transactions to the UIF within 30 days. The UIF cannot receive STRs electronically; covered entities must hand-deliver STRs to the UIF.

In addition to the predicate offenses in Law 27.693, Law 28.306 of 2004 mandates that obligated entities also 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.

Obligated entities are also required to maintain reports on large cash transactions. Individual cash transactions exceeding \$10,000 or transactions totaling \$50,000 in one month must be maintained in internal databases for a minimum of five years and made available to the UIF upon request. Non financial institutions, such as exchange houses, casinos, lotteries or others, must report individual transactions over \$2,500 or monthly transactions over \$10,000. 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.

Reporting requirements for suspicious transactions entered into effect in September 2003, and as of November 2005, the UIF had received 869 STRs. Of those, the UIF asked the submitting entity for additional information on approximately 70 percent of the reports. Under Law 28.306, the UIF is able to sanction persons and entities for failure to report suspicious transactions, large cash transactions, or the transportation of currency or monetary instruments. The UIF also has regulatory responsibilities for all obligated entities that do not fall under the supervision of another regulatory body (such as the Superintendence of Banks).

The UIF currently does not receive cash transactions reports (CTRs) 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. 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. There are two bills under consideration in Congress that would make bank secrecy provisions less stringent and strengthen disclosure requirements.

To assist with its analytical functions, the UIF may request information from such government entities as 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, among others. However, the UIF can only share information with other agencies—including foreign entities—if there is a joint investigation underway. 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.

As of November 2005, the UIF had sent 36 suspected cases of money laundering to the Public Ministry for investigation. Of those cases, six investigations have been completed and are being presented to the judiciary for prosecution. The UIF has also assisted the Public Ministry with two cases that resulted in money laundering convictions. Although the cases did not originate with the UIF, the UIF's assistance in analyzing financial information was fundamental in gaining the two convictions for money laundering.

Within the counternarcotics section of the Public Ministry, two specialized prosecutors are responsible for dealing with money laundering cases. 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 Counter-Narcotics (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 less than 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. A bill to amend the asset forfeiture regime is being considered by Congress.

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 and a final judicial decision is then needed to dispose of or use such assets. 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.

Foreign Ministry Officials are working with other GOP agencies to complete the necessary legal revisions that will permit asset-freezing actions. The Office of the Superintendent of Banks routinely circulates to all financial institutions in Peru updated lists of individuals and entities that have been included on the UNSCR 1267 Sanctions Committee's consolidated list as being linked to Usama Bin Ladin, the Taliban, and al-Qaida, as well as those on the list of Specially Designated Global Terrorist Entities designated by the United States pursuant to E.O. 13224 on terrorist financing. To date, no assets connected to designated individuals or entities have been identified, frozen, or seized.

Peru ratified the UN International Convention for the Suppression of the Financing of Terrorism on November 10, 2001, and the Organization of American States Inter-American Convention on Terrorism in 2003. Peru is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The GOP participates in the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Money Laundering Experts Working Group. Peru is also a member of the South American Financial Action Task Force (GAFISUD), and in 2005 held the GAFISUD presidency. Peru also underwent a mutual evaluation by GAFISUD in 2005, the results of which were reported to the GAFISUD plenary in July. In June 2005, the UIF became a member of the Egmont Group of financial intelligence units. An extradition treaty between the U.S. Government and the GOP entered into force in 2003.

The Government of Peru has made significant advances in strengthening its anti-money laundering regime in recent years. However, some progress is still required. 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 UIF is not able to work directly with law enforcement agencies; rather, the Public Ministry must coordinate any collaboration between the UIF and the other agency. Anticorruption efforts in Peru should be a priority, and 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. Reportedly, insurgency groups operating in the Philippines fund their activities, in part, through the trafficking of narcotics and arms, as well as engaging in money laundering through alleged ties to organized crime. The proceeds of corrupt activities by government officials are also a source of laundered funds. Most of the narcotics trafficking transiting through the Philippines is exchanged using letters of credit. There is little cash and negligible amounts of U.S. dollars used in the

transactions, except for the small amounts of narcotics that make it all the way to the United States for street sale. Drugs circulated within the Philippines are usually exchanged for local currency.

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.

The Government of the Republic of the Philippines (GORP) initially established an anti-money laundering regime by passing the Anti-Money Laundering Act of 2001 (AMLA). The GORP 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 (approximately \$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 (SEC).

However, the FATF deemed the original legislation inadequate and pressured the Philippines to amend the legislation to be more in line with international standards. The GORP 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 in March 2003. The amendments to the AMLA lowered the threshold amount for covered transactions (cash or other equivalent monetary instrument) from 4,000,000 pesos to 500,000 pesos (\$80,000 to \$10,000) within one banking day; expanded financial institution reporting requirements to include the reporting of suspicious transactions, regardless of amount; authorized 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); ensured institutional compliance with the Anti-Money Laundering Act; and deleted the prohibitions against the Anti-Money Laundering Council's examining particular deposits or investments opened or created before the Act.

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 recommend the application of countermeasures. The FATF removed the Philippines from its Non-Cooperating Countries and Territories (NCCT) List in February 2005.

The AMLA 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 completed the first phase of its information technology upgrades in 2004. This was a significant milestone that allowed AMLC to electronically receive, store, and search CTRs filed by regulated institutions. Through 2005, the AMLC had received more than 1,760 suspicious transaction reports (STRs) involving 8,144 suspicious transactions, and had received over 44 million covered transaction reports (CTRs). AMLC is currently in the process of acquiring software to implement link analysis and visualization to enhance its ability to produce information in graphic form from the CTRs and STRs filed electronically by regulated institutions.

AMLC's role goes well beyond traditional FIU responsibilities and includes the investigation and prosecution of money laundering cases. 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 Philippines has no comprehensive legislation pertaining to civil and criminal forfeiture. Various government authorities, including the Bureau of Customs and the Philippine National Police, have the ability to temporarily seize property obtained in connection with criminal activity. Money and property must be included in the indictment, however, to permit forfeiture. Because ownership is difficult to determine in these cases, assets are rarely included in the indictment and are rarely forfeited. The AMLA gives the AMLC the authority to seize assets involved in money laundering operations that may end up as forfeited property after conviction, even if it is a legitimate business. In December 2005, the Supreme Court issued a new criminal procedure rule covering civil forfeiture, asset preservation, and freeze orders. The new rule provides a way to preserve assets prior to any forfeiture action and lists the procedures to follow during the action. The rule also contains clear direction to the AMLC and the court of appeals on the issuance of freeze orders for assets under investigation that had been confused by changes in the amendment to the AMLA in 2003. There are currently 88 prosecutions underway in the Philippine court system that involved AMLC investigations or prosecutions, including 34 for money laundering, 24 for civil forfeiture, and the rest pertaining to freeze orders and bank inquiries. Although some of these cases may conclude shortly, to date the Philippines has not had a money laundering conviction.

The GORP is quick to respond when new terrorist entities are added to the list of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. Upon notification that the UN 1267 Sanctions Committee has approved an additional name to the consolidated list, the AMLC takes immediate steps to inform the local banks and issue orders to freeze the assets in the banking system. Under the AMLA and the bank secrecy act, officers, employees, representatives, agents, consultants, and associates of financial institutions are exempt from civil or criminal prosecution for reporting covered transactions. These institutions must maintain and store records of transactions for a period of five years, extending beyond the date of account or bank closure. The AMLC has frozen funds at the request of the UN Security Council, the United States and other foreign governments. Through November 2005, the AMLC has frozen funds in excess of 500 million Philippine pesos (\$ approximately \$9,700,000).

Questions remain regarding the covered institutions fully complying with the Philippine anti-money laundering regime. For example, the BSP does not have a mechanism in place to ensure that the financial community is adhering to the reporting requirements. Banks in more distant parts of the country, especially Mindanao where terrorist groups operate more freely, may feel threatened and inhibited from providing information about financial transactions requested by AMLC. While bank secrecy provisions to the BSP's supervisory functions were lifted in Section 11 of the AMLA, implementation still appears to be incomplete. Due to the Philippines' "privacy issues," examiners of the BSP are not allowed to review documents held by covered institutions in order to determine if the covered institutions are complying with the reporting requirement. BSP examiners are only allowed to ask AMLC, as a result of their examination, if a STR has been filed. If AMLC determines one was not

filed, then the AMLC has the responsibility to make inquiries of the covered institution. This process is slow and cumbersome; AMLC is working with the BSP to find ways of streamlining the process.

An important development in 2005 was the AMLC's effectiveness in including foreign exchange offices as covered institutions subject to the money laundering provisions. The Monetary Board issued a decision in February 2005 defining the 15,000 exchange houses as financial institutions and instituting a new licensing system to bring them under the provisions of the AMLA. Under this decision, all exchange dealers were to have received training from the AMLC by July 2005 to obtain licenses and ensure compliance with the Act. With so many dealers and with continued misunderstanding of the new regulations, only 2,500 exchange dealers were trained and registered by the end of July. Training teams from the AMLC have held over 1,000 classes for dealers and bankers throughout the country to implement this decision. By the end of November, an estimated half of the foreign exchange offices still in operation have received the mandatory training and have been registered. This requirement reduced the number of foreign exchange dealers dramatically; as less reputable offices chose to close down rather than seek licensing.

There are still several sectors operating outside of AMLC control, under the revised AMLA. Although the revised AMLA specifically covers exchange houses, insurance companies, and casinos, it does not cover stockbrokers or accountants. Although covered transactions for which AMLC solicits reports include asset transfers, the law does not require direct oversight of car dealers and sales of construction equipment, which are emerging as creative ways to launder money and avoid the reporting requirement. The AMLC has the authority to request the chain of casinos operated by the state-owned Philippine Amusement and Gaming Corporation (PAGCOR) to submit covered and suspicious transaction reports, but it has not yet done so.

There is increasing recognition that the nearly 20 casinos nationwide offer abundant opportunity for money laundering, especially with many of these casinos catering to international clientele arriving on charter flights from around Asia. Several of these gambling facilities are located near small provincial international airports that may have less rigid enforcement procedures and standards for cash smuggling. PAGCOR is the sole franchisee in the country for all games of chance, including lotteries conducted through cell phones. At present, there are no offshore casinos or Internet gaming sites.

The Philippines has over 5,000 non-governmental organizations (NGOs) that do not fall under the requirements of the AMLA. Charitable and non-profit entities are not required to make covered or suspicious transaction reports. The SEC provides limited regulatory control over the registration and operation of NGOs. These entities are rarely held accountable for failure to provide year-end reports of their activities, and there is no consistent accounting and verification of their financial records. Because of their ability to circumvent the usual documentation and reporting requirements imposed on banks for financial transfers, NGOs could be used as conduits for terrorist financing without detection. The AMLC is aware of the problem and is working to bring charitable and not-for-profit entities under the interpretation of the amended implementing regulations for covered institutions.

There are nine offshore banking units (OBUs) established since 1976. At present, OBUs account for less than two percent of total banking system assets in the country. The Bangko Sentral ng Pilipinas (BSP) regulates onshore banking, exercises regulatory supervision over OBUs, and requires them to meet reporting provisions and other banking rules and regulations. In addition to registering with the SEC, financial institutions must obtain a secondary license from the BSP subject to relatively stringent standards that would make it difficult to establish shell companies in financial services of this nature. For example, a financial institution operating an OBU must be physically present in the Philippines. Anonymous directors and trustees are not allowed. The SEC does not permit the issuance of bearer shares for banks and other companies.

Despite the efforts of the GORP authorities to publicize regulations and enforce penalties, cash smuggling remains a major concern for the Philippines. Although there is no limit on the amount of

foreign currency an individual or entity can bring into or take out of the country, any amount in excess of \$10,000 equivalent must be declared upon arrival or departure. Based on the amount of foreign currency exchanged and expended, there is systematic abuse of the currency declaration requirements and a large amount of unreported cash entering the Philippines.

The problem of cash smuggling is exacerbated by the large volume of foreign currency remitted to the Philippines by Overseas Filipino Workers (OFWs). The amount of remitted funds grew by 25 percent during the first ten months of 2005, and should exceed \$10 billion for the year, equal to 11 percent of GDP. The BSP estimates that an additional \$2-3 billion is remitted outside the formal banking system. Most of these funds are brought in person by OFWs or by designated individuals on their return home and not through any alternative remittance system. Since most of these funds enter the country in smaller quantities than \$10,000, there is no declaration requirement and the amounts are difficult to calculate. The GORP encourages local banks to set up offices in remitting countries and facilitate fund remittances, especially in the United States, to help reduce the expense of remitting funds.

The Philippines is a member of the Asia/Pacific Group on Money Laundering and became the 101st member of the Egmont Group of FIUs in July 2005. The GORP is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime (2002) and to all 12 international conventions and protocols related to terrorism, including 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 suspected terrorists and terrorist organizations listed on the UN 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 other foreign governments.

For several years, the GORP has realized the need to enact and implement an antiterrorism law that among other things would define and criminalize terrorism and terrorist financing, and give military and law enforcement entities greater tools to detect and interdict terrorist activity. President Arroyo declared in her State of the Nation address in June 2005 that the passage of such a law was one of her priorities for the remainder of the year. The Philippines legislature took steps to achieve that result in fall 2005 in consolidating bills and bringing them to the floor for full consideration. The Senate tabled its version of an antiterrorism bill (SB 2137) in October and the house calendared its own Bill (HV 4839) in November. The Senate and house held hearings in late 2005; the bill passed its second reading in the house in December with the third and final reading expected in mid-January 2006.

Reportedly, the GORP remains optimistic that both houses will pass a comprehensive law addressing terrorism in 2006. 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 significant progress enhancing and implementing its amended anti-money laundering regime. To fully comport with international standards and become a more effective partner in the global effort to staunch money laundering and thwart terrorism and its financing, it should enact and implement new legislation that criminalizes terrorism and terrorist financing. Additionally, the Central Bank should be empowered to levy administrative penalties against covered entities in the financial community that do not comply with reporting requirements. Stockbrokers and accountants should be required to report CTRS and STRs and AMLC should use its authority to require all casinos to file CTRs and STRs. The GORP should

enact comprehensive legislation regarding freezing and forfeiture of assets that would empower AMLC to issue administrative freezing orders to avoid funds being withdrawn before a court order is issued. The creation of an asset forfeiture fund would enable law enforcement agencies to draw on the fund to augment their budgets for investigative purposes. Such a fund would benefit the AMLC and enable it to purchase needed equipment. Finally, AMLC should consider clearly separating its analytical and investigative responsibilities and establish a separate investigative division that would focus its attention on dismantling money laundering and terrorist financing operations.

Poland

Poland's geographic location places it directly along one of the main routes between the former Soviet Union republics and Western Europe that is 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 that the unregistered or gray economy, used primarily for tax evasion, may be as high as 15 percent of Poland's \$280 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, 55 commercial banks were licensed for operation in Poland, as were slightly less than 590 "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, by 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 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.

Poland has adopted a National Security Strategy that treats 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. The law 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 attorney-client 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 614 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. In 2004, the GIIF received 1,397 STRs, which resulted in the development of 148 cases by the Prosecutor's Office. Between January and October 2005, the GIIF received 1,425 STRs, resulting in the creation of 169 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 October 2005, the GIIF received 26.1 million reports on transactions exceeding the threshold level. The GIIF receives approximately 1.8 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 that lack the equipment 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 2005, the GIIF carried out 195 compliance investigations as compared to 15 in 2004, 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. In March 2005, an updated version of the course was installed on the Ministry of Finance Website.

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. With regard to information exchange with its foreign counterparts, the GIIF remains active. In 2004, it sent official requests to foreign financial intelligence units on 102 cases concerning 224 national and foreign entities suspected of money laundering, while foreign FIUs sent 51 requests to the GIIF, concerning 163 national and foreign entities suspected of attempting to legalize proceeds from crime.

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 nine accounts worth 5.2 million euros. During the first 11 months of 2004, the GIIF suspended five 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 the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, the names of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224, and the names designated by the EU under its relevant authorities. 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.

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). It has undergone first and second round mutual evaluations by that group and is scheduled for a third in 2006. The GIIF is an active participant in the Egmont Group and in FIU.NET, the EU-sponsored information exchange network for FIUs. All information exchanged between the GIIF and its counterparts in other EU states takes place via FIU.NET.

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 27 MOUs between 2002 and 2004. The GIIF-FinCEN MOU was signed in fall 2003. An additional six memoranda on exchange of financial information with Guernsey, Chile, Croatia, Indonesia, Macedonia, and Switzerland were signed in 2005. 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.

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 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 part, a Polish initiative.

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, which would help law enforcement attain a better record of prosecutions and convictions. Poland should also act on the draft amendments to the criminal code and specifically criminalize terrorist financing.

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. The GOP also reports 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 the laundering of proceeds of serious offenses, including terrorism, arms trafficking, kidnapping, and corruption. Financial and non-financial institutions have a mandatory requirement of reporting all suspicious transactions to the Public Prosecutor regardless of threshold amount.

Money laundering is specifically defined in Penal Code Article 368-A. Act 11/2004 of 27 March, which implements the European Union's Second Money Laundering Directive, defines the legal framework for the prevention and repression of money laundering. Act 11/2004 mandates suspicious transaction reporting by credit institutions, investment companies, life insurance companies, traders in high-value goods (e.g., precious stones, aircraft), and numerous other entities. "Tipping off" is prohibited and liability protection is provided for regulated entities making disclosures in good faith. If a regulated entity has knowledge of a transaction likely to be related to a money laundering offense, it must inform the Portuguese Government. The GOP may order the entity 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 government also may allow the entity to proceed with the transaction but require the entity to provide it with complete details. 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-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 activities to the Office of the Public Prosecutor. 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.

Decree-Law 295/2003 of November 21, 2003, sets out reporting requirements for the transportation across borders of cash, non-manufactured gold, and certain negotiable financial instruments, e.g., travelers' checks. When a person travels across the Portuguese border with more than 12,500 euros (U.S. \$14,730) worth of such assets, a declaration must be made to Portuguese customs officials. A new EU regulation on cross-border currency reporting (EC 1889/2005), issued in November 2005, also must be implemented in Portugal.

The November 2003 law also revised and tightened 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.

New rules that took effect in 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.

With regard to non-banking financial institutions, namely financial intermediaries, the Portuguese Securities Market Commission set forth Regulation 7/2005 (amending Regulation 12/2000 on Financial Intermediation) requiring financial intermediaries to submit detailed annual Control and Supervision Reports to the Commission by 30 June the following year. The regulation is due to enter into force on January 1, 2006.

The three principle regulatory agencies for supervision of the financial sector in Portugal are the Central Bank of Portugal, the Portuguese Insurance Institute, and the Portuguese Securities Market Commission. The Gambling Inspectorate General, the Economic Activities Inspectorate General, 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 also monitor and enforce the reporting requirements of the obliged entities.

Portugal's financial intelligence unit (FIU), known as the Financial Information Unit, or Unidade de Informação Financeira (UIF), was established through Decree-Law 304/2002 of December 13, 2002, and is operates independently as a department of the Portuguese Judicial Police (Policia Judiciária). At the national level, UIF is responsible for gathering, centralizing, processing, and publishing information pertaining to investigations of money laundering and tax crimes. It also facilitates cooperation and coordination with other judicial and supervising authorities. At the international level, UIF coordinates with other FIUs. UIF has policing duties but no regulatory authority.

From January to September 2005, UIF received well over 40,000 reports of suspicious transactions. Portugal's General Directorate for Games was the source of 89 percent of the total number of reports, as it reports all transactions at casinos above a certain threshold. Banks submitted 237 suspicious transaction reports, and Portugal's Central Bank submitted an additional 98 reports. In this same time period, UIF sent 131 cases for further investigation to the Judicial Police and other police departments. Most of the case information originated from financial institutions and the Central Bank. Four cases resulted in proposals to suspend banking operations involving a total of approximately 3.25 million euros (U.S. \$3.8 million).

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 5/2002 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 terrorist acts and organizations 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.

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.

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 also 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; steps taken in 2003 extended the regime's reach to terrorist financing; and legislative measures adopted in 2004 have consolidated the anti-money laundering legal framework, imposing on financial and non-financial institutions obligations to prevent and repress the use of the financial system for the purpose of money laundering.

Qatar

Qatar has a relatively small population (approximately 850,000 residents), with a 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 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, the Government of Qatar passed the Combating Terrorism Law. According to Article Four of the law, any individual or entity that provides financial or logistical support, or raises money for activities considered terrorist crimes, is subject to punishment. 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 nature of the crime.

The Qatari Financial Intelligence Unit (FIU) was established in October 2004. 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. 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. Qatar's FIU became a full member of the Egmont Group in June 2005.

In addition to reporting suspicious transactions, all financial institutions (including businesses conducting hawala transactions) must report transactions of 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 (approximately \$13,330) 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.

Only Qatari citizens, legal foreign residents, and citizens of other Gulf Cooperation Council (GCC) states are permitted to open bank accounts. All accounts must be opened in person. 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 and counterterrorist financing, by explaining money laundering and terrorist finance schemes and monitoring suspicious activities.

In addition to Circular Number 9, Qatar has taken other steps to combat the financing of terrorism, including requiring banks to freeze the assets of suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee's consolidated list. In 2002, the GOQ established a national committee to review the UN 1267 Sanctions Committee's consolidated list and 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.

The QCB, Public Prosecutor, and the Criminal Investigation Division (CID) of the Ministry of Interior are the principal entities that have 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 transaction 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.

On January 12, 2005, the Government of Qatar announced plans for the establishment of the Qatar Financial Centre (QFC), an international financial center to lure major international financial institutions and corporations to set up their offices in the country. The center began operating on May 1, 2005. The QFC is a totally independent body, managed by the QFC authority. The authority oversees business conduct and grants licenses to operate in the center. All companies setting up their offices at QFC are entitled to a three-year tax exemption, full repatriation of profits and 100 percent foreign ownership. At the end of three years they will be subject to a relatively low tax rate on profits.

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 details the monitoring and supervision of Qatar's charities. The Secretary General of the Authority approves all international fund transfers by the charities. The Authority has 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 prepares an annual report on the status of all projects and submits 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 with 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.

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.

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 a member 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 that was established in November 2004.

Qatar has demonstrated a willingness to fight financial crimes, including terrorist financing, and to work cooperatively with other countries in doing so. Implementation and enforcement of the new law and regulations are essential to the success of Qatar's efforts. Qatar should continue to work to ensure that law enforcement, prosecutors, and customs authorities receive the necessary training to improve their capabilities in recognizing and pursuing various forms of terrorist financing, money laundering and other financial crimes. Qatar should institute cross-border cash reporting requirements. 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 the country. 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 the Caribbean.

Romania first 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 required 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 established a financial intelligence unit (FIU), known as the National Office for the Prevention and Control of Money Laundering (NOPCML), and mandated 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 subjected to money laundering controls included 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 (Law 656/2002) 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 (CTRs) 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. In 2005, the Insurance Supervision Commission has instituted similar regulations for 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.

During the first ten months of 2005, the number of files sent to the General Prosecutor's Office on suspicion of money laundering reached 411, compared to 501 in 2004. The number of files sent to the

National Anti-Corruption Department on suspicion of money laundering connected with corruption reached 41 notifications in the first ten months of 2005, compared to 22 in 2004. The approximate amount associated with the above cases was \$349.1 million during the first ten months of 2005, compared to \$594.9 million in 2004. The number of files sent to the General Prosecutor's Office for suspicion of money laundering connected to terrorism financing was three in the first ten months of 2005, involving approximately \$3.3 million, compared to one case involving \$3.1 million in 2004. According to NOPCML estimates, the annual amounts of money laundered reached \$651.7 million in 2003, \$604.5 million in 2004, and \$349.1 million in the first ten months of 2005.

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. The NOPCML has begun a process of international cooperation to exchange information with other FIUs. The NOPCML has also worked closely with Italy to improve its efficiency and effectiveness through an EU Project, which was completed in July 2005.

The total number of suspicious transactions reported to the NOPCML rose from 2,053 in 2004 to 2,826 in the first ten months of 2005. Of this figure, reporting by banks and other credit institutions rose from 1,417 in 2004 to 1,993 in the first ten months of 2005. Reporting entities have requested improved feedback from the NOPCML.

Efforts to prosecute these cases have been hampered by delays in reporting suspicious transactions (though somewhat improved in 2005) and by a lack of resources in some regions. 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 inadequate. In 2004, only one individual received a final conviction for money laundering under Law 656/2002, bringing the total to five between January 2002 and October 2005. At the end of the first nine months of 2005, the General Prosecutor's Office closed 133 criminal files related to money laundering, resulting in six indictments and 127 non-indictments since January 2005. There are 1,114 money laundering files pending. The National Anti-Corruption Department has opened 59 cases since 2004, of which four have resulted in an indictment and 34 in non indictments. Eleven cases are still pending.

Romania's 2002 anti-money laundering law was amended in July 2005 as Law 230/2005. The new law provides for a uniform approach to combating and preventing money laundering and terrorist financing. The purpose of the law is to meet the requirements of EU Directive 2001/97/EC and EU Directive 91/308/EEC on Preventing Use of the Financial System for Money Laundering, as well as the requirements of the European Council's Framework Decision of June 2001 on Identification, Search, Seizure, and Confiscation of the Means and Goods Obtained from Such Offenses. The law also responds to the Recommendations of the Financial Action Task Force (FATF). Law 230/2005 also provides that transactions suspected of connection to terrorism financing must be reported to the NOPCML and are subject to obligations regarding customer identification and the collection, preservation and disclosure of information.

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 and intercepting and recording telephone calls for up to 30 days, in certain circumstances. These circumstances, as provided for within the Code, include terrorist acts and money laundering.

In response to 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, provides that the taking of measures, or the production or acquisition of means or instruments,

with intent 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 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's Office, the National Bank, and the NOPCML. The Government of Romania (GOR) has also set up an inter-ministerial committee to investigate the potential use of the Romanian financial system by terrorist organizations.

Romanian law has some limited provisions for asset forfeiture in the Law on Combating Corruption, No. 78/2000, and the Law on Prevention and Combat of Tax Evasion, No. 241, introduced in July 2005. The Romanian Government, particularly the BNR, has been cooperative in seeking to identify and freeze terrorist assets. Emergency Ordinance 159, passed in late 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, 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. Legislative changes in 2005 extended the length of time a suspect account may be suspended. The NOPCML is now allowed to suspend accounts suspected of money laundering activity for three working days, as opposed to the previous two day limit. In addition, once the case is sent to the General Prosecutor's Office, it may further extend the period by four working days instead of the previously allowed three days.

In November 2004, the Parliament adopted law 535/2004 on preventing and combating terrorism, which abrogates some of the previous government ordinances and incorporates many 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 provided by the United States, the UNSCR 1267 Sanctions Committee, and the EU, and it 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. A 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, they are quite comprehensive in scope. Nevertheless, implementation lags. The FIU has improved in its ability to report and investigate cases in a timely fashion. However, these investigations have resulted in only a handful of successful prosecutions to date. Romania should ensure that non-bank entities are fully aware of their reporting and record-keeping responsibilities and are adequately supervised. Romania should improve communications between reporting and monitoring entities, as well as between prosecutors and monitors. The General Prosecutor's Office should place a higher priority on money laundering cases. Romania should further implement existing procedures for the timely freezing, seizure, and forfeiture of criminal or terrorist-related assets.

Russia

Russia has enjoyed rapid economic growth in recent years, mainly driven by high world energy prices. However, Russia has been slow to complete structural reforms of the banking sector, and overall public confidence in Russian banks remains low. Russia's financial system does not attract a significant portion of legal or illegal depositors, and therefore Russia is not considered an important regional financial center. Over the past several 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 having the political will to combat financial crime and making noticeable progress in doing so, Russia remains vulnerable to such activity because of its vast natural resource wealth, the 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 laundered 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 private capital inflows for 2005 were \$0.3 billion, according to the Russian Ministry of Finance, marking a reversal from the \$9.3 billion in outflows in 2004. In contrast to the capital flight that occurred during the 1990s, the majority of more recent outflows involve the legitimate movement of money to more secure and profitable investments abroad, which reflects the maturing of the Russian business sector. However, 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 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, December 2003, and July 2004. Law RF 115-FZ obligates banking and non-banking financial institutions to monitor and report certain types of transactions, keep records, and identify their customers.

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 or accounting services that involve certain transactions (e.g., managing money, securities, or other property; managing bank accounts or securities accounts; attracting or managing money for organizations; or incorporating, managing, and buying or selling organizations).

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's mission is to implement a unified state policy to combat money laundering and terrorism finance, yet it has no law enforcement investigative powers. In June 2005, President Putin approved a national strategy for combating money laundering and terrorism finance, part of which called for the creation of a new interagency commission on money laundering. The Ministry of Justice established the commission in November 2005, which is comprised of 12 ministries and government departments. The new commission will be chaired by the head of the FSFM and will be responsible for monitoring and coordinating the government's activity on money laundering and terrorism financing.

Various regulatory bodies ensure compliance with Russia's anti-money laundering and counterterrorism finance laws. The FSFM is specifically responsible for regulating real estate and leasing companies, pawnshops, and gambling services. The Central Bank of Russia (CBR) supervises credit institutions; the Federal Insurance Supervision Service oversees insurance companies; the Federal Service for Financial Markets regulates entities managing non-governmental pension and investment funds, as well as professional participants in the securities sector; and the Assay Chamber (under the Ministry of Finance) supervises entities buying and selling precious metals or stones.

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. Since July 2004, the amendment to Law 115-FZ now requires banks to identify the original source of funds and to report to the FSFM all suspicious transactions. 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.

Since the CBR issued Order 1317-U in August 2003, Russian financial institutions must now report all transactions with their counterparts in offshore zones. In some cases, offshore banks are also subject to

enhanced due diligence and maintenance of additional mandatory reserves to offset potential risks undertaken by the Russian institution for specific transactions. The CBR has also raised the standards for “eligible” offshore financial institutions, thereby reducing their number. Overall wire transfers from Russian banks to offshore financial centers have dropped significantly as a result of such regulatory measures.

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. In September 2005, the CBR completed its review of all banks that sought admission to the recently established Deposit Insurance System (DIS). To gain admission to the DIS, a bank had to verifiably demonstrate to the CBR that it complies with Russian identification and transparency requirements. Currently, 927 of Russia’s estimated 1200 banks have been admitted to the DIS, effectively weeding out over 200 banks from Russia’s banking system.

By law, 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 the 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: 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, or gambling; all transactions of “extremist organizations” or individuals included on Russia’s domestic list of such entities and individuals; and 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 and industrial regions throughout Russia. The primary functions of the territorial offices are to coordinate with regional law enforcement and other authorities to enhance the incoming information flow into the FSFM, and to supervise compliance with anti-money laundering and counterterrorism financing legislation by institutions under FSFM supervision. Additionally, the satellite offices must identify and register at the regional level all pawnshops, leasing and real estate firms, and gaming entities under their jurisdiction. The regional offices also are charged with coordinating the efforts of the CBR and other supervisory agencies to implement anti-money laundering and counterterrorist financing regulations.

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. According to press reports, Russia’s national database contains over four million reports involving operations and deals worth over \$877 billion. The FSFM estimates that Russian citizens may have laundered as much as \$7 billion in 2005. The FSFM receives approximately 10,000 transaction reports daily. Of these daily reports, 75 percent result from mandatory (currency) transaction reports, and the remaining 25 percent relate to suspicious transactions.

During the first ten months of 2005, the FSFM carried out 3,803 financial investigations, referring 2,026 of them to law enforcement agencies for possible criminal investigations. According to the Economic Crimes Unit of the Ministry of Interior (MVD), in 2005 Russian law enforcement investigated 7,269 cases of money laundering, sent 6,186 of the cases to court, and convicted 216 individuals on money laundering charges. Both the FSFM and MVD estimate that the number of suspicious transaction reports in 2005 has grown five-fold over the previous year, an increase which both agencies attribute to a greater focus government-wide on financial crimes and terrorism financing.

On terrorism finance, the FSFM reports that it has compiled a list of 1,300 organizations and individuals suspected of financing terrorism, 400 of which were foreign. To date, the FSFM has uncovered 113 bank accounts related to organizations and individuals included on Russia's terrorism list. Depending on the nature of the activity, the FSFM provides information to the appropriate law enforcement authorities for further investigation, i.e., the MVD for criminal matters, the Federal Drug Control Service (FSKN) for narcotics-related activity, or the Federal Security Service (FSB) for terrorism-related cases.

As part of administrative reforms enacted in 2004, 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. In 2005, the FSKN reportedly initiated approximately 1,550 money laundering cases and referred over 400 of these cases to the General Procuracy for prosecution. In July 2005, the FSKN announced that it had uncovered a major money laundering ring that was using an alternative remittance system to conduct illegal transactions involving money gained from drug smuggling. According to the FSKN's press service, the FSKN uncovered monthly transactions of up to \$14 million that were linked to this criminal ring. The FSKN arrested four individuals, and opened criminal cases under Article 172 (illegal banking activities) and Article 174.1 (money laundering) of Russia's criminal code. 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.

With its legislative and enforcement mechanisms in place, Russia has begun to prosecute high-level money laundering cases. In 2005, the CBR revoked the licenses of 37 banks for failing to observe banking regulations. Of these, 14 banks lost their licenses for violating Russia's anti-money laundering laws. In early 2005, the FSFM announced that it suspected ten unnamed banks of involvement in money laundering activities. Subsequently, the CBR announced that it was considering revoking the licenses of two banks for suspicion of money laundering. According to press reports, Russian law enforcement agencies conducted several raids and launched criminal investigations into banks suspected of money laundering. This increased targeting of suspect credit and non-credit institutions demonstrates Russia's broad-based commitment to enforcing its anti-money laundering and counterterrorism financing legislation and an improvement in compliance levels as a result of its actions.

Russia has a legislative and financial monitoring scheme that permits the tracking, seizure and forfeiture of criminal proceeds. None of this legislation is specifically tied to narcotics proceeds. Russian legislation provides for investigative techniques such as search, seizure, and compelling the production of documents, as well as the identification, freezing, seizing, and confiscation of funds or other 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 freezing for 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. The Presidential Administration as well as Russian law enforcement agencies have expressed concern about the ineffective implementation of Russia’s confiscation laws. The government has proposed amendments that are currently under review by the Duma which would make it easier to identify and seize criminal instrumentalities and proceeds. While Russian law enforcement has adequate police powers to trace assets, and the law permits confiscation of assets, most Russian law enforcement personnel lack experience and expertise in these areas.

The Russian Federation has enacted several pieces of legislation and issued 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 investigating high profile cases involving terrorist financing. In 2003, Russia provided vital financial documentation and other evidence that helped establish the criminal activities of the Benevolence International Foundation (BIF). In April 2005, a U.S. Federal Court convicted a British national for attempting to smuggle shoulder-held missiles into the U.S. with the intent to sell the weapons to a presumed terrorist group. The subject was arrested in a sting operation that involved 18 months of collaboration among U.S., Russian, and British authorities. He was found guilty on five counts, including material support to terrorists, unlawful arms sale, smuggling, and two counts of money laundering. However, Russia and the U.S. continue to differ about the purpose of the UN 1267 Sanctions Committee’s designation process, and such political differences have hampered bilateral cooperation in this forum.

Russia became a full member of the FATF in June 2003 and was the driving force behind the creation of the Eurasian Group on Combating Legalization of Proceeds from Crime and Terrorist Financing (EAG), which also includes Belarus, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan as members, and several other nations and multilateral organizations as observers, including the United States. The EAG Secretariat is located in Moscow. Since its inception, the EAG has held three plenary sessions (two in Moscow and one in Shanghai) in addition to several working group and typologies meetings. Russia, in its current role as President of the EAG, continues to play a strong leadership role in bringing the region up to international standards in its capacity to fight money laundering and terrorism financing.

The United States and Russia signed a Mutual Legal Assistance Treaty in 1999, which entered into force on January 31, 2002. The FSFM has signed cooperation agreements with the Financial Intelligence Units (FIUs) of 24 countries, including Belgium, Columbia, Cyprus, Czech Republic, Estonia, Finland, France, Israel, Italy, Korea, Latvia, Liechtenstein, Luxembourg, Monaco, Panama, Peru, Poland, Portugal, Slovenia, Sweden, Ukraine, the United Kingdom, the United States, and Venezuela. Additionally, the FSFM is an active member of the Egmont Group, having sponsored several candidate countries for membership in 2004. U.S. law enforcement agencies exchange operational information with their Russian counterparts on a regular basis. In 2005, Russian law enforcement agencies cooperated with the U.S. in a high-profile case that led to the conviction of a Russian national in a U.S. District Court on charges that he laundered over \$130 million through a Moscow bank. The individual was sentenced to 51 months imprisonment and ordered to pay \$17.4 million in restitution to the Russian government.

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, but has not yet ratified, 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 improve the region's capacity for countering money laundering and terrorism financing. President Putin also sent a clear signal of support when he approved a national money laundering strategy in June 2005 and charged an inter-agency commission to implement the strategy in the short term.

Nevertheless, some vulnerabilities remain. To meet President Putin's stated goal of combating money laundering and corruption, Russia needs to follow through on its commitment to improve CBR oversight of shell companies and scrutinize more closely those banks that do not carry out traditional banking activities. To prevent endemic corruption and deficiencies in the business environment from undermining Russia's efforts to establish a well functioning anti-money laundering and counterterrorism finance regime, Russia should strive to stamp out official corruption, particularly at high levels, and to increase transparency in the financial sector and the corporate environment. Russia should also commit adequate resources to its regulatory and law enforcement entities in order to help them fulfill their responsibilities, and 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.

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 Samoa 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. At the 2005 Asia/Pacific Group Plenary, Samoa reported that these bills and an Insurance Act would be tabled for Parliament's approval in December, 2005. The Attorney General's stated that enactment of the relevant amendments to these bills would be enacted in the first quarter of 2006.. Samoa also reported that in 2004, the MLPA received 23 suspicious transaction reports in 2004. 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.

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 eleven 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 2005, although a definitive determination is hard to make because of the absence of official criminal statistics, 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 (GOSA) 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 Recommendations of the Financial Action Task Force (FATF). 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 (\$26,667); 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 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 GOSA provides anti-money laundering training for bank employees, prosecutors, judges, customs officers and other government officials.

In 2003, the GOSA established an anti-money laundering unit in SAMA and in 2005 the GOSA opened a Financial Investigation Unit (FIU) under the auspices of the Ministry of Interior. Saudi banks are required to have their own anti-money laundering units with specialized staff to work with SAMA,

the FIU and law enforcement authorities. All banks are also required to report any suspicious transactions to the FIU. The Saudi FIU collects and analyzes suspicious transaction reports and other available information and decides whether to make referrals to the Ministry of Interior's Bureau of Investigation and Prosecution or other entities for further investigation and prosecution. The FIU is staffed by officers from the Mabahith and SAMA. The FIU is committed to obtaining membership in the Egmont Group within the next two years.

Hawala transactions outside banks and licensed money changers 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. In 2005, in an effort to further regulate the over \$16 billion in remittances that leave Saudi Arabia every year, in 2005 SAMA consolidated the eight largest money changers into a single bank, Bank Al-Bilad.

In late 2005, the GOSA enacted stricter regulations on the cross-border movement of money and precious metals. Money and gold in excess of \$16,000 must be declared upon entry and exit from the country. While the regulations were effective immediately, Customs staff training and public education probably will not be completed until early-to-mid 2006.

Contributions to charities in Saudi Arabia are usually in the form of Zakat, which refers to an Islamic religious duty with specified humanitarian purposes. The 9/11 Commission Report noted that the GOSA failed to adequately supervise 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 GOSA issued guidelines for the National Commission for Relief and Charitable Work Abroad. However, as of the end of 2005, there has been no further announcement on the Charities Commission structure, leadership or staffing. The U.S. government is working with the Saudi authorities to clarify the status of the international charities with headquarters in Saudi Arabia and the role of the Charities Commission.

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 all charities include stipulations that accounts can be only opened in Saudi Riyals; there are enhanced customer identification requirements; there is one main consolidated account for each charity; there are no cash disbursements—payments may be made only by checks payable to the first beneficiary and deposited in a Saudi bank; the use of ATM and credit cards for charitable purposes will not be permitted; and there will be no money transfers outside of Saudi Arabia. According to GOSA officials, these regulations apply to international charities as well and are being actively enforced.

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 for 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 GOSA was one of the original charter signatories. The MENAFATF is a FATF-style regional body.

The success of the MENAFATF is 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 names of suspected terrorists and terrorist organizations on 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 GOSA and U.S. continue to work bilaterally to investigate terrorist financing. 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 is moving to monitor and enforce its anti-money laundering and terrorist finance laws, regulations and guidelines. However, it needs to establish the High Commission for Charities. As in many countries in this 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. Donations in the form of gold and other gifts need to be scrutinized. International charities need to be made subject to the same government oversight as domestic charities, including the rules of both SAMA and the Charities Commission. The GOSA should become a party to the UN International Convention for 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). Serbia and Montenegro is located in Southeastern Europe (the Balkans), bordering the Adriatic Sea to the west and Romania and Bulgaria to the east. SAM is a state union consisting of two republics, the Republic of Serbia and the Republic of Montenegro. In the Republic of Serbia is the nominally autonomous province of Vojvodina. Kosovo, recognized by the UN as part of SAM, has been administered by the United Nations Mission in Kosovo since 1999. (Since Serbia no longer exercises effective control over Kosovo, this report does not address Kosovo.) 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 continues to have a significant black market for smuggled goods. Illegal proceeds are generated from drug trafficking, official corruption, tax evasion, organized crime and other types of financial crimes. Proceeds from illegal activities are being heavily invested in all forms of real estate. The construction and renovation of commercial buildings such as offices, apartments, high-end retail businesses as well as personal residences is evident in the capitals of Belgrade and Podgorica as well as other major cities. Investment by foreign individuals and businesses in expensive real estate along the Montenegro coast has raised prices and generated concerns about the source of funds used for these investments.

Tax evasion, which is a predicate crime for money laundering, and trade-based money laundering in the form of over- and under-invoicing, are common methods used to launder money. Serbia introduced a VAT tax in 2005 and the full impact of refund fraud associated with the administration of the VAT

is still not clear. Serbia's Tax Administration does not have the capacity or resources to investigate the large number of suspicious transactions that are forwarded by Serbia's Financial Intelligence Unit (FIU). This creates a situation where criminals can spend and invest criminal proceeds freely with little fear of challenge by the tax authorities or other law enforcement agencies. In both Serbia and Montenegro, the difficulty of convicting a suspect of money laundering without a conviction for the original criminal act and the unwillingness of the courts to accept circumstantial evidence to support money laundering or tax evasion charges is hampering law enforcement and prosecutors in following the movement and investment of illegal proceeds and effectively using the anti-money laundering laws.

Some Serbian officials also estimate that up to half of all significant financial transactions in SAM may be connected in some way to money laundering. Neither republic has identified any activities relating to the financing of terrorism. Both Montenegro and Serbia (2005) have criminalized the financing of terrorism.

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 invested in federal Yugoslav authorities devolved to the individual republics. As a result, responsibility for the laws and institutions that determine policies shifted. Subsequently, 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 in its own way. Banks in both republics have demonstrated substantial compliance with the laws in their respective jurisdictions.

Serbia and Montenegro 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 does not have a mutual legal assistance arrangement with the United States. SAM has signed 34 bilateral agreements on mutual legal assistance with 21 countries: Algeria, Austria, Belgium, Bulgaria, the Czech Republic, France, Greece, Croatia, Iraq, Italy, Cyprus, Germany, Poland, Romania, Hungary, Macedonia, Mongolia, Russian Federation, Spain, Turkey, the United Kingdom. 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; a sub-office for liaison with Interpol exists in the Montenegrin Interior Ministry.

Ratification of international Conventions and treaties currently lies at the State Union level. 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 is a party to 11 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 Serbia. Both Serbia and Montenegro have criminalized the financing of terrorism, but the freezing, seizing and confiscation of assets of terrorists in accordance with UN Security Council resolutions still lacks a legal basis in Serbia; Montenegro can since 2005 take action on the basis of such decisions. In December 2003, SAM

signed, and recently 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. The report urged both republics to improve the provisions on provisional measures and confiscation, as well as to adopt specific provisions on the countering of the financing of terrorism, both the criminalization and the obligation to report in case of a suspicion of financing of terrorism.

Serbia. The Yugoslav Federal Assembly adopted an Anti-Money Laundering Law (AML Law) in September 2001; it came into effect in July 2002. This law effectively created Serbia's Financial Intelligence Unit (FIU), the Administration for the Prevention of Money Laundering. In July 2003, the FIU became a member of the Egmont Group, and has since begun active participation in information exchanges with counterpart FIUs.

In September 2005, Serbia criminalized terrorist financing and codified an expanded definition of money laundering into the Penal Code. This gives police and prosecutors more flexibility to pursue money laundering charges since the money laundering conduct is broader under the new law and in conformity with international standards. The penalty for money laundering is up to 10 years imprisonment. This is significant in that under Serbian law and procedure, it falls into the serious crime category and permits the use of Mutual Legal Assistance (MLAT) procedures to obtain information from abroad. Previous penalties for money laundering kept money laundering out of the serious crime category, and use of the MLAT or letters rogatory were not an option in cases where a serious crime could not be identified as the source of the suspected illegal proceeds.

On November 28, 2005, Serbia adopted a revised money laundering law that elevates the status of the FIU to that of an administrative body under the Ministry of Finance from its previous position of "sector" in that Ministry. This will provide more autonomy for the agency to carry out its mandate and provide additional resources. One important change is that the Administration will have its own line item operating budget. The law also expands the number of entities required to collect certain information on all transactions over 15,000 Euros, or the dinar equivalent, and to report all cash transactions exceeding this threshold to the FIU. Suspicious transactions in any amount must be reported to the FIU. The law also requires attorneys and accountants to report suspicious transactions. Other significant changes include the authority of the FIU to freeze transactions for up to 72 hours and to require covered entities and individuals to monitor customers' accounts where money laundering is suspected. Under Serbian law, assets derived from criminal activity or suspected of involvement in the financing of terrorism can be confiscated upon conviction for an offense.

Serbia signed a memorandum of understanding (MOU) on the exchange of information with the National Bank of Serbia in 2004 and is negotiating MOUs with the Customs and Tax Administrations. The Government of Serbia has established an interagency working group tasked with developing an implementation plan for the recommendations from MONEYVAL's review in October 2003. It is also tasked with drafting a new law to address the procedures needed to comply with UN Security Council resolutions regarding the freezing, seizing and confiscation of suspected terrorist assets and to require suspicions of terrorist financing to be reported to the FIU.

The FIU 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.

The government still needs better interagency coordination to improve information sharing, record keeping and statistics, and thereby introduce a more effective regime and permit a meaningful assessment of its AML/CFT efforts at all levels of government.

Montenegro. 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 to detect money laundering. The CBCG dissolved all offshore banks for failure to re-register and reestablish themselves as regular banks. 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 was criminalized in 2002, and the Criminal Code was amended in June 2003 to enable the government to confiscate money and property involved in criminal activity. Additionally, according to the Code, business licenses of legal or natural persons may be revoked and business activities banned if the subject is found guilty of criminal activities, including narcotics trafficking or 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 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 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 became operational in November 2003 and began receiving reports of transactions in July 2004. All reporting by banking institutions is received electronically. The Montenegro FIU became an Egmont member in June 2005. It has executed a number of Memorandums of Understanding to exchange information with most established FIUs in the region.

Montenegro can seize and forfeit assets. In September 2004, the Government of Montenegro seized over one million euros in undeclared currency in connection with the arrest of two Chinese nationals attempting to enter Montenegro. Further investigation revealed that these individuals had moved over four million euros through bank accounts in Montenegro. The criminal charges were dismissed by the court of first instance which said that the Prosecutor's office had not provided proof that the funds were from an illegal source. This case has been appealed.

Amendments to Montenegro's laws on terrorism and terrorist financing were initiated in November 2004 and adopted in March 2005. These amendments were 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 circulates to banks and other financial institutions the names of suspected terrorists and terrorist organizations listed on the UNSCR 1267 Sanction Committee's consolidated list. No terrorist financing or use of alternative remittance systems have been detected within Montenegro.

It would be beneficial for the U.S. to have an updated extradition treaty with SAM as well as a bilateral mutual legal assistance agreement. 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 continue to participate in international fora that offer training and technical assistance for police, customs, and judiciary officials involved with combating money laundering and terrorist financing. They should both implement a comprehensive framework to support a

counterterrorism regime that complies with international standards. Serbia should adopt the new law to address the procedures needed to comply with UN Security Council resolutions regarding the freezing, seizing and confiscation of suspected terrorist assets and to require suspicions of terrorist financing to be reported to the FIU.

Seychelles

Seychelles is not a major financial center, but it does have a developed offshore financial sector that 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 25,461 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, one for Captive Insurance and two for General Insurance). 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.

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. The transactions of charitable and non-profit entities are scrutinized by the authorities to prevent their misuse, and such alternative remittance systems as hawala are regulated. 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 is no cross-border currency reporting requirement.

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. While there have been about thirty investigations, there have been no arrests or prosecutions for money laundering or terrorist financing since January 1, 2003.

In 1998, the Central Bank of Seychelles issued a comprehensive set of guidance notes that clarified 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 of 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 provision 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 of 2004. The legislation specifically recognizes the government's authority to identify, freeze, and seize terrorist finance-related assets. Under the new law, 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.

The Mutual Assistance in Criminal Matters Act of 1995 empowers the Seychelles Central Authority to provide assistance in connection with a request to conduct searches and seizures relating to serious offenses under the law of the requesting state. Previously, the Seychelles authorities could work only with states that were members of the Commonwealth or that had a treaty for bilateral mutual legal assistance with the Seychelles regarding criminal matters. The Prevention of Terrorism Bill of 2004 extends the authority of the GOS to include the freezing and seizing of terrorism-related assets, upon the request of a foreign state. To date, no such assets have been identified, frozen, or seized.

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. Seychelles signed and ratified the UN International Convention for the Suppression of the Financing of Terrorism on March 30, 2004. The Seychelles circulates to relevant authorities the updated lists of names of suspected terrorists and terrorist organizations on 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. Seychelles should expand its anti-money laundering efforts by moving to prohibit bearer shares and requiring the 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 criminalize the financing of terrorism and continue to 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, widespread corruption, and a prevalent informal money-exchange system create an atmosphere that is 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.

The President signed the Anti-Money Laundering Act in July 2005. The new law requires that international financial transfers over \$10,000 go through formal financial institution channels. The law designates the Governor of the Bank of Sierra Leone as the Anti-Money Laundering Authority and also establishes a financial intelligence unit to oversee financial institution operations. Sierra Leone is

still a cash economy, and the new anti-money laundering law has not been widely publicized. There have been a few arrests under the law but no convictions to date.

In July 1996, the Central Banks of The Gambia, Ghana, Liberia, Nigeria and Sierra Leone established the West African Institute for Financial and Economic Management (WAIFEM) (www.waifem.org). The Institute's principal mandate is to build sustainable capacity for macroeconomic management in the five countries. It also conducts research and consultancy services in the area of macro policy management. In September 2005, the Bank of Sierra Leone hosted a WAIFEM-sponsored regional anti-money laundering workshop.

Sierra Leone is a party to the 1988 UN Drug Convention, the UN Convention Against Corruption, and the UN International Convention for the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

Now that Sierra Leone has the Anti-Money Laundering Act in place, the challenges will be increasing awareness and enforcement. The country should implement the law as soon as possible. It should ratify the UN Convention against Transnational Organized Crime.

Singapore

As a significant international financial and investment center, and in particular as a major offshore financial center, Singapore is vulnerable to potential money launderers. Bank secrecy laws and the lack of routine currency reporting requirements make Singapore an attractive destination for drug traffickers, criminals, terrorist organizations and their supporters seeking to launder 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.

Some structural gaps remain in financial regulation that may hamper efforts to control these crimes. The Corruption, Drug Trafficking, and Other Serious Crimes (Confiscation of Benefits) Act of 1999 (CDSA) criminalizes the laundering of proceeds from narcotics and 184 other categories of serious offenses, including ones committed overseas, which would be serious offenses if they had been committed in Singapore. As part of amendments to the CDSA that came into effect in September 2005, Singapore added two more categories of offenses. Despite these changes, Singapore's current list of designated predicate offenses for money laundering does not include many of those in line with the Financial Action Task Force's (FATF's) Recommendations.

Singapore has a sizeable offshore financial sector. In 2005, there were 110 commercial banks in operation, including five local and 24 foreign-owned full banks, 46 offshore banks, and 35 wholesale banks. All offshore and wholesale banks are also foreign-owned. Singapore does not permit shell banks, in either 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, particularly with respect to Singapore's anti-money laundering and countering the financing of terrorism efforts (AML/CFT). MAS performs extensive prudential and regulatory checks on all applicants for banking licenses, including whether banks are under adequate home country banking supervision. Banks must have clearly identified directors. Unlicensed banking transactions are illegal.

Beginning in 2000, MAS began issuing 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. 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 to verify names, permanent contact addresses, dates of birth, and nationalities, and to check 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. They 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.

In January 2005, as part of a draft revision of its overall AML/CFT regulations for banks, MAS commenced a review of Notice 626, which proscribes banks from entering into, or continuing, correspondent banking relationships with shell banks, in line with the Revised FATF Forty Recommendations adopted in June 2003. Draft Notice 626, which is still under review, also mandates originator information on cross-border wire transfers, in line with 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, and mandates enhanced customer due diligence for foreign politically exposed persons. It furthermore extends coverage of the regulations to include terrorist financing activities. In addition to the revised Notice 626, Singapore is reviewing regulations governing other financial institutions and designated non-financial businesses and professions to bring them into conformity with FATF recommendations.

In addition to banks offering trust, nominee, and fiduciary accounts, Singapore has 16 trust companies. All banks and trust companies, whether domestic or offshore, are subject to the same regulation, record keeping, and reporting requirements, including regarding money laundering and suspicious transactions. In August 2005, Singapore introduced regulations under the new Trust Companies Act (enacted in January 2005 to replace the Singapore Trustees Act) that mandated licensing of trust companies and MAS approval for appointments of managers and directors.

In April 2005, Singapore lifted its ban on casinos, paving the way for the development of integrated resorts with casinos. Total investment in the two resorts, both of which are expected to open in 2009, is estimated to exceed \$4 billion. In October 2005, Singapore released for public comment draft legislation for the Casino Control Act. The Act calls for creation of a Casino Regulatory Authority and mandates certain cash reporting requirements. Internet gaming sites are illegal in Singapore.

Any person who wishes to engage in for-profit business in Singapore, whether local or foreign, must register under the Companies Act. Every Singapore-incorporated company is required to 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.

Financial institutions must report suspicious transactions and positively identify customers engaging in large currency transactions, and are required to maintain adequate records. However, there is no systematic reporting of large currency transactions. There are no reporting requirements on amounts of currency brought into or taken out of Singapore. Singapore is considering implementation of FATF Special Recommendation Nine, which requires either a declaration or disclosure system for monitoring cross-border movement of currency and bearer negotiable instruments.

The Singapore Police's Suspicious Transaction Reporting Office (STRO) has served as the country's Financial Intelligence Unit (FIU) since January 2000. In December 2004, STRO concluded a Memorandum of Understanding (MOU) concerning the exchange of financial intelligence with its U.S. counterpart, FinCEN. STRO has also signed MOUs with counterparts in Australia, Belgium and Japan, and continues to actively seek MOUs with additional FIUs. To improve its suspicious transaction reporting, STRO is developing a computerized 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. Procedural regulations and bank secrecy laws limit STRO's ability to provide information relating to financial crimes.

Singapore is an important participant in the regional effort to stop terrorist financing in Southeast Asia. The Terrorism (Suppression of Financing) Act that took effect January 29, 2003, 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.

Based on an assessment of Singapore's financial sector published in April 2004, the International Monetary Fund and World Bank concluded that the country imposes few restrictions on intergovernmental terrorist financing-related mutual legal assistance, even in the absence of a Mutual Legal Assistance Treaty, because it is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The IMF, however, urged Singapore to improve its mutual legal assistance for other offenses, noting serious limitations on assistance with the provision of bank records, search and seizure of evidence, restraining proceeds of crime, and the enforcement of foreign confiscation orders.

MAS has broad powers to direct financial institutions to comply with international terrorist financing obligations. 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 that will benefit terrorists or terrorist financing. Financial institutions must notify the MAS immediately if they have in their possession, custody or control any property belonging to designated 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 located in Singapore. The regulations include periodically updated names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list.

Singapore's approximately 600,000 foreign guest workers are the main users of alternative remittance systems. As of June 2005, there were 406 money-changers and 102 remittance agents. All must be licensed and are subject to the Money-Changing and Remittance Businesses Act (MCRBA), which includes requirements for record-keeping and the filing of suspicious transaction reports. Firms must submit a financial statement every three months and report the largest amount transmitted on a single day. They must also answer questions about their business and overseas partners. Unlicensed informal networks, such as hawala, are illegal. In August 2005, Singapore amended the MCRBA to apply certain AML/CFT regulations to remittance licensees and money-changers engaged in inward remittance transactions. The Act eliminated sole proprietorships and required all remittance agents to incorporate under the Companies Act with a minimum paid-up capital of S\$100,000 (approximately \$60,000).

Singapore has eight free trade zones (FTZs) for sea borne cargo and two for airfreight regulated under the Free Trade Zone Act. The FTZs may be used for storage, repackaging of import an export cargo, assembly and other manufacturing activities approved by the Director General of Customs in conjunction with the Ministry of Finance.

Charities in Singapore are subject to extensive government regulation, including close oversight and reporting requirements, and restrictions that limit the amount of funding that can be transferred out of Singapore. Singapore had a total of 1,747 registered charities as of December 2004. All charities must register with the Commissioner of Charities and submit governing documents outlining the charity's objectives and particulars on all trustees. The Commissioner of Charities has the power to investigate

charities, search and seize records, 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.

Singapore will implement tighter regulations under the Income Tax Act governing public fund-raising by charities beginning January 1, 2007. Charities authorized to receive tax-deductible donations will be required to disclose the amount of funds raised in excess of S\$1 million (approximately \$600,000), expenses incurred, and planned use of funds. 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 must demonstrate that at least 80 percent of the funds raised will be used in Singapore, although the Commissioner of Charities has discretion to allow for a lower percentage. 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 names of recipients. The government issued 34 permits in 2004 related to fund raising for foreign charitable purposes. There are no restrictions or direct reporting requirements on foreign donations to charities in Singapore.

To regulate 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 184 predicate “serious offenses” listed under the CDSA. The provisions of the MACMA apply to countries whether or not they have concluded treaties, MOUs 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.

In May 2003, Singapore issued a regulation pursuant to the MACMA and the Terrorism Act and 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, it 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. As of December 2005, Singapore, Malaysia, and Vietnam have ratified the treaty. In 2005, Singapore and India signed a similar treaty.

In addition to the UN International Convention for the Suppression of the Financing of Terrorism, Singapore is also party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. In addition to FATF, Singapore is a member of the Asia/Pacific Group on Money Laundering, the Egmont Group, and the Offshore Group of Banking Supervisors. Singapore hosted the June 2005 Plenary meeting of the FATF, the first time a FATF Plenary was held in Southeast Asia. FATF is slated to review Singapore’s AML/CFT regime, most likely in 2007.

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 Financial Action Task Force’s (FATF) Special Recommendation Nine, adopted in October 2004, that mandates 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. In order to conform to international standards, Singapore should lift its rigid bank secrecy restrictions and significantly increase its list of predicated crimes for money laundering.

Slovakia

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 a suspicious transaction and "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 existing 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 for 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 also 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. Act No. 367/2000 also 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.

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."

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 2004, the BFP (through the FIU) filed 818 reports alleging suspicious business operations totaling \$632 million. The BFP submitted 82 proposals for the action of tax authorities and 20 proposals to launch criminal prosecutions worth an estimated value of \$1.5 million. During the same period, the Financial Police conducted and/or started 70 on-site inspections of obliged entities, and in 23 cases inspectors levied fines amounting to \$75,313. A total of 29 inspections have been completed; of those, no penalties were levied in 22 of the cases. Penalties worth a total value of \$21,875 were paid in 6 cases.

During the first eleven months of 2005, the FIU of the OFOC received 1,094 reports alleging unusual financial transactions worth \$319.1 million. It submitted eight proposals for criminal prosecution with a value of \$455 million and 179 proposals for tax prosecution worth \$36.5 million. In addition, the Financial Police regional units submitted 134 proposals for criminal prosecutions. The OFOC conducted or started 93 on-site inspections of "obliged persons" and levied penalties in 33 cases with a total value of \$129,063.

In 2003, a law amending and supplementing the Criminal Procedure Code and Criminal Code entered into force. The amendment strengthens the competencies of law enforcement by granting investigators the authority to conduct sting operations and introduces provisions regarding corporate criminal liability. In addition, crown witnesses (a criminal who voluntarily opts to cooperate with law enforcement bodies) are now protected by the law and can 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 draft 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 an amount 200 times the minimum monthly wage 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. Due to widespread public opposition, the Ministry of Justice withdrew the draft law from Parliament in January 2004. However, on June 23, 2005, Parliament nevertheless approved it, and it came into force on September 1, 2005. Despite its approval, the new law was still controversial, and its implementation was frozen by the Constitutional Courts on October 6, 2005.

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 consistent with UNSCR 1373. According to Act No. 367/2000 and its later amendments, financial institutions are required to report to the regional financial police when they freeze or identify suspected terrorist-linked assets. The Government of Slovakia (GOS) has agreed to freeze immediately all accounts owned by entities on the UNSCR 1267 Sanctions Committee's and EU's consolidated lists, but not those of the United States. No terrorist finance-related accounts have been frozen or seized in Slovakia, but were a terrorism-related account to be identified, the Financial Police could 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 a party to all 12 of the UN Conventions concerning the fight against terrorism. However, as reported in its 2004 self-assessment questionnaire on anti-money laundering efforts for the Council of Europe (COE), Slovakia is still not fully compliant with the Financial Action Task Force's (FATF's) Special Recommendations on Terrorist Financing. The COE's Committee of Experts gave Slovakia a rating of "partial compliance" in 2004, with regard to Special Recommendation I (Implementation of UNSCR 1373) and Special Recommendation VII (enhanced scrutiny of transfers lacking originator information).

In late 2005, following its official release, Slovak authorities started to prepare for implementation of the Third EU Money Laundering Directive. The Finance Ministry, the National Bank of Slovakia, and the Ministry of Interior plan to establish an interdepartmental committee in early 2006 to coordinate the modification of Slovak legislation to conform to the new Directive.

In 2002, the GOS ratified 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 is a member of the Egmont Group and has signed 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 2006. 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 in Criminal Matters, 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 Group of States Against Corruption (GRECO), a platform of the Council of Europe to fight against corruption. GRECO reviewed Slovakia for the first time in 2000. The first round evaluation report on Slovakia contained 19 recommendations, of which 15 were satisfactorily addressed by 2003. GRECO evaluated the last four recommendations as “implemented” in October 2005. In late 2003, Slovakia faced additional examination by GRECO. With regards to money laundering, GRECO recommended that “the Slovak authorities undertake a comprehensive and sustained program of specialized professional training for judges, prosecutors and police regarding the effective and appropriate use of criminal and administrative laws relating to money laundering, accounting offenses, and the use of legal persons to shield corrupt activity.”

Slovakia is a member of the Council of Europe and has actively participated in MONEYVAL, the Council of Europe’s FATF-style regional body, since 1997. Slovakia sends experts to conduct mutual evaluations on fellow member countries; it also underwent mutual evaluations by this group in 1998 and 2001. Slovakia has since implemented changes to its money laundering regime based on the results of these evaluations. In 2005, Slovakia faced a third round of evaluations, which was aimed at assessing its level of compliance with the FATF’s Recommendations and the EU’s Second Money Laundering Directive. The MONEYVAL report should be released in the first half of 2006.

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 of its non-financial sectors to ensure that 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.

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, nor does it have free trade zones. It does, however, operate Industrial Development Zones (IDZs). The South African revenue service monitors the customs control of these zones. Imports and exports that are involved in manufacturing or processing in the zone are duty-free, provided that the finished product is exported. South Africa maintains IDZs in Port Elizabeth, East London, Richards Bay, and Johannesburg International Airport. The South African Government (SAG) 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) criminalizes 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 May 20, 2005, the Protection of Constitutional Democracy Against Terrorist and Related Activities Act (POCDATARA) came into effect. The Act criminalized terrorist activity and terrorist financing and gave the government investigative and asset seizure powers in cases of suspected terrorist activity. The Act is applicable to charitable and non-profit organizations operating in South Africa. The Act requires financial institutions to report suspected terrorist activity to the South African financial intelligence unit (FIU), the Financial Intelligence Centre (FIC).

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. In addition to the FIC, South Africa has a Money Laundering Advisory Council (MLAC) to advise the Minister of Finance on policies and measures to combat money laundering.

The Financial Intelligence Centre Act (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. Regulated 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, it forwards 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.

During the FIC’s first full year of operation, it received 105 information requests from local law enforcement and 56 from international law enforcement agencies. The FIC continued to make progress in 2005 in building its capabilities and in establishing its credibility with the South African law enforcement community. During its most recent fiscal year, it received 92 information requests from local law enforcement and 107 from international law enforcement agencies. The FIC continued to grow significantly during the year and maintained its focus on further analytical training for its staff and the banking community in order to increase the quality of suspicious transaction reports.

From March 2004 through March 2005, the FIC received 15,757 suspicious transaction reports (STRs), more than a 110 percent increase from the previous year’s 7,480 STRs. The FIC reports that this increase is due to the development and distribution of its batch-reporting tool. Precise information is not 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 remains uneven, as the FIC and South Africa’s banks continue to work to provide effective and comprehensive 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. Certain KYC requirements were waived for low-cost bank account holders when South Africa’s banks introduced these accounts in 2004. Reporting requirements were also specifically

waived for brokers assisting clients with a one-time amnesty offer according to the Exchange Control and Amnesty and Amendment of Taxation Laws Act of 2003.

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 within the country; however, the South African Revenue Service (SARS) requires large cash amounts to be declared at entry and exit points.

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. While legislation has been adopted in response to the recommendations, full implementation has not taken place.

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 (FATF), and it holds the FATF Presidency for the period June 2005-June 2006. South Africa is also an active member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body, having signed the memorandum of understanding in 2003.

The SAG is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption.

The South African Government should implement the FATF Special Recommendation Nine 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 publicly available the number of criminal investigations resulting from STRs, and it should increase the number of actual money laundering prosecutions. It should fully implement the new law (Protection of Constitutional Democracy Against Terrorist and Related Activities Act—POCDATARA) against terrorist activity and terrorist financing.

Spain

Spain is an important money laundering destination for Latin American drug runners and Eastern European criminal syndicates. Criminals of all types launder money by investing in the strong real estate market, particularly in Spain's coastal regions. Moreover, during 2005, Spanish police arrested several individuals reportedly engaged in terrorist financing activities.

Money laundered in Spain is primarily a product of the Colombian cocaine trade, although money from other Latin American countries is also laundered there. Using narcotics proceeds, Colombian companies purchase goods in Asia and sell them legally at cartel-run stores in Spain and other European countries. Drug proceeds from Morocco, Turkey, and other regions also enter Spain. Cash is smuggled in and out of Spain via couriers, luggage, shipping containers, and by small craft operating along Spain's long coastline. Informal non-bank outlets such as "locutorios" make small international transfers for the immigrant community, continually moving money in and out of Spain. Regulators also suspect the presence of hawala-like networks in the Islamic community. Other sources of illicit funds in Spain are tax evasion and smuggling. The smuggling of electronics and tobacco from Gibraltar remains an ongoing issue.

The Government of Spain (GOS) remains committed to combating narcotics trafficking, terrorism, and financial crimes, and continues to work 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 require a prison sentence greater than three years. Amendments to the code on November 25, 2003, made all forms of money laundering financial crimes. 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.

In December 1993, specific measures to prevent money laundering were adopted to regulate the legal entities in the financial sector and individuals moving large sums of cash (Law 19/1993). 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 most recently in January 2005 by Royal Decree 54/2005. Pursuant to these laws and regulations, 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 added 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 and under the supervision of appropriate regulators.

Law 19/2003 regulates the movements of capital and foreign transactions and implements parts of Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd 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 (approximately \$35,355). The law also requires the declaration and reporting of internal transfers of funds greater than 80,500 euros (approximately \$94,870). Individuals traveling internationally are required to report the importation or exportation of currency greater than 6,000 euros (approximately \$7,070). 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. Agencies represented include the National Drug Plan Office, the Ministry of Economy, the Public Prosecutor's Office (Fiscalia), Customs, the Spanish National Police, the Guardia Civil, the National Stock Market Committee, the Treasury, the Bank of Spain, and the Director General of Insurance and Pension Funds. Any member of the Commission may request an investigation.

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.

The CPBC also delegates responsibility to 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 national government 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 334,452 CTRs in 2004. SEPBLAC has noted an increase in both quantity and quality of suspicious transaction reporting in 2004. The Fund of Seized Goods of Narcotics Traffickers receives seized assets.

Terrorist financing issues are governed by a separate code of law and commission, the Commission of Vigilance against 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 Public Prosecutor’s Office and Ministries of Justice and Economy. SEPBLAC serves 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 based on 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 yet been submitted to Spain’s Council of Ministers for approval. Once in full effect, this law will allow administrative freezing of suspect assets without a judge’s order. Nonetheless, Spain has thus far frozen an estimated 500,000 euro (approximately \$590,000) in al-Qaida funds.

Although the sums involved in terrorist financing are low in comparison with the overall money-laundering problem in Spain, it is clear from arrests in 2005 and 2006 that Spain is an important logistical base for global Islamic terrorists. At the same time, 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.

Spanish police and intelligence services are very active in the area of terrorist financing; as of November 2005, Spanish law enforcement officials were engaged in 85 different terrorist financing investigations. In a well-publicized 2005 operation, two Pakistani hawaladars were arrested on terrorism-finance related charges. Other arrests in December 2005 involved 16 suspected Islamic militants in Seville, Malaga, Granada, and Lerida, several of whom allegedly belonged to a “recruitment and financing group.”

All legal charities in Spain are placed on a register maintained by the Ministry of Justice. Responsibility for policing registered charities lies with the Ministry of Public Administration. If a charity fails to comply with legal requirements, sanctions or other criminal charges may be levied.

Spain is a member of the FATF, and its head of delegation 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. SEPBLAC is a member of the Egmont Group and is currently chairing the Egmont Group’s Outreach Working Group.

The GOS has signed criminal mutual legal assistance agreements with Argentina, Australia, Canada, Chile, the Dominican Republic, Mexico, Morocco, Uruguay, and the United States. Spain’s mutual legal assistance treaty with the United States has been in effect since 1993 and provides for sharing of

seized assets. Spain and its FIU, SEPBLAC, have entered into bilateral agreements for cooperation and information exchange on money laundering issues with a number of countries, including Bolivia, Colombia, Chile, El Salvador, France, Israel, Mexico, Panama, Russia, Turkey, 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 officials work closely with the Spanish customs service, Spanish prosecutors, the national police corps, and the Civil Guard. The U.S. Drug Enforcement Administration works closely with SEPBLAC, the national police, and the Civil Guard. These organizations regularly share information.

The scale and sophistication of money laundering activities in Spain create a very large law enforcement problem. 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.

St. Kitts and Nevis

The Government of St. Kitts and Nevis (GOSKN) is a federation composed of two islands in the Eastern Caribbean; 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.

GOSKN officials were unable to disclose 2005 statistics or information on its financial sector because Parliament has yet to approve the Financial Intelligence Unit's (FIU) Annual Report. The GOSKN did not publicly release statistics for 2004 until mid-year 2005. 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). Figures from 2003 reported that the Nevis domestic financial market consists of five domestic banks, four domestic insurance companies (all of which are subsidiaries of St. Kitts companies), and two money remitters. There are approximately 15,000 international business companies (IBCs) and 950 trusts, with 50 trust and company service providers. 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, 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's anti-money laundering regime include the Financial Services Commission Act No. 17 of 2000, the Nevis Offshore Banking (Amendment) Ordinance No. 3 of 2000, the Anti-Money Laundering Regulations No. 15 of 2001, the Companies (Amendment) Act No. 14 of 2001, the Anti-Money Laundering (Amendment) Regulations No. 36 of 2001, the Nevis Business Corporation (Amendment) Ordinance No. 3 of 2001, and the Nevis Offshore Banking (Amendment) Ordinance No. 4 of 2001.

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 the 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. However, an official GOSKN website for offshore finance contends that Nevis-registered companies are not required to divulge beneficial ownership.

The Financial Intelligence Unit Act No. 15 of 2000 authorizes the creation of the Financial Intelligence Unit (FIU). The FIU began operations in 2001 and has a director, deputy director, and four police officers. The FIU receives, collects, and investigates suspicious activity reports (SARs). The FIU is also charged with liaising with foreign jurisdictions. In 2004, the FIU had received 104 SARs. No SAR figures were released for 2005. In 2005, U.S. law enforcement worked with the GOSKN on an investigation which resulted in a seizure of \$338,000 from the offshore bank of Nevis.

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.

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.

A mutual legal assistance treaty between SKN 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 four offshore banks, 1,884 international business companies, 43 international trusts, 17 international insurance companies, two money remitters, three mutual fund administrators, nine registered agents and three registered trustees (service providers) and a total of 30 domestic financial institutions. 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 2005, the FIU received 85 suspicious transaction reports. There has 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. Counter-terrorism 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, including adopting civil forfeiture legislation.

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 six offshore banks, 6,632 international business corporations, 14 offshore insurance companies, 29 mutual funds, 33 registered agents, and 114 international trusts. No physical presence is required for offshore financial institutions and businesses. Nominee directors are not mandatory except where an international business corporation is formed to

carry on banking business. Bearer shares are permitted for international business corporations but not for banks. The domestic sector comprises of 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 International Financial Services Authority (IFSA). The agreement includes provisions for joint on-site inspections to evaluate the financial soundness and anti-money laundering programs of offshore banks. The IFSA 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 IFSA by appointing five new members to the IFSA 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. Financial institutions are required to maintain all records relating to transactions for a minimum of seven years. Reporting is required for all suspicious activities despite the transaction amount. Customers are required to complete a source of funds declaration for a cash transaction over \$10,000 ECD (\$3,703). However, it is not mandatory to report other transactions exceeding \$10,000 ECD.

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 November 2005, the FIU had received 104 suspicious activity reports for the year and almost 500 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; however, there were five money laundering cases pending in 2005. In 2005 the GOSVG froze approximately 500,254 ECD (\$185,279) and seized \$396,232 ECD (\$146,753). In 2003, the GOSVG reintroduced a customs declaration form to be completed by incoming travelers. Incoming travelers are required to declare currency over approximately \$3,703.

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. 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.

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. The GOSVG should also 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. In addition, the GOSVG should pass civil forfeiture legislation and consider the utility of special investigative techniques.

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.

Although the Money Laundering Act of 2001 (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. As a result, the Central Bank of Swaziland and the Ministry of Finance have assisted in drafting amendments to the Act for review by the Cabinet. 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. As of June 30, 2005, all existing customers of Swaziland's financial institutions must 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. As of November 2005, the Central Bank received an estimated 75 reports of suspicious transactions. The police bear responsibility for investigating such cases, but no investigations have taken place. 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. 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.

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.

Switzerland

Switzerland is a major international financial center, with some 338 banks and a large number of non-bank financial intermediaries. Authorities suspect that Switzerland is vulnerable at the layering and

integration stages of the money laundering process. 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 also make Switzerland attractive to potential money launderers. However, Swiss authorities are aware of this and are sensitive to the size of the Swiss banking industry relative to the size of the economy. Total assets and liabilities in Swiss banking institutions were over 2.4 trillion Swiss francs (\$1.8 trillion) in 2004, with foreigners accounting for over half of this figure. By comparison, Switzerland's GDP in 2004 was approximately \$250 billion.

Reporting indicates that criminals attempt to launder proceeds in Switzerland from a wide range of illegal activities conducted worldwide, particularly financial crimes, narcotics trafficking, arms trafficking, organized crime, and corruption. Although both Swiss and foreign individuals or entities conduct money laundering activities in Switzerland, narcotics-related money laundering operations are largely controlled by foreign narcotics trafficking organizations, often from the Balkans or Eastern Europe. Some of the money generated by Albanian narcotics trafficking rings in Switzerland has been funneled to armed Albanian extremists in the Balkans.

Swiss bank accounts also frequently figure in investigations of fraud and corruption of government officials and leaders, most often from foreign countries. Recent examples of public figures that have been the subject of money laundering allegations or investigations include a former Kyrgyzstan President, a former Russian Minister of Atomic Energy, and the son of the Nigerian dictator Sani Abacha. The former Swiss Ambassador to Luxembourg was sentenced to three and a half years in jail for money laundering and other crimes in June 2005.

Money laundering is a criminal offense in Switzerland. Swiss law, however, does not recognize certain types of criminal offenses as predicate offenses for money laundering, including illegal trafficking in migrants, counterfeiting and pirating of products, smuggling, insider trading, and market manipulation. The adoption of anti-money laundering (AML) regulations planned for 2007 will make these crimes predicate offenses.

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.

Swiss money laundering laws and regulations apply to both banks and non-bank financial institutions. The Federal Banking Commission, the Federal Office of Private Insurance, and the Swiss Federal Gaming Board serve as primary oversight authorities for a number of financial intermediaries, including banks, securities dealers, insurance institutions, and casinos. Other financial intermediaries are required to either come under the direct supervision of the Money Laundering Control Authority (MLCA) of the Federal Finance Department or join an accredited self-regulatory organization (SRO). The SROs are non-governmental self-regulating organizations authorized by the Swiss government to oversee implementation of AML measures by their members. 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 6,000 financial intermediaries are associated with SROs; the majority of these are financial management companies.

The Swiss Federal Banking Commission's AML regulations were revised in 2002 and became effective in 2003. These 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 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 regulations require increased due diligence in the cases of politically exposed persons by

ensuring that decisions to commence relationships with such persons be undertaken by at least one member of the senior executive body of a firm. All provisions apply to correspondent banking relationships as well. Swiss banks may not maintain business relationships with shell banks (banks with no physical presence at their place of incorporation), but there is no requirement that banks ensure that foreign clients do not authorize shell banks to access their accounts in Swiss banks.

The 2002 Banking Commission regulations mandate that all cross-border wire transfers must contain identifying details about the funds' remitters, though banks and other covered entities may omit such information for "legitimate reasons." The Swiss Federal Banking Commission has said that there are no plans at the moment to follow EU regulations aimed at registering names, addresses, and account numbers of everyone making even small money transfers between EU member states.

In July 2003, the government-sponsored Zimmerli Commission, tasked by the Department of Finance with examining reform of finance market regulators, presented 46 recommendations. Among the most far-reaching of these was the recommendation to merge the Federal Banking Commission and the Federal Office for Private Insurance—the institutions supervising the banking and insurance sectors—into a single, integrated financial market supervision body, to be called FINMA. In November 2004, the Cabinet instructed the Department of Finance to draft a parliamentary bill providing for the establishment of FINMA. Under the Cabinet's proposal, MLCA would also be included within the FINMA. The draft bill is scheduled for submission to Parliament by early 2006.

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. Pursuant to an agreement signed by the EU and Switzerland in 2004, EU residents have tax withheld on interest payments from savings accounts. This measure, enacted in concert with the EU's Savings Directive (2003/48/EC), was implemented on July 1, 2005, and may reduce the use of Swiss bank accounts by EU residents.

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.

Switzerland has duty free zones. The customs authorities supervise the admission into and the removal of goods from customs warehouses. Warehoused goods may only undergo manipulations necessary for their maintenance, 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, all apply. In view of the fact that customs authorities may and frequently do 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.

Switzerland ranks fifth in the highly profitable artwork trading market, exporting \$686 million worth of artwork worldwide in 2004. 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 in this area, having purchased \$253 million worth of "Swiss" works of art in 2004. The 2003 Cultural Property Transfer Act, implemented in 2005, codifies in Swiss law elements of the 1970 United Nations Educational, Scientific, and Cultural Organization (UNESCO) Convention. This measure increases from five to thirty years the time period during which stolen

pieces of art may be confiscated from those who purchased them in good faith. The law also allows police forces to search bonded warehouses and art galleries.

The Money Laundering Reporting Office Switzerland (MROS) is Switzerland's financial intelligence unit (FIU), charged with receiving and processing suspicious transaction reports (STRs). MROS does not have any investigative powers of its own nor can it obtain additional information from reporting entities after receiving a STR. In 2004, the number of STRs received by MROS fell by five percent over 2003, with 821 reports involving approximately \$586 million. As in 2002 and 2003, the majority of reports came from money transmitters where funds transfers are conducted quickly and the rapid-turnover does not allow the financial intermediary the same ability as a bank or a fiduciary to gather background information on a transaction, thus arousing greater suspicion.

At the same time, the number of STRs provided by banks in 2004 increased relative to 2003, both in absolute numbers (from 302 to 340) and in terms of the percentage of all STRs (from 35 percent to 41 percent). Banks increasingly reported attempts at money laundering by prospective clients prior to the establishment of a banking relationship, which has resulted in a government plan to make the reporting of attempted money laundering mandatory for all financial intermediaries.

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. In the past, the individual cantons (administrative components of the Swiss Confederation) were charged with investigating money laundering offenses. 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 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.

Swiss legislation permits "spontaneous transmittal," a process 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.

Revisions to the Swiss Penal Code regarding terrorist financing, adopted by the Swiss Parliament in March 2003, entered into force on October 1, 2003. Article 260quinquies of the Penal Code provides for a maximum sentence of five years' imprisonment for terrorist financing. Article 100quater of the Penal Code, also added in 2003, extends criminal liability for terrorist financing to include companies. The FATF's 2005 mutual evaluation of Switzerland found it "largely compliant" with FATF Special Recommendation II regarding the criminalization of terrorist financing; however, it noted that the Swiss Penal Code criminalizes the financing of an act of criminal violence, not the financing of an individual, independent of a particular act.

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 the assets of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list.

Along with the U.S. 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 relevant 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 consolidated list has yet to be determined.

In the 2004 reporting period, MROS received reports of eleven cases possibly linked to the funding of terrorism, up from five reports in 2003. The total amount of money involved was \$683,100. Four of the eleven reports involved Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. All eleven reports were forwarded to law enforcement agencies.

Switzerland has ratified the Council of Europe's 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. Switzerland ratified the 1988 UN Drug Convention on September 14, 2005.

Swiss authorities cooperate with counterpart bodies from other countries. Requests from FinCEN, the U.S. FIU, accounted for eight percent of requests received by MROS from foreign FIUs. Switzerland has a mutual legal assistance treaty in place with the United States, and Swiss law allows authorities to furnish information to U.S. regulatory agencies, provided it is kept confidential and used for supervisory purposes. Switzerland is a member of the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision, and its FIU is a member of the Egmont Group.

The FATF conducted a mutual evaluation of Switzerland's anti-money laundering (AML) and counterterrorist financing (CTF) regime in 2005. The FATF concluded that Switzerland was at least partially compliant in most areas. However, the evaluators found Switzerland to be non-compliant with respect to correspondent banking, beneficial ownership of legal persons, and cash couriers.

The Government of Switzerland hopes 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 know-your-customer procedures address the issues, rather than relying on an early-warning system on all filed transactions. The Swiss Government believes that because of the due diligence approach the Swiss have taken, there are fewer STRs filed than in some other countries. At the same time, 75 percent of the STRs that are filed lead to the opening of criminal investigations.

While generally positive, Switzerland's recent FATF mutual evaluation report nonetheless identified weaknesses in the Swiss anti-money laundering and counterterrorist financing regime, including problems with correspondent banking, identification of beneficial owners, and the cross-border transportation of currency. The Government of Switzerland should continue to improve on its regime while simultaneously working toward full implementation of existing laws and regulations. It should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Syria

Syria, a designated State Sponsor of terrorism, is not an important regional or offshore financial center, due primarily to its still under-developed private banking sector and the fact that the Syrian Pound (SYP) is not a fully convertible currency. However, there remain significant AML/CFT vulnerabilities in Syria's financial and non-bank financial sectors that have not been addressed by necessary legislation or other government action. In addition, Syria's black market hawaladars are unregulated, and the country's borders remain porous. Most of the money laundering threat is believed to be of domestic origin and to involve Syria's political and business elite, whose corruption and extra-legal activities represent the biggest obstacle to Syria fully choking off money laundering and terrorist financing activities.

Syria's free trade zones also may provide an easy entry or transit point for the proceeds of criminal activities. There are seven free zones in Syria, serviced mostly by subsidiaries of Lebanese banks, including BLOM Bank, BEMO (Banque Europeenne Pour le Moyen-Orient Sal), and BBAC (Bank of Beirut and Arab Countries). The volume of goods entering the free zones is estimated to be in the billions of dollars, since all automobiles and automotive parts enter the zones free of customs tariffs before being imported into Syria. There also is a significant amount of trade that transits Syria through the zones, gaining Syrian value added before being shipped to foreign markets. While all industries and financial institutions located in the free zones must be registered with the General Organization for Free Zones, which is located in the Ministry of Economy and Trade, the Syrian General Directorate of Customs does not have strong procedures to check country of origin certification or the resources to adequately monitor goods that enter Syria through the zones. There are indications that Syrians have used the free zones to import goods into Syria in violation of USG sanctions under the Syrian Accountability and Lebanese Sovereignty Act.

The banking sector is dominated by the Commercial Bank of Syria (CBS), which holds almost 90 percent of all deposits and controls most of the country's foreign currency reserves. With the liberalization of the sector and competition from the private banks, the CBS is preparing to provide a range of retail services and more competitive interest rates. However, the CBS and the country's four other specialized public banks- the Agricultural Cooperative Bank, the Industrial Bank, the Real Estate Bank, and the People's Credit Bank- still primarily focus on financing Syria's public enterprises. In May 2004, the U.S. Department of the Treasury designated the 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, due to a reasonable belief that the CBS has been used by terrorists or persons associated with terrorist organizations and as a conduit for the laundering of proceeds generated from the illicit sale of Iraqi oil. This designation remains in place due to continued concerns that the CBS may still be exploited by criminal enterprises. However, the final rulemaking on the implementation of the special measure against the CBS has not been issued.

Syria began taking steps to develop a private banking sector in April 2001, with Law No. 28, which legalized private banking, and Law No. 29, which established rules on bank secrecy. Bank of Syria and Overseas, a subsidiary of Lebanon's BLOM Bank, was the first private bank to open in Syria in January 2004, followed quickly by Banque BEMO Saudi Fransi and the International Bank for Trade and Finance. Bank Audi became the fourth private bank in Syria, opening a Damascus branch in October 2005. The sector's total capitalization is small, approximately \$300 million, and while the banks report steady growth in their deposit accounts and are playing an increasing role in providing the business sector with foreign currency to finance imports, unnecessary regulations that do not allow banks to make money on their liquidity hamper the sector's continued development.

Recent legislation provides the Central Bank of Syria with new authority to oversee the banking sector and investigate financial crimes. The SARG passed Decree 59 in September 2003 to criminalize money laundering and create an Anti-Money Laundering Commission, which was established in May

2004. In response to international pressure to improve its AML/CFT regulations, the SARG passed Decree 33 in May 2005, which strengthens the Commission and lays the foundation for a functioning FIU. The Decree finalized the Commission's composition to include the Governor of the Central Bank, a Supreme Court Judge, the Deputy Minister of Finance, the Deputy Governor for Banking Affairs, the SARG's Legal Advisor, and will include the Chairman of the Syrian Financial Market once the Market is operational.

Under Decree 33, all banks and non-financial institutions are required to file Suspicious Activity Reports (SARs) with the Commission-which is acting as the FIU-for all transactions over \$10,000, as well as all suspicious transactions regardless of amount. The chairmen of Syria's private banks report that they employ internationally recognized "know your customer" (KYC) procedures to screen transactions and employ their own investigators to check suspicious accounts. In September 2005, the Commission informed banks that they must use KYC procedures to follow up on their customers every three years and maintain records on closed accounts for five years. Non-bank financial institutions are also to file SARs with the Commission, but many of them are still unfamiliar with the requirements of the law. The Syrian Chamber of Commerce has organized workshops for its membership about the law, but it will take some time for the information to penetrate the market.

Once a SAR has been filed, the Commission has the authority to conduct an investigation, waive bank secrecy on specific accounts in order to gather additional information, share information with the police and judicial authorities, and direct the police to carry out a criminal investigation. In addition, Decree 33 empowers the Governor of the Central Bank, who is the chairman of the Commission, to share information and sign Memoranda of Understanding (MOUs) with foreign FIUs. In November 2005, the Prime Minister announced that the Commission had completed an internal reorganization, creating four specialized units to: oversee financial investigations; share information with other SARG entities including customs, police and the judiciary; produce AML/CFT guidelines and verify their implementation; and develop a financial crimes database.

Decree 33 provides the Commission with a relatively broad definition of what constitutes a crime of money laundering, but one that does not fully meet international standards. The definition includes acts that attempt to conceal the proceeds of criminal activities, the act of knowingly helping a criminal launder funds, and the possession of money or property that resulted from the laundering of criminal proceeds. In addition, the law specifically lists thirteen crimes that are covered under the AML legislation, including narcotics offenses, fraud, and the theft of material for weapons of mass destruction. However, it is unclear whether terrorist financing is a predicate offense for money laundering or otherwise punishable under Decree 33.

While a SAR is under investigation, the Commission can freeze accounts of suspected money launderers for a non-renewable period of up to eighteen days. However, the Syrian judicial system moves slowly and there are some concerns that this period is too short to hinder criminal activities. The law also stipulates the sanctions for convicted money launderers, including a three to six-year jail sentence and a fine that is equal to or double the amount of money laundered. Further, the law allows the SARG to confiscate both the money and assets of the convicted money launderer. The Commission circulates among its private and public banks the names of suspected terrorists and terrorist organizations listed on the UNSCR 1267 Sanction Committee's consolidated list, and it has taken action to freeze the assets of designated individuals.

Despite the legislative powers of the Commission, only 100 suspicious transactions were reported in 2005, including SARs from the police who identified suspected money laundering activities in the course of other investigations. There have been no arrests or convictions in 2005. Since money laundering legislation is new, most judges are not yet familiar with the evidentiary requirements of the law. The Commission has estimated that it will take at least a year before Syria's judicial system is fully capable of prosecuting money laundering cases. The Commission further reported that it has not

conducted investigations into any of the SARs filed over the past year, and that its ongoing investigations are into the financial activities of individuals who already were charged and imprisoned for financial crimes before Decree 33 went into effect. The Commission itself is hampered by human resource constraints. It has a staff of six, and hopes to expand to fifteen by the end of 2006. Most of the staff has not received much training in AML/CFT detection, although the European Commission has expressed a willingness to establish a training center in the Central Bank.

Although Decree 33 provides the Central Bank with a foundation to combat money laundering, most Syrians still do not maintain bank accounts. Very few Syrians use checks or credit cards, and the use of ATM machines is relatively new. The Syrian economy is primarily cash-based, and Syrians use moneychangers, some of whom also act as hawaladars, for many financial transactions. It is illegal for persons to participate in the informal financial sector, but it remains significant. Estimates of the volume of business conducted in the black market by Syrian moneychangers range between \$15-70 million a day. Due to the lack of hard data on this sector, the SARG admits that it does not have visibility into the amount of money that currently is in circulation. The SARG has begun issuing new regulations to entice people to use the banking sector, including offering high interest Certificates of Deposit and allowing Syrians to access more foreign currency from banks when they are traveling abroad. In addition, the SARG has advertised a deadline of mid-January 2006 by which it hopes to pass a Moneychangers Law to regulate the sector. Once the Moneychangers Law is passed, the Commission will have the authority to monitor the sector under Decree 33. Until the SARG passes sufficient legislation and enforcement mechanisms, the hawaladars in Syria's black market remain a source of concern for money laundering and terrorist financing.

The SARG also has not updated its laws regarding charitable organizations to include strong AML/CFT language. While the SARG decided at the end of 2004 to restrict charitable organizations to only distributing non-financial assistance, the current laws do not require organizations to submit detailed financial information or information on their donors. However, the Commission has stated its intention to cooperate with the Ministry of Social Affairs to deal with this issue.

While the SARG maintains strict controls on the amount of money that individuals can take with them out of the country, there is a high incidence of cash smuggling across the Lebanese and Jordanian borders. Most of the smuggling involves the SYP, as there are strong markets for Syrian currency among expatriate workers and tourists in Lebanon, Jordan and the Gulf countries, although some of the smuggling may involve the proceeds of narcotics and other criminal activity as previously reported. In addition to cash smuggling, there also is a high rate of commodity smuggling out of Syria, particularly of diesel fuel, caused by individuals buying diesel domestically at the low subsidized rate and selling it for much higher prices in neighboring countries. There are reports that some smuggling is occurring with the knowledge of or perhaps even under the authority of the Syrian security services.

The General Directorate of Customs lacks the necessary staff and financial resources to effectively handle the problem of smuggling, and it currently lacks the means to share information among border posts or other government agencies. Customs recently announced that it plans to develop a special office to combat AML/CFT in coordination with the Ministry of Finance and Syria's security services, and plans to place cameras at all border posts and link them with a unified database. Customs currently lacks the infrastructure to effectively monitor or control even the legitimate movement of currency across its borders. Tourists are not required to declare the amount of money they are bringing into Syria, for instance. In order to combat corruption among customs officers, the General Directorate of Customs announced in December 2005 that it plans to ban all cash transactions at the borders, including the payment of customs duties, and will replace cash transactions with a system that utilizes pre-paid cards. However, most of the plans to unify and streamline customs procedures are far from being realized and depend upon technical and financial support from foreign donors.

Syria is one of the fourteen founding members of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body. In 2006, it is scheduled for a mutual evaluation by its peers in MENAFATF. In 2005, Syria hosted a team from the Egmont Group regarding the creation of its FIU. Syria has stated its intention to join the Egmont Group in the near future. In addition, Syria will host a legal team from FATF in early 2006, which will assess its progress in enforcing AML/CFT statutes. Syria is a party to the 1988 UN Drug Convention. In April 2005, it became a party to the International Convention on the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

While Syria has made strides throughout 2005 in developing AML/CFT regulations that govern its formal financial sector, non-bank financial institutions and the unregulated black market remain very vulnerable to money laundering and terrorist financiers. In addition, the General Directorate of Customs, the Central Bank and the judicial system in particular lack the resources to effectively implement AML/CFT legislation. Although the SARG has stated its intention to create the technical foundation through which different government agencies can share information about financial crimes, this does not exist to date. Syria should ratify the UN Convention against Transnational Organized Crime. It should criminalize terrorist financing or clarify that Decree 33 already does so. In addition, there are concerns that the SARG lacks the political will to punish terrorist financing or to classify what it sees as legitimate resistance groups as terrorist organizations. Further, corruption at the highest levels of government and business may be the biggest obstacle to developing a comprehensive and effective AML/CFT regime.

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. In 2005, the number of drug-related cases investigated, and the amount of illegal drugs seized has risen markedly. 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. Most illegal or unregulated financial activities are related to tax evasion, fraud, or intellectual-property violations. According to suspicious activity reports (SARs) filed by financial institutions on Taiwan, the predicate crimes commonly linked to SARs include financial crimes, corruption, narcotics, and other general crimes.

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 (parliament) 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 to the MLPC of significant currency transactions of over New Taiwan Dollars (TDW)1 million (approximately \$30,000). 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 2003 MLCA 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.

Taiwan also set up a single financial regulator, the Financial Supervisory Commission (FSC) on July 1, 2004. The FSC consolidates the functions of regulatory monitoring for the banking, securities, futures and insurance industries, and also conducts financial examinations across these sectors. In mid-December 2005, the Financial Supervisory Commission (FSC) began an incentive program for the public to provide information on financial crimes. The reward for information on a financial case with fines of TDW 10 million (approximately \$300,000) or at least a one-year sentence is up to TDW 500,000 (approximately \$15,000). The reward for information on a case with a fine of between TDW 2-10 million (approximately \$60,000-\$300,000) or less than a one-year sentence is up to TDW 200,000 (approximately \$6,000).

Two new articles added to the 2003 amendments to the MLCA granted prosecutors and judges the power to freeze assets related to suspicious transactions and gave 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. The time limit for reporting cash transactions of over TDW 1 million (approximately \$39,000) is within five business days. Banks are barred from informing customers that a suspicious transaction report has been filed. 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 issued instructions requiring 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 TDW 200,000-1 million (\$7,800-\$39,000) for not following the MLPA.

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 (CB), and MLPC. These supervisory agencies conduct background checks on applicants for banking and business licenses. Offshore casinos and Internet gambling sites are illegal.

On January 5, 2006, the Offshore Business Unit (OBU) Amendment was ratified to allow expansion of OBU operations to the same scope as Domestic Business Units (DBU). This was done to assist China-based Taiwan businesspeople in financing their offshore business operations. DBUs engaging in cross-strait financial business must follow the regulations of the “Act Governing Relations between Peoples of the Taiwan Area and the Mainland Area” and “Regulations Governing Approval of Banks to Engage in Financial Activities between the Taiwan Area and the Mainland Area.” The Competent Authority, as referred to in these Regulations, is the Ministry of Finance.

Taiwan prosecuted 947 cases involving financial crimes from January to October 2005. Among these cases, 871 involved unregistered trading in stock markets, credit-card theft, currency counterfeiting, or fraud. Among the other money laundering cases, six were corruption-related and two were drug-related. In addition, the number of drug-related investigations jumped markedly in 2005, from 64,497 in January-November 2004 to 81,058 in January-November 2005. Among these 81,058 drug cases, 80,858 investigations were completed, 27,152 subjects were indicted, and 21,206 subjects were cleared. From January-October 2005, the volume of seized drugs totaled 12,728 kilograms, about 66.3 percent higher than that seized in the same period of 2004.

Individuals are required to report currency transported into or out of Taiwan in excess of TDW 60,000 (approximately \$1,850). Starting in March 2004, transactions over 6,000 Chinese renminbi (\$725)

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must also be reported. When foreign currency in excess of TDW 500,000 (approximately \$15,400) 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. Effective September 2003, the Directorate General of Customs assumed responsibility 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 TDW 1.5 million (approximately \$58,500).

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 December 2005 it was still under review by the Legislative Yuan. 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 proposed 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 UN 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. Although as noted above Taiwan does not have the authority to confiscate the assets, the MLCA was amended to allow the freezing of accounts suspected of being linked to terrorism.

Alternative remittance systems, or underground banks, are considered to be operating in violation of Banking Law Article 29. Authorities in 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 in 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 required to register with the government.

All of Taiwan’s five free trade zones, including Taipei Free Trade Zone, Taichung Free Trade Zone, Keelung Free Trade Zone, Kaohsiung Free Trade Zone, and Taoyuan Air Cargo Free Trade Zone have opened since 2004. According to the Center for Economic Deregulation and Innovation (CEDI) under the Council for Economic Planning & Development, by the end of 2005 there were seven shipping and logistics companies listed in the Kaohsiung Free Trade Zone, four in Taichung Free Trade Zone, five

in Keelung Free Trade Zone, one in Taipei Free Trade Zone, and 49 manufacturers and enterprises in Taoyuan Air Cargo Free Trade Zone.

According to Taiwan's Banking Law and Securities Trading Law, in order for a financial institution to conduct foreign currency operations, Taiwan's Central Bank must first grant approval. The financial institution must then submit an application to port authorities to establish an offshore banking unit (OBU) in the free-trade zone. No financial entity has yet applied to establish such an OBU in any of the five free trade zones.

Taiwan has established drug-related asset seizure and forfeiture regulations that 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 that 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. 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 people 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 in 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 in 2005, was elected to the APG steering committee. The MLPC is a member of the Egmont Group of Financial Intelligence Units. The Investigation Bureau of the Ministry of Justice expanded information exchanges with various countries/jurisdictions from 17 jurisdictions in 2004 to 20 in 2005.

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.

Tanzania

Tanzania is not considered an important regional financial center, but it 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 money laundering difficult to track and prosecute. Officials suspect 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 even more likely to occur in the informal non-bank financial sector, as the formal sector is still relatively undeveloped. Front companies used to launder funds include hawaladars and bureaux de change, especially on the island of Zanzibar, where fewer federal regulations apply. Officials indicate that money laundering schemes in Zanzibar generally take the form of foreign investment in the tourist industry and bulk cash

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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.

Current law does not include banker negligence laws. 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, the Bank of Tanzania (BOT), has issued regulations requiring financial institutions to file suspicious transaction reports (STRs), but this requirement is not being enforced, and no mechanism currently exists for receiving and analyzing the STRs.

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 BOT circulates to Tanzanian financial institutions the names of suspected terrorists and terrorist organizations 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 U.S. in investigating and combating terrorism and exchanging counterterrorism information. There are no specific laws in place allowing Tanzania to exchange record with the U.S. on narcotics transactions and narcotics-related money laundering.

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. It has not yet signed the UN Convention against Transnational Organized Crime. Tanzania is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). 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 annual ESAAMLG task force meetings.

Tanzania has created a multi-disciplinary committee on money laundering and a drafting committee that has prepared new anti-money laundering (AML) legislation. A Tanzanian Ministry of Finance (MOF) official stated in August 2004 that the drafting committee was in the process of receiving comments on the language of its draft bill from various stakeholders, and that the bill would likely be presented to the Parliament in January 2005. However, the GOT delayed tabling the AML legislation in Parliament. The national multi-disciplinary committee, established with the help of ESAAMLG, revised the draft AML bill from January through May 2005, gaining additional stakeholder input. In May 2005, the Committee presented the AML legislation to the Cabinet for approval. According to officials from the MOF and the BOT, the Cabinet failed to approve and send the AML bill to Parliament due to time constraints and focus on the 2005 national elections. Representatives from the multi-disciplinary committee are hopeful that the legislation will be tabled in Parliament as early as February 2006. Among its other provisions, 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.

Money laundering controls and reporting requirements are not currently applied to non-bank financial institutions, such as cash couriers, casinos, hawaladars and bureaux de change. The draft AML bill

includes the expansion of money laundering controls to cover such institutions. Currently, the BOT supervises bureaux de change through annual audits and inspections, while the National Gaming Authority supervises casinos and other gaming activities involving large sums of money, including lotteries. There are no legal requirements for non-bank financial institutions to report suspicious transactions. There are currently no cross-border currency reporting requirements, even for cash couriers, although the Proceeds of Crime Act does characterize cash smuggling as a “predicate offense.” The draft AML bill includes strengthened provisions to criminalize cash smuggling in and out of Tanzania.

The Government of Tanzania should finally enact and implement the anti-money laundering law that has been under review for several years. It should continue to work through the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) to establish the financial intelligence unit (FIU) mandated in the draft law and to otherwise develop a comprehensive anti-money laundering regime that comports with international standards. It should become a party to the UN Convention against Transnational Organized Crime.

Thailand

Thailand is vulnerable to money laundering from its significant underground economy as well as from all types of cross-border crime including illicit narcotics, contraband, and smuggling. Money launderers use both the banking and non-banking financial institutions and private businesses to move funds from narcotics trafficking and other criminal enterprises. As the amount of opium and heroin produced in the Golden Triangle region of Burma, Laos, and Thailand decreased during the past decade, drug traffickers transitioned to importing and distributing methamphetamine tablets, and began using commercial banks to hide and move their proceeds. Thailand is a significant destination and source country for international migrant smuggling and trafficking in persons, a production and distribution center for counterfeit consumer goods, and increasingly a center for the production and sale of fraudulent travel documents. Banks and alternative remittance systems are illegally used to shelter and move funds produced by all of these activities as well as by illegal gambling, illegal lotteries, and prostitution. The majority of reported money laundering cases is narcotics-related, and there is no pervasive evidence of money laundering ties in Thailand with international terrorist groups. The Thai black market for smuggled goods includes pirated goods as well as automobiles from neighboring nations.

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, public fraud, blackmail, and terrorist activity. 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 more than 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 and terrorist financing 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, consistent with Recommendations 1 and 2 of the Forty Recommendations of the Financial Action Task Force (FATF), 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. Proposed amendments

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pending with the Cabinet since 2004 would expand the list of predicate offenses to include environmental crimes, foreign exchange violations, illegal gambling, arms trafficking, labor fraud, bid rigging, share manipulation, and excise tax offenses. However, even with the enactment of these additional predicate offenses, the list will still be deficient under international standards as it excludes, among other crimes, intellectual property rights offenses. The proposed amendments to AMLA would also create a forfeiture fund and authorize international asset sharing with cooperating jurisdictions.

The AMLA created the Anti-Money Laundering Office (AMLO), Thailand's financial intelligence unit (FIU), which became fully operational in 2001. When first established, AMLO reported directly to the Prime Minister. In October 2002, pursuant to a reorganization of the executive branch, AMLO was designated as an independent agency under the Minister of Justice. AMLO receives, analyzes, and processes suspicious and large transaction reports, as required by the AMLA. In addition, AMLO is responsible for investigating money laundering cases for civil forfeiture and for the custody, management, and disposal of seized and forfeited property. AMLO is also tasked with providing training to the public and private sectors concerning 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. Under the authority of MOUs with other domestic agencies as well as with 23 foreign entities, a total of 57 convictions was a result of 1,215 financial crimes investigations in 2005. AMLO, the Royal Thai Police Special Branch, and the Royal Thai Police Crimes Suppression Division are responsible for investigating financial crimes.

The Ministry of Justice also houses a criminal investigative agency, the Department of Special Investigations (DSI), which is separate from the Royal Thai Police although many DSI personnel originally were RTP officers. DSI has 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, including terrorism. The DSI, AMLO, and the Royal Thai police all have authority to identify, freeze, and/or forfeit terrorist finance-related assets.

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) who cooperate with law enforcement entities are protected from liability. 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 AMLO the authority to compel a financial institution to disclose such information.

The Bank of Thailand (BOT), Securities Exchange Commission, and AMLO are empowered to supervise and examine financial institutions for compliance with anti-money laundering/counterterrorist financial laws and regulations. Anti-money laundering controls are also enforced by other Royal Thai Government regulatory agencies, including the Board of Trade, Securities and Exchange Commission, and the Department of Insurance. Financial institutions that are required to report suspicious activities are broadly defined by the AMLA as any business or juristic person undertaking banking or non-banking business. The land registration 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 Money Exchange Act of B.E. 2485 (1942), amended in 1984, requires reporting of cash carried in or out of the country in excess of 50,000 baht (approximately \$1,250), which is still enforced in theory

but is unrealistic in amount. There is no limitation on the amount of foreign currency that a person can take in or out of Thailand, but it has to be reported. A customer can transfer an unlimited amount of money through a commercial bank, with the required supporting documentation.

Although the Bank of Thailand regulates financial institutions in Thailand, 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, although no such audits have occurred as of yet.

Thailand is not an offshore financial center nor does it host offshore banks, shell companies, or trusts. 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 subject to the AMLA.

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.

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 (approximately \$10,500). The proposal is not 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.

In February 2006, the AMLO Board will consider the issuance of an announcement or regulation to subject gold shops, jewelry stores, and car dealers to either mandatory transactional reporting requirements and/or suspicious transactions reporting requirements over a specified but as of yet undetermined amount. The proposal will also subject those who fail to report to a maximum fine of Bt 300,000 (approximately \$78 75). The relevant ministries and regulatory authorities would then issue orders consistent with the AMLO Board pronouncement. Thailand has more than 6,000 gold shops and 1,000 gem traders that would be subject to these reporting requirements.

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

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(including terrorism). Remittance and money transfer agents, including informal remittance businesses, require a license from the Ministry of Finance. Guidelines issued in August 2004 by the Ministry of Finance and the BOT prescribe that 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 applicant's criminal history and AML record. At present, moneychangers have to report financial transactions to the Anti-Money Laundering Office (AMLO), while remittance agents do not. Licensed agents are subject to monthly transaction reporting and a 3-year record maintenance requirement. At present, there are about 270 authorized moneychangers and five remittance agents. The Bank of Thailand limited in 2004 the annual transaction volume for agents to \$60,000 for offices in the Bangkok area and \$30,000 for offices located in other areas. Moneychangers frequently act as illegal remittance agents.

Pursuant to an MOU with AMLO, Royal Thai Customs shares information and evidence of smuggling and customs evasion involving goods or cash exceeding Bt 1 million (approximately \$ 26,250)..

Money and property may be seized under Section 3 of the AMLA if derived from commission of a predicate offense, from aiding or abetting commission of a predicate offense, or if derived from the sale, distribution, or transfer of such money or asset. AMLO is responsible for tracing, freezing, and seizing assets. Instruments that are used to support crime such as vehicles or farms are subject to seizure under the Criminal Asset Forfeiture Act of 1991, and unlike the AMLA, require a criminal conviction as a pre-requisite to a final forfeiture. The AMLA makes no provision for substitute seizures if authorities cannot prove a relationship between the asset and the predicate offense. Overall, the banking community in Thailand provides good cooperation to AMLO's efforts to trace funds and seize/freeze bank accounts.

The Bank of Thailand (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, there are no regulations that give the BOT 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.

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 receive personal commissions on the property they seize that is ultimately forfeited. The United States as well as several other countries and international organizations, including the UNODC, have criticized this system of personal rewards on the grounds that it threatens the integrity of its AML regime and creates a conflict of interest by giving law enforcement officers a direct financial stake in the outcome of forfeiture cases. The United States and others have called on the RTG to rescind the reward regulation. Despite initial promises to end the system of personal commissions to law enforcement officers, Thailand has been disappointingly slow to address and correct this discredited practice. As a consequence, the U.S. Government (USG) has ceased providing training and other assistance to AMLO while the rewards practice remains in place. 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 (approximately \$4 million) and 1,644 cases are on trial. Thai authorities seized the equivalent of \$18.7 million in non-terrorist assets during 2005, compared to \$16.52 million in 2004, and \$56.3 million in 2003. The high success rate in 2003 occurred during the Prime Minister's much-criticized war on drugs that year, in which more than 2,000 extra-judicial killings occurred.

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), but not yet ratified the UN Convention against Corruption. The RTG has issued instructions to all authorities to comply with UNSCR 1267, including the freezing of funds or financial resources belonging to suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. To date, Thailand has not identified, frozen, and/or seized any assets linked to individuals or entities included on the UNSCR 1267 Sanctions Committee's 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. AMLO has memoranda of understanding on money laundering cooperation with 23 other financial intelligence units (Belgium, Brazil, Lebanon, Indonesia, Romania, UK, Finland, Republic of Korea, Australia, Portugal, Andorra, Estonia, Philippines, Poland, Mauritius, Netherlands, Georgia, Monaco, Malaysia, Bulgaria, St. Vincent and the Grenadines, Ukraine, and Myanmar). AMLO is currently pursuing FIU agreements with 15 more. It nonetheless actively exchanges information with nations with which it has not entered into an MOU, including the United States, Singapore, and Canada. Thailand cooperates with USG and other nations' law enforcement authorities on a range of money laundering and illicit narcotics related investigations. AMLO responded to 99 requests for information from foreign FIUs in 2005. 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 money laundering law should be amended to include the minimum list of acceptable designated categories of offenses prescribed by FATF and to make the "structuring" of transactions an offense. While the AMLA already captures proceeds of crime, it should be amended to include instrumentalities of offenses. Non-bank financial institutions and businesses such as gold shops, jewelry stores and car dealers should be subject to suspicious transaction reporting requirement without regard to a threshold. The insurance and securities sectors should institute AML compliance programs. AMLO should undertake audits of financial institutions to ensure compliance 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.

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 can further strengthen its anti-money laundering regime by promulgating cross border currency control regulations that are currently pending in the Office of Secretary of the Cabinet. Thailand should ratify the UN Convention against Transnational Organized Crime. Thailand should also immediately rescind its 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.

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. 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.

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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) in 2005 passed a tax administration reform law, with the goal of improving tax collection. 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. Turkey is not an offshore financial center.

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, reportedly through alternative remittance systems. The funds are transferred to accounts in the United Arab Emirates, Pakistan, and other Middle Eastern countries. The money is then paid to the Pakistani and Afghan traffickers.

Turkey first criminalized money laundering in 1996. The law included a wide range of predicate offenses, including narcotics-related crimes, smuggling of arms and antiquities, terrorism, counterfeiting, and trafficking in human organs and in persons. Under the law, whoever commits a money laundering offense faces a sentence of two to five years in prison, 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 transaction 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 took effect in June 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 also came into effect in June 2005.

In July 2001, the Ministry of Finance issued a banking regulation circular requiring all banks, including the Central Bank, securities companies, post office banks, and Islamic financial houses, 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. 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 requirements are intended to increase the Government's ability to track suspicious financial transactions. Turkey does not have bank 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 withhold the requested items by claiming the protection provided by privacy provisions in order to avoid submitting the requested items. A new Banking Law was enacted in 2005 to strengthen bank supervision, pursuant to which the Banking Regulatory and Supervisory Agency (BRSA) conducts periodic anti-money laundering and compliance reviews under authority delegated by MASAK. The number of STRs currently being filed is quite low, even taking into consideration the fact that many commercial transactions are conducted in cash. A possible reason for this is the lack of safe harbor protection for bankers and other filers of STRs. In 2004, 289 STRs were filed; for the period January-November 2005, 266 STRs were filed.

Turkey does not have foreign exchange restrictions. With limited exceptions, 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. Turkey does have cross-border currency reporting requirements.

MASAK was established by the 1996 anti-money laundering law as part of the Ministry of Finance. MASAK became operational in 1997, and it serves as Turkey's Financial Intelligence Unit (FIU), receiving, analyzing, and referring STRs for investigation. Under current law, MASAK has three functions: regulatory, financial intelligence, and investigative. MASAK plays a pivotal role between the financial community, on the one hand, and Turkish law enforcement, investigators, and judiciary, on the other. MASAK's most critical training and equipment needs are being addressed by a European Union accession project, which is expected to end in June 2006.

In November 2005, the GOT submitted to Parliament a new law under which MASAK would cede its investigative function to the Public Prosecutor's Office, while retaining its financial intelligence and regulatory roles. The proposed law would reorganize MASAK along functional lines, explicitly criminalize the financing of terrorism, and provide safe harbor protection to the filers of STRs. The law also expands the range of entities subject to reporting requirements, to include art dealers, pension funds, exchange houses, jewelry stores, notaries, sports clubs, and real estate companies. It also specifies sanctions for failure to comply. The law is currently under review in Parliament, and passage is expected in 2006. However, the current draft of the legislation does not expand upon Turkey's defining terrorism only in terms of attacks on Turkish nationals or the Turkish state.

According to MASAK statistics, it has pursued more than 2,100 money laundering investigations since its inception, but as of July 2005, only eight had resulted in convictions. One factor contributing to this low conviction rate is the fact that Turkey's police, prosecutors, judges, and investigators need additional training in dealing with financial crimes. In addition, there is a lack of coordination among law enforcement agencies, and between the courts that prosecute the predicate offenses and those that prosecute money laundering cases. Most of the cases involve non-narcotics criminal actions or tax evasion; roughly 30 percent are narcotics-related.

The GOT 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.

In February 2002, MASAK issued General Communiqué No. 3, which requires that a special type of STR be filed by financial institutions in cases of suspected terrorist financing. However, until the revised MASAK law is in place, terrorist financing is still not explicitly defined as a criminal offense under Turkish law. Various existing laws with provisions that can be used to punish the financing of terrorism include articles 220, 314, and 315 of the Turkish penal code, which prohibit assistance in any form to a criminal organization or to any organization that 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. The

GOT distributes to interested GOT agencies and financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list.

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 keeps a central registry of charities, and it 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. Alternative remittance systems are illegal in Turkey, and in theory only banks and authorized money transfer companies are permitted to transfer funds. However, there is anecdotal evidence that alternative remittance systems exist.

The Council of Ministers promulgated a decree (2483/2001) to freeze all the funds and financial assets of individuals and organizations included on the UNSCR 1267 Sanctions Committee's consolidated list, which is distributed to all relevant agencies and financial institutions. 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. According to MASAK statistics, no assets linked to terrorist organizations or terrorist activities were frozen in 2005. Turkey has a system for identifying, tracing, freezing, and seizing assets that are not related to terrorism, although the law allows only for their criminal forfeiture and not their administrative forfeiture. Article 7 of the anti-money laundering law 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, Articles 54 and 55 of the Criminal Code provide 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 or support terrorist activity, or are related to other criminal proceeds. Property or its value that is confiscated is transferred to the Treasury.

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. Turkey is a member of the Financial Action Task Force (FATF). 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, which came into force on February 1, 2005. In December 2005, Parliament's Foreign Affairs Committee adopted a draft law ratifying the UN Convention against Corruption, a step toward final ratification. However, Turkey's implementation efforts on UN anti-financial crime conventions have been weak thus far, and Turkey is probably not currently in compliance with the FATF's Special Recommendations on Terrorist Financing. The new MASAK law will improve Turkey's level of compliance with these special recommendations.

With the passage of several new pieces of legislation, the Government of Turkey took positive steps in 2005 to strengthen its anti-money laundering and counterterrorist financing regime. It now faces the challenge of decisively implementing these laws and of securing final passage of the MASAK law that will, among other provisions, specifically criminalize terrorist financing in support of international terrorist groups. Turkey should improve its coordination among the various entities charged with responsibility in its anti-money laundering and counterterrorist financing regime, including the various courts with responsibilities for these issues, in order to increase the number of successful

investigations and prosecutions. Turkey should also regulate and investigate alternative remittance networks to thwart their potential misuse by terrorist organizations or their supporters. It should also strengthen its oversight of charities.

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. 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. In 2005, the Financial Services Commission employed a staff of 22 and recently hired an experienced regulator to bolster the on-site examination process. 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 licensed 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. Currently, the FSC is rewriting the Trust legislation.

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 Managing Director of the FSC and the Head of the Financial Crimes Unit (FSU), 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 ten 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. However, 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. Recently, a number of on-site examinations were conducted and one resulted in an enforcement action against an institution. Notwithstanding, 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. It appears that a large percentage of the money laundering in Uganda stems from domestic criminal actions, often related to smuggling counterfeit products, and other financial fraud. 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, some of Uganda's weaknesses in monitoring financial transactions, and the widespread use of cash may make it a potential target for money laundering in the future. The Government of Uganda (GOU) does not effectively monitor cross-border financial activities. A draft comprehensive anti-money laundering bill based on the Financial Action Task Force's (FATF) Forty Recommendations has yet to be adopted by Parliament. The GOU anticipates the legislation will be passed after the national elections scheduled for February or March 2006.

Annual remittances from Ugandans living abroad are estimated at over \$800 million. Money laundering also occurs in the informal financial sector. Many Ugandans working abroad use alternate,

cash-based, informal remittance systems to send money back to their families. The extensive use of cash instead of other financial instruments, even for major purchases such as real estate, further hinders the ability of authorities to monitor financial transactions. Many establishments in Uganda 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 determine whether 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 \$24 million World Bank credit to establish EPZs. However, the GOU has yet to develop 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. Although some banks are implementing such guidelines, the GOU has been unwilling to enforce compliance. Until the draft anti-money laundering legislation passes, the GOU maintains only limited authority and ability to investigate and prosecute money laundering related violations. Despite the weaknesses in the laws, the Directorate of Public Prosecutions (DPP) reports that it has successfully prosecuted numerous cases relating to organized crime and money laundering.

Beginning in 2004, the Bank of Uganda circulated to financial institutions the list of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee’s consolidated list. The Bank of Uganda (BOU) has the power to freeze the assets of specific terrorist entities designated as terrorist organizations pursuant to the Anti-Terrorism Act (ATA) of 2002. The BOU also may require a bank to freeze customer assets in response to an outside request made in accord with a legally binding international convention to which Uganda has signed and ratified. The ATA criminalizes contributing, soliciting, controlling or managing funds used to support terrorism or terrorist organizations. Despite the ATA, GOU authorities believe they have limited powers to freeze or seize terrorist finance-related assets. The Solicitor General has said the draft anti-money laundering bill would significantly expand this authority allowing 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, the UN International Convention for the Suppression of the Financing of Terrorism, 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 pass the draft legislation pending since December 2003 to provide comprehensive anti-money laundering legislation that meets international standards. The GOU should establish a Financial Intelligence Unit (FIU). The GOU and financial sector should adopt better technology for efficient monitoring of financial transactions. Finally, the GOU should provide training to bankers, police investigators and prosecutors to improve awareness of money laundering schemes and their respective duties to prevent it.

Ukraine

Despite a government crackdown on corruption, organized crime, smuggling, and tax evasion, these problems continue to plague Ukraine’s economy and to provide an impetus to money laundering.

Trafficking in persons and other organized criminal activity also continue to be associated with money laundering. Among the new Government's initiatives are the reduction of import duties, new procedures for the Customs Service, and the introduction of more transparent procedures for the privatization of state enterprises. Ukraine's revised budget, passed in March 2005, eliminated the eleven Free Economic Zones (FEZs), and nine Priority Development Territories, that had operated on Ukrainian territory. Legislative loopholes had permitted companies to misuse FEZ status, and to avoid taxes and import duties. It has been nearly two years since Ukraine adopted comprehensive anti-money laundering legislation and established its anti-money laundering regime, and the Government of Ukraine has introduced numerous legislative and regulatory improvements since that time.

In September 2001, the Financial Action Task Force (FATF) placed Ukraine on the list of non-cooperating countries and territories in the fight against money laundering (NCCT). The FATF's report noted that Ukraine lacked: a complete set of anti-money laundering laws; an efficient mandatory system for reporting suspicious transactions to a financial intelligence unit; adequate customer identification requirements; and adequate resources to combat money laundering. Following the FATF action, the United States Treasury Department issued an advisory to all U.S. financial institutions instructing them to "give enhanced scrutiny" to all transactions involving Ukraine. The FATF gave Ukraine until October 2002 to enact comprehensive and effective anti-money laundering legislation or face the possibility of a call on member countries to impose countermeasures.

At its September 2002 plenary, FATF extended its original October 2002 deadline until December 15, 2002. On November 28, 2002, the President signed into law Ukrainian Law No. 249-IV, an anti-money laundering package "On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime." On December 20, 2002, the FATF determined that Ukraine's AML statute did not meet international standards and recommended that FATF members impose countermeasures on Ukraine. Under Section 311 of the USA PATRIOT Act, the United States designated Ukraine as a jurisdiction of primary money laundering concern on December 20, 2002. In response to the imminent threat of countermeasures, Ukraine passed further comprehensive legislative amendments in December 2002 and February 2003. Immediately upon passage of the February amendments, the FATF withdrew its call for members to invoke countermeasures and the U.S. followed suit on April 17, 2003 by revoking Ukraine's designation under Section 311 of the USA PATRIOT Act as a jurisdiction of primary money laundering concern.

By passing comprehensive AML legislation, Ukraine was not only able to avoid the recommendation for countermeasures, but also to initiate the process of NCCT de-listing. At the FATF plenary in September 2003, Ukraine was invited to submit an implementation plan, and upon review by the FATF Europe Review Group (ERG), an on-site visit to assess Ukraine's progress in developing its anti-money laundering regime was conducted on January 19-23, 2004. The results of the on-site visit by the FATF evaluation team were reported to the FATF ERG prior to the Paris plenary on February 25, 2004. Ukraine was de-listed from the NCCT list in March 2004. Over one year after de-listing, Ukraine reported to the ERG on implementation of anti-money-laundering legislation. In December 2005, the Parliament passed legislation addressing the last of the FATF concerns regarding limitations on information exchange. If the President signs this law, the FATF's enhanced monitoring of Ukraine under the NCCT process may be near its end.

As a member of the Council of Europe, Ukraine has undergone three evaluations by that group's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), in May 2000 and September 2003. Although Ukraine criminalized drug money laundering in 1995, the initial 2000 mutual evaluation report was highly critical of Ukraine. The 2003 evaluation presented quite a different finding, as evaluators noted that a number of the previously noted deficiencies had been remedied, especially with regard to passage of a basic anti-money laundering law in November 2002.

Two subsequent sets of amendments adopted in December 2002 and February 2003 have further helped bring Ukraine into compliance with internationally-recognized standards, as set forth by the FATF, the European Union (EU) directives on prevention of use of the financial system for money laundering purposes, and the Basel principles applicable to banks. Effective September 1, 2001, the Government of Ukraine (GOU) criminalized non-drug money laundering in the Criminal Code of Ukraine. Subsequent amendments adopted in January 2003 include willful blindness provisions and also expand the scope of predicate crimes for money laundering to include any action that is punishable under the criminal code by imprisonment of three years or more, excluding certain specified actions. Provisions in the criminal code also address drug-related money laundering offenses and provide for the confiscation of proceeds generated by criminal activities.

The GOU enacted the “Act on Banks and Banking Activities” (Act) of January 2001, which imposes anti-money laundering measures upon banking institutions. The Act prohibits banks from opening accounts for anonymous persons, requires the reporting of large transactions and suspicious transactions to state authorities, and provides for the lifting of bank secrecy pursuant to an order of a court, prosecutor, or specific state body. Further amendments in February 2003 require banks to establish and implement bank compliance programs, conduct due diligence to identify beneficial account owners prior to opening an account or conducting certain transactions, and maintain records on suspicious transactions and the people carrying them out for a period of five years. Cross-border transportation of cash sums exceeding \$1,000 must be declared by travelers. The National Bank of Ukraine (NBU) drafted amendments to the Act strengthening anti-money laundering requirements for banks. In particular, it requires: banks to provide information on bank owners and managers to the NBU; banks to install someone at a management level to be responsible for anti-money laundering supervision; and forbids banks to have correspondent accounts with shell banks.

In August 2001, “The Law on Financial Services and State Regulation of the Market of Financial Services” was signed. The law establishes regulatory controls over non-bank financial institutions that manage insurance, pension accounts, financial loans, or “any other financial services involving savings and money from individuals.” Specifically, the law defines financial “institutions” and “services,” imposes record keeping requirements on covered entities, and identifies the responsibilities of regulatory agencies. The law created the State Commission on Regulation of Financial Services Markets, which along with the National Bank of Ukraine and the State Commission on Securities and the Stock Exchange, has 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.

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.” Though the Parliament did not get enough votes to adopt a law intended to implement the revised FATF Forty Recommendations on Money Laundering, the Rada plans to vote on it again. The new law would expand the sphere of primary monitoring to include retail traders, lawyers, accountants, and traders of precious metals.

Legislation passed by the Parliament in December 2005 and expected to take effect January 1, 2006 has two major provisions. First, it orders the National Bank to develop procedures obligating banks to freeze assets for two days and immediately inform the FIU whenever a party to a transaction appears on the Cabinet of Minister’s list of beneficiaries of or parties to terrorist financing. Second, as discussed above, it improves the National Bank’s ability to initiate information exchange internationally on both money laundering and terrorist finance, in accordance with the FATF Recommendations.

The Parliament has not yet, however, passed legislation putting in place FATF’s Forty plus Nine recommendations. Instead, the government’s draft law was rejected in two votes in the Parliament in

2005. The government has redrafted the law, narrowing its scope to the FATF recommendations only, and leaving for other legislation certain new authorities and bureaucratic changes that had drawn opposition in the Parliament. The government has submitted the new draft to the Parliament, but it has not yet been scheduled for a vote.

The current AML law calls for customer identification, reporting of suspicious and unusual transactions to the State Committee for Financial Monitoring, and five years of record-keeping. It also mandates the establishment of anti-money laundering procedures in financial institutions such as banks, stock, securities, and commodity brokers, and insurance companies, among other entities. Subsequent amendments to Articles 5, 6, and 8, respectively, mandate establishment of bank compliance programs and appointment of bank compliance officers who may be subject to criminal liability for noncompliance. They also mandate that financial institutions identify beneficial owners of accounts, and that employees of entities of initial financial monitoring unconditionally report transactions suspected of relating to money laundering or terrorism financing. The AML legislation includes a “safe harbor” provision that protects reporting institutions from liability for cooperating with law enforcement agencies.

The monetary threshold beyond which transactions and operations are subject to compulsory financial monitoring was reduced in 2004 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 exists only if the transaction also meets one or more suspicious activity indicators as set forth in the law. Any transaction that is suspected of being connected to terrorist activity is to be reported to the appropriate authorities immediately.

On December 10, 2001, the Ukrainian Presidential Decree “Concerning the Establishment of a Financial Monitoring Department” mandated the creation of the State Department of Financial Monitoring (subsequently renamed the State Committee for Financial Monitoring -SCFM) by January 1, 2002, to function as Ukraine’s financial intelligence unit (FIU). Under the terms of this decree, the SCFM 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. With its law of March 18, 2004, the Rada granted the SCFM the status of a Central Executive agency, subordinating it to the Cabinet of Ministers, rather than the Finance Ministry. The change elevates the SCFM’s status and came into effect on January 1, 2005.

Since January 2005, the SCFM has opened five branches in Ukraine’s regions, and is in the process of establishing four more. Ultimately, the SCFM plans to have 15 such branches. Ukraine’s basic AML law establishes a two-tiered system of financial monitoring and combating of criminal proceeds, including terrorist financing provisions. It also identifies the participants: entities of initial financial monitoring, or those legal entities that carry out financial transactions; and entities of state financial monitoring, or those regulating entities charged with regulation and supervision of activities of the service providers. The overall regulatory authority is vested in the SCFM, which became operational on June 12, 2003, in accordance with Article 4 of the AML law.

The SCFM 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. The SCFM also has authority to conclude interagency agreements, and can exchange intelligence on financial transactions with a money laundering or terrorist financing nexus with other FIUs. As of October 2005, memoranda of understanding were concluded between the SCFM and the FIUs of Russia, Slovakia, Estonia, Spain, Belgium, the Czech Republic, Colombia, Georgia, France, Serbia, Poland, Romania, Portugal, Cyprus, Brazil, Panama, Macedonia, Bulgaria, Lithuania, Italy, Slovenia, Thailand, Mexico, Peru, and Albania.

Overall, the SCFM has demonstrated a high level of competence in processing, analyzing, and developing cases to the point, some believe, of establishing the equivalent of probable cause prior to referral to law enforcement. The SCFM has responded to foreign requests for information in a timely fashion and in exceptional detail and has become a regional leader in the volume of case information exchanged with counterpart FIUs. The SCFM acknowledges the existence and use of alternative remittance systems such as hawala in Ukraine. SCFM personnel have attended seminars and exchanged information about such systems. The SCFM and security agencies monitor charitable organizations and other nonprofit entities that might be used to finance terrorism.

In 2004, the SCFM received 725,959 suspicious transaction reports (STRs), the bulk of which have been reported by banks. Approximately eight percent of these have been identified by the FIU for “active research” and 164 separate cases have been sent to competent law enforcement agencies. From January to August 2005, the SCFM received about 422,000 STRs. Over that same period, the SCFM referred 67 cases to the General Prosecutor’s Office, 79 cases to the State Tax Administration, 91 cases to the Ministry for Internal Relations, and 93 cases to the Security Service. As a result of subsequent investigation, law enforcement agencies initiated 72 criminal cases, ten of which were brought to court. During the first half of 2005, law enforcement agencies (Prosecutor General’s Office, Ministry of Internal Affairs, Tax Police, State Security Service) completed investigation and transferred to court 164 criminal cases on money laundering charges. While the reporting system works as intended and the financial intelligence unit (FIU) has generated cases, law enforcement authorities and prosecutors have not shown notable success in bringing those cases to successful conclusion. Observers believe the key problem to be local prosecutors who close money laundering investigations and cases arbitrarily, likely because of corruption.

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 relevant 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 Unified State Informational System of Prevention and Counteraction of Money Laundering and Terrorism Financing. This is a functioning system that unites data bases of 17 ministries and agencies. In order to foster better interagency cooperation, on September 22, 2005, the Cabinet of Ministers adopted a resolution establishing a Governmental Coordination Council on Functioning of a Unified State Informational System. It unites high-level governmental officials in the Cabinet of Ministers, Ministries of Economy, Finance, Interior, Customs Office and others.

A draft resolution to give the Security Service of Ukraine authority to investigate terrorist financing based on international terrorist lists is pending before the Cabinet of Ministers. There is no explicit criminal penalty for terrorist financing. However, Article 258 of the Criminal Code envisages a criminal penalty for supporting terrorism. The GOU has cooperated with U.S. efforts to track and freeze the financial assets of terrorists and terrorist organizations. The National Bank of Ukraine (NBU), State Tax Administration, Ministry of Finance, and State Security Service (SBU) are fully aware of U.S. Executive Order (E.O.) 13224 and subsequent updates and addenda to the lists of suspected 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 suspected terrorists and terrorist organizations on the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. The GOU has also taken appropriate steps to implement UN Security Council resolutions relevant to fighting terrorism. The Cabinet of Ministers, on December 22, 1999, issued a resolution ordering agencies and banks to freeze Taliban funds as specified in the UN 1267 Sanctions Committee’s consolidated list. The amendments to the law passed in December 2005 will further strengthen Ukraine’s anti-money laundering regime.

In June 2004, the SCFM joined the Egmont Group. The SCFM received an invitation to participate in the Egmont working groups and in July was connected to the Egmont Secure Website (ESW), used for information exchange between FIUs. The U.S.-Ukraine Treaty on Mutual Legal Assistance in Criminal Matters was signed in 1998 and entered into force in February 2001. A bilateral Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital, which provides for the exchange of information in administrative, civil and criminal matters, is also in force.

Ukraine 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. Ukraine is a party to the European Convention on the Suppression of Terrorism, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Ukraine is also a signatory to the UN Convention against Corruption.

Ukraine has demonstrated considerable political will to combat money laundering by strengthening, clarifying, and implementing its newly adopted laws. As evidenced by the strides made by its FIU, the NBU, and other actors in the financial and legal sectors, Ukraine has clearly shown its ability to implement a comprehensive anti-money laundering regime. The most significant obstacle to effective performance of the AML regime in the country is the likely compromising of money laundering cases by corrupt prosecutors and law enforcement officials at the local level. The GOU should take action to establish oversight capabilities of local investigators, prosecutors and judges to insure that cases are vigorously pursued and prosecuted. The GOU has taken laudable steps in 2005 to enhance its legal regime for combating terrorist financing, but it should amend its criminal code to criminalize the financing of terrorists and terrorism. Law enforcement agencies should give higher priority to investigating money laundering cases. Both law enforcement officers and the judiciary need a better understanding of the theoretical and practical aspects of investigating and prosecuting money laundering cases.

United Arab Emirates

The United Arab Emirates (UAE) is an important financial center in the Persian 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 its 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. Given the country's close proximity to Afghanistan, where most of the world's opium is produced, narcotics traffickers are increasingly reported to be attracted to UAE's financial centers.

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. In close concert with the United States, the UAE imposed a freeze on 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. Since 2001, the UAE Government (UAEG) has taken steps to better monitor cash flows through the UAE financial system and to cooperate with international efforts to combat terrorist financing. The UAE has enacted two laws that serve as the foundation for the country's anti-money laundering (AML) and counterterrorist financing

(CTF) efforts: Law No. 4/2002, the anti-money laundering law, and Law No. 1/2004, the counterterrorism law.

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 imports above \$10,900. 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. Although the anti-money laundering law criminalizes money laundering, it is administrative Regulation No. 24/2000 that provides guidelines for how financial institutions are to monitor for money laundering activity.

This regulation requires banks, money exchange houses, finance companies, and any other financial institutions operating in the UAE to follow strict know your customer guidelines. Additionally, financial institutions must verify the customer's identity and maintain transaction details (including name and address of originator and beneficiary) for all exchange house transactions over \$545 and for all non-account holder bank transactions over \$10,900. The regulation 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 Regulation 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. Through 2005, there are no reported criminal convictions for money laundering or terrorist financing under either the 2002 or the 2004 laws.

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).

The UAE's national anti-money laundering committee (NAMLC) is responsible for coordinating anti-money laundering policy. It is chaired by the Central Bank (CB) 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).

The supervision of the UAE banking and financial sector (including banks, exchange houses, and investment companies) falls under the authority of the CB. The CB issues licenses to financial institutions under its supervision and can impose administrative sanctions for compliance violations. The CB issues instructions and recommendations as it deems appropriate and is permitted to take any necessary measures to ensure the integrity of the UAE's financial system. The CB has issued a number of circulars outlining the requirements for customer identification and providing for a basic suspicious transaction-reporting obligation.

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. Since December 2000, the CB has referred 108 cases to foreign FIUs.

From December 2000 to December 2005, the AMLSCU has received and investigated 3031 suspicious transactions reports (STRs). From December 2004 to December 2005, the AMLSCU received and investigated 772 STRs. No freeze orders were issued in 2005 based on STR submissions, but from December 2000 to December 2005, the CB has issued 27 freeze orders based on AMLSCU and law enforcement investigations. Twelve of those cases are in the process of prosecution for money laundering and confiscation of proceeds. The CB circulates to all financial institutions under its supervision the UNSCR 1267 Sanctions Committee's consolidated list of suspected terrorists and terrorist organizations. Since 2000, it has frozen \$1,348,381 in 17 accounts based on the UNSCR 1267 list.

Some money laundering in the UAE occurs in the formal banking system, including the numerous money exchange houses, but it is likely 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 despite 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 November 30 2005, 184 hawala brokers (hawaladars) have applied to register with the CB. The CB has issued hawaladar certificates to 163 of the applicants, and the remaining 21 applicants are in the process of fulfilling CB registration requirements. The central bank conducts one-on-one training sessions with each registered hawaladar to ensure the dealer understands the record-keeping and reporting obligations. There is no accurate estimate of the total number of UAE-based hawala brokers, and there is no penalty for failure of hawaladars to register.

In April 2005, the UAE hosted its third international conference on hawala, which was attended by over 400 participants from 74 countries. Delegates included government officials, executives of supervisory institutions, banking experts, and law enforcement officials from the Middle East, 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. Speakers discussed ways to ensure hawala is regulated, without driving the system further underground.

This attention to hawala may be 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.

There are no limits on how much cash can be imported into or exported from the country. However, the UAE Central Bank requires that individuals declare cash imports above \$10,900. The regulations provide customs services with the authority to seize undeclared cash; however, enforcement is still lacking, and the declaration requirements are not well publicized. The UAE is a cash-based economy, and it is not unusual for people to carry significant sums of cash around. As such, customs officials tend to not regard large cash imports as suspicious or possibly criminal.

The 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 Kimberly Process (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 is also susceptible to money laundering abuse. In 2002, Dubai permitted three companies to sell “freehold” properties to non-citizens. Several other emirates have announced their intention to follow suit. Abu Dhabi has passed a property law, which provides for a type of lease-hold ownership for non-citizens; although by the end of 2005 it had not yet identified any areas where expatriates can invest. The intense interest in these properties, and rumors of cash purchases, has sparked concerns about the potential for money laundering. As a result, developers have stopped accepting cash purchases, alleviating some of the concerns about money laundering activities in this sector of the economy.

The UAEG is much more sensitive since September 11 to the oversight of charities and accounting for 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 Ministry of Labor and Social Affairs (MLSA) licenses and monitors registered charities in Abu Dhabi and the northern emirates. These charities are required to keep records of donations and beneficiaries and submit annual reports to the MLSA. Charities in Dubai are licensed and monitored by the Dubai Department of Islamic Affairs and Charitable Activities.

The UAE has both free trade zones (FTZs) and financial free zones (FFZs). There are a growing number of free trade zones (FTZs), with 17 already in operation and plans to establish eleven more. Every emirate except Abu Dhabi has at least one functioning FTZ. The free trade zones are monitored by emirate-level (as opposed to federal) authorities.

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. The larger FTZs in Dubai (such as Jabal Ali free zone) are well-regulated. Although it is not impossible that some trade-based money laundering occurs in the large FTZs, there is a higher potential for it in some of the smaller FTZs in the northern emirates.

In March 2004, the UAEG passed Federal Law No. 8 Regarding the Financial Free Zones (FFZs) (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). In September 2005, the DIFC opened its securities market—the Dubai international financial exchange (DIFX).

Law No. 8/2004 limits licenses for banking activities in the FFZs 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 financial 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 financial free zone and the licensing of any UAE licensed broker. The law limits any insurance activity in the UAE carried out by a financial free zone company to that of 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. According to DFSA regulators, the DFSA due diligence process is a risk-based assessment that examines a firm's competence, financial soundness, and integrity.

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.

The DFSA has licensed 21 financial institutions and 13 ancillary service providers to operate within the DIFC. The DFSA's rules prohibit offshore casinos or internet gaming sites 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. Discussions with the UAE central bank on a formal bilateral arrangement are ongoing. The DFSA has undertaken a campaign to reach out to other international regulatory authorities. It has signed MOUs with Turkey and the Isle of Man, and in

December 2005 the DFSA signed a regulatory protocol with the U.S. Commodity Futures Trading Commission (CFTC).

The UAE is a party to the 1988 UN Drug Convention. The UAE has signed but not yet ratified the UN Convention against Corruption and the UN Convention against Transnational Organized Crime. It has entered into a series of bilateral agreements on mutual legal assistance. The UAE is a party to all 12 UN conventions and protocols relating to the prevention and suppression of international terrorism. 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.

The UAEG has begun constructing a far-reaching anti-money laundering program, and it is considered a regional leader in these efforts. The UAE 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. 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. Additionally law enforcement and customs officials should conduct more thorough inquiries into large undeclared cash imports and required the declaration of exports from the country. UAE officials should give greater scrutiny to trade-based money laundering in all of its forms. The Central Bank should continue its efforts to encourage hawala dealers to participate in the registration program. The UAE should implement a uniform system to monitor all charities active in the UAE, and it should engage in a public campaign to ensure all charities are aware of the requirements. It should ratify the UN Convention against Transnational Organized Crime.

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 smuggled 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 many of 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 Plus Nine Recommendations. 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.

Money Laundering and Financial Crimes

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 crimes, 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. The total value of assets recovered by all agencies under the Act (and earlier legislation) in England, Wales, and Northern Ireland was £54.5 million (approximately \$96.6 million) in 2004 and £84.4 million (approximately \$149.6 million) in 2005.

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 tax advantages 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 November 2005, the FSA fined UBS Wealth Management £100,000 (approximately \$177,225) for failure to accurately report certain types of equity transactions since 1999. Abbey National, the UK's sixth largest bank, was fined £2.3 million (approximately \$4.37 million) in 2003 for "extremely serious failings" in its anti-money laundering procedures during the period 2001-2003.

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 merger of NCIS with two other law enforcement entities to form the Serious Organized Crime Agency (SOCA), announced in 2004, is designed to improve information-sharing and allow resources to be used more effectively in combating money laundering and other aspects of organized crime.

The Proceeds of Crime Act 2002 has enhanced the efficiency of the forfeiture process and increased 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 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 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 2005, the UK issued 13 terrorist asset freeze orders on 28 individuals and 6 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. 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 signed a reciprocal asset sharing agreement in March 2003). The UK also has an MLAT with the Bahamas. Additionally, there is a memorandum of understanding in force between the U.S. Immigration and Customs Enforcement and HM Revenue and Customs.

The Government of the United Kingdom should provide adequate oversight of its gaming sector. It should ratify the UN Convention against Transnational Organized Crime. The United Kingdom should continue the strong enforcement of its comprehensive anti-money laundering and 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, capital mobility regulations and overall economic stability made it a regional financial center vulnerable to money laundering, though the extent and the nature of suspicious financial transactions have been unclear. 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 has diminished the attractiveness of Uruguayan financial institutions for money launderers in the medium term.

Uruguay is a founding member of the Financial Action Task Force for South America (GAFISUD), created in December 2000 and based in Buenos Aires. Since early 2005, the ex-director of the Government of Uruguay's (GOU) Center for Training on Money Laundering Issues (CECPLA) has served as the GAFISUD Executive Secretary. Under the Mutual Evaluation process, GAFISUD certified in 2003 that Uruguay's anti-money laundering laws and regulations met the majority of the Financial Action Task Force (FATF) Forty Recommendations; Uruguay's compliance with the FATF Special Recommendations on Terrorist Financing was not evaluated at that time. GAFISUD has 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, GAFISUD did not find evidence of major money laundering activity. In 2005, the IMF concluded a thorough examination of Uruguay's money laundering regime. The results of this examination are not yet available. Under an agreement between the IMF, World Bank and GAFISUD, the assessment may also be considered as GAFISUD's mutual evaluation of Uruguay, if the report is accepted by the GAFISUD plenary.

Over the past five years, the GOU has instituted several legislative and regulatory reforms in its anti-money laundering regime. The May 2001 Law 17,343 extends the predicate offenses 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. Money laundering is considered a crime separate from underlying crimes such as narcotics trafficking, administrative corruption, terrorism and smuggling.

In September 2004, the Uruguayan Congress approved Law 17,835, which significantly strengthens the GOU's money laundering regime. The law incorporated all of GAFISUD's recommendations that had to be legislated, while the other recommendations were met through administrative regulations. It 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. The first arrest and prosecution for money laundering under the new legislation occurred in October 2005. The case is still pending.

Law 17,835 of 2004 expands the realm of entities required to file suspicious activities reports (SARs) and makes reporting of such activities a legal obligation. It specifically confers to Uruguay's financial intelligence unit (FIU), Financial Information and Analysis Unit (UIAF) of the Central Bank, the role of receiving and analyzing SARs, and the authority to request additional related information. Created in 2000, the UIAF receives, analyzes, and disseminates suspicious financial reports to judicial authorities. Central Bank Circular 1722, which created the UIAF, provides the authority to respond 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 UIAF has received 36 SARs in the first 11 months of 2005, more SARs than were received over the previous four years. Over the first 11 months of 2005, the UIAF also received 11 action requests from the courts and 24 information requests from foreign FIUs. While the level of staffing at the UIAF is currently very low, the Central Bank is reportedly in the process of hiring additional staff.

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 makes this a legal obligation, extended to all financial intermediaries, including casinos, art dealers, real estate and fiduciary companies. Additionally, the law extends the reporting requirement to all persons entering or exiting Uruguay with over \$10,000 in cash or in monetary instruments. Regulations for the 2004 law have been issued by the Central Bank for all entities it supervises, and are in the process of being issued by the Ministry of Economy and Finance for all other reporting entities, such as casinos, real estate brokers and art dealers.

Three government bodies are responsible for coordinating GOU efforts to combat money laundering: the UIAF, the National Drug Council, and the Center for Training on Money Laundering (CECPLA). The President's Deputy Chief of Staff heads the National Drug Council, which is the senior authority for anti-money laundering policy. The Director of CECPLA serves as coordinator for all government entities involved and sets general policy guidelines. The Director defines and implements GOU policies, in coordination with the Finance Ministry and the UIAF. The Ministry of Economy and Finance, 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, complicating efforts to track money laundering in this sector, especially in the partially foreign-owned tourist industry. The UIAF and other government agencies must obtain a judicial order to have access to the name of titleholders. The GOU is in the process of implementing a national computerized registry that will facilitate the UIAF's access to titleholders' names.

Fiduciary companies called "SAFIs" are also thought to be a convenient conduit for illegal money transactions. As of January 1, 2006, all SAFIs are required to provide the names of their directors to the Finance Ministry. In addition, the GOU has decided to completely eliminate SAFIs as part of a comprehensive tax reform law that will be presented to the legislature in March 2006. The draft legislation will also implement a personal income tax for the first time in Uruguay.

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 representative offices of foreign banks. 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. There are eight free trade zones in Uruguay, all but two being little more than warehouses for regional distribution. The other two house software development firms, back-office operations, call centers, and some light manufacturing/assembly. Some of the warehouse-style free trade zones have been used as transit points for containers of counterfeit goods bound for Brazil and Paraguay.

The GOU states that safeguarding the financial sector from money laundering is a priority, and Uruguay remains active in international anti-money laundering efforts. Uruguay 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 UN Convention Against Corruption. On March 4, 2005, Uruguay ratified the UN Convention against Transnational Organized Crime. The GOU is a member of 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. The GOU has taken steps to bring it into compliance 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.

The Government of Uruguay took steps in 2004 and 2005 to strengthen its anti-money laundering and counterterrorist financing regime. The passage of legislation criminalizing terrorist financing places Uruguay ahead of many other nations in the region. However, Uruguay is one of only two countries in South America that is not a member of the Egmont Group of financial intelligence units. Once the UIAF is evaluated and determined to meet Egmont standards, the GOU will have greater access to financial information that is essential to its efforts to combat money laundering and terrorist financing. UIAF's becoming a member of the Egmont group, as well as the GOU's continued implementation and enforcement of its anti-money laundering and counterterrorist financing programs, should continue to be priorities for the GOU.

Uzbekistan

Uzbekistan is not considered an important regional financial center and does not have a well-developed financial system. 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, the fear of GOU seizure of one's assets, and lack of trust in the banking system as a whole. As a result, Uzbek citizens have functioning bank accounts only if they are required to do so by law. They only deposit 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 three 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.

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. It is likely, however, that drug dealers use the robust black market to clean their drug related money.

Reportedly, the unofficial, unmonitored cash-based market creates an opportunity for small-scale terrorist or drug-related laundering activity destined for internal operations. For the most part, the funds generated by smuggling and corruption are not directly laundered through the banking system, but through seemingly legitimate businesses such as restaurants and high-end retail stores. 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 are not known to 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 porous borders for deposit in the banking systems of other countries, such as Kazakhstan, Russia or the United Arab Emirates.

Money laundering from 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. 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. Although casinos are illegal, GOU enforcement is generally lax and several exist openly in Tashkent.

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 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 \$2,000. Residents wishing to take out higher amounts must obtain authorization to do so; amounts over \$2,000 must be approved by an authorized commercial bank and amounts over \$5,000 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 the 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 suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the names of individuals and entities included on the UN 1267 consolidated list. In addition, the GOU has circulated the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 to the CBU, which has, in turn, forwarded these lists to 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 officially there is complete currency convertibility, in reality convertibility requests can be significantly delay or refused. In the second half of 2005, the GOU has taken steps to further restrict convertibility, leading to a slightly higher black market exchange rate for the soum.

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. 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 \$97,000) has been deposited into this fund since its inception. 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 manages 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.

The GOU realizes 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 United States, 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 and the United States have reached informal agreement on mechanisms for exchanging adequate records in connection with investigations and proceedings relating to narcotics, terrorism, terrorist financing and other serious crime investigations. In the past, Uzbekistan has cooperated with appropriate law enforcement agencies of the USG and other governments investigating financial crimes and several important terrorist-related cases. Uzbekistan joined the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG), a FATF-style regional body, at the most recent plenary meeting of that body in December 2005.

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. 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 GOU should continue to refine its pertinent legislation to bring it up to international standards. Uzbekistan also should 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 banking 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. The GOV passed amendments to four of its main legislations relative to money laundering and terrorist financing during its last session of Parliament in November 2005. The four pieces of legislation effected are the Mutual Assistance in Criminal Matters Act No. 31 of 2005, the Financial Transaction Reporting Act No. 28 of 2005, the Counter-Terrorism and Transnational Organised Crime Act No. 29 of 2005, and the Proceeds of Crime Act (Amendment) Act No. 30 of 2005.

Vanuatu's financial sector includes four licensed banks (that carry on domestic and offshore business) and one credit union, all of which are regulated by the Reserve Bank of Vanuatu. Since the passage of the International Banking Act of 2005, the Reserve Bank of Vanuatu regulates the offshore sector that includes seven banks and approximately 4,750 "international companies" (i.e., international business companies or IBCs), as well as offshore trusts and captive insurance companies. These institutions were once regulated by the Financial Services Commission. This change 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 "non-compliant" with many international standards.

IBCs may be registered using bearer shares, shielding the identity and assets of beneficial owners of these entities. Secrecy provisions protect all information regarding IBCs and provide penal sanctions for unauthorized disclosure of information. These secrecy provisions, along with the ease and low cost of incorporation, make IBCs ideal mechanisms for money laundering and other financial crimes.

The Financial Transaction Reporting Act (FTRA) of 2000 established Vanuatu's Financial Intelligence Unit (VFIU) within the State Law Office. The FIU receives suspicious transaction reports (STRs) filed by banks and distributes them to the Public Prosecutor's Office, the Reserve Bank of Vanuatu, the Vanuatu Police Force, the Vanuatu Financial Services Commission, and law enforcement agencies or supervisory bodies outside Vanuatu. The FIU also issues guidelines to, and provides training programs for, financial institutions regarding record keeping for transactions and reporting obligations. The Act also regulates how such information can be shared with law enforcement agencies investigating financial crimes. Financial institutions within Vanuatu must establish and maintain internal procedures to combat financial crime. Every financial institution is required to keep records of all transactions. Five key pieces of information are required to be kept for every financial transaction: the nature of the transaction, the amount of the transaction, the currency in which it was denominated, the date the transaction was conducted, and the parties to the transaction.

Although the amendments have been withdrawn from Parliament twice, FTRA amendments were finally passed in November 2005. The amendments include 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. In addition to STR filings, financial institutions will now be required to file currency transaction reports (CTRs), which involves any single transaction in excess of VT 1 million (approximately \$9,100) or its equivalent in a foreign currency, and wire transfers into and out

of Vanuatu in excess of VT 1 million. The amendments also require financial institutions to maintain internal procedures to implement reporting requirements, appoint compliance officers, establish an audit function to test their anti-money laundering and terrorist financing procedures and systems, as well as provide the VFIU a copy of their internal procedures. Failure to do so will result in a fine or imprisonment for an individual, or a fine in the case of a corporate entity. The amendments supersede 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. A new development to the Proceeds of Crime Act No. 30 of 2005 was an insertion of Section 74A, which now cover the cross-border movement of currency. After the passing of the bill in Parliament in November 2005, all incoming and outgoing passengers to and from Vanuatu will be legally obligated to declare to the Department of Customs cash exceeding one million Vatu in possession (approximately \$9,100).

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. Since this time, three international banking businesses have had their licenses revoked.

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.

In November 2005, Vanuatu passed the Counter-Terrorism and Transnational Organized Crime Act No. 29 of 2005. The aim of the Act is to implement UN Security Council Resolutions and Conventions dealing with terrorism and transnational organized crime, to prevent terrorists from

operating in Vanuatu or receiving assistance through financial resources available to support the activities of terrorist organizations, and to criminalize human trafficking and smuggling.

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 had removed Vanuatu from its list of “uncooperative tax havens,” following Vanuatu’s earlier announcement that it would implement measures under the Harmful Tax Initiative. This move by OECD has made Vanuatu the first country to secure removal from the list of uncooperative tax havens.

In addition to its membership the Asia Pacific Group on Money Laundering, 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. The GOV acceded to the UN Convention against Transnational Organized Crime on January 4, 2006. Vanuatu is a party to the UN International Convention for the Suppression of the Financing of Terrorism.. The VFIU has a memorandum of understanding with Australia.

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 1988 UN Drug Convention.

Venezuela

Venezuela is a major drug-transit country. Its proximity to drug producing countries, weaknesses in its anti-money laundering system, and corruption continue to make Venezuela vulnerable to money laundering. The main source of money laundering is believed to be 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 reported 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.

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. The majority of these banks, about 90 percent, belong to the Venezuelan Association of Banks. Membership is voluntary and meetings are held monthly.

Some positive steps were taken by Venezuela in 2005 to combat money laundering. In September, following three years of debate by the National Assembly, the Organic Law Against Organized Crime was passed. Prior to the passage of the new law, the 1993 Organic Drug Law provided the only legal mechanism for the investigation and prosecution of money laundering crimes. Under the 1993 law, a direct connection between illegal drugs and their proceeds had to be proven to establish a money laundering offense, and the Government of Venezuela (GOV) was only able to freeze assets of

individuals charged in international drug trade or in money laundering cases directly related to narcotics trafficking. Under the 2005 Organic Law Against Organized Crime, money laundering is now a separate offense, punishable by a sentence of eight to twelve years in prison. Moreover, those who cannot establish the legitimacy of possessed or transferred funds, or have awareness of the illegitimate origins of those funds, can be charged with money laundering, without any connection to drug-trafficking.

In addition to establishing money laundering as a separate offense, the Organic Law Against Organized Crime also broadens asset forfeiture and sharing provisions, adds conspiracy as a criminal offense, strengthens due diligence requirements, and provides law enforcement with stronger investigative powers by authorizing the use of modern investigative techniques such as the use of undercover agents. The passage of this law, along with recent amendments to the Law Against the Trafficking and Consumption of Narcotics and Psychotropic Substances, effectively brings Venezuela's Penal Code in line with the 1988 UN Drug Convention. However, given that the judicial and law enforcement sectors are rife with corruption, it is too early to know what, if any, impact these new laws will have on the growing problem of money laundering. The new law also did not adequately criminalize terrorist financing.

Since 1997, the Superintendence of Banks and Other Financial Institutions (SBIF) has implemented controls to prevent and investigate money laundering under Resolution 333-97 of 1997. These controls include strict customer identification requirements and the reporting of both currency transactions over a designated threshold and suspicious transactions. Under the Organic Law Against Organized Crime, these controls were expanded beyond their application to all banks (commercial, investment, mortgage, private), insurance and reinsurance companies, savings and loan institutions, financial rental agencies, currency exchange houses, money remitters, money market funds, capitalization companies, and frontier foreign currency dealers. They now also cover casinos, real estate agents, construction companies, car dealerships, hotels and the tourism industry, travel agents, and dealers in precious metals and stones. These entities are required to file suspicious and cash transaction reports with Venezuela's financial intelligence unit (FIU), the Unidad Nacional de Inteligencia Financiera (UNIF), which was created under the SBIF in July 1997 and began operations in June 1998. Under the original draft of the Organic Law Against Organized Crime, the UNIF would have become an autonomous entity with investigative powers, independent of the SBIF, but the relevant clauses were removed just prior to the law's passage.

The UNIF receives suspicious transaction reports (STRs) and reports of currency transactions exceeding 4.5 million bolívares (approximately \$2,100) from institutions regulated by the SBIF, 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, as well as the other entities now included under the Organic Law Against Organized Crime. Some institutions regulated by the SBIF, such as tax collection entities and public service payroll agencies, are exempt from the reporting requirement. The SBIF 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. Under the new Organic Law Against Organized Crime, obligated entities are forbidden to reveal reports filed with the UNIF or suspend accounts during an investigation without official approval. Obligated entities are also subject to sanctions for failure to file reports with the UNIF.

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 the SBIF and the Public Ministry. However, inadequate foreign exchange controls established in 2003 by the GOV's Commission for Administrative Control of Currency Exchange (CADIVI) present 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, the SBIF or the Public Ministry, or by order of a Judge of Control, bank secrecy may be waived, making Venezuela one of the few countries in Latin America that does not have restrictive bank secrecy laws.

Prior to the passage of the 2005 Organic Law Against Organized Crime, there was 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. Only the drug prosecutors received STRs from the UNIF and conducted money laundering investigations, and there were only 20 drug prosecutors for all of Venezuela, most of who lacked the technical financial experience to successfully prosecute money laundering cases. As a result, there have only been three money laundering convictions in Venezuela since 1993, and all of them were narcotics-related. Under the Organic Law Against Organized Crime, a new unit will be established, the General Directorate Against Organized Crime, with specialized technical expertise in the analysis and investigation of money laundering and other financial crimes.

The 2005 Organic Law Against Organized Crime has also expanded Venezuela's mechanisms for freezing assets tied to illicit activities. Prior to the passage of the Organic Law Against Organized Crime, the assets had to be linked to a crime such as narcotics trafficking—or money laundering directly related to narcotics trafficking—and pass through a lengthy judicial process. With the passage of the Organic Law Against Organized Crime, a prosecutor may now solicit judicial permission to freeze or block accounts in the investigation of any crime included under the Organic Law Against Organized Crime.

The 2005 Organic Law Against Organized Crime counts terrorism as a crime against public order and defines some terrorist activities. The law also establishes punishments for terrorism of up to 20 years in prison. However, the Organic Law Against Organized Crime does not establish terrorist financing as a separate crime, nor does it provide adequate mechanisms for freezing terrorist assets.

The UNIF has been a member of the Egmont Group since 1999 and has signed bilateral information exchange agreements with counterparts worldwide. Venezuela participates in the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Money Laundering Experts Working Group and is a member of the Caribbean Financial Action Task Force (CFATF). A mutual evaluation of Venezuela was conducted by CFATF in 2004 and presented to the CFATF plenary in 2005. The GOV is a 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, and the OAS Inter-American Convention Against Terrorism, and has signed, but not yet ratified, the UN Convention against Corruption. 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. Venezuela also has a Mutual Legal Assistance Treaty (MLAT) with the United States, but the treaty has not entered into force.

The Government of Venezuela has taken several important steps to expand its anti-money laundering regime with the passage of the Organic Law Against Organized Crime. The passage of this bill has provided law enforcement and judicial authorities the much-needed tools for the effective investigation and prosecution of money laundering derived from all serious crimes, broadened asset forfeiture and sharing provisions, strengthened due diligence requirements, strengthened the capabilities of the Public Ministry to successfully investigate and prosecute crimes related to money laundering, and expanded the mandate of UNIF. However, the deletion of those portions of the proposed law that would have made the UNIF autonomous may undercut the effectiveness of the unit, and attention will have to be paid to make sure that does not happen.

Venezuela should also create and enact legislation to criminalize the financing of terrorism, as well as institute measures to expedite the freezing of terrorist assets. Although the passage of the Organic Law Against Organized Crime indicates an increased willingness to strengthen the GOV's abilities to fight money laundering, legislation criminalizing the financing of terrorism and allowing for the freezing of terrorist assets is necessary to bring Venezuela into full compliance with international standards for combating financial crimes.

Vietnam

Vietnam is not an important regional financial center. The Vietnamese banking sector is underdeveloped and the Government of Vietnam (GVN) controls the flow of all U.S. dollars in official channels. The nature of the banking system makes it unlikely that major money laundering or terrorist financing is currently occurring in financial institutions. However, a "drug economy" does exist in Vietnam's informal financial system. Vietnam has a large "shadow economy," in which U.S. dollars and gold are the preferred currency. Due to the limited size of Vietnam's banking system and currency exchange controls, even legitimate businesses carry on transactions in this "shadow economy." In addition, Vietnamese regularly use gold shops and other informal mechanisms to remit or receive funds from overseas. Official inward remittances in 2005 were estimated to be \$3.8 billion while estimates are that double that amount came through unofficial channels. Reportedly, an unknown percentage of transactions in the informal remittance systems come from narcotics proceeds.

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 (MPS) specialized counternarcotics agency the authority to require disclosure of financial and banking records when there is a suspected violation of the law. The Penal Code governs money laundering related offenses.

In June 2005, GVN issued Decree 74/2005/ND-CP on the Prevention and Combating of Money Laundering. The Decree covers acts committed by individuals or organizations to legitimize money or property acquired from criminal activities. The Decree applies to banks and non-banking financial institutions. The State Bank of Vietnam (SBV) and the MPS take primary responsibility for preventing and combating money laundering. The decree does not cover counterterrorist finance.

SBV supervises and examines financial institutions for compliance with anti-money laundering/counter terrorist financing regulations. Financial institutions are responsible for knowing and recording the identity of their customers. They are required to report cash transactions conducted

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in one day with aggregate value of VND 200 million (\$13,000) or more, or equivalent amount in foreign currency or gold. The threshold for savings transactions is VND 500 million (\$31,000). Furthermore, financial institutions are required to report all suspicious transactions. Banks are also required to maintain records for seven years or more. Banks are responsible for keeping information on their customers secret, but they are required to provide necessary information to law enforcement agencies for investigation purposes.

Foreign currency (including notes, coins and traveler's checks) in excess of \$7,000 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 \$7,000 (or its equivalent in other foreign currencies) 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 2005 Decree on Prevention and Combating Money Laundering provides for provisional measures to be applied to prevent and combat money laundering. Those measures include 1) suspending transactions; 2) blocking accounts; 3) sealing or seizing property; 4) seizing violators of the law; and, 5) taking other preventive measures allowed under the law.

The 2005 Decree also provides for the establishment of an Anti-Money Laundering Information Center within the State Bank of Vietnam (SBV). This center will function as the sole body to receive and process information. It will have the right to request concerned agencies to provide information and records for suspected transactions. Senior officials of the center will be appointed by the Governor of the SBV. The center is awaiting final approval from the Government before it can be formally established. SBV acts as the sole agency responsible for negotiating, concluding and implementing international treaties and agreements on exchange of information on transactions related to money laundering. SBV is seeking donors' assistance to strengthen its supervision capabilities in the context of Vietnam integrating into the world economy.

The MPS is responsible for investigating money laundering related offences. There is no information available on arrests and/or prosecutions for money laundering or terrorist financing since January 1, 2005. MPS is also responsible for negotiating and concluding international treaties on judicial assistance, cooperation and extradition in the prevention and combat of money laundering related offenses.

Vietnam is a party to the UN International Convention for the Suppression of the Financing of Terrorism. Vietnam plans to draft separate legislation governing counter terrorist financing, though they will not set a specific time frame for this drafting. Currently SBV circulates to its 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. To date no related assets have been identified.

Vietnam is a party to the 1988 UN Drug Convention. Under existing Vietnamese legislation, there are provisions for seizing assets linked to drug trafficking. In the course of its drug investigations, MPS has seized vehicles, property and cash, though the seizures are usually directly linked to drug crimes. 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. However, MPS is not allowed to seize assets in order to investigate them; they must receive separate information that confirms and/or proves the money is laundered before it can be frozen. A further restriction of their investigative powers is that Vietnam authorities cannot act on information or investigative findings provided by outside agencies.

The U.S. Drug Enforcement Agency (DEA) is engaged in a number of investigations targeting significant ecstasy and marijuana trafficking organizations, composed primarily of Viet Kieu (overseas

Vietnamese), in both the United States and Canada. These drug trafficking networks are capable of laundering tens of millions of dollars per month back to Vietnam, exploiting U.S. financial institutions to wire or transfer money to Vietnamese bank and remittance accounts, as well as engaging in the smuggling of bulk amounts of U.S. currency and gold from the United States into Vietnam.

The Government of Vietnam should promulgate all necessary regulations to fully implement the 2005 degree on the Prevention and Combating of Money Laundering. Vietnam should also pass legislation governing the prevention and suppression of terrorism financing. Vietnam should ratify the UN Convention Against Transnational Crime. Vietnam should enforce cross border currency controls, including the use of gold as an alternative remittance system. Vietnam 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. Alternative remittance systems, such as hawala, are prevalent. Although hawalas are subject to limited monitoring by the Central Bank of Yemen (CBY), widespread usage of alternative remittance systems constitutes a vulnerability to money laundering. The banking sector is relatively small, with only 17 commercial banks, including four Islamic banks, one of which was recently acquired by the CBY and may be liquidated. 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 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 Cabinet Decision 247 issued in 2005 directs the CBY and the Ministry of Legal Affairs to amend Law 35 to include terrorist financing. The Ministry of Interior (MOI) also has a unit to investigate terrorist financing. According to the law, both the MOI and CBY report their findings to the Attorney General for enforcement.

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 FIU is severely understaffed, with a total of three employees at the main office. Eighteen field inspectors for banking supervision also serve as investigators for the FIU. The FIU has no database and is not networked internally or to the rest of the CBY. The CBY provides training to other members of the government to assist in elements of anti-money laundering enforcement, but lack of capacity severely hampers any attempts by the FIU to control illicit activity.

The AMLC is composed of representatives from the Ministries of Finance, Foreign Affairs, Justice, Interior, 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 law also prohibits the transfer of more than \$10,000 cash in or out of the country without permission from the CBY, although this is rarely enforced.

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 2005, however, no reports were filed with the FIU by commercial banks and there were no prosecutions.

Based on the UN 1267 Sanctions Committee's consolidated list of suspected terrorists and terrorist organizations, as well as the list of Specially Designated Global Terrorists issued by the U.S. pursuant to E.O. 13224, and Yemen's own Council of Ministers' directives, the CBY issued two circulars (75304 and 75305) to all banks operating in Yemen. These circulars directed the banks to freeze the accounts of 144 persons, companies, and organizations, and to report any findings to CBY. However, since the February 2004 addition of Sheikh Abul Majid Zindani to the UN 1267 Sanctions Committee's consolidated list, the Yemeni Government has made no known attempt to enforce the sanctions and freeze his assets. In such high-profile cases, information sharing is limited by a lack of political will, as well as a lack of enforcement capacity.

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 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. In 2005, 21 charities were questioned as part of continuous supervision in coordination with the Ministry of Labor and Social Affairs, but there were no prosecutions. Cabinet Decision 378 granted the FIU authority to investigate gold shops, insurance companies, and real estate brokers in order to enhance procedures to combat terrorist financing. The FIU also has the legal authority to investigate transactions in the Aden free zone, but has reportedly not yet asserted that authority.

Yemen is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF). Yemen is a party to the 1988 UN Drug Convention and the Arab Convention for the Suppression of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It is not a party to the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Yemen is making slow 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, international cooperation with criminal investigations is still in the initial development stages. The CBY is still organizing its enforcement mechanism. The FIU staff capabilities need to be enhanced. Its effectiveness will demonstrate the government's commitment to ending money laundering. The fact that the FIU has not received any suspicious transaction reports during 2005 is a serious concern. 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 in Zambia, 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 and 2005, the DEC conducted numerous investigations of money laundering, resulting in several arrests. 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 2005, Zambia's Central Bank was an active participant in ESAAMLG activities. Zambia holds the presidency of the organization for 2005 and 2006. Zambia is not a signatory to the UN International Convention for the Suppression of the Financing of Terrorism. Zambia is a party to 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. 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, but it faces a serious and growing problem with official corruption and many other common risk factors associated with money laundering. These risk factors include the following: a flourishing parallel exchange market; widespread evasion of exchange controls by legitimate businesses; company ownership through nominees; an increasingly understaffed bank supervisory authority; a lack of trained investigators or regulators for financial crime enforcement; financial institutions that are determined to bypass the regulatory framework; limited asset seizure authority; a laissez-faire attitude toward compliance with the law on the part of elements of the business community; ready acceptance of the U.S. dollar in transactions; and significant gold exports and illegal gold trading.

The Government of Zimbabwe (GOZ) criminalized narcotics-related money laundering in the “Anti-Money Laundering Act.” In 2004, the GOZ passed more expansive legislation, the Anti-Money Laundering and Proceeds of Crime Act (“The Act”) that extended the anti-money laundering law to all serious offenses. The Act required banks to maintain records sufficient to reconstruct individual transactions for at least six years. It mandated a prison sentence of up to five years. The Act also addressed terrorist financing and authorized the tracking and seizure of assets. Given the GOZ’s history of selective use of the legal system against its opponents, the Act has raised human rights concerns, although its use to date has not been associated with any reported due process abuses or provoked any serious public opposition.

Over the past two years, the GOZ has arrested many prominent Zimbabweans for activities that it calls “financial crimes.” Most of these “crimes” involved 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 Act has not been employed in the prosecution of individuals for such offenses.

However, despite having the legal framework in place to combat money laundering, the growing economic vulnerability of the population and the decline of judicial independence raise concerns about the continued capacity and integrity of Zimbabwean law enforcement. The GOZ prefers to prosecute financial crimes under the Criminal Procedures and Evidence Act, because it allows for those charged to be held in custody for up to 28 days. The Reserve Bank of Zimbabwe (RBZ), and not the Ministry of Anti-Corruption, is the lead agency for prosecuting money laundering offenses.

When requested, the local banking community has overtly cooperated with the GOZ in the enforcement of laws involving tracking of assets; however, increasingly burdensome GOZ regulations and a hostile business climate have led to growing circumvention of the law. The banking community and the RBZ 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 UN 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) in August 2003 but has yet to sign the ESAAMLG Memorandum of Understanding.

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.

