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*Bureau for International Narcotics and Law
Enforcement Affairs*

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Volume I

**Drug and Chemical
Control**

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Common Abbreviations

ARS	Alternative Remittance System
CBP	Customs and Border Protection
CBRN	Caribbean Basin Radar Network
CFATF	Caribbean Financial Action Task Force
DARE	Drug Abuse Resistance Education
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DOJ	Department of Justice
DOS	Department of State
DTO	Drug Trafficking Organization
ESF	Economic Support Fund
EU	European Union
EXBS	The Export Control and Related Border Security Assistance (EXBS) Program
FATF	Financial Action Task Force
FB	Federal Bureau of Investigation
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
FSA	FREEDOM Support Act
GCC	Gulf Cooperation Council
IBC	International Business Company
ICE	Immigration and Customs Enforcement
ICITAP	International Criminal Investigative Training Assistance Program
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
INM	See INL
INL	Bureau for International Narcotics Control and Law Enforcement Affairs/(Matters)
IRS	Internal Revenue Service
IRS/CID	Internal Revenue Service, Criminal Investigation Division
JICC	Joint Information Coordination Center
JIATF-S/W	Joint Interagency Task Force South and Joint Interagency Task Force West
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
OPDAT	Office of Overseas Prosecutorial Development Assistance and Training
SECI	South East Europe Cooperative Initiative

SEED	Support for East European Democracy Act (1994)
UN Convention	1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNODC	United Nations Office for Drug Control and Crime
USAID	Agency for International Development
USCG	United States Coast Guard
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
UNCAC	UN Convention against Corruption
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 2007 INCSR, published in March 2007, covers the year January 1 to December 31, 2006 and is published in two volumes, the second of which covers money laundering and financial crimes. It is the 24th annual report prepared pursuant to the FAA. The INCSR addresses 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.

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 current foreign operations appropriations act 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).

This year, pursuant to The Combat Methamphetamine Enforcement Act (CMEA) (The USA Patriot Improvement and Reauthorization Act 2005, Title VII, P.L. 109-177), amending sections 489 and 490 of the Foreign Assistance Act (22 USC 2291h and 2291) section 722, the INCSR has been expanded to include reporting on the five countries that export the largest amounts of methamphetamine precursor chemicals, as well as the five countries importing these chemicals and which have the highest rate of diversion of the chemicals for methamphetamine production. The expanded reporting also includes additional information on efforts to control methamphetamine precursor chemicals: pseudoephedrine, ephedrine, and phenylpropanolamine, as well as an economic analysis that estimates legitimate demand for methamphetamine precursors, compared to actual or estimated imports. The CMEA also now requires a Presidential report by March 1, 2007, certifying which of the five countries that legally exported and the five countries that legally imported the largest amount of precursor chemicals (under FAA section 490) are "fully cooperating."

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 2007 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 limited information is available, we have included whatever data the responsible post could provide.

The country chapters report upon actions taken - 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 on September 15, 2006, 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.

Of these 20 countries, **Burma** and **Venezuela** were designated by the President as having “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. The President also determined, however, in accordance with provisions of Section 706(3)(A) of the FRAA, that support for programs to aid Venezuela’s democratic institutions is vital to the national interests of the United States. The President’s report also singled Bolivia out for a special review by March 15, 2007, of its performance in completing certain counternarcotics benchmarks because of its policies that have allowed the expansion of coca cultivation and initially slowed the pace of eradication.

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, India, Indonesia, Iran, Isle of Man, Israel, Italy, Japan, Jersey, Kenya, 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, 2006

Presidential Determination No. 2006-24

Pursuant to section 706(1) of the Foreign Relations Authorization Act, FY03 (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 is vital to the national interests of the United States.

Although President Karzai has strongly attacked narcotics trafficking as the greatest threat to Afghanistan, one third of the Afghan economy remains opium-based, which contributes to widespread public corruption. The government at all levels must be held accountable to deter and eradicate poppy cultivation; remove and prosecute corrupt officials; and investigate, prosecute, or extradite narcotics traffickers and those financing their activities. We are concerned that failure to act decisively now could undermine security, compromise democratic legitimacy, and imperil international support for vital assistance.

We are concerned with the decline in Bolivian counternarcotics cooperation since October 2005. Bolivia, the world's third largest producer of cocaine, has undertaken policies that have allowed the expansion of coca cultivation and slowed the pace of eradication until mid-year, when it picked up.

The Government of Bolivia's (GOB) policy of "zero cocaine, but not zero coca" has focused primarily on interdiction, to the near exclusion of its necessary complements, eradication and alternative development. However, the GOB has been supportive of interdiction initiatives and has had positive results in seizing cocaine and decommissioning rustic labs. We would encourage the GOB to refocus its efforts on eliminating excess coca, the source of cocaine. This would include eradicating at least 5,000 hectares, including in the Chapare region; eliminating the "cato" exemption to Bolivian law; rescinding Ministerial Resolution 112, Administrative Resolution 083, and establishing tight controls on the sale of licit coca leaf for traditional use; and implementing strong precursor chemical control measures to prevent conversion of coca to cocaine. We plan to review Bolivia's performance in these specific areas within 6 months.

The Government of Canada (GOC) continued to effectively curb the diversion of precursor chemicals that are required for methamphetamine production to feed U.S. illegal markets. The GOC also continued to seize laboratories that produce MDMA/Ecstasy consumed in both Canada and the United States. The principal drug concern was the continuing large-scale production of high-potency, indoor-grown marijuana for export to the United States. The United States enjoyed excellent cooperation with Canada across a broad range of law enforcement issues and shared goals.

The Government of Ecuador (GOE) has made considerable progress in combating narcotics trafficking destined for the United States. However, a dramatic increase in the quantity of cocaine transported toward the United States using Ecuadorian-flagged ships and indications of increased illegal armed group activity along Ecuador's northern border with Colombia remain areas of serious concern. Effective cooperation and streamlined maritime operational procedures between the U.S. Coast Guard and Ecuadorian Navy are resulting in an increase in the amount of cocaine interdicted. Building on that cooperation, we will work with Ecuador to change the circumstances that make Ecuadorian-flagged vessels and Ecuadorian citizenship so attractive to drug traffickers.

As a result of the elections in Haiti, the new government now has a clear mandate from the Haitian people to bring crime, violent gangs, and drug trafficking under control. We urge the new government to strengthen and accelerate ongoing efforts to rebuild and reform Haiti's law enforcement and judicial institutions and to consult closely with the United States to define achievable and verifiable steps to accomplish these goals.

While Nigeria continues to take substantive steps to curb official corruption, it remains a major challenge in Nigeria. We strongly encourage the government to continue to adequately fund and support the anti-corruption bodies that have been established there in order to fully address Nigeria's ongoing fight against corruption. We urge Nigeria to continue improving the effectiveness of the National Drug and Law Enforcement Agency and, in particular, improve enforcement operations at major airports/seaports and against major drug kingpins, to include targeting their financial assets. We look forward to working with Nigerian officials to increase extraditions and assisting in drug enforcement operations.

Although there have not been any drug seizures or apprehensions of drug traffickers with a connection to the Democratic People's Republic of Korea (DPRK) since 2004, we remain concerned about DPRK state-directed criminal activity. The United States Government has made clear to the DPRK that an end to all involvement in criminal activity is a necessary prerequisite to entry in the international community.

Under provisions of the Combat Methamphetamine Epidemic Act (CMEA), which modified Section 489(a) of the Foreign Assistance Act of 1961, as amended, and Section 490(a) of the FAA, a report will be made to the Congress on March 1, 2007, naming the five countries that legally exported the largest amount of methamphetamine precursor chemicals, as well as the top five methamphetamine precursor importers with the highest rate of diversion for illicit drug production. This report will be sent concurrently with the International Narcotics Control Strategy Report, which will also contain additional reporting on methamphetamine precursor chemicals pursuant to the CMEA.

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

GEORGE W. BUSH

MEMORANDUM OF JUSTIFICATION FOR PRESIDENTIAL DETERMINATION ON MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2007

Venezuela

Venezuela failed demonstrably to make sufficient efforts during the last 12 months to meet its obligations under international counternarcotics agreements and U.S. domestic counternarcotics requirements as set forth in section 489(a)(1) of the Foreign Assistance Act of 1961, as amended.

This determination comes as the result of Venezuela's lack of effective response to specific United States Government requests for counternarcotics cooperation as well as the country's continued lack of action against drug trafficking within and through its borders commensurate with its responsibilities to the international community.

Venezuela's importance as a transshipment point for drugs bound for the United States and Europe has continued to increase in the past 12 months, a situation both enabled and exploited by corrupt Venezuelan officials. The Venezuelan media provided an example of this corruption when they reported that Venezuelan police re-sold the vast majority of a 9,400 kg cocaine seizure to drug traffickers in July of this year (Venezuela does not allow independent verification of seizure amounts). Seizures of illegal drugs transiting the country have fallen, according to DEA estimates. The volume of cocaine transiting the country is expected to continue to rise substantially in 2006. The most dramatic increase in cocaine departing Venezuela was to non-U.S. destinations, primarily Europe. The vast majority of cocaine going to the United States or Europe goes by sea. However, an increasing proportion is being moved by non-commercial air through the Caribbean toward the United States. The number of suspected drug flights departing Venezuela and going to Hispaniola and the Caribbean more than doubled in 2005 and has continued that rising trend in the first half of 2006.

Venezuela has not used available tools to counter the growing drug threat. It has not strengthened inspections or security along its border with Colombia; it has not utilized judicial wiretap orders to investigate drug cases; it has not attempted meaningful prosecution of corrupt officials; and it has not renewed formal counternarcotics cooperation agreements with the United States Government.

The role and status of the DEA in Venezuela remains in limbo since the host country refuses to sign a memorandum of understanding authorizing Drug Enforcement Administration presence, even after successfully concluding a lengthy process of negotiation with U.S. officials. Venezuela also has not signed a letter of agreement that would make nearly \$3 million from FY 2005 available for United States Government cooperative counternarcotics efforts.

Last year Venezuela was found to have “failed demonstrably” as a partner in the war on drugs, in part because it ended most air interdiction cooperation, refused to grant U.S. counternarcotics over flights of Venezuela, curtailed most military and law enforcement counternarcotics cooperation, replaced its most effective counternarcotics officials, and failed to effectively implement its own money laundering and organized crime legislation. All of these issues remain outstanding in 2006.

The United States is very concerned about the continued deterioration of democratic institutions in Venezuela as reflected in the increased executive control over the other branches of government, threats to judicial independence and human rights, and attacks on press freedoms and freedom of expression.

A vital national interests certification will allow the United States Government to provide funds that support programs to aid Venezuela’s democratic institutions, establish selected community development projects, and strengthen Venezuela’s political party system.

MEMORANDUM OF JUSTIFICATION FOR PRESIDENTIAL DETERMINATION ON MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2007

Burma

Burma failed demonstrably to make sufficient efforts during the last 12 months to meet its obligations under international counternarcotics agreements and U.S. domestic counternarcotics requirements as set forth in section 489(a)(1) of the Foreign Assistance Act of 1961, as amended.

Burma remains the world’s second largest producer of illicit opium. Burmese opiates continue to pose a threat in Asia. Additionally, amphetamine-type stimulants (ATS) produced and trafficked from Burmese territory continue to threaten the entire region. Burma has not taken decisive action against drug gangs, such as the United Wa State Army (UWSA), which continue to operate freely along Burma’s borders with China and Thailand. These criminal organizations increasingly threaten Asia with the crystalline form of methamphetamine called “Ice”.

The efforts of the Government of Burma (GOB) to combat the production and trafficking of methamphetamine have been unsatisfactory. Even as methamphetamine production and trafficking have increased in recent years, seizures continue to be disappointing, and the GOB has not been forthcoming with verifiable statistics. It failed to establish a mechanism for the reliable measurement of ATS production and, once again, did not cooperate in the joint United States/Burma crop survey.

The GOB continued to take no action in response to the indictments in January 2005 by the U.S. Justice Department against eight leaders of the UWSA. The failure to take action against these

accused ringleaders, responsible for a good deal of human misery in Asia and beyond, demonstrates the Burmese Government's failure to take serious action against drug activity on its territory.

The Government of Burma has failed to indict and prosecute any Burmese military official above the rank of colonel for drug-related corruption.

Burma has failed to expand demand-reduction, prevention, and drug-treatment programs to reduce drug use and control the spread of HIV/AIDS. The Global Fund for Aids, TB and Malaria had approved grants totaling \$98.5 million for Burma but withdrew in late 2005 due to the government's onerous restrictions and lack of full cooperation.

The international Financial Action Task Force (FATF) continues to list Burma as one of only two "Non-cooperative Countries." At the heart of Burma's problems with international financial authorities is its weak implementation of anti-money laundering controls, with the result that narcotics traffickers and other criminal elements are still able to launder the proceeds of their crimes through Burmese financial institutions.

While the picture of Burma's counternarcotics efforts remains overwhelmingly negative, there were some positive aspects. The GOB, with the U.S. Drug Enforcement Administration and the Australian Federal Police, disrupted two international trafficking syndicates that are associated with the United Wa State Army (UWSA), a kingpin organization, and have ties throughout Asia, India, and North America. In September 2005, the GOB seized a UWSA-related shipment of approximately 496 kg of heroin bound for China via Laos. The seizure led to the arrest of 80 suspects, including two of UWSA Chairman Bao Yu Xiang's family members, and the seizure of assets, including \$1.3 million in cash. A second, related investigation from December 2005 through April 2006 culminated in the arrest of 30 subjects and the seizure of \$2.2 million in assets and significant quantities of morphine base, heroin, opium, weapons, methamphetamine tablets and powder, crystal methamphetamine, pill presses, and precursor chemicals.

Released on September 18, 2006

**POLICY AND PROGRAM
DEVELOPMENTS**

Overview for 2006

Challenges to the illicit drug trade continued on many levels this year; to meet these challenges the international community shared a clear vision of the dangers of narcotic drugs and the need to pursue a mix of law enforcement, demand reduction, and prevention policies. Our international partners in this fight include countries whose developing economies and democratic institutions are threatened by these dangerous commodities, which mortgage the future of their people and their environment.

Cocaine and marijuana cultivation are generally steady. The world's largest supplier of cocaine, Colombia, has shown the political will and tenacity to fight both the cultivation and trafficking of the drug. A growing concern worldwide is the prevalence of amphetamine-type stimulants (ATS), which can be manufactured using easily available, licit materials. The resurgence of Afghan opium cultivation has increased the flow of heroin to Europe, Russia and the Middle East, which undermines those societies and the consolidation of democracy and security in Afghanistan.

Controlling Supply

Cocaine, synthetic amphetamine-type stimulants (ATS), marijuana and heroin are the drugs that most threaten the United States and its allies, while opium cultivation in Afghanistan threatens the consolidation of democracy in that fragile state. The USG's goal is to reduce and ultimately cut off the international flow of illegal drugs. Our primary strategy targets drug supply at critical points along a grower-to-user chain that links the consumer, in the case of cocaine or heroin, with the growers cultivating coca or opium poppies. 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 were never planted, or have been destroyed or left unharvested; without the crops there would be no need for costly enforcement and interdiction operations. Prevention is a focus of all our international programs, but it has limited application. Nor is eradication a 'silver bullet'. The most effective means of eradication, aerial application of herbicide, is not legal or feasible in many countries and is expensive to implement where it is permitted. Destroying a lucrative (albeit illegal) crop carries enormous political, economic and social consequences for the producing country, so developing, implementing, and reaping the benefits of viable, licit alternatives for the affected populations are critical.

In addition, there is the increasing threat from non-organic drugs, such as ATS, for which physical eradication is impossible. Instead, attacking synthetically produced drugs requires a legal regime of chemical controls and law enforcement efforts aimed at thwarting diverters and destroying laboratories. Thus, our international programs must focus upon all the links in the supply-to-consumer chain: the processing and distribution stages, the interdiction of drug shipments, and attention to the money trail left by this illegal trade. Our programs shift resources to those links where we can achieve both an immediate impact and long-term results, through the right combination of effective law enforcement actions, alternative development programs, and international cooperation.

Cocaine

Coca Eradication: The rate of U.S. cocaine consumption has declined over the past 10 years, but cocaine continues to be a major domestic concern. According to the July 2006 interagency

assessment of cocaine movement, between 517-732 metric tons of cocaine hydrochloride (HCl) depart South America for the United States 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 channel a significant portion of our international resources toward eliminating coca cultivation, disrupting cocaine production, and preventing the drug from reaching the United States.

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 are a distant second and third respectively. By the end of 2006, the Colombian government reported eliminating over 213,724 hectares of coca. Aerial eradication removed 171,613 hectares of this amount, far surpassing the previous record of 138,775 hectares sprayed in 2005. Meanwhile, manual eradication destroyed the other 42,111 hectares. If harvested and refined, this eradicated coca could have yielded hundreds of metric tons of cocaine worth billions of dollars on U.S. streets.

Bolivia and Peru, which had substantially reduced their coca cultivation in the past five years, now face the erosion of these achievements. Politically well-connected and active cocalero (coca grower) associations link coca cultivation to issues of cultural identity and national pride and are stepping up efforts to challenge eradication efforts. Traffickers are continuing to exploit these growers' unions.

Cocalero influence has been greatest in Bolivia, where their leader, Evo Morales, won the country's presidency in December 2005. Initial USG estimates for total cultivation in 2006 show increases in most parts of the country. Cocalero activism and the government's desire to avoid violent confrontation have contributed to the rise in coca cultivation. Though the total cultivation estimate for 2005 is half of Bolivia's peak cultivation figure of 52,000 hectares in 1989, the trend is disquieting. Moreover, the level of eradication in 2006 was the lowest in more than ten years. A new integrated alternative development approach in the Chapare region of Bolivia provides for participation by municipalities in the Government of Bolivia's decisions on development implementation and monitoring of programs. This approach is helping to reduce coca-related conflict and strengthen local commitment to licit development.

In Peru, the government planned and mounted an aggressive eradication campaign. The programmed coca eradication goal was increased to 10,000 hectares – a 20 percent increase from 2005. In 2006 total eradication was 12,688 hectares. The Government of Peru adopted the United Nation's estimate of 48,200 hectares of coca under cultivation. This figure reflects the Peruvian Government's intensified eradication efforts in 2006 and the total amount is considerably less than the peak of 115,000 hectares ten years ago. However, cocaleros engaged in numerous violent acts to resist eradication. The Sendero Luminoso terrorist group has openly identified with coca growers and drug traffickers, and organized increasingly violent ambushes of police and intimidation of alternative development teams in coca growing areas.

We continue to support efforts by the governments of the coca-growing countries to eliminate illegal coca within each country's individual context. Alternative development programs offer farmers opportunities to abandon illegal activities and join the legitimate economy, and thereby play a vital role in countries seeking to free their agricultural sector from reliance on the drug trade. In the Andean countries, such programs play a vital role in providing 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.

Cocaine Seizures: Colombian interdiction programs seized 170 metric tons of cocaine in the course of the year, Colombia's second highest cocaine seizure of the past 10 years. Colombian forces destroyed 200 cocaine HCl and nearly 2,000 cocaine base labs (up from 773 last year).

Other important drug-affected countries in the Hemisphere also reported seizing impressive amounts of cocaine: Bolivia, 14 metric tons – up from 11.5 metric tons last year; Peru, 19.77 metric tons – reflecting a steady increase during the past five years; and Mexico, 21 metric tons. Seizure numbers for Venezuela were not available at publication date.

Interdiction in the Transit Zone: Since no attack on supply within source countries could be exhaustive, the international community must continue to help police key transit zones, specifically for us the route for cocaine moving north out of South America. This has required a well-coordinated effort between the governments of the transit zone countries and the USG. Due to continued high levels in collection and cooperation with allied nations and post-seizure intelligence in the last several years, we now enjoy better actionable intelligence within the transit zone. The Joint Inter-Agency Task Force – South, working closely with international partners from throughout the Caribbean Basin, has focused its and regional partners’ intelligence gathering efforts to detect and monitor maritime drug movements while maneuvering interdiction assets into position to affect a seizure. The USG's bilateral agreements with Caribbean and Latin American countries have eased the burden on these countries' law enforcement assets to conduct at seaboardings and search for contraband, while allowing the USG to gain jurisdiction of cases and remove the coercive pressure from large drug trafficking organizations on some foreign governments. This team effort removed over six metric tons of cocaine from the maritime transit zone in 2006.

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 drug 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, 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.

With respect to methamphetamine use, the Administration’s *2006 Synthetic Drug Control Strategy - A Focus on Methamphetamine and Prescription Drug Abuse (June 2006)*, a companion document to the President’s *National Drug Control Strategy*, states that since 2001, regular use of any illicit drug among youth (8th, 10th, and 12th graders) has declined by 19 percent, and regular use of methamphetamine use is down by 36 percent. 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 and ephedrine) destined for the United States. USG drug enforcement authorities believe that PSE and ephedrine imported into Canada is no longer a serious threat due to stricter law enforcement controls in Canada since 2002.

There is a worldwide trend of increasing methamphetamine or other ATS drug trafficking and consumption. However, statistical information suggests that the activity of small toxic laboratories in the United States is declining; lab seizures decreased 42 percent from 2004 (10,015) to 2005 (5,846) and preliminary DEA data for 2006 show continued declines. Current drug lab and seizure statistics indicate that roughly 80 percent of the methamphetamine in the U.S. comes from larger labs, increasingly in Mexico, while the much-diminished remainder comes from small toxic labs. Production and trafficking is now concentrated in areas such as Baja California, Michoacan, Jalisco and Sinaloa, where well-established major drug organizations have their infrastructures. The Government of Mexico (GOM) continued to react strongly over the past year to chemical diversion

and methamphetamine manufacture, implementing strict precursor chemical import quotas and internal chemical distribution controls. Sales of pharmaceutical product containing pseudoephedrine are also controlled and limited in Mexico. Chemical control is one of the closest areas of U.S./Mexican law enforcement cooperation.

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, with significant Ecstasy production in Canada. The Netherlands continued to make progress in attacking Ecstasy, including some significant seizures and arrests of members of an alleged large-scale smuggling ring. Labs in Poland and elsewhere in Eastern Europe are major suppliers of amphetamines to the European market, with the United Kingdom and the Nordic countries among the heaviest European consumers of amphetamine. In the United States, Ecstasy use has plummeted among the teenage population most at risk, and according to the December 2006 Monitoring the Future report, regular usage rates among teenagers are less than half of what they were in 2001.

Pharmaceutical Abuse, and the Internet: An area of growing concern is the abuse of pharmaceutical drugs, especially among teenagers. For example, the December 2006 Monitoring the Future survey shows that the past year abuse of OxyContin increased 30 percent since 2002, still representing small numbers of actual uses compared to other drugs, but the only drug category for which there is a significant increase. In addition, sedatives such as Vicodan are being abused in increasing amounts. Many of these drugs are available over the Internet, through Internet doctors prescribing drugs without seeing patients, and through “pharmacies” that accept unverified or even substandard prescriptions. Some pharmaceuticals are being diverted to the United States from international sources, but the extent is not yet known.

Cannabis (Marijuana)

Cannabis production and marijuana consumption is a problem in nearly every world region, including in the United States. However, the December 2006 Monitoring the Future study shows that, while marijuana continues to be the most commonly used illicit drug among teens within the United States, current use has dropped by 25 percent over the past five years. Drug organizations in Mexico and Canada produce more than 4,000 metric tons of marijuana, which is then marketed to the more than 20 million users in the United States. Canada produces approximately 800 metric tons of high potency marijuana, which is marketed, increasingly, nationwide in the United States, along with marijuana from Colombia, Jamaica, and possibly Nigeria. Domestic production of marijuana may rival that of foreign sources.

According to the Drug Enforcement Agency (DEA)’s 2006 National Drug Threat Summary, marijuana potency has increased sharply. Of great concern is the high potency, indoor-grown 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. A portion of domestic production is also grown under these “hydroponic” conditions. The result is a particularly powerful, dangerous, and addictive drug. Despite suggestions that marijuana use has no long-term consequences, the latest scientific information indicates that marijuana use is a common first step to the abuse of more serious drugs, and that the drug itself is associated with learning difficulties, memory disturbances, and schizophrenia.

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 multiple locations worldwide. Specifically, poppy is produced in Colombia, Mexico, Southeastern Asia and Southwestern Asia. Afghanistan is the world's largest producer of opium poppy, accounting for over 90 percent of the world's opium gum production. In contrast to coca, a perennial that takes at least a year to mature into usable leaf, opium poppy is an easily planted annual crop, and with the correct care and climate, can yield as many as three harvests per year. The gum is harvestable in less than six months.

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 supplies most of the heroin found in the western United States. Colombia supplies most of the heroin east of the Mississippi. Eliminating poppy cultivation in Colombia and Mexico is crucial to reducing U.S.-bound heroin flows, and long-standing joint eradication programs in both countries continue with our support. Colombian law enforcement and alternative development programs eradicated 1,929 hectares of opium poppy in 2006. Of these, 232 hectares were sprayed and 1,697 hectares uprooted through manual eradication programs.

In 2006, the Government of Mexico (GOM) reported eradicating slightly over 16,831 hectares of opium poppy, down from more than 20,000 in two of the last three years. While the GOM has not provided any official reasoning for the reduction, it is possible that resources had to be re-directed to address pressing events throughout the year.

Afghanistan supplies all but a small amount of the heroin going to Europe, Russia, the Middle East and even much of Asia. Heroin produced from Afghan opium also finds its way to the United States. Due to the limited reach of Afghan law enforcement, endemic corruption, and a weak judicial system, the Afghan Government has been unable to prohibit opium cultivation. The year 2006 saw a substantial increase in poppy cultivation, at 165,000 hectares up from 107,400 hectares in 2005. Eradication, consisting of manual and mechanical efforts, increased in 2006 to 15,300 hectares from 2005's total of 5,000 hectares. UN Office of Drugs and Crime Director Antonio Costa has warned that there could be a wave of overdose deaths in Europe and Russia accompanying the surge of available heroin.

The USG, in close coordination with the GOA, focuses on a five-pillar counternarcotics strategy that includes public information, alternative livelihoods, eradication, interdiction, and law enforcement/justice reform. The strategy, with continued support from the international community, bolsters the considerable efforts of the Government of Afghanistan to deliver a tough message to its people that drugs are the nation's most serious enemy. We support the Government of Afghanistan's work to demonstrate decisive leadership, including reaching out to the provinces, strengthening the rule of law and law enforcement capabilities, tackling corruption, and taking resolute measures against illegal narcotics. Through USAID, we will continue to work to develop alternative sources of income to poppy. We further recognize the need to disrupt the networks that finance, supply, and equip the traffickers who threaten the government and people of Afghanistan.

Controlling Drug-Processing Chemicals

Cocaine, synthetic drugs and heroin cannot be manufactured without certain critical chemicals, most of which also have entirely licit uses. These widely used chemicals are diverted by criminals to illicit use in narcotics manufacture. Government controls strive to differentiate between licit use and illicit diversion. Substitutes for unavailable chemicals can be used for some of the chemicals used in the drug manufacturing process, but there are some chemicals—for example potassium permanganate for cocaine and acetic anhydride for heroin—for which there are few readily obtainable substitutes. Some synthetic drug manufacture requires even more specific precursor chemicals, such as ephedrine and pseudoephedrine. These chemicals, used primarily 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. In 2006 the United States, other major chemical trading countries, and the United Nations (UN) focused their efforts to improve controls on chemicals used for manufacturing synthetic drugs. Most significant was adoption of a U.S.-initiated resolution by the March 2006 UN Commission on Narcotic Drugs that requested countries to provide to the International Narcotics Control Board (INCB) estimates of their legitimate requirements for these and other synthetic drug chemicals. The INCB, an independent and quasi-judicial organization within the United Nations charged with monitoring the implementation of international drug control treaties, plays a central coordinating role in their implementation. This measure will allow authorities in exporting and importing countries to do a quick “reality” check on proposed transactions, especially as traffickers turn to countries not normally trading in these chemicals as conduits for diversion.

Virtually all other chemicals used in illicit drug manufacture are traded widely in international commerce. Therefore, extensive international cooperation is required to prevent their diversion from licit commercial channels. Two ongoing multilateral law enforcement operations targeting key chemicals provide frameworks for this cooperation. Project Cohesion targets potassium permanganate and acetic anhydride and Project Prism targets synthetic drug precursor chemicals.

This topic is addressed in greater detail in the Chemical Control Chapter of the INCSR.

Drugs and the Environment

Impact of Spray Eradication: Questions inevitably arise over the environmental risks of regular use of herbicides on illegal drug crops. Colombia is currently the only country that conducts 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, which has been tested in the United States, Colombia, and elsewhere. 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, and one of the most widely used in the world, including in Colombia and Ecuador. Colombia’s spray program represents a small fraction of total glyphosate use in the country, and carefully follows all label requirements and environmental protocols in its spray operations.

Impact of Drug Cultivation and Processing: Coca cultivation has a devastating impact on the environment. In the Andean region, it has led to the destruction of approximately six million acres of rainforest in the past 20 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, illicit coca cultivation decreases biological diversity. The destructive cycle continues, as growers regularly abandon non-productive parcels of depleted forestland 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 use large quantities of highly toxic herbicides and fertilizers on their crops. These chemicals 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. Coca farmers also use glyphosate, although unlike government programs they generally use concentrations that exceed label requirements. Production of the drugs requires more, and more dangerous, solvents and chemicals. One kilogram of cocaine base requires the use of three liters of concentrated sulfuric acid, 10 kilos of lime, 60 to 80 liters of kerosene, 200 grams of potassium

permanganate, and one liter of concentrated ammonia. These toxic pesticides, fertilizers, and processing chemicals are then dumped into the nearest waterway or on the ground. They saturate the soil and contaminate waterways and poison water systems upon which local human and animal populations rely.

Environmental damage hits close to home. Increasingly, marijuana-processing operations are taking place in U.S. national parks, especially in California and Texas due, in part, to increased eradication efforts in Mexico. The cultivation of marijuana on public lands poses a serious threat to the safety of the public, law enforcement personnel, and other public employees. It also creates a significant threat to the environment and our natural resources. In the State of California, the number of plants eradicated is substantial and violence associated with marijuana cultivation is on the rise.

In 2006, the National Park Service and other law enforcement officials conducted operations in several national parks in California, including Yosemite National Park and Sequoia-Kings Canyon National Parks. At California's Point Reyes National Seashore, in August 2006, law enforcement and national park officials raided several marijuana grow sites and confiscated approximately 20,000 marijuana plants with an estimated street value of \$50 million. The areas under cultivation suffered extensive resource damage from the growing operations. Growers are killing wildlife, diverting streams that contain threatened species of fish, using harmful pesticides and bringing the presence of violence to these unspoiled areas. Overall, the DEA's Domestic Cannabis Eradication Program has been successful in targeting the illicit cultivation and production of marijuana. Over the past two years the program has seen impressive results. Program effectiveness measured by marijuana plants eradicated increased almost 24 percent from calendar year (CY) 2004 to CY 2005 (3,200,121 plants in CY 2004 to 4,209,086 in CY 2005). Final figures are still being compiled for 2006. Currently available data indicates that eradication of marijuana plants increased to about 5.1 million plants—an increase of 16 percent from CY 2005. Currently available asset seizure data for 2006 shows an increase of about 55 percent from CY 2005 levels, to over 75.8 million dollars.

Meanwhile, for each pound of methamphetamine produced in clandestine methamphetamine laboratories, five to six pounds of toxic, hazardous waste are generated, posing immediate and long-term environmental health risks, not only to individual homes but to neighborhoods. Poisonous vapors produced during synthesis permeate the walls and carpets of houses and buildings, often making them uninhabitable. Cleaning up these sites in the United States and Mexico requires specialized training and costs an average of \$2,000 to \$4,000 per site.

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. In cooperation with law enforcement officials in other nations, we target the leadership of the main trafficking groups, and focus on the operations along the network that bring drugs to the United States. Our goal is to disrupt and dismantle these organizations, to remove the leadership and the facilitators who launder money and provide the chemicals needed for the production of illicit drugs, and to destroy 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. The USG and Mexico cooperate against major drug trafficking organizations in both countries and secure mechanisms for data sharing. As a result, and showing strong political will to fight this problem at home, Mexican

Federal enforcement and military authorities have inflicted considerable damage on several important trafficking organizations. Mexican counternarcotics enforcement actions in 2006 included arrests of over 11,000 drug traffickers, including many significant leaders, lieutenants, operators, money launders and enforcers. Mexican authorities also conducted increasingly sophisticated organized crime investigations, continuing marijuana and poppy eradication and strong bilateral cooperation on interdiction. Sensitive Investigative Units within the Mexican Federal Investigative Agency serve as effective mechanisms for sharing sensitive intelligence data in both directions without compromise and play an important role in successful investigations against drug trafficking organizations on both sides of the border.

Extradition

Extradition to the United States is still the sanction international drug criminals fear most. The government of Mexico recently sent a strong message when it extradited those major traffickers wanted in the United States whose appeals against extradition had been exhausted. 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. Governments are increasingly willing to risk domestic political repercussions to extradite drug kingpins to the United States, and international public acceptance of this measure has steadily increased.

Colombia has an outstanding record of extradition of drug criminals to the United States, and the numbers have increased even more in recent years. Extraditions to the U.S. have increased dramatically during President Uribe's administration, with a four-year total of 417 as of December 2006. Prominent and significant traffickers extradited in 2006 include Gabriel Puerto-Para; FARC associates Desar Augusto Perez-Parra and Farouk Shaikh-Reyes, who were the first FARC associates ever to be successfully prosecuted in the United States for drug offenses; and AUC associates Huber Anibal Gomez Luna, Freddy Castillo-Carillo, and Jhon Posada-Vergara. The Colombians also continue to provide excellent investigative and trial support related to the trials of FARC leaders Juvenal Ovidio Ricardo Palmera Pineda and Nayibe Rojas Valderrama.

In late 2005, the Mexican Supreme Court overturned the prohibition on the extradition of fugitives facing life imprisonment without possibility of parole, removing an obstacle to the extradition of the most serious drug traffickers. In 2006, for the fifth consecutive year, Mexican authorities extradited record numbers of fugitives to the United States. In 2006, Mexico extradited 63 fugitives, up from 41 in 2005. In 2006, Mexico also deported 150 non-Mexicans in lieu of extradition, many of whom were wanted on U.S. drug charges. The most notable drug trafficker extradited in 2006 was Javier Torres Felix, a top lieutenant in the Zambada organization.

In January 2007, the Government of Mexico extradited 15 defendants to the United States, for the first time sending several high-level traffickers whose extraditions had been delayed for some time due to judicial appeals or pending Mexican charges. These include figures from the Gulf cartel, the Sinaloa cartel and the Arellano Felix organization.

In July 2006, Baz Mohamed, the first Afghan heroin kingpin ever extradited from Afghanistan, pled guilty in Manhattan federal court to conspiracy to import heroin into the United States. President Bush had designated Baz Mohamed as a foreign narcotics kingpin under the Foreign Narcotics Kingpin Designation Act, and Afghanistan President Hamid Karzai authorized Mohamed's extradition to the United States in October 2005.

Institutional Reform

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. By keeping a 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 the drug trade to generate criminal revenues on a scale without historical precedent. A metric ton of pure cocaine is more than 30 times the price in the United States than in Colombia, a return that dwarfs regular commodities and distorts the licit economy. To put these sums into perspective, in FY 2006 the State Department's budget for international drug control operations was approximately \$1.2 billion. Drug syndicates can lose that amount repeatedly, with no serious consequences except to the subordinate responsible for the loss.

Improving Criminal Justice Systems: 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 the past, law enforcement agencies in drug source and transit countries arrested influential drug criminals only to see them released following a questionable or inexplicable decision by a single judge. Each year, as governments work for basic reforms involving transparency, efficiency, and better pay for police and judges, we see improvements in many of these justice systems.

The USG is continuing its support to Afghanistan to counter the drug trade that threatens stability and economic development as the country emerges from decades of war. One element of the comprehensive Afghan counter-narcotics strategy is building law enforcement capacities. Together with our international partners, we are training and mentoring Afghanistan's Counter-Narcotics Criminal Justice Task Force and Central Narcotics Tribunal in Kabul. To date the CNT has overseen over 100 successful convictions, while higher-level cases are expected to be brought before the court over the coming year as the investigative, prosecutorial and judicial skills of the Afghans grow. These efforts are tied into other USG justice assistance programs to build and reform the criminal, commercial, and civil justice systems to establish the rule of law. Meanwhile, the DEA and a recently appointed Resident Legal Advisor assist the Government of Pakistan with increasing the numbers of cases and prosecutions of drug traffickers, particularly by the Anti Narcotics Force Special Investigation Cell, using conspiracy law concepts.

Next Steps

Those involved in the international drug trade are a "thinking enemy," with the ability to adapt to law enforcement constraints and learn from its mistakes. Although we have made many inroads into the core of key drug trafficking networks, and scored victories in the battle for public understanding of the social and public costs of drug use, we continue to face a difficult task. In some cases, successful law enforcement operations weed out the weaker elements of the trade, leaving the more agile and sophisticated criminals in place. In Mexico, hitting the largest trafficking organizations has left smaller groups fighting for dominance with unprecedented levels of social violence. The drug trade itself also evolves, with the increasing use of synthetic drugs, the Internet, state-of-the-art communications and technical and financial expertise. The international community, while mindful of the need to protect individual rights, must band together in an effort to adapt as quickly as the traffickers do.

The drug trade's weakness is that it is simultaneously a criminal organization and a business. It may operate in the shadows, and in some areas with virtual impunity. But to prosper as a business, it must enter the legitimate commercial world, exposed by its dependence on raw materials, processing chemicals, transportation networks, and a means of getting its profits into legitimate commercial and financial channels. As we approach the 20th anniversary of the 1988 UN Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances, we can see tangible improvements in our ability to work with our international partners to increase pressures on the drug trade at every stage of its operations, from cultivation and production to transport and marketing. We must intensify our efforts in all these areas, while also focusing on the financial end. 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 difficult 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 our people and global security -- to a common nuisance, controlled through an international network of legal cooperation.

Demand Reduction

Drug “demand reduction” aims to reduce worldwide use and abuse of illicit drugs worldwide. Demand reduction assistance has evolved as a key foreign policy tool to address the interconnected threats of drugs, crime, and terrorism. 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 activities. 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 on science-based promising and best practices in both prevention and treatment. Demand reduction is recognized as a key complimentary component in efforts to stop the spread of HIV/AIDS, particularly in countries with high intravenous drug users. Increasing public awareness of the harmful effects of drugs through development of coalitions of private/public social institutions, medical community, and law enforcement entities help to mobilize national and international opinion against the drug trade and encourage governments to develop and implement strong counternarcotics policies and programs.

In 2006, 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 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 drug treatment assistance to Thailand was completed and results surpassed an earlier evaluation of INL drug treatment assistance to Peru where overall drug use was reduced from 90 to 34 percent (pre-and post-treatment) in the target population. Methamphetamine use in the Thai target population was reduced from 82 to 7 percent; heroin use was reduced from 7 percent to 1 percent, marijuana was reduced from 20 to 3 percent, pharmaceutical use from 10 to 1 percent, and criminal arrest rates reduced from 40 to 6 percent. Injecting drug use was reduced from 2 percent to zero and drug overdoses were reduced from 15 to 2 percent. Urine testing and criminal justice record checks confirmed results. The study also empirically confirmed the switch from heroin to methamphetamine as the major drug of abuse in Thailand. INL is funding similar studies of INL-funded drug treatment training in Colombia and Vietnam, the latter to address the connection between intravenous drug use and HIV/AIDS, and to reduce overall drug consumption. As a result of the positive findings from these studies, Peru and Laos have asked INL to enhance and expand their treatment infrastructures.

INL also continued to provide training and technical assistance at various locations throughout the world on topics such as community/grassroots coalition building and networking, U.S. policies and programs, science-based drug prevention programming, and treatment within the criminal justice system. INL-funded training targeted predominantly Muslim populations that resulted in the establishment of mosque-based outreach and resource 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. In 2007, INL will provide prevention and aftercare training to another 550 Mullahs and 250 District Council members in Afghanistan, and continue to fund life skills/drug prevention training for 625 teachers throughout Afghanistan. These initiatives build on a previous INL-funded demand reduction symposium 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 assistance also targeted antidrug community coalition network building in Colombia, El Salvador and Peru. Previous coalition building efforts resulted in the first national coalitions to be established in Peru and Chile. INL funding in 2006 provided new updated curricula to 24 Drug Abuse Resistance Education (D.A.R.E.) programs in Latin America and Asia. In 2007, INL funding will target gang-related violence in Central America focusing on at-risk youth in the region. INL funding will establish and expand drug intervention programs in El Salvador's and Guatemala's juvenile correction institutions and community-based programs aiming to reduce youth gang drug-related violence.

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

1998–2006 (All Figures in Hectares)

	2006	2005	2004	2003	2002	2001	2000	1999	1998
Opium									
Afghanistan	172,600	107,400	206,700	61,000	30,750	1,685	64,510	51,500	41,720
India									
Iran									
Pakistan	1,908		3,100		622	213	515	1,570	3,030
Total SW Asia	174,508	107,400	209,800	61,000	31,372	1,898	65,025	53,070	44,750
Burma	21,000	40,000	36,000	47,130	78,000	105,000	108,700	89,500	130,300
China									
Laos	1,700	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	22,700	45,600	46,000	66,030	102,950	130,120	135,040	114,235	160,750
Colombia	¹	²	2,100	4,400	4,900	6,500	7,500	7,500	6,100
Lebanon									
Guatemala	³	100	330						
Mexico	⁴	3,300	3,500	4,800	2,700	4,400	1,900	3,600	5,500
Total Other	51	3400	5,930	9,200	7,600	10,900	9,400	11,100	11,600
Total Opium	197,259	156,400	261,730	136,230	141,922	142,918	209,465	178,405	217,100
Coca									
Bolivia	⁵	26,500	24,600	23,200	24,400	19,900	19,600	21,800	38,000
Colombia	⁶	144,000	114,100	113,850	144,450	169,800	136,200	122,500	101,800
Peru	⁷	38,000 ⁸	27,500 ⁹	31,150	36,600	34,000	34,200	38,700	51,000

¹ USG estimates TBD

² USG estimates not available due to cloud coverage.

³ USG does not have the methodology nor the statistical base to make statistically valid projections/predictions.

⁴ USG estimates not available until April 2007

⁵ The reported leaf-to-HCl conversion ratio is estimated to be 370 kilograms of leaf to one kilograms of cocaine HCl in the Chapare. In the Yungas, the reported ratio is 315:1.

⁶ USG estimates TBD.

⁷ USG estimates TBD.

⁸ Change in area measured.

⁹ Change in measuring criteria. Estimate reflects the retroactive change in counting.

Policy and Program Development

Total Coca		208,500	166,200	168,200	205,450	223,700	190,000	183,000	190,800
Cannabis									
Mexico	¹⁰	5,600	5,800	7,500	4,400	4,100	3,900	3,700	4,600
Colombia			5,000	5,000	5,000	5,000	5,000	5,000	5,000
Jamaica	¹¹								
Total Cannabis		5,600	10,800	12,500	9,400	9,100	8,900	8,700	9,600

¹⁰ USG estimates not available until April 2007

¹¹ USG has not conducted a survey, but has observed 3 harvests year.

Worldwide Illicit Drug Cultivation

1990–1997 (All Figures in Hectares)

	1997	1996	1995	1994	1993	1992
Opium						
Afghanistan	39,150	37,950	38,740	29,180	21,080	19,470
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
Total SW Asia	45,300	44,450	50,440	41,950	31,760	27,640
Burma	155,150	163,100	154,070	154,070	146,600	153,700
China			1,275	1,965		
Laos	28,150	25,250	19,650	19,650	18,520	25,610
Thailand	1,650	2,170	1,750	2,110	2,110	2,050
Total SE Asia	6,150	3,150		177,795	167,230	181,360
Colombia	191,100	193,670	176,745			
Lebanon	6,600	6,300	6,540	20,000	20,000	20,000
Guatemala	15	90	150		440	
Mexico			39	50	438	730
Vietnam	4,000	5,100	5,050	5,795	3,960	3,310
Total Other	10,615	11,490	11,779	25,845	24,838	24,040
Total Opium	247,015	249,610	238,964	245,590	223,828	233,040
Coca						
Bolivia	45,800	48,100	48,600	48,100	47,200	45,500
Colombia	79,500	67,200	50,900	45,000	39,700	37,100
Peru	68,800	94,400	115,300	108,600	108,800	129,100
Total Coca	194,100	209,700	214,800	201,700	195,700	211,700
Cannabis						
Mexico	4,800	6,500	6,900	10,550	11,220	16,420
Colombia	5,000	5,000	5,000	4,986	5,000	2,000
Jamaica	317	527	305	308	744	389
Total Cannabis	10,117	12,027	12,205	15,844	16,964	18,809

Worldwide Potential Illicit Drug Production

1998–2006 (All Figures in Metric Tons)

	2006	2005	2004	2003	2002	2001	2000	1999	1998
Opium Gum									
Afghanistan	6,100	4,475	4,950	2,865	1,278	74	3,656	2,861	2,340
India									
Iran									
Pakistan	38.6		70		5	5	11	37	66
Total SW Asia	6,138.6	4,475	5,020	2,865	1,283	79	3,667	2,898	2,406
Burma	315	380	330	484	630	865	1,085	1,090	1,750
China									
Laos	8.5	28	49	200	180	200	210	140	140
Thailand					9	6	6	6	16
Vietnam					10	15	15	11	20
Total SE Asia	323.5	408	379	684	829	1,086	1,316	1,247	1,926
Colombia ¹²		¹³	30	63	68			75	61
Lebanon									
Guatemala ¹⁴		4	12						
Mexico ¹⁵		71	73	101	58	91	21	43	60
Total Other		75	115	164	126	91	21	118	121
Total Opium		4,958	5,514	3,713	2,238	1,256	5,004	4,263	4,453
Coca Leaf									
Bolivia ¹⁶	37,000	36,000	37,000	33,000	35,000	32,000	26,800	22,800	52,900
Colombia ¹⁷		136,800	108,027	115,500	147,918	180,666	583,000	521,400	437,600
Peru ¹⁸		56,300	48,800	52,300	59,600	54,100	54,400	69,200	95,600
Total Coca	37,000	229,100	193,827	200,800	242,518	266,766	664,200	613,400	586,100
Cannabis									
Mexico ¹⁹		10,100	10,400	13,500	7,900	7,400	7,000	3,700	8,300

¹² USG estimates TBD.

¹³ USG estimates not available due to cloud coverage.

¹⁴ USG does not have the methodology nor the statistical base to make statistically valid projections/predictions.

¹⁵ USG estimates not available until April 2007.

¹⁶ Due to recent revision of the USG's cocaine production estimates for Bolivia, one can only accurately compare the years 2001 to 2005.

¹⁷ Estimate TBD.

¹⁸ Estimates TBD.

¹⁹ USG estimates not available until April 2007

Policy and Program Development

Colombia			4,000		4,000	4,000	4,000	4,000	4,000
Jamaica	²⁰								
Total Cannabis		10,100	14,400	13,500	11,900	11,400	11,000	7,700	12,3000

²⁰ USG has not conducted a survey, but has observed 3 harvests year.

Worldwide Potential Illicit Drug Production

1990–1997 (All Figures in Metric Tons)

	1997	1996	1995	1994	1993	1992
Opium Gum						
Afghanistan	2,184	2,174	1,250	950	685	640
India	30	47	77	90		
Iran						
Pakistan	85	75	155	160	140	175
Total SW Asia	2,299	2,296	1,482	1,200	825	815
Burma	2,365	2,560	2,340	2,030	2,575	2,280
China			19	25		
Laos	210	200	180	85	180	230
Thailand	25	30	25	17	42	24
Vietnam	45	25				
Total SE Asia	2,645	2,815	2,564	2,157	2,797	2,534
Colombia	66	63	65			
Lebanon		1	1		4	
Guatemala						
Mexico	46	54	53	60	49	40
Total Other	112	118	119	60	53	40
Total Opium	5,056	5,229	4,165	3,417	3,675	3,389
Coca Leaf						
Bolivia	70,100	75,100	85,000	89,800	84,400	80,300
Colombia	347,000	302,900	229,300	35,800	31,700	29,600
Peru	130,200	174,700	183,600	165,300	155,500	223,900
Total Coca	547,300	552,700	497,900	290,900	271,600	333,800
Cannabis						
Mexico	8,600	11,700	12,400	5,540	6,280	7,795
Colombia	4,133	4,133	4,133	4,138	4,125	1,650
Jamaica	214	356	206	208	502	263
Total Cannabis	12,947	16,189	16,739	9,886	10,907	9708

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

Policy and Program Development

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

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

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

Bureau of International Narcotics and Law Enforcement Affairs

FY 06 - 08 Budget

(\$000)

	FY06 Enacted	FY06 Supp.	FY07 Est.	FY 07 Supp Request	FY08 President's Budget	FY 08 Supp Request
ACI Country Programs						
Bolivia	79,200	-	*	-	30,000	-
Interdiction/Eradication	42,570	-	*	-	30,000	-
Alter.Dev./Inst.Building	36,630	-	*	-	0	-
Colombia	464,781	-	*	-	366,968	-
Interdiction/Eradication	307,742	-	*	-	366,968	-
Alter.Dev./Inst.Building	129,920	-	*	-	0	-
Rule of Law	27,119	-	*	-	0	-
Ecuador	19,800	-	*	-	7,000	-
Interdiction/Eradication	8,375	-	*	-	7,000	-
Alter.Dev./Inst.Building	11,425	-	*	-	0	-
Peru	106,920	-	*	-	36,844	-
Interdiction/Eradication	58,410	-	*	-	36,844	-
Alter.Dev./Inst.Building	48,510	-	*	-	0	-
Brazil	5,940	-	*	-	1,000	-
Panama	4,455	-	*	-	1,000	-
Venezuela	2,229	-	*	-	0	-
Air Bridge Denial Program	13,860	-	*	-	0	-
Critical Flight Safety Program	29,970	-	*	-	0	-
Subtotal Andean Counterdrug Initiative	727,155	-	569,350	-	442,812	-
Africa						
Liberia	990	-	*	-	4,130	-
Nigeria	990	-	*	-	1,200	-

South Africa	594	-	*	-	0	-
Sudan	0	-	*	-	24,000	-
Burkina Faso	0	-	*	-	100	-
Cape Verde	0	-	*	-	500	-
Democratic Republic of Congo	0	-	*	-	1,750	-
Djibouti	0	-	*	-	300	-
Ethiopia	0	-	*	-	150	-
Ghana	0	-	*	-	500	-
Mauritania	0	-	*	-	300	-
Mozambique	0	-	*	-	300	-
Sierra Leone	0	-	*	-	150	-
Tanzania	0	-	*	-	450	-
Uganda	0	-	*	-	350	-
Africa Regional	594	-	*	-	0	-
Women's Justice Empowerment Initiative	0	-	*	-	0	-
Subtotal, Africa	3,168	-	*	-	34,180	-
East Asia and the Pacific						
Indonesia	4,950	-	*	-	10,050	-
Laos	990	-	*	-	1,580	-
Philippines	1,980	-	*	-	1,150	-
Thailand	990	-	*	-	2,300	-
East Timor	1,485	-	*	-	1,010	-
Cambodia	0	-	*	-	200	-
Malaysia	0	-	*	-	800	-
Mongolia	0	-	*	-	670	-
Vietnam	0	-	*	-	200	-
State EAP Regional	0	-	*	-	280	-
Subtotal, East Asia and the Pacific	10,395	-	*	-	18,240	-
Europe						
Turkey	0	-	*	-	500	-
Subtotal, Europe	0	-	*	-	500	-
Near East						
Iraq	0	91,400	*	200,000	75,800	159,000
Algeria	0	-	*	-	200	-
Israel	0	-	*	-	500	-

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Egypt	0	-	*	-	3,000	-
Yemen	0	-	*	-	500	-
Gaza/West Bank	0	-	*	-	3,500	-
Morocco	990	-	*	-	1,000	-
Tunisia	0	-	*	-	200	-
United Arab Emirates	0	-	*	-	300	-
Jordan	0	-	*	-	1,500	-
Lebanon	0	-	*	60,000	1,800	-
Subtotal, Near East	990	91,400	*	260,000	88,300	159,000

South Asia

Afghanistan	232,650	-	*	-	274,800	-
Nepal	0	-	*	-	2,700	-
Bangladesh	0	-	*	-	1,500	-
India	0	-	*	-	400	-
Sri Lanka	0	-	*	-	350	-
Pakistan	34,970	-	*	-	32,000	-
Subtotal - South Asia	267,620	-	*	-	311,750	-

Western Hemisphere

Bahamas	495	-	*	-	500	-
Guatemala	2,475	-	*	-	5,320	-
Colombia	0	16,300	*	-	0	-
Haiti	17,500	-	*	-	9,000	-
Jamaica	990	-	*	-	1,009	-
Mexico	39,600	-	*	-	27,816	-
Argentina	0	-	*	-	305	-
Bolivia	0	-	*	-	600	-
Chile	0	-	*	-	100	-
Dominican Republic	0	-	*	-	1,150	-
Ecuador	0	-	*	-	200	-
Guyana	0	-	*	-	100	-
Nicaragua	0	-	*	-	1,600	-
Eastern Caribbean	0	-	*	-	500	-
Trinidad and Tobago	0	-	*	-	500	-
Honduras	0	-	*	-	750	-
Paraguay	0	-	*	-	280	-
El Salvador	2,475	-	*	-	0	-
Southern Cone	0	-	*	-	0	-

Caribbean and Central America						
(Transit Zone)	0	-	*	-	0	-
Subtotal, Western Hemisphere	63,535	16,300	*	-	50,530	-
Global						
Criminal Youth Gangs	0	-	*	-	5,000	-
Interregional Aviation Support	62,865	-	*	-	60,100	-
International Organizations UNODC	2,960	-	*	-	3,750	-
International Organizations CICAD	1,000	-	*	-	1,750	-
Demand Reduction/Drug Awareness	9,900	-	*	-	3,500	-
Trafficking in Persons	4,950	-	*	-	4,950	-
INL Anticrime Programs	10,395	-	*	-	14,000	-
Alien Smuggling/Border Security	594	-	*	-	1,500	-
Anticorruption Compacts	1,485	-	*	-	0	-
Fighting Corruption	2,475	-	*	-	4,500	-
Financial Crimes/Money Laundering						
/Counter-Terrorism Financing Initiative	2,475	-	*	-	4,000	-
Cyber Crime, IPR and CIP	3,366	-	*	-	4,000	-
Civilian Police Program	1,980	-	*	-	2,000	-
ILEA Operations	15,840	-	*	-	16,500	-
Subtotal, Global	109,890	-	*	-	111,550	-
PD&S	16,830	-	*	-	19,550	-
Subtotal, INCLE	472,428	107,700	703,600	260,000	634,600	159,000
TOTAL INL PROGRAMS	1,199,583	107,700	1,272,950	260,000	1,077,412	159,000

* A regular FY 2007 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution. The amounts included for FY 2007 in this budget reflect the levels provided by the continuing resolution. Country allocations for FY 2007 will be made once a FY 2007 appropriations bill is enacted.

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 counter-terrorism.

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 18,000 officials from over 75 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 counter-terrorism, anti-corruption, financial crimes, border security, drug enforcement, firearms and many others.

Instruction is provided to participants from Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Djibouti, Ethiopia, Kenya, Uganda, Nigeria, 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), East Timor and China (including Hong Kong and Macau), 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, East Timor, 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. ILEA San Salvador was established in 2005. The training program for the newest ILEA is 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 2007, ILEA San Salvador will deliver three LEMDP sessions 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). Instruction is provided to participants from: Argentina, Barbados, Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panamá, Paraguay, Perú, Trinidad and Tobago, Uruguay and Venezuela.

The ILEA Regional Training Center located in Peru will officially open in 2007. The center will augment the delivery of region-specific training for Latin America and will concentrate on specialized courses on critical topics for countries in the Southern Cone and Andean Regions.

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 U.S. Thus, a strong international commitment to counter narcotics 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 counter narcotics strategy is accomplished through its 227 domestic offices throughout the U.S. and 86 foreign offices in 62 countries. The DEA overseas mission has the following components:

- Conduct bilateral investigative activities;
- Coordinate intelligence gathering;
- Coordinate training programs for host country police agencies;
- Assist in the development of host country drug law enforcement institutions and engage in foreign 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 listed above. The following sections highlight the assistance that DEA provided during 2006 to host nation counterparts in support of the four established mission components.

Bilateral Investigations

Historical Operations

Operations All Inclusive 2005-1 and 2006-1, which ran from August 5, 2005 through October 8, 2005, and March 4, 2006 through April 26, 2006, respectively, targeted South American source regions, Eastern Pacific and Western Caribbean vectors of the Mexico/Central America transit zones, and the Mexico and Central America land mass, to attack the drug trade's main arteries and support infrastructure with innovative, multi-faceted, and intelligence-driven operations. Both operations exploited the maritime, overland, commercial air, and private air smuggling vulnerabilities in the movement of drugs, money, and chemicals. DEA and other federal, state, and host nation law enforcement and military agencies supported both operational and intelligence aspects of these operations.

Operation All Inclusive 2005-1: Seizure highlights in Mexico include 21.05 metric tons of marijuana, 108 kg of cocaine, 35.2 kg of heroin, and nearly one million tablets of pseudoephedrine. Of particular importance were two currency seizures at the Mexico City Airport totaling \$8.7 million. One of these seizures was for \$7.8 million. This seizure is the largest currency seizure to

date at the Mexico City International Airport. During this operation, over 46 metric tons of cocaine were interdicted and seized before they could reach Mexico, where the drugs are normally broken down into smaller quantities for transshipment north and to make them more difficult to interdict. Another significant seizure during this operation was of 3.5 metric tons of cocaine, seized from a fishing vessel in the Eastern Pacific Ocean on August 15, 2005.

Operation All Inclusive 2006-1 is an interagency effort using all available intelligence, information, and knowledge gained from Operation ALL INCLUSIVE (OAI) 1-2005. OAI 2006-1 used the combined abilities of the Special Operations Division, the El Paso Intelligence Center, Panama Express, and the Intelligence Community. Pre-operational and operational intelligence was used to identify targets of interest, their vulnerabilities, and cause a sustained disruption in the flow of drugs ultimately destined for the United States. OAI 2006-1 consisted of a combination of staggered and simultaneous land, air, maritime, and financial components combined with disinformation elements; designed to synchronize interagency counter drug operations, influence illicit trafficking patterns, and increase disruptions of drug trafficking organizations. OAI 2006-1 targeted the flow of drugs, money, and chemicals within the source and transit zones in a combined effort utilizing DEA, JIATF-South, interagency, and host counterpart capabilities. Operational Highlights –

- Mexican Federal Police seized **\$2.2 million dollars** in U.S. currency found inside false luggage compartments at the Mexico City Airport. Four Colombians scheduled to fly to Guadalajara, Mexico were arrested.
- Ecuadorian National Police seized **5.5 metric tons of cocaine** packaged in 677 boxes within a maritime container. The container originated in Buenaventura, Colombia, and was en route to Colon, Panama. This was largest cocaine seizure ever made at the Port of Guayaquil.
- Fifteen cocaine-processing labs were seized and dismantled in Colombia (11 in March and four in April). A total of **92.6 metric tons of precursor chemicals** and **500 kg of explosives** were seized.
- Eight maritime seizures, six in the eastern Pacific and two in the Western Caribbean, totaling **16.16 MT of cocaine and 8 kg of heroin**, were carried out during the operation. The largest seizure occurred on March 11, 2006, 3,317 kg of cocaine, eight kg of heroin, from a go-fast boat with five Colombia crewmembers.
- In Colombia, many of the smaller cocaine seizures (**10 kg or less**) from air cargo were destined for Spain.
- **5.6 tons of cocaine** was seized in Mexico from a DC-9 that originated in Venezuela. This seizure is one of the largest in recent history in Mexico.

Project Cohesion. Project Cohesion is an international chemical control initiative, run under the auspices of the International Narcotics Control Board (INCB), to track the flow of the cocaine precursor potassium permanganate and the heroin precursor acetic anhydride. Project Cohesion was created in October 2005 by combining the INCB sponsored legacy projects: Operation Topaz and Operation Purple. The combined steering committee of these two operations determined that while Operations Topaz and Purple had been effective in their time, changes needed to be made to reinvigorate these projects. Under the auspices of the INCB, Project Cohesion maintains the system of Central National Authorities (CNAs) for the use of the legacy Pre-Export Notification (PEN) system for both of these substances. Project Cohesion is committed to adopting a regional approach utilizing “time limited” operations to increase arrests and chemical seizures. In addition, the project is committed to increasing the efficiency of sharing intelligence and enforcement activities so that the real time exchange suspect consignment information can be obtained. Pursuant to Operation Cohesion, in the second half of 2006, the project monitored 472 shipments of acetic anhydride and 494 shipments of potassium permanganate.

Operation Cold Remedy/Aztec Flu. Pursuant to *Operations Cold Remedy* and *Aztec Flu*, initiatives run out of Hong Kong and Mexico respectively, and tracked globally under the auspices of *Project Prism*, over five metric tons of 60 milligram tablets of pseudoephedrine, with the capability to yield in excess of three metric tons of methamphetamine (at a 60 percent conversion rate), were seized through the end of 2005 in the United States, Mexico, and Panama.

Operation Containment. Operation Containment is an intensive, multinational, law enforcement initiative established in 2002 and is led by DEA. It involves countries in Central Asia, the Caucasus, 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 counter narcotics 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. Deprive these organizations of the illicitly gained financial assets necessary for their activities.
- Engage in proactive enforcement and intelligence gathering operations utilizing a regional organizational attack strategy targeting 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 its Kabul Country Office and works closely with various Afghan and U.S. Government agencies in a coordinated approach in regards to enforcement efforts against the highest-level DTOs.
- Further DEA office enhancements have already taken place with increased special agent presence in Ankara, Turkey; Istanbul, Turkey; London, England; and Moscow, Russia.
- The Kabul CO'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 is comprised of CNP-A officers who have been selected to work narcotic enforcement operations with DEA's Kabul Country Office (CO) and Foreign-deployed Advisory and Support Teams (FAST). DEA continues to advise, train, and mentor these NIU officers. To date, DEA has trained over 150 NIU officers and they are already operationally deployed, working with their DEA counterparts throughout Afghanistan.
- DEA and the U.S. interagency community, including the Department of Defense (DOD) and the Department of State (DOS), in conjunction with British and Afghan counterparts, have initiated a long-term strategic plan for the development of the Counter Narcotics Police – Afghanistan (CNP-A). A key objective is to augment the CNP-A's professionalism and capabilities. The CNP-A will support governmental stability in Afghanistan by disrupting the production and trafficking of illicit drugs across international

borders. The desired outcome for the plan is for the CNP-A to become a self-sustaining law enforcement agency within Afghanistan.

- During fiscal year (FY) 2006, **Operation Containment** has resulted in the seizure of 5.3 tons of heroin, 5.2 tons of opium gum, 3.9 tons of cannabis, 1,439 liters of precursor chemicals, 39 clandestine opium/morphine/heroin/ conversion laboratories, and 357 arrests.

Operation Marble Palace II. Consolidated Priority Organization Target (CPOT) Haji Baz MOHAMMAD Convicted. In January of 2005, DEA Kabul CO agents and 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 kg of heroin from Afghanistan and Pakistan to the United States, between 1990 and 2005. In October of 2005, Mohammad was extradited from Afghanistan to the United States. This represented the first Afghan drug trafficker that was extradited from Afghanistan to the U.S. to face narcotics charges. Numerous co-defendants 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-dollar forfeiture allegation in the Southern District of New York federal indictment. On July 11, 2006, in the U.S. District Court for the Southern District of New York, Mohammad pled guilty to conspiracy to import heroin into the United States. He faces a mandatory minimum of ten years in prison and up to a potential life sentence when he is sentenced sometime in 2007.

Project Prism. This project, which began in June 2002, is an initiative sponsored by the International Narcotics Control Board (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 trade in Amphetamine Type Stimulants (ATS) precursors, 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.

Operating under the auspices of Project Prism, DEA hosted a meeting in February 2006, in Hong Kong, for law enforcement and regulatory officials of producing countries of ephedrine/pseudoephedrine and 3-4 methylenedioxyphenyl-2-propanone, as well as those nations most affected by methamphetamine. The objective of this meeting was to develop and enhance systems for voluntary cooperation in data collection and the exchange in law enforcement channels of information on pharmaceutical preparations containing ephedrine and pseudoephedrine, as well as bulk precursor chemicals. This was the first time that almost all of the countries that produce these chemicals and those countries affected by methamphetamine have sat down together to discuss this problem.

While there were some differences of opinion as to the manner and channels in which information regarding the licit trade in these substances should be exchanged, it was important to bring precursor-chemical-producing nations and nations in which illicit drug manufacturing occurs together for candid discussions. The communication that occurred between countries attending the open forum meeting was encouraging. The Hong Kong meeting also helped to lay a foundation for discussions and negotiations between concerned governments, which led to the passage of a resolution at the 49th Commission on Narcotic Drugs in Vienna, Austria in March of this year. The resolution, entitled "Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs," involves the synthetic drug precursors previously mentioned, as well as preparations containing these substances and phenyl-2-propanone (P2P). The resolution calls on all nations who are signatories to the various United Nations' conventions dealing with

drugs and precursor chemicals to provide to the INCB annual estimates of their legitimate requirements for these substances and preparations containing these substances. The resolution also calls for nations to ensure that their imports of these substances are commensurate with their respective nation's legitimate needs and urges them to continue to provide to the INCB, subject to their national legislation and taking care not to impede legitimate international commerce, information on all shipments of these drugs and precursor chemicals. The resolution further requests countries to permit the INCB to share the shipment information on these consignments with concerned law enforcement and regulatory authorities to prevent or interdict diverted shipments. The sharing of this information will, most likely occur within the Project Prism framework.

Operation Twin Oceans. Operation Twin Oceans is a multi-jurisdictional investigation that targeted the Pablo RAYO-Montaña DTO, a cocaine ring responsible for smuggling more than 15 tons of cocaine per month from Colombia to the streets of the U.S. and Europe. An international coalition spearheaded by the Brazilian Federal Police, Panamanian Judicial Police, Colombian National Police, and DEA was responsible for dismantling this international drug cartel. This three-year long investigation resulted in over 100 arrests and the seizure of 47,555 kg of cocaine, or the equivalent of 52 short tons of cocaine, and the identification of over \$100 million in assets in Mexico, Panama, Colombia, Brazil, and the United States. These assets include ships/yachts, vehicles, islands, other real property, U.S. Currency and other foreign currency, bank accounts, art work, etc. RAYO-Montaña, aka "Don Pablo," was the commander and controller of a 21st Century criminal organization whose information technology-literate managers used highly sophisticated methods to coordinate the movement of cocaine north and illegal drug proceeds south. In addition, the organization worked in close association with Colombian narcotics terrorist organizations such as the Autodefensas Unidas de Colombia (AUC), the Fuerzas Armadas Revolucionarias de Colombia (FARC) and the Norte del Valle Cartel. RAYO-Montaña was arrested by the Sensitive Investigations Unit (SIU) of the Brazilian Federal Police (DPF) in Sao Paulo, Brazil, at his residence on May 16, 2006, on charges including money laundering, and conspiracy and possession with intent to distribute cocaine. He represents the 42nd arrest of a CPOT since the inception of the program. As a result of outstanding international cooperation, Operation Twin Oceans was able to identify, target and dismantle all levels of criminal activity, from the Colombian source of supply to wholesale distributors that had direct impact in the cocaine market in the U.S.

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, DEA, the U.S. Army (DOD), U.S. Coast Guard, the Department of Homeland Security, and the Department of State (DOS) and, on the Bahamian and Turks and Caicos side, counterparts from the Royal Bahamas and Turks and Caicos Police Forces. During 2006, as a result of OPBAT, 1,331 kg of cocaine and 134,831 pounds of marijuana were seized. 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 2006.

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 CO, which is coordinating this investigation with DEA New York, DEA JFK Airport Group, the 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 Antinarcotics 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 U.S. The ring brought heroin from labs in Colombia to Boston, MA, New York, NY, Chicago, IL, and Orlando, FL. 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 U.S. 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 160 arrests and seizures totaling 128 kg of heroin, 60 kg of cocaine, and \$2.4 million in U.S. currency. The success of this multi-national, multi-jurisdictional, multi-agency investigation exemplifies the cooperation between law enforcement entities throughout the U.S. and the Government of Colombia.

Operation Mountain Mist. Operation Mountain Mist is a SOD-supported multi-jurisdictional, multi-national OCDETF investigation targeting the Auto Defensas De Colombia (AUC) Para military leaders 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 the interests of significant Colombian sources of supply of cocaine. Cumulative operational results include 128 arrests and the seizure of 20 cocaine HCl labs, 22,919.5 kg of cocaine, 28,999 gallons of precursor chemicals, 4,000 pounds of marijuana, and \$2,732,309 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. 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), conducted the operation. Since the February 2000 implementation of Operation Panama Express, 437 metric tons of cocaine have been seized, 136,000 kg of cocaine have been destroyed, when vessels carrying these illicit drugs were scuttled by their crews to avoid capture or when the boats were sunk by law enforcement, and 1,288 individuals arrested.

Operation Windjammer. On May 19, 2005, based on information provided by DEA's Cartagena, Colombia Resident Office (RO), DEA's Kingston, Jamaica Country Office (CO) initiated a Priority Target Investigation focusing on Gareth Lewis, a multi-ton, Jamaica-based cocaine distributor. Through a myriad of investigative resources, the Kingston CO, in conjunction with the Cartagena RO, the Panama CO, and SOD determined that Lewis distributed multi-ton quantities of cocaine to the U.S. and Europe via Panama and Mexico. 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, his father Jeffrey Lewis, and five co-conspirators were in violation of Title 21, U.S. Code (USC), Sections 863 and 959, conspiring to transport cocaine into the U.S. In support of Operation Windjammer, the Kingston CO played a significant role in obtaining vital evidence that was utilized to implicate the Lewis' and members of their drug trafficking organization in a conspiracy to transship cocaine into the U.S. 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 U.S. via Jamaica. There were seizures in this investigation in Colombia in excess of 1,400 kg of cocaine. In 2006, Operation Windjammer seized 195 pounds of hash oil and 7,052 pounds of marijuana, and effected eight arrests.

1st Quarter FY2006 (October 1, 2005-December 31, 2005)

- **The Government of Afghanistan passed comprehensive counter narcotics legislation prohibiting the manufacture and trafficking of narcotics in December 2005.** The law

includes the standardization of penalties and the authorization of modern law enforcement techniques.

- **Operation Gear Grinder.** This operation, which culminated in December 2005, was a 21-month DEA, OCEETF 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 email address to exchange prices and tracking numbers, and provided ordering and payment instructions. They used U.S.-based email 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. To date, nine individuals have been arrested pursuant to this investigation, as well as seizures of assets and steroids.

- **Seizure of 39 kg of Heroin.** On October 29, 2005, DEA's Santo Domingo, Dominican Republic CO and members of one of its sponsored units, (Inteligencia Operativa) at the Dirreccion Nacional De Control De Drogas, seized 39 kg of heroin. The seizure was a result of an undercover operation involving a confidential source and extensive surveillance. As a result of the operation, five individuals were arrested; four Colombian Nationals and one Venezuelan national. All were conducting their drug trafficking activities within the Dominican Republic.
- **Historic Extradition of Cocaine Kingpin and Four Criminal Associates from Curacao To New York.** On October 5, 2005, the historic extradition of cocaine kingpin James Yezid VALENCIA Rugeles, aka "Matador," and four of his associates from the Netherlands Antilles to New York, for the alleged trafficking of \$88 million worth of cocaine was announced. VALENCIA Rugeles, along with Mario ALBERTO Valencia, James Jesus VALENCIA Munevar, Oscar DIAZ Mejia, and Xiomara DIAZ Mejia were arraigned in Manhattan, where they were ordered to be held for appearance at the U.S. District Court. These extraditions rise from the first-ever joint Curacao-U.S. investigation of a major drug organization and represent the culmination of an international law enforcement operation conducted by the New York Drug Enforcement Task Force, DEA's Caribbean Field Division, the Colombian National Police, and law enforcement agencies of the Netherlands Antilles. The indictment alleges that the VALENCIA Rugeles ran an organization responsible for massive cocaine smuggling and transported tons of cocaine to St. Maarten, and ultimately Puerto Rico and the U.S. During the course of the investigation, law enforcement officers seized approximately 4,438 kg of cocaine worth more than \$88 million on New York City streets. If convicted, each defendant faces a maximum sentence of life in prison and a mandatory minimum term of 10 years imprisonment.

2nd & 3rd Quarter FY2006 (January 1, 2006-June 30, 2006)

- **Arrest of Jose Adolfo HURTADO-Paz.** On July 4, 2006, Jose Adolfo HURTADO-Paz was arrested in Buenaventura and is currently in jail in Colombia awaiting extradition to Miami, FL or Washington, D.C. HURTADO-Paz was a fugitive involved in coordinating multi-ton shipments of cocaine via fishing vessels for the RAYO-Montano DTO on the eastern Pacific side of Colombia. DEA's Cartagena Resident Office and the Colombian National Police (CNP) Anti-Narcotics Unit (ANTIN) are actively pursuing eight other fugitives in Colombia in relation to this case. DEA Cartagena continues to coordinate the financial investigation of the Colombian-based RAYO-Montano DTO with the CNP-ANTIN SIU FIT, and has identified approximately \$61 million in properties, vehicles, businesses, and fishing vessels.
- **Arrest and Extradition of Roger KAHN.** On June 29, 2006, Roger KAHN, leader of a Guyana-based DTO, was successfully extradited via an arrest warrant issued out of the Eastern District of New York. KAHN was apprehended in Suriname, turned over to the DEA, and transported to the U.S. KAHN is currently in custody in New York pending drug trafficking charges. KAHN was responsible for significant amounts of narcotics shipped via maritime, air, and go-fast boats from Guyana, Suriname, and the Eastern Caribbean region.
- **Fentanyl Laboratory Seized in Mexico.** As a result of Chemical and Drug Identification training received from DEA and INL, on May 21, 2006, Mexican officials seized an operational fentanyl laboratory in Toluca, Estado de México, Mexico. It is suspected that kg quantities of fentanyl were produced in this laboratory and sent to the United States.
- **Consolidated Priority Organization Target (CPOT) Zeev ROSENSTEIN Arrested.** On November 8, 2004, the DEA Miami Division reported the arrest of CPOT Zeev ROSENSTEIN by the Israeli National Police in Tel Aviv, Israel. The arrest is the result of a three-year investigation and September indictment of ROSENSTEIN for trafficking MDMA in the U.S. District Court, Southern District of Florida. According to intelligence information, ROSENSTEIN was the leader of an Israeli criminal organization responsible for financing, coordinating and smuggling multi-million tablet shipments of MDMA from Belgium and Holland to the United States, Israel and Europe. Investigative information has linked ROSENSTEIN to a 2001 seizure in New York of 700,000 MDMA tablets and \$187,000 in U.S. currency. On February 16, 2006, the Israeli Justice Minister signed the extradition order allowing ROSENSTEIN to be extradited to Miami, Florida. On March 6, 2006, Rosenstein was transported to Miami, Florida. Subsequently, ROSENSTEIN was convicted in federal court and sentenced to 144 months prison.
- **DEA Kabul, National Interdiction Unit members, and Afghan Security Force Officers Seized 15 kg of Heroin and Arrested Haji Ahsanullah in Nangarhar Province,** in February 2006. This marked the first execution of a search warrant under the new Afghanistan Drug Law.

4th Quarter FY2006 (July 1, 2006-September 30, 2006)

- **Operational Mexican Methamphetamine Laboratory Seized.** On December 10, 2006, the Jalisco, Mexico fire department responded to a blazing fire at a ranch located in Tlajomulco de Zuniga, Jalisco, Mexico. As a result of Chemical and Drug Identification training received from DEA and INL, firemen discovered an operational methamphetamine laboratory containing 100 200-liter barrels of chemical substances used in the manufacture of methamphetamine. The main building contained approximately 100 55-gallon barrels of chemicals, multiple pressure cookers, and approximately 33 pounds of suspected finished methamphetamine.

- **Arrest of CPOT Pablo RAYO-Montano and Dismantlement of the RYAO-Montano Drug Trafficking Organization.** On May 16, 2006, CPOT Pablo RAYO-Montano was arrested as part of Operation Twin Oceans. The unprecedented level of cooperation and coordination between governments has enabled DEA to identify and target this worldwide DTO. Updated stats for the May 16, 2006, takedown include the arrest of 29 of 42 indicted targets; 52 additional targets arrested on local charges. Seizures include \$377,000 in Colombia, \$323,000 in Panama, and \$2,047,000 in Miami, for a total of \$2,747,000, combined with over \$100 million in assets.
- **Cash Seizure of \$829,716 by DEA's Kingston, Jamaica Country Office.** On May 15, 2006, the Kingston CO reported a significant seizure of \$829,716 in U.S. currency, which was being transported by four Colombian nationals. All four individuals were arrested and identified as members of a drug trafficking and money laundering organization. All defendants are in custody pending prosecution on money laundering charges. This seizure also attests to the continuing success and efficient sharing of information between DEA and Jamaican law enforcement officials.
- **DEA Fugitive Extradited from Mexico.** On November 30, 2006, DEA fugitive Javier Torres-Felix was extradited from Mexico to McAllen, Texas, under a U.S. indictment for conspiracy to import, manufacture and distribute cocaine. Javier Torres-Felix was a top lieutenant and close confidant for CPOT Ismael ZAMBADA-Garcia.
- **Arellano-Felix Brother Extradited from Mexico.** On September 16, 2006, Francisco Rafael Arellano-Felix was extradited from Mexico to Texas. Francisco Rafael Arellano-Felix was originally arrested in Mexico on December 4, 1993, and was in a Mexican jail. He is the older brother of CPOT Francisco Javier Arellano-Felix and Eduardo Ramon Arellano-Felix.
- **Seizure of 588 firearms in Pedro Juan Caballero, Paraguay.** On September 3, 2006, 588 firearms were seized in Pedro Juan Caballero, Paraguay. This seizure was the result of an investigation by the DEA Asuncion, Paraguay CO and the DEA-supported vetted unit (SENAD) of drug/firearms traffickers involved in a recent seizure of 318 firearms in Pedro Juan Caballero. Intelligence indicates that these firearms were destined for the violent Primero Comando de Capital (PCC) organization. A total of 906 firearms, consisting of shotguns, assault rifles, rifles, pistols, revolvers, and concealable pen guns have been seized from the PCC organization in Pedro Juan Caballero. Additionally, 8,000 rounds of rifle ammunition (7.62mm and 5.56mm), multiple silencers, and numerous M-16 magazines were seized, with a total value of \$600,000.
- **Extradition of Samuel Knowles on August 29, 2006.** On August 28, 2006, Samuel Knowles was extradited to the Southern District of Florida after fighting extradition from The Bahamas since 2002. In 2002, Knowles was designated by President Bush as an individual appropriate for sanctions under the Foreign Narcotics Kingpin Designation Act (21 USC 1901-1908), an act that targets, on a worldwide basis, significant foreign traffickers and their organizations and operations. Knowles' organization was responsible for the importation/distribution of multi-ton quantities of cocaine and marijuana to the U.S. from The Bahamas. Knowles is charged with importing, via high performance speedboats, approximately 1,644 kg of cocaine and 879 pounds of marijuana. Additionally, over \$2.5 million in drug proceeds was seized from Knowles' organization.
- **Extradition of CPOT Manuel Hoover SALAZAR-Espinosa.** On August 22, 2006, Manuel Hoover SALAZAR-Espinosa was extradited from Colombia to the U.S. SALAZAR-Espinosa was indicted for violations of Title 21 in the Southern District of New York and is also the subject of a second indictment returned in the Southern District of Florida. SALAZAR-Espinosa, aka "Hoover Salazar," is the subject of superseding indictment 05 CR 517, which

was returned in the Southern District of New York on June 28, 2005. The indictment charged SALAZAR-Espinosa with violations of 21 USC 812, 21 USC 952, 21 USC 959, 21 USC 960, and 21 USC 963 of the Controlled Substances Act. Additionally, SALAZAR-Espinosa was charged with violations of 18 USC 2, and 18 USC 1956. This indictment also includes criminal forfeiture penalties pursuant to 21 USC 853, 21 USC 959, 21 USC 963, and also 18 USC 982, 1343 and 1956.

- **Cash Seizure of \$1,345,842.** On August 17, 2006, \$1,345,842 was seized in Freeport from a Haitian DTO operating in The Bahamas.
- **Arellano-Felix Brother and Associates Arrested.** Based on an ongoing investigation, on August 14, 2006, the U.S. Coast Guard arrested Francisco Javier Arellano-Felix and two of his lieutenants, Arturo Villareal-Heredia and Marco Villanueva-Fernandez, and turned them over to DEA San Diego. In December of 2003, a grand jury in the Southern District of California returned an indictment against Francisco Javier Arellano-Felix and several other members of the Arellano-Felix drug trafficking organization charging them with violating the Racketeering Act, a Continuing Criminal Enterprise, Conspiracy to Import and Distribute a Controlled Substance, and Aiding and Abetting in furtherance of a Criminal Conspiracy.
- **Seizure of 732.1 kg of Cocaine in Eastern Pacific Ocean [Galapagos Islands].** On August 5, 2006, a U.S. Navy vessel interdicted an unflagged go-fast vessel (GFV) with four crew members. Personnel from the Navy vessel boarded the GFV and discovered that the entire mid-ship and bow was filled with cocaine, resulting in a seizure total of 1,614 pounds. U.S. Navy personnel estimated that, based on its size, as much as 2.5 metric tons of cocaine was on board the GFV, however, due to fire on the vessel, an accurate total could not be ascertained. The Navy sank the GFV due to excessive fire damage.
- **Corrupt Member of the Afghan Ministry of Interior was Convicted and Sentenced to Ten Years Incarceration for Distributing Two kg of Heroin.** In August 2006, in an investigation jointly undertaken by DEA and the Counter Narcotics Police of Afghanistan, a corrupt member of the Afghan Ministry of Interior was convicted and sentenced to ten years incarceration for distributing two kg of heroin. The convicted individual, who held the rank of Lieutenant Colonel, was found guilty despite making threats against key members of the Afghan government. This investigation demonstrates the resolve of both governments in the fight against narcotics trafficking.
- **Training Results in Methamphetamine Laboratory Seizures in Mexico.** As a result of DEA and INL sponsored training in Chemical and Drug Identification on January 5, 2006, Mexican authorities raided a suspected methamphetamine laboratory and seized approximately 500 kg of methamphetamine, 770 kg of ephedrine, large amounts of precursor chemicals, and laboratory equipment. Also, on August 1, 2006 as a result of the same chemical recognition training, Mexican State Police officials discovered a methamphetamine laboratory in Jalisco, Mexico, and seized approximately 100 kg of methamphetamine.

1st Quarter FY-2007 (October-December 2006)

- **Extradition of North Valle Cartel Leader Jairo Aparicio-Lenis.** On October 21, 2005, Jairo Aparicio-Lenis, a leader of the North Valle Cartel, one of Colombia's most powerful cocaine trafficking organizations, was extradited to the U.S. 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 Norte Valle 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 U.S. The indictment alleges that the

Norte Valle Cartel bribed and corrupted Colombian legislators. According to the indictment, Aparicio-Lenis was a member of the Norte Valle 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 U.S. 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. On October 19, 2006, Jairo APARICIO-Lenis pled guilty to RICO Conspiracy, 18 USC 1962(d). The underlying conduct was money laundering, in excess of \$20 million for the North Valley Cartel. APARICIO-Lenis pled guilty in the Federal District Court for the District of Columbia. He is scheduled to be sentenced on January 26, 2007.

- **Arrest of Financial CPOT Gabriel PUERTA-Parra in Colombia.** On October 8, 2004, DEA's Bogotá, Colombia CO 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. Puerta-Parra was extradited to the U.S. on May 23, 2006, and was sentenced to 135 months on December 14, 2006.
- **Arrest of Henry RODRIGUEZ-Gallego.** On November 8, 2006, Henry RODRIGUEZ-Gallego, aka "Negro," a principal member of the Alexander PAREJA-Garcia DTO, was arrested in Madrid, Spain, on an Interpol warrant as part of Operation Platinum Fist. This investigation involved extensive coordination among multiple nations and jurisdictions. The Policia Nacional de Uruguay's DGRTID (Uruguayan National Police's Anti-Drug Unit) and DEA's Buenos Aires, Argentina CO initiated the takedown of OPERATION CHIMED on September 5, 2006. Multiple search and arrest warrants were issued over the three-week takedown, resulting in the arrest of 34 individuals and seizure of 343 kg of cocaine, over \$190,000 bulk cash (euros and dollars), over 20 bank accounts containing approximately \$2,400,000 million USD, and approximately 13 properties. The DGRTID issued two additional Interpol international arrest warrants resulting in the arrest of the following fugitives in connection with this investigation: Alexander PAREJA-Garcia and Nazar CHEMAVONIAN-Panocian.
- **Malladi, Inc. Investigation.** The Malladi investigation, coordinated by DEA, 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 that Malladi provided inconsistent statements regarding the declared customers for the importation requests. As a result, in April 2005, DEA served an Administrative Inspection Warrant at MALLADI, Inc. 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 kg of ephedrine and pseudoephedrine were seized from the location and an additional 46,000 kg 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. On October 11, 2006, DEA's New Jersey Field Division executed a Federal District Court Seizure Warrant in Kearny, NJ, and seized an additional 1,425 kg of pseudoephedrine from Malladi, as company officials had stored this list I chemical, since April 2005, at an unregistered location.

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 2006 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 2006:

- **Flexible, Intelligence Driven Operations:** On an individual basis as well as being major source providers for Joint Interagency Task Force South (JIATF-S), USCG Operational Commanders aggressively conduct and support coordinated, flexible and dynamic operations in the transit zone in response to tactical intelligence and information.
- **International Engagement:** The Coast Guard continues to emphasize international partnering, including the planning and execution of both large and small-scale joint and combined operations, as well as the pursuit and judicious exercising of bilateral maritime agreements and International Maritime Interdiction Support (IMIS) arrangements throughout the theaters of operations. The Coast Guard also continues to coordinate operations with local, state, and federal law enforcement and Defense agencies.
- **Technological Initiatives:** Coast Guard is actively addressing operational shortfalls through research, developing and fielding detection, monitoring, and non-lethal endgame technologies, such as OPERATION NEW FRONTIER (ONF), to enhance effectiveness and greatly increase the chances for success against drug traffickers.

The keys to success of Steel Web 2006 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 resident training, which improves the effectiveness of our counternarcotics partners.

Combined Operations

The Coast Guard conducted several maritime counternarcotics combined operations in 2006 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, Belgium, and France and its Overseas Territories. In FY2006, Law Enforcement Detachments (LEDET) conducting joint operations onboard British Naval Vessels seized a total of 10,201 pounds of cocaine.

International Agreements

There are now 26 bilateral maritime Counterdrug agreements in place between the U.S. and our Central, South American and Caribbean partner nations, moving toward our goal of eliminating safe havens for drug smugglers. In FY-2006, the USCG signed a set of operational procedures with the Bureau of Coastal Navy & Merchant Affairs of Ecuador, which facilitate cooperation in cases involving Ecuadorian flagged vessels suspected of engaging in maritime drug smuggling activities. In addition, the United States, Belize and France have signed and taken the necessary steps to bring the Caribbean Regional Maritime Counterdrug Agreement (CRA) into force; however, two more countries need to take action for the CRA to come into effect.

International Cooperative Efforts

In FY 2006, the Coast Guard undertook 64 drug smuggling events, which resulted in the seizure of 23 vessels, the arrest of 200 suspected smugglers, and the seizure of 234,337 pounds of cocaine and 9,059 pounds of marijuana. A number of the 64 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 2006, the USCG provided International Training and Technical Assistance in support of drug interdiction programs through a variety of support efforts. The USCG Cutter GENTIAN completed her final patrol as the Caribbean Support Tender (CST). The GENTIAN was decommissioned after 7 years of strengthening cooperating nations' operational and maritime interdiction capabilities through training and maintenance support. Over her career, the CST provided hands-on training for over 5,500 students, including 80 international members that trained as part of the CST's multinational crew.

During GENTIAN's final patrol, 283 students from four countries received training in a variety of technical skills designed to build capabilities in military law enforcement including patrol, interdiction and boarding techniques, navigation, search and rescue, damage control, and medical response. The CST's INL-funded program to renew seized go-fast boats provided seven foreign maritime services with 26 refurbished law enforcement vessels. In FY 06, the CST also helped four countries make repairs to their small boat platforms. A dedicated three-person Technical Assistance Field Team (TAFT) provides engineering skills, boat assessment and repair contracting services to the boats belonging to countries in the Eastern Caribbean Regional Security System. USCG ships used the service's new legislative authority "to conduct training and technical assistance in conjunction with normal operations" in several countries to continue the USCG's international engagement mission.

Students are also taught by the USCG's International Training Division's Mobile Training Teams who deliver one-to-two-week long courses to student groups in the host nation. Typical 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 with

either on-board or on-locale hands-on skill training. In FY 2006, 922 students from 45 countries from around the world 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. In FY 2006, 125 students from 51 partner nations enrolled in resident courses at USCG training installations.

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 of 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 processes 1.1 million passengers and pedestrians, 70,900 containers by land and sea, 240,737 incoming international air passengers, 71,151 passengers/crew arriving by ship, 327,042 incoming privately owned vehicles; seizes \$157,800 in undeclared or illicit currency, 1,769 pounds of narcotics; and arrests 3,000 fugitives or violators at or between ports of entry; all while facilitating commercial trade and collecting \$84,400,000 in fees, duties and tariffs. 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 2006, 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 Land Border Interdiction; 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 2006, CBP provided assistance for twelve different ILEA programs.

In 2006, 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 increasing BORTAC's capabilities, through training and personnel development, to support missions addressing various threats to national security.

BORTAC agents were deployed to Panama, to support the Panamanian Government and Law Enforcement Office at traffic checkpoints. BORTAC representatives were also deployed to remote locations to conduct, interdiction and checkpoint operations, as well as operational planning and maritime operations.

In March, April and May 2006, 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 anti-narcotics teams.

Port Security Initiatives

In response to increased threats of terrorism, CBP supported programs seek to identify high-risk shipments to the United States - before they reach our ports. One important program with this objective is the Container Security Initiative (CSI). 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 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 non-intrusive 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 shipped to the U.S. A total of 50 foreign ports were "CSI operational" at the end of 2006, with plans to continue expansion in 2007 and beyond.

Plan Colombia

In support of the Government of Colombia's plan to strengthen its counterdrug 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 personnel management systems to assure integrity among key Colombian staff, 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 28 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 Peru and Brazil, with continuing support to canine programs being provided to Trinidad, 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 2006, this training was provided to over 1,500 participants in 17 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 2006, many CBP short-term advisors were fielded to various countries in Latin America and the Caribbean.

Integrity/Anti-Corruption 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 2006, this training was provided to 120 participants in 3 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 2007, CBP's will continue its border security mission through its 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 seeking 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.

CHEMICAL CONTROLS

Introduction

Amendments to the Foreign Assistance Act contained in the Combat Methamphetamine Epidemic Act of 2005 (CMEA)(Title VII, USA Patriot Improvement and Reauthorization Act 2005, P.L. 109-177) require that additional information be included in the International Narcotics Control Strategy Report (INCSR) section on the major sources of precursor chemicals used in the production of illicit narcotic drugs (22 USC section 2291h(a)(3). The format of the 2007 Chemical Control Chapter has been changed to include the additional information required by Section 722 of the CMEA. The CMEA recognizes the grave threats that methamphetamine trafficking and addiction pose for America and, among other provisions, calls for additional reporting on international trade in the precursor chemicals used for methamphetamine manufacture. To meet these requirements, the final two sections of this chapter are devoted to methamphetamine chemicals and the Section 722 reporting requirements.

Executive Summary

The controls required by the CMEA and state laws on domestic over-the-counter sales of pharmaceutical preparations containing chemicals that can be used as methamphetamine precursors have significantly reduced the number of “small toxic labs” in the United States, those producing small amounts of methamphetamine, primarily using pharmaceutical preparations as a source of chemicals. These small labs had comprised the vast majority of labs seized, if not the largest total quantities of methamphetamine produced. As a result of their marked decrease, even more illicit production has shifted to “super labs” that can produce ten pounds or more of methamphetamine in a single production cycle. With the expansion of superlabs, production is increasingly taking place in Mexico. The super labs generally rely for chemicals on ephedrine and pseudoephedrine, and pharmaceutical preparations containing them, diverted at various stages from international commerce. The Government of Mexico has reacted strongly to this threat and traffickers are seeking new sources and routes for their chemicals. There are also indications that traffickers are starting to use unregulated substitute chemicals and natural ephedra as raw materials, although this requires more raw material, and produces a less pure product.

The methamphetamine precursors, ephedrine and pseudoephedrine, will continue as a major focus of chemical control in 2007. A U.S.-drafted resolution adopted by the March 2006 UN Commission on Narcotic Drugs²¹ (CND) requested countries to provide to the International Narcotics Control Board²² (INCB) estimates of their legitimate requirements for these and other synthetic drug chemicals.²³ This will allow authorities in exporting and importing countries to do a quick “reality” check on proposed transactions, especially as traffickers turn to countries not normally trading in these chemicals as conduits for diversion. The U.S. Government will push for a full response to the resolution’s request for estimates.

The emphasis on methamphetamine chemicals does not reduce the importance of continuing vigilance to prevent the diversion of chemicals for use in the illicit manufacture of other drugs. The explosion of opium poppy cultivation and heroin manufacture in Afghanistan focuses particular attention on the heroin essential chemical acetic anhydride. A November 27, 2006, meeting of the Paris Pact, a group of countries impacted by and concerned with Afghan heroin, noted there is no

1. The UN Commission on Narcotic Drugs is the principal drug policy-making body of the United Nations.

2. The International Narcotics Control Board is the quasi-judicial control organ of the UN, established by treaty, for monitoring the implementation of the international drug control treaties.

3. Commission on Narcotics Drugs, Report on the 49th Session, Resolution 49/3,E/2006/28 ECN/2006/10.

legitimate requirement for acetic anhydride in Afghanistan, and that it would be most effective to concentrate on preventing its illegal entry into the country. Appropriate law enforcement measures will be an important agenda item for future meetings.

Cocaine and heroin manufactured in the Americas remain major drug threats and preventing the diversion of potassium permanganate, a key chemical for cocaine manufacture, and acetic anhydride, are important regulatory and law enforcement objectives. The U.S. Government will continue working bilaterally and through OAS/CICAD to prevent chemical diversion in this hemisphere.

All these chemicals, as with virtually all other chemicals used in illicit drug manufacture, are traded widely in international commerce. Therefore, extensive international cooperation is required to prevent their diversion from licit commercial channels. Two on-going multilateral law enforcement operations targeting key chemicals provide frameworks for this cooperation. Project Cohesion targets potassium permanganate and acetic anhydride and Project Prism targets synthetic drug chemicals. The INCB plays a central coordinating role in their implementation. The United States is the largest financial supporter of the INCB databank project, which is essential to its coordinating role. In the second half of 2006, Project Cohesion monitored 472 shipments of acetic anhydride and 494 shipments of potassium permanganate, and Project Prism monitored over 900 shipments of the amphetamine and methamphetamine precursors ephedrine and pseudoephedrine.

Despite these efforts, the enduring availability of illicit drugs shows that chemical diversion continues. Some of the obstacles to ending it completely include the large quantities of drug precursor chemicals licitly produced and the small percentage of this production that needs to be diverted to satisfy the requirements for illicit drug manufacture, the large number of chemical transactions, international and domestic, that must be monitored to prevent diversion, the many avenues for diversion, and the rapidity with which traffickers can adjust to effective chemical controls.

Background

Role of Chemicals in Drug Manufacture

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 those used in the manufacture of synthetic drugs and they become part of the final product.

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 chemicals required for illicit drug manufacture have extensive commercial applications, are widely traded, and are available from numerous source countries.

Chemical Diversion Control

Chemical diversion control is a proactive and straightforward strategy to deny traffickers the chemicals they must have. A first essential element is 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.

A second essential element of chemical control is tracking shipments to prevent diversion in transit. Ideally, this would be to the ultimate consignee, but this is complicated given the number of shipments and the many middlemen, wholesalers, distributors, etc., involved. Diversion can occur anywhere along the transaction chain.

Pre-export notifications (PENs) and voluntary multilateral tracking systems are employed to verify legitimate end-use and to prevent diversion in transit. The 1988 United Nations Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances (1988 UN Drug Convention) has two tables listing chemicals under its control. Table I is primarily synthetic drug precursor chemicals, including ephedrine and pseudoephedrine. Table II is primarily essential chemicals, including potassium permanganate and acetic anhydride, used in the manufacture of other drugs. In the case of Table I chemicals, and upon the request of the importing country, The Convention requires that the exporting country must provide to the importing country prior notification of the details of transactions involving them. In 1998, the United States succeeded in having a pre-export notification requirement for potassium permanganate and acetic anhydride included in the chemical control action plan adopted by the United Nations General Assembly Special Session Devoted to Countering the World Drug Problem Together. Some countries, in cases of sensitive chemicals or exports to drug-producing regions, will not approve exports until they receive a positive response to the PEN verifying the legitimacy of the proposed transaction.

Projects Prism and Cohesion are multilateral cooperative mechanisms for tracking shipments. Their success depends on widespread and active participation. Effective participation 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 multilateral information exchange, while respecting the legitimate commercial interests of the businesses involved.

Effective participation can also be influenced by a government's approach to chemical control. Some governments 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 or agencies with a bias towards promoting, not regulating trade. If these organizations do not allow sufficient scope for law enforcement, as well as regulatory measures in support of chemical control, they may unwittingly undermine this effective anti-drug strategy.

International Framework for Chemical Control

Article 12 of the 1988 UN Drug Convention is the framework for multilateral cooperation in chemical control. It establishes the obligations and international standards for parties to the Convention to observe 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 regulations are updated regularly, most recently in 2005. 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 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 27-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 excellent.

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, model legislation, and national legislation and regulations, provide frameworks for chemical control regimes. They do not provide the practical mechanisms for the multilateral cooperation required for their successful implementation internationally. The United States and other governments use annual meetings of the UN Commission on Narcotic Drugs (CND) and ad hoc arrangements to highlight emerging chemical control concerns, and to lay the groundwork for voluntary information exchange and chemical tracking mechanisms, such as Projects Cohesion and Prism.

The CND can be used to forge consensus on more formal procedures. However, many governments resist 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 can be resolutions weakened with caveats and non-obligatory language.

The CND has been effective in establishing procedures for alerting members to trafficker use 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.

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 chemical and drug producing countries tighten their chemical controls, particularly in the case of synthetic drug precursors. The exploitation of pharmaceutical preparations 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 drug-producing countries.
- Chemicals are mislabeled or re-packaged and sold as non-controlled 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 non-controlled chemicals.
- Traffickers manufacture the controlled chemicals they require from unregulated raw materials, a costly and difficult process.
- Traffickers use unregulated substitute chemicals with chemical properties similar to regulated chemicals.

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 heroin and cocaine 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 laboratories. The precursor chemicals used in the manufacture of synthetic drugs such as methamphetamine and Ecstasy cannot be recycled.

2006 Chemical Diversion Control Trends and Initiatives

The relative profitability of individual drugs is a function of their popularity and their ease of manufacture based on the availability of raw materials. This is the driving force in chemical diversion. Traffickers concentrate on drugs that provide the greatest returns with the greatest ease of manufacture.

In Southeast Asia, the rising popularity of amphetamines and methamphetamine has accelerated a shift in drug manufacture from heroin to synthetic drugs. The availability of synthetic drugs is a factor in their rising popularity, but their availability is spurred by the availability of the chemicals, required for their manufacture, primarily in Burma. Under these circumstances, it is easier and more profitable for traffickers to manufacture synthetic drugs than to cultivate opium and manufacture heroin.

The spread of methamphetamine abuse eastward across the United States was facilitated by the ability of non-professionals, using recipes available on the Internet, to manufacture the drug in small toxic labs (“mom and pop labs”) from readily available chemicals, particularly pseudoephedrine extracted from over-the-counter cold remedies.

A common factor in each of these developments is a need for the required chemicals, and the relative ease in obtaining them. The trend towards synthetic drugs probably will continue as the coca and opium required for cocaine and heroin manufacture become more difficult to acquire due to law enforcement and eradication activities.

The shifting emphasis in chemical control toward synthetic drug chemicals reflects this. The key heroin chemical, acetic anhydride, and the key cocaine chemical, potassium permanganate, are already the targets of an on-going multilateral chemical control operation, Project Cohesion. In addition, the Paris Pact countries have placed particular emphasis on the need to prevent acetic anhydride from reaching Afghanistan, noting that given the enormous amount of licit trade in the chemical and the relatively small proportion diverted to Afghanistan, their efforts should focus on law enforcement measures aimed at interdicting smuggling.

The quantity of chemicals required for synthetic drug manufacture is relatively small; depending on the efficiency of the lab, the ratio of pseudoephedrine to methamphetamine is approximately 1.6 to 1. It can be lower. Thus, a small percentage of diversion from licit trade can meet most chemical requirements for illicit drugs. However, synthetic drug chemicals are primarily Table 1 chemicals in the 1988 UN Drug Convention, the most tightly regulated, so authorities do have a common basis for controlling them.

In 2006, the United States cut off a significant source of chemicals for domestic methamphetamine manufacture with the signing of the CMEA. The Act places strict controls on the sale of over-the-counter pharmaceutical preparations containing easily extractable pseudoephedrine, closing an important chemical source used by small toxic labs. Many U.S. states and other governments already had similar restrictions. However, under prevailing international interpretations, the 1988 UN Drug Convention chemical control provisions do not apply to pharmaceutical preparations containing chemicals controlled by the Convention. Governments must voluntarily control trade in these products.

The United States introduced a resolution adopted by the March 2006 UN Commission on Narcotic Drugs requesting that governments provide to the INCB annual estimates of their requirements for the most critical chemicals used in the manufacture of synthetic drugs and preparations containing them. The estimates, which the INCB will make available for law enforcement purposes, will enable importing and exporting countries to make a quick check on proposed transactions to determine their legitimacy, or if they require further examination, especially in the case of countries that do not normally trade in these chemicals.

The Government of Mexico is already using estimates of its legitimate requirements of ephedrine and pseudoephedrine to drastically cut imports, with a goal of 70 metric tons in 2006.

In response, traffickers are expected to exploit the pharmaceutical preparation exemption in the 1988 UN Drug Convention and to turn to third countries in Central and South America, Africa, West Asia, and other areas that have weak chemical control regimes as conduits for chemicals. They also can turn to unregulated substitute chemicals (pseudoephedrine derivatives) and natural ephedra, although both can complicate the methamphetamine manufacturing process and, in the case of natural ephedra, require up to twenty-five times as much raw material.

The Way Ahead

Synthetic drug chemicals will be a central focus of chemical control efforts in the immediate future, while on-going initiatives against heroin and cocaine chemicals will continue. The U.S. Government will work with the primary producers of ephedrine and pseudoephedrine, bilaterally and multilaterally, to get better controls on these chemicals, with increasing emphasis on pharmaceutical preparations containing them, and stressing the obligation of exporting, importing and transit countries to monitor their trade in controlled chemicals to prevent diversion.

The March 2006 CND resolution requesting that governments provide to the INCB estimates of their legitimate requirements for synthetic drug chemicals and preparations containing them will be a valuable asset to countries in controlling their trade in these products. While the U.S.

Government considers this resolution an important step forward, the ability to obtain the information from the INCB is contingent on countries providing the estimates requested by the resolution. The U.S. Government will be pushing for full compliance at the March 2007 CND and in other appropriate fora.

The need for stricter controls on synthetic drug chemicals will be an important agenda item in U.S. counternarcotics discussions with other governments. It was on the agenda of the June and December 2006 U.S./European Union Troika meeting and will remain as long as chemical diversion remains a problem. The Troika meetings are the U.S. Government's most senior regular interaction with the 27-Member State European Union on drug issues.

U.S. participation, and leading role, in Project Prism is another vehicle for increasing cooperation in synthetic drug chemical control. The Project Prism Task Force - - United States (Americas), China (Asia), the Netherlands (Europe), South Africa (Africa), and Australia (Oceania) - - includes some of the most important governments involved in this effort. India, Germany and Mexico are other active participants.

The U.S. Government will also be working with Mexico bilaterally to enhance chemical control cooperation. For example, we are working with Mexican authorities to establish clandestine lab teams in Mexican "hot spot" locations. In addition, the U.S. Government has funded the training of more than 1,500 Mexican officials in a variety of clandestine laboratory and precursor related topics.

The apparent increase in the use of unregulated substitute chemicals in synthetic drug manufacture will require more attention. In addition to highlighting the problem at the March 2007 CND, the U.S. Government will urge governments to notify the INCB and others as they discover this usage. This will facilitate a quick reaction to the substitute chemicals, and allow the INCB to update its surveillance list of chemicals not included in the 1988 UN Drug Convention that are being used in illicit drug manufacture.

The attention to synthetic drug chemicals cannot be at the expense of programs to prevent the diversion of heroin and cocaine chemicals. The U.S. Government will continue its active participation in Project Cohesion and will be working with its Paris Pact partners in joint efforts to prevent acetic anhydride from reaching Afghanistan. In the Americas, bilateral cooperation and multilateral operations will continue to target key precursor chemicals for cocaine, heroin and synthetic drugs.

Major Chemical Source Countries

The countries included in this section are those with large chemical manufacturing or trading industries that have significant trade with drug-producing regions, and those countries with significant chemical commerce susceptible to diversion domestically for smuggling into neighboring drug-producing countries. Designation as a major chemical source country does not indicate a country lacks adequate chemical control legislation and the ability to enforce it. Rather, it recognizes that the volume of chemical trade with drug-producing regions, or proximity to them, makes these countries the sources of the greatest quantities of chemicals liable to diversion. The United States, with its large chemical industry and extensive trade with drug-producing regions, is included in the list.

Many other countries manufacture and trade in precursor chemicals, but not on the same scale, or with the broad range of precursor chemicals, as the countries in this section.

A discussion of methamphetamine chemicals and the major exporters and importers of them is in separate sections immediately following 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

Argentina has a large chemical industry manufacturing chemicals susceptible to diversion to illicit drug manufacture. Bolivia is the major destination for these chemicals. Some cocaine is manufactured domestically using smuggled cocaine base and locally diverted precursors.

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 the 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.

Argentina participates in Project 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. Portaria Ministerial No.1.274-MJ, issued by the Justice Ministry in August 2004 to prevent the manufacture of illicit drugs, includes stringent chemical control provisions. The decree established controls on 146 chemicals that can be utilized in the manufacture of drugs, and requires the registration with the Brazilian Federal Police of all companies that handle, import, export, manufacture, or distribute any of these chemicals. There are approximately 25,000 companies registered with the police. The registered companies are required

to send a monthly report to the Brazilian Federal Police on their usage, purchases, sales, and inventory of these chemicals. 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 Drug Convention and these legislative provisions meet the chemical control requirements. The country also participates and supports the multilateral chemical control initiatives, Project Cohesion, Project Prism and the regional Operation Seis Fronteras. In conjunction with Project Cohesion, the Brazilian Federal Police have agreed to work with DEA to perform a study on the use of acetic anhydride within the country and its exportation from the country. US/Brazil cooperation in other areas of chemical control is good, and the Brazilian Federal Police make records relating to chemical transactions available when requested. The Brazilian Federal Police also respond to Pre-Export Notifications of controlled chemicals in a timely fashion. DEA has a Diversion Investigator assigned to its Brasilia office.

Canada

Canada is a producer and transit country for precursor chemicals and over-the-counter pharmaceuticals used to produce synthetic drugs. There is domestic Ecstasy and methamphetamine manufacturing, indicating domestic diversion.

Health Canada, the Royal Canadian Mounted Police (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 Drug Convention.

In January 2006, the government implemented the Precursor Control Amendments to the Controlled Drugs and Substances Act. These amendments strengthen verification of import and export licensing procedures, require that companies requesting these licenses provide additional detail in their initial request, establish guidelines for the suspension and revocation of licenses for abusers, and add controls on six chemicals that can be used to produce GHB and/or methamphetamine.

Canada's active strategy to combat illicit drug use includes MethWatch implemented by the National Drug Manufacturers Association of Canada, a non-profit industry association of health care product and over-the-counter pharmaceutical manufacturers. This voluntary program trains retailers to monitor and identify irregular sales of methamphetamine precursors.

Canada is a party to the 1988 UN Drug Convention and complies with its record keeping requirements. Cooperation between U.S. and Canadian law enforcement agencies in chemical control 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 Project Cohesion and contributes on an ad hoc basis, Canada is not actively engaged in it.

U.S./Canadian law enforcement cooperation and the strengthening of Canadian chemical control laws and enforcement have helped to significantly reduce the amount of Canadian-sourced pseudoephedrine discovered in clandestine U.S. methamphetamine labs.

Mexico

Mexico's major chemical manufacturing and trading industries produce, import and export most of the chemicals necessary for illicit drug manufacture. Mexico is a party to the 1988 UN Drug Convention and has laws and regulations meeting the Convention's chemical control requirements.

Mexican chemical control initiatives are now concentrating on methamphetamine precursors. The Mexican Federal Commission for the Protection Against Sanitary Risks (COFEPRIS) has conducted a survey to calculate domestic requirements for pharmaceutical products containing ephedrine and pseudoephedrine, and determined that imports have exceeded domestic requirements. As a result, COFEPRIS has greatly reduced the imports of ephedrine, pseudoephedrine and combination products containing them, from over 216 metric tons in 2004 to 130 metric tons in 2005. The goal for 2006 is 70 metric tons, including combination products containing pseudoephedrine and ephedrine.

COFEPRIS has also instituted a system of quotas for imports by pharmaceutical companies. They must now forecast their requirements for ephedrine and pseudoephedrine one year in advance.

Other controls on ephedrine and pseudoephedrine include:

- Prohibiting import shipments weighing more than three tons;
- Restricting importation of pseudoephedrine to drug companies only;
- 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 closely in chemical control. The formal mechanism for cooperation is the U.S.-Mexico Bilateral Chemical Control Working Group, and the DEA Country Office handles day-to-day contact, notably by a group of Diversion Investigators and agents posted to Mexico City. The result is a strong bilateral working relationship, involving information exchange and operational cooperation. Mexico also participates in the multilateral chemical control initiatives Projects Cohesion and 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 (P.L. 100-690, Title VI, Section 6051, November 18, 1988. *See generally* 21 USC Section 801 *et seq.*, “Controlled Substances Act.”). This law and three subsequent chemical control amendments were all designed as amendments to U.S. controlled substances laws, rather than stand-alone legislation. The Drug Enforcement Administration (DEA) administers them. 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 key countries and at INTERPOL to assist in determining legitimate end-use. In other countries, DEA agents perform this task. The Diversion Investigators and agents work closely with host country officials in this process. If legitimate end-use cannot be determined, the legislation gives DEA the authority to stop shipments.

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 Project 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 investigation of diversion attempts.

Asia

China

China has one of the world's largest chemical industries, producing large quantities of chemicals 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 laws and regulations meeting or exceeding the Conventions requirements. A November 2005 administrative law strengthening chemical control included provisions to control domestic chemical sales; previous laws and regulations focused solely on imports and exports. Despite the adequate legislation, the size of China's chemical industry is not matched by a law enforcement structure adequate to effectively monitor all its production and international trade. Because of resource constraints and lack of training, provincial police generally only address controlled chemicals when they are discovered at a clandestine laboratory.

China continues to be a strong partner with the United States and other concerned countries in international chemical control initiatives targeting the precursors of greatest current concern. These are Project Cohesion tracking acetic anhydride and potassium permanganate and Project Prism targeting synthetic drug chemicals. In addition, the National Narcotics Control Commission (NNCC) issues Pre-Export Notifications for all proposed transactions in bulk ephedrine and pseudoephedrine and requires a Letter of No Objection from the importing country before authorizing shipments.

U.S. and Chinese cooperation in chemical control is good. Information is exchanged within the frameworks of Projects Cohesion and Prism and in the course of normal counternarcotics cooperation. China is the Asian representative on the Project Prism Task Force. 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. Additionally, in July 2006, the Office of National Drug Control Policy (ONDCP) and the Chinese National Narcotics Control Commission (NNCC) signed a Memorandum of Intent on behalf of their two countries to increase cooperation in combating drug trafficking and abuse.

India

India's developed chemical industry is one of the world's largest producers of chemicals that can be misused in the manufacture of illicit drugs. Chemicals are controlled in India under three

different laws, the Narcotic Drugs and Psychotropic Substances Act (NDPS) of 1985, the Customs Act of 1962 and the Foreign Trade Development & Regulation Act of 1992.

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 NDPS 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 will not permit the export of key chemicals until it has issued a No Objection Certificate. It also requires a No Objection Certificate for the import of acetic anhydride, ergotamine and piperonal. The government has also placed acetic anhydride under the control of the Customs Act for movements within 100 km of the Indo-Burmese border and 50 km of the Indo-Pakistan border. As an additional safeguard, all vehicles transporting acetic anhydride must be sealed with tamper proof seals.

Cooperation between U.S. and Indian authorities on chemical control is excellent, including 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 Project Cohesion and Project Prism, where it is taking an active role. 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 are updated regularly, most recently in 2005. 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 their national laws and regulations implementing the EU regulations.

The U.S.-EU Chemical Control Agreement, signed May 28, 1997, is the formal basis for U.S. cooperation with the European Commission and EU Member States in chemical control. The agreement calls for annual meetings of a Joint Chemical Working Group to review implementation of the agreement and to coordinate positions in other areas. The annual meeting has been particularly useful in coordinating national or joint initiatives such as resolutions at the annual UN Commission on Narcotic Drugs.

Bilateral chemical control cooperation is also good between the U.S. and EU Member States, and many are participating in and actively supporting voluntary initiatives such as Projects Cohesion and 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, which can be used in illicit, drug manufacture. Germany produces 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, which takes the EU regulations into account, criminalizes the diversion of controlled chemicals for the illicit manufacture of drugs. Effective January 1, 2006, the act was changed to implement 2005 amendments to EU regulations.

Germany has an effective and well-respected chemical control program that monitors the chemical industry, as well as chemical imports and exports. Cooperation between government chemical control officials and the chemical industry is a key element in the country's chemical control strategy. The Federal Office of Criminal Investigation and the Federal Office of Customs Investigation have a very active Joint Precursor Chemical Unit, based in Wiesbaden, devoted exclusively to chemical diversion control and chemical diversion investigations.

Germany is a leader in international cooperation in chemical control. It developed and promoted the concept that led to Operation Purple and was one of the original organizers 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. German chemical control officials and DEA counterparts maintain a close working relationship. A senior DEA Diversion Investigator in DEA's Frankfurt Resident Office is assigned to the Joint Precursor Chemical Unit, working on chemical issues of concern to both countries. The 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 UN Commission on Narcotic Drugs. Information exchange during special operations has also been excellent.

The Netherlands

The Netherlands has a large 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. Currently, there are no indications that the Netherlands is a significant source for methamphetamine chemicals.

The country remains an important producer of Ecstasy, although production seems to be declining substantially, and there is some production of amphetamines and other synthetic drugs, indicating chemical smuggling or 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 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 Project 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 the Project Prism Chemicals Working Group since its inception in 2002.

The Dutch and the U.S. work 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 UN Commission on Narcotic Drugs regularly coordinate positions. The Netherlands National Police expect to join the DEA International Drug Enforcement Conference (IDEC) as a full member in 2007.

Methamphetamine Chemicals

The control of ephedrine and pseudoephedrine, the key chemicals used for methamphetamine, in order to deny traffickers those chemicals required for its manufacture, is a major component of a comprehensive strategy to combat methamphetamine production and trafficking. Control has been complicated by the fact that the chemicals used in methamphetamine manufacture can be easily extracted from popular, non-prescription cold medications containing them. In the United States, access to diverted chemicals for methamphetamine production has been significantly reduced by increased domestic law enforcement pressure, coupled with enhanced regulatory and law enforcement controls by Canada, where chemical diversion had been taking place. Access to non-prescription cold medications is being effectively curtailed in the United States by state and federal laws (Combat Methamphetamine Epidemic Act of 2005 - CMEA) placing strict controls on their handling and sale. Similar controls already exist in many other countries.

The restricted availability of non-prescription cold medications has contributed to a reduction in the number of domestic “small toxic labs” in the United States -- those producing small amounts of methamphetamine, which generally use pharmaceutical preparations for the key chemicals -- and a shift to “super labs,” that can produce more than ten pounds of methamphetamine in a single production cycle. Along with the shift to super labs, more production is taking place in Mexico, while super lab seizures in the U.S. are decreasing. The labs generally rely on ephedrine and pseudoephedrine, and pharmaceutical preparations containing them, diverted at various stages from international commerce at the wholesale level. The chemicals and preparations containing them can be diverted in one country and smuggled into another country where illicit drug production occurs.

The CMEA has given U.S. enforcement and regulatory agencies another tool for tracking shipments by requiring U.S. importers of methamphetamine chemicals to file with Federal regulators detailed information about the chain of distribution of imported chemicals from the foreign manufacturer to the United States.

The international community has long recognized the need for strong controls on ephedrine and pseudoephedrine; for example, they are included in Table I of the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988 UN Drug Convention) calling for the strictest levels of control. The Convention does not, however, provide for controls on pharmaceutical preparations containing the chemicals, which it controls. There is concern that traffickers will exploit this exemption as controls on bulk ephedrine and pseudoephedrine tighten.

Effective national chemical controls and international cooperation are required to prevent the diversion of any drug precursor chemical. A basic element of this is ensuring that the chemicals are only traded domestically and internationally after establishing that there is a legitimate end-use, which corresponds to the quantities, involved, and that the chemicals reach the legitimate buyer without being diverted during shipment.

The International Narcotics Control Board (INCB), an independent and quasi-judicial organization within the United Nations charged with monitoring the implementation of international drug control treaties, has taken the lead in establishing an international regulatory and law enforcement initiative, Project Prism, to assist governments in verifying the legitimate requirements for controlled chemicals and in tracking shipments once made to prevent diversion. Project Prism targets the key chemicals used to manufacture synthetic drugs, including ephedrine and pseudoephedrine. One hundred and twenty-six countries and five international organizations participate in Project Prism. The governing Project Prism Task Force consists of the following

regional representatives: United States (Americas), China (Asia), the Netherlands (Europe), South Africa (Africa), and Australia (Oceania). India, Germany and Mexico are also active participants.

To assist governments in determining the legitimacy of proposed export and import transactions, the United States introduced a resolution at the March 2006 CND requesting that governments provide annual estimates to the INCB of their legitimate requirements for the most critical chemicals used in the manufacture of synthetic drugs of greatest concern to Member States, such as methamphetamine and Ecstasy. These are pseudoephedrine, ephedrine, 3,4 methylenedioxyphenyl-2 propanone, and phenyl-2-propanone, all Table I chemicals in the 1988 UN Drug Convention. Governments are requested to use these estimates to verify that their exports of these chemicals are commensurate with legitimate requirements. The resolution also requests countries to permit the INCB to share shipping information on consignments of these chemicals with concerned law enforcement and regulatory authorities to prevent or interdict diverted shipments.

In addition, the resolution requests Member States to provide “to the extent possible, estimated requirements for imports of preparations containing those substances that can be easily used or recovered by readily applicable means.” This is an important addition and its inclusion was agreed upon after considerable debate, reflecting the fact that the Convention does not provide for the control of pharmaceutical preparations, the difficulty many governments would have in estimating requirements, and the trade-sensitive nature of the information requested. Reflecting the trade-sensitive nature of the information, the INCB is requested to provide the estimates to Member States in “such a manner as to ensure that such information is used only for drug control purposes.”

The primary objective of the U.S. resolution is to provide additional information to national law enforcement and regulatory authorities to assist them in deciding whether to authorize exports and imports of these chemicals. Traffickers are quick to react to increased controls in one country by importing their chemicals into another country, frequently one that has not historically traded in the chemicals and which may lack the regulatory and enforcement infrastructure to control them. Once diverted in the new importing country, production of methamphetamine can begin there, or the chemicals can be smuggled across borders into countries where illicit drug production already exists. A quick check of estimated requirements can assist authorities in exporting and importing countries in determining whether a proposed transaction is proportionate to legitimate requirements, or requires closer inspection. Stopping the export transaction before it starts can then prevent diversion.

The INCB reports there has been a good response to the request for estimates, indicating that governments, especially those not normally trading in these chemicals, recognize the importance of determining their legitimate requirements to assist them in controlling their exports and imports. The INCB plans to publish the licit requirements list by March 2007, the first anniversary of the resolution.

Combating Methamphetamine Control Act (CMEA) Reporting

Section 722 of the CMEA amends Section 489(a) of the Foreign Assistance Act of 1961 (22 USC Section 2291h) by requiring the following information to be included in the annual International Narcotics Control Strategy Report (INCSR):

- The identification of the five countries that exported the largest amounts of pseudoephedrine, ephedrine and phenylpropanolamine (including the salts, optical isomers, or salts of optical isomers of such chemicals, and also including any products or substances containing such chemicals) during the preceding calendar year.
- An identification of the five countries that imported the largest amounts of these chemicals during the preceding calendar year and that have the highest rate of diversion for use in the illicit production of methamphetamine (either in that country or in another country). The identification is to be based on a comparison of legitimate demand for the chemicals as compared to the actual or estimated amount imported into the country. It also should be based on the best available data and other information regarding the production of methamphetamine in the countries identified and the diversion of the chemicals for use in the production of methamphetamine.
- An economic analysis of the total worldwide production of pseudoephedrine, ephedrine, and phenylpropanolamine as compared to legitimate worldwide demand for the chemicals.

In addition, Section 722 of the CMEA amends Section 490 (a) of the Foreign Assistance Act of 1961 to require that the countries identified as the largest exporters and importers of these chemicals be certified by the President as fully cooperating with U.S law enforcement or meeting their responsibilities under international drug control treaties.

The Department of State, in consultation with the Attorney General, is required to submit to Congress a comprehensive plan to address the chemical diversion within 180 days in the case of countries that are not certified.

Section 723 of the CMEA requires the Secretary of State, acting through the Assistant Secretary of the Bureau of International Narcotics and Law Enforcement, to take such actions as are necessary to prevent the smuggling of methamphetamine into the United States from Mexico. Section 723 requires annual reports to Congress on its implementation.

Major Exporters and Importers of Pseudoephedrine and Ephedrine (Section 722, CMEA)

This section of the INCSR is in response to the Section 722 requirement for reporting on the five major importing and exporting countries of the identified chemicals. In meeting these requirements, the Department of State and DEA considered the chemicals involved and the available data on their export, import, worldwide production, and the known legitimate demand for them.

Ephedrine and particularly pseudoephedrine are the much-preferred chemicals for methamphetamine production. Phenylpropanolamine, a third chemical listed in the CMEA, is not a methamphetamine precursor, although it can be used as an amphetamine precursor. Phenylpropanolamine is banned in the United States for human consumption or in products intended for human consumption. A limited amount is imported for veterinary medicines, but there

is little data available on its production and trade. Since phenylpropanolamine is not a methamphetamine precursor chemical, and in the absence of useful trade and production data, this section provides information only on pseudoephedrine and ephedrine.

The Global Trade Atlas (GTA), compiled by Global Trade Information Services, Inc. (www.gtis.com), provides the most comprehensive export and import data on pseudoephedrine and ephedrine; however, the most recent data is from 2005. GTA data have been used in the following tables. Data on legitimate demand will not be available until the estimates requested in the U.S. resolution adopted by the March 2006 CND are made available in the spring of 2007. Therefore, the countries listed as major importers are those with the largest imports, rather than those with the highest imports as compared to estimated legitimate demand. This does not necessarily demonstrate that these countries have the highest rates of diversion. Future reports should be able to make that comparison. This report provides export and import figures for both 2004 and 2005 to illustrate the wide annual shifts that can occur in some countries, reflecting such commercial factors as demand, pricing, and inventory buildup. GTA data on U.S. exports and imports have been included to indicate the importance of the U.S. in international pseudoephedrine and ephedrine trading.

Data on the worldwide production of pseudoephedrine and ephedrine are not available, because the major producers will not release them publicly for commercial, proprietary reasons. The U.S. government unsuccessfully sought this data, as well as production data on pharmaceutical preparations containing these chemicals, from the major producers at a February 2006 DEA-organized meeting in Hong Kong. The meeting, intended to increase multilateral cooperation in controlling methamphetamine chemicals, did succeed in strengthening commitments by governments to work together in Project Prism and also helped lay the groundwork for the March 2006 CND estimates resolution.

The following data are for 2004 and 2005 to provide an indication of the volatility of the trade in pseudoephedrine and ephedrine.

Exporters (Kg)

Pseudoephedrine	2005	2004
Germany	390,000	579,000
India	270,600	393,157
China	107,914	177,907
Switzerland	41,084	84,370
Taiwan*	<u>31,546</u>	<u>41,141</u>
Sub-Total	841,144	1,185,575
United States	28,895	55,540
All Others	<u>19,088</u>	<u>47,983</u>
Total	889,127	1,289,098

* According to official Taiwan data and the Global Trade Atlas, Taiwan was the fifth-largest exporter of pseudoephedrine. However, the data are misleading because a criminal investigation has revealed that during the period 2003-2005, a Taiwan company that had reported exports included in the trade data had actually diverted the chemical to local drug manufacture for local consumption. Nevertheless, while Taiwan's actual exports were lower, the trade data show that exports by the sixth largest exporter were sufficiently small that Taiwan would remain the fifth-largest exporter despite the falsely reported exports.

Exporters (Kg)

Ephedrine	2005	2004
India	217,106	79,708
Germany	51,000	23,000
Singapore	16,350	12,555
China	8,955	12,893
<u>United Kingdom</u>	<u>4,000</u>	<u>3,000</u>
Sub-Total	297,411	132,156
United States	5,542	4,388
<u>All Others</u>	<u>6,083</u>	<u>73,435</u>
Total	309,036	209,979

Analysis of exports - Germany, India and China are the largest producers of pseudoephedrine and ephedrine. Their principal markets for 2005 and the 2001-2005 time period were:

- Germany: pseudoephedrine - (2005) U.S., Belgium, Mexico
(2001-05) U.S. Belgium, Mexico
ephedrine - (2005) U.S., South Korea, Russia
(2001-05) Japan, U.S., South Korea
- India: pseudoephedrine - (2005) U.S., Mexico, Germany
(2001-05) U.S., Mexico, Canada
ephedrine - (2005) U.S., Iran, Egypt
(2001-05) U.S., Singapore, Canada
- China: pseudoephedrine - (2005) Switzerland, U.S., Pakistan

(2001-05) U.S., Switzerland, Mexico
 ephedrine - (2005) Canada, Pakistan, Hong Kong
 (2001-05) Mexico, Hong Kong, Canada

Excluding the U.S., the other top-five exporting countries are trading countries, such as Singapore and Switzerland, which appear as both importers and exporters, or as exporters of relatively small amounts. Switzerland and Singapore also have important pharmaceutical industries.

Importers (Kg)

Pseudoephedrine	2005	2004
United Kingdom	203,000	29,000
Mexico	124,552*	226,574
South Africa	91,400	6,477
Switzerland	67,800	95,114
<u>Belgium</u>	<u>52,000</u>	<u>70,000</u>
Sub-Total	538,752	427,165
United States	319,998	616,346
All Others	<u>365,419</u>	<u>372,972</u>
Total	1,224,169	1,416,493

- The GTA reports Mexico's 2005 pseudoephedrine imports as 3,115,552 kg, of which 3,009,000 kg were imported from Germany. A cross-reference to Germany's reported exports to Mexico indicates that Germany exported only 18,000 kg to Mexico. Therefore, the Mexican imports noted in this report have been revised downward by 2,991,000 kg to reflect actual exports from Germany to Mexico. The Government of Mexico has confirmed this revised data.

Importers (Kg)

Ephedrine	2005	2004
Singapore	19,875	14,529
South Korea	17,550	7,600
Indonesia	16,177	15,110
South Africa	14,374	11,185

United Kingdom	<u>14,000</u>	<u>4,000</u>
Sub-Total	81,976	54,424
United States	178,657	218,118
All Others	<u>57,274</u>	<u>66,838</u>
Total	317,907	337,380

Analysis of imports:

- Of the top five noted above, Mexico is the only importer of pseudoephedrine or ephedrine that is a known major methamphetamine producer (it is making impressive strides unilaterally and multilaterally to attack the problem with chemical control an important element of its national drug strategy).
- None of the other top-five importers noted above is considered a major methamphetamine producer, although there may be some production in South Africa and Indonesia for domestic and regional consumption. They are not considered sources of precursors for methamphetamine production in Mexico or the U.S.
- Singapore and Switzerland, as trading countries, appear as both importers and exporters. They along with Belgium and the United Kingdom also have pharmaceutical industries that utilize ephedrine and pseudoephedrine.

These data are useful in determining overall trends in legitimate trade, but they cannot identify diversion when traffickers use false labeling and other subterfuges. The 2007 National Drug Assessment prepared by the National Drug Intelligence Center notes as intelligence gaps: “The extent of precursor chemical diversion from sources of supply in Asia is unclear. Intelligence and law enforcement reporting confirms the shipment of wholesale (multiple ton) quantities of ephedrine and pseudoephedrine – often repackaged with vague labeling and disguised as legitimate business transactions – to Mexico from source areas in Asia, particularly Hong Kong and China. However, there are relatively few data available to measure such activity, thereby impeding a full and accurate assessment of the situation.”

The diversion problem may spread as Mexico continues its increasingly effective controls on pseudoephedrine and ephedrine imports and traffickers turn to third countries in Central and South America, Africa, West Asia, and other areas that have weak chemical control regimes in which to import and divert the chemicals. The estimates of legitimate requirements requested by the 2006 CND resolution will help make the international community aware of this, but repackaging, mislabeling and smuggling will continue to require law enforcement and regulatory attention.

Burma, a major methamphetamine producer, illustrates another problem. It does not appear in trade data because the precursor chemicals for its methamphetamine production are smuggled into the country, primarily from domestic diversion in China and India. Because the chemicals are domestically diverted, they also will not appear as exports from these countries.

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 United States and a source for precursor chemicals because of its advanced chemical production facilities. Although complete statistics are not available, the Government of Argentina (GOA), cocaine seizures increased in the first three quarters of 2006 in comparison to the same period in 2005. Authorities also report an increase in the number of small labs converting cocaine base to cocaine hydrochloride (HCl). Marijuana seizures, which had dropped in 2005, appear to be back up in 2006. Argentina is a party to the 1988 UN Drug Convention.

II. Status of Country

Argentina is not a major drug producing country, however, because of its advanced chemical production facilities; it is one of South America's largest producers of precursor chemicals. Law enforcement authorities believe that the amount of cocaine passing through Argentina continued to increase in 2006. Marijuana remains the most commonly smuggled and consumed drug, with cocaine (HCl) and inhalants ranked second and third, respectively. Narcotics enter Argentina primarily from Bolivia, but also from Paraguay and Brazil. GOA law enforcement intercepted small amounts of Colombian heroin destined for the United States. Seizures of amphetamine-type stimulants and Ecstasy are increasing.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The GOA targets the trafficking, sale, and use of illegal narcotics. In 2006, the Government of Argentina's Secretariat of Planning for the Prevention of Drug Addiction and Fight Against Narcotrafficking (SEDRONAR) initiated a comprehensive, interdisciplinary study of drug trafficking and related crimes as well as an analysis of the application of the federal narcotics law, in order to better understand the nature and scope of the problem and better focus anti-narcotics policy and resources.

Accomplishments. Although complete statistics were not available from the GOA, the U.S. Drug Enforcement Administration (DEA) reports that it assisted the Argentine authorities in the seizure of 2,532 kg of cocaine in 2006. DEA also assisted the GOA in the seizure of 9.12 kg of heroin, and 77 kg of marijuana. In June 2006 the Gendarmeria seized a truck with approximately 1,105 kg of coca leaf. Although the local indigenous population in a number of Argentina's Northern provinces consumes coca leaf, seizures of this size are unusual. From January 2006 to September 2006, the USG-funded Northern Border Task Force (NBTF) seized approximately 684,220 kg of illicit chemicals, a significant increase over the amount seized during the same periods in 2005 and 2004. The NBTF also seized 9.12 kg of heroin at the La Quiaca international port of entry in the Province of Jujuy.

Law Enforcement Efforts. The Ministry of Interior made a concerted effort to improve coordination between law enforcement agencies by creating special prosecutors units in many of the provinces, to improve communications between prosecutors and police, and between federal and provincial authorities. The Ministry, in coordination with SEDRONAR, directs federal narcotics policy, and 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. The Argentine justice system is currently being transformed from an inquisitive system to an accusatorial one.

However, due to remaining vestiges of the slower, less-efficient inquisitive system, confidence in the legal system remained low in 2006, because of excessive delays between arrest and final judicial dispensation, as well as a lack of judicial transparency. Presidential decrees placed controls on precursor and essential chemicals, requiring that all manufacturers, importers or exporters, transporters, and distributors of these chemicals be registered with SEDRONAR.

Corruption. The GOA is publicly committed to fighting corruption and prosecuting those implicated in corruption investigations. As a matter of policy, no senior GOA officials are 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. Two cases noted in the 2005 INCSR that involve GOA law enforcement and security officials remain under investigation. In 2006, there was little development in the case of four members of the Federal Police's counternarcotics unit stationed in Salta accused of smuggling 116 kg of cocaine in August 2005. However two Spanish suspects were extradited to Argentina in November, for a case involving 60 kg of cocaine sent to Spain in 2004 as unaccompanied baggage on an Argentine air carrier.

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), but has not yet ratified the third protocol (firearms). The United States and Argentina are parties to an extradition treaty that entered into force on June 14, 2000, and a bilateral mutual legal assistance treaty that entered into force on February 9, 1994. Both of these agreements are actively used by the United States. 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. In 1990, the U.S. Customs and Border Protection signed a Customs Mutual Assistance Agreement with the government of Argentina. This agreement provides a basis for the exchange of information to prevent, investigate and redress any offense against the customs laws of the United States or Argentina.

Cultivation/Production. Illicit cultivation of marijuana in Argentina is negligible, and it is not trafficked to the U.S. Although statistics were not available from the GOA, the amount of cocaine produced annually in Argentina is estimated to be minor. According to preliminary statistics, seven clandestine cocaine laboratories were discovered and destroyed in 2006. However, trafficking organizations are reportedly moving to Argentina due to the traffickers' capability to better control final-product purity, the availability of precursor chemicals, and the decreased risk in shipping.

Drug Flow/Transit. The bulk of cocaine and marijuana enters Argentina from Bolivia via the remote and often-rugged land border. Narcotics smugglers also move cocaine and marijuana across the river border with Paraguay. Heroin from Colombia and some cocaine from Bolivia and Peru enter Argentina via commercial aircraft. In 2006, a seizure of 9.12 kg of heroin being smuggled overland from Bolivia was highly unusual. GOA officials are becoming increasingly concerned about the use of small private aircraft to carry loads of narcotics into Argentina from Bolivia and Paraguay. Based upon the amount of cocaine seized with its assistance, and investigative reporting, DEA assesses that the amount of cocaine flowing through Argentina continued to increase in 2006, over the previous ten-year high of 5,399 kg that the GOA seized in 2005. Much of the volume of narcotics transits Argentina via containers passing through Argentina's maritime port system—particularly via containerized cargo—destined primarily for Europe. . DEA reports that some 52 percent of the seizures in which it assisted in 2006 were container related, indicating that the quantity of cocaine passing through Argentina is considerably more than previously believed. For example, 937 kg of the 1,225 kg of DEA-assisted cocaine seizures in the first quarter of 2006 were seized either in containers in Spain, or at Argentine ports prior to shipment to Spain or other destinations.

Demand Reduction Programs. SEDRONAR coordinates the GOA's demand reduction efforts. In 2006, following up on the passage of Argentina's first national drug plan the previous year; SEDRONAR began a nationwide effort to extend a pilot drug education program targeting school children ages 10 to 14. Argentine federal and provincial authorities are increasingly concerned about the rise in the smoking of a cheap cocaine base called "paco," considering its devastating health effects and the attendant crimes committed by users to support their addiction. Authorities undertook a number of print and broadcast media information campaigns in 2006 to raise awareness of this problem.

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) on Argentina's border with Bolivia. The NBTF fosters coordination between GOA law enforcement agencies and assists in disrupting the flow of narcotics entering the country from Bolivia. In addition to support for the NBTF, the USG provides equipment and training opportunities to increase the effectiveness of GOA law enforcement personnel. In 2006, the USG worked with national and provincial law enforcement agencies to develop a plan for duplicating the NBTF model in Misiones and Formosa provinces to address the drug and contraband smuggling in the tri-border area of Paraguay and Brazil. This plan will be implemented in 2007. The USG also provided training in Maritime Law Enforcement and Port Security to the Prefectura Naval in 2006. In 2005, the USG implemented the Container Security Initiative in the Port of Buenos Aires, Argentina to promote secure containerized cargo to the United States. The USG also worked with Argentina's relevant agencies and financial institutions to strengthen the country's money laundering and counterterrorism financing strategy and regime.

The Road Ahead. In 2007, the USG will continue working with the GOA to combat the recent trends of increased quantities of drugs in transit through Argentina, increased domestic production, and increased domestic consumption. 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 task force at the port of Buenos Aires and in the province of Misiones. The USG will also continue to encourage the GOA to improve its radar system and to implement stronger money laundering and counter-terrorism financing legislation.

Bolivia

I. Summary

President Evo Morales proposed a counternarcotics policy of “zero cocaine” and the “revalidation” of the coca leaf upon entering office in January 2006. Morales remains the president of the six coca growers federations in the Tropic of Cochabamba (hereinafter referred to as the “Chapare”). In December 2006 President Morales described his plan to industrialize the coca leaf, and he announced his intention to increase the amount of hectareage allowed for legal coca cultivation from 12,000 to 20,000; a change that would contravene the 1961 Single Convention on Narcotics Drugs and would require modification of Bolivian law. According to USG estimates, as of August 2006, there was a slight increase of coca cultivation in most parts of the country, including 17 percent in the Chapare. Bolivia is the world’s third largest cocaine producer, accounting for some 115 tons according to the U.S. Drug Enforcement Administration (DEA).

The Government of Bolivia (GOB) met its coca eradication goal of 5,000 hectares by mid December 2006. However, this year represented the lowest level of eradication in more than ten years. Bolivian Law 1008 requires the GOB to complete a study to determine the actual licit demand for coca in Bolivia, but the GOB has yet to launch such a study, though the European Union has offered full funding and encouragement. The GOB also did not give adequate support to drug abuse prevention programs and has been slow to explain to Bolivians the dangers that excess coca production, drug production and consumption pose to Bolivian society.

As of December 2006, the GOB seized cocaine base and cocaine hydrochloride (HCl) amounting to 14 tons of cocaine. Alternative Development (AD) programs, which notably raised the income levels of farmers in the Chapare, shifted to a more integrated approach, with an emphasis on sustainability and increased participation by communities in developing, implementing and monitoring programs. Bolivia is a party to the 1988 UN Drug Convention.

II. Status of Country

Bolivia has produced coca leaf for traditional uses for centuries, and current Bolivian law permits up to 12,000 hectares of legal coca cultivation (mostly in the Yungas) to supply this licit market. The GOB has proposed to increase this amount to 20,000 hectares, which will require modification of Law 1008. The GOB explains that the excess coca leaf not used for internal consumption will be industrialized and exported to an international market. However, currently worldwide demand for coca leaf used in commercial flavorings and pharmaceuticals only requires the amount of coca that can be grown on 250 hectares (in Peru). From 2001 to 2005, coca cultivation increased from 19,900 to 26,500 hectares, and as a result, Bolivia’s estimated potential cocaine production has increased, from 100 metric tons in 2001 to 115 metric tons in 2005 (according to recent USG statistics). USG cultivation estimates show an increase in most parts of the country in 2006.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The GOB maintained aggressive interdiction of illicit drugs and precursors. According to Bolivian law enforcement, the number of cocaine base labs more than doubled since the inauguration of President Morales. A slow eradication start in 2006 resulted in less eradication than in 2005. Although the rate of eradication improved as 2006 progressed, the annual result was the lowest in more than ten years. 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 control of coca cultivation, especially near and in the Yungas, the need to develop new laws and regulations to control precursor chemicals, and pass new laws to modify the current Code of Criminal Procedures, which handicaps drug case prosecutions. Violent cocalero opposition and extreme terrain greatly complicate the prospects for successful eradication in the Yungas. The GOB began voluntary eradication in the Yungas in 2006, with symbolic results. The GOB's strategy has been to negotiate coca cultivation reduction, encourage areas of no expansion of coca, and tighten interdiction. Alternative development has been accepted in some areas within the Yungas; however, it has not reduced coca cultivation there.

In June, President Morales introduced a plan to authorize all Bolivian coca growers to sell leaf anywhere in the country. In July the Morales Administration issued Ministerial Resolution 112, requiring seized leaf to be consolidated and returned to communities rather than be destroyed as required by Bolivian domestic law. The Resolution has not been implemented. In December, the GOB announced a counternarcotics policy for 2007 through 2010 with two pillars: "zero cocaine" and the "revalidation" of the coca leaf. The GOB did insist on zero coca in the National Parks, but eradication in these areas is slow and has been met with cocalero opposition. The GOB plans to focus on interdiction of illegal drugs and precursor chemicals, alternative development, and prevention. At the same time, the GOB plans to increase legal cultivation of coca to 20,000 hectares, and to support coca industrialization and export. These policies, if implemented, would violate Bolivian law and the 1988 UN Drug Convention. The GOB intends to eradicate only through voluntary means, and to negotiate reduction of coca production with the farmers and their unions ("sindicatos") that control coca production in the Chapare.

Accomplishments. The GOB met its coca eradication goal of 5,000 hectares for the year by eradicating 5,070 hectares. Interdiction of cocaine base and HCl exceeded 14 metric tons, up from 11.5 MT in 2005. This may be, in part, due to increased coca cultivation. The GOB has begun to draft legislation in the areas of precursor control and anti-corruption.

Law Enforcement Efforts. The Bolivian Special Counternarcotics Police (FELCN) intercepts illicit drugs and precursor chemicals. The FELCN's results for 2006 improved over those of 2005. Through 9,132 operations, the FELCN seized 1,344 metric tons of coca leaf, 14 metric tons of cocaine base and HCl, 125 metric tons of marijuana, 1,352,152 liters of liquid precursors and 323 metric tons of solid precursor chemicals. It also destroyed 4,070 cocaine base labs and detained 4,503 suspects.

Corruption. As a matter of policy, no senior GOB official, nor the GOB, encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. The Offices of Professional Responsibility (DNRP) within the Bolivian National Police (BNP) and FELCN investigate allegations of insubordination and other forms of misconduct. In 2006, an employee of the Bolivian Senate, Freddy Ramiro Terceros, was arrested at El Alto International Airport in La Paz with three kilos of cocaine, and released on \$625 bail.

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 the UN Convention against Transnational Crime, the UN Convention against Corruption, and the Inter-American Convention against Corruption. Nevertheless, Bolivia is lacking many of the laws and enforcement mechanisms needed to fully implement these agreements. Bolivia has signed, but has not yet ratified, the Inter-American Convention on Extradition. Bolivia is not a party to the Inter-American Convention on Mutual Assistance in Criminal Matters.

Extradition. The GOB and the United States Government (USG) signed a bilateral extradition treaty in 1995, which entered into force in 1996. The treaty permits the extradition of nationals for most serious offenses, including drug trafficking. No extraditions were sought by the U.S. from Bolivia in 2006.

Cultivation/Production. According to USG estimates, as of August 2006, countrywide cultivation appears to have increased in three of four regions: 33 percent in Apolo, 45 percent in Caranavi, and 17 percent in the Chapare. The total cultivation in the Yungas in 2006 may have increased, but exact figures are lacking. In 2006, the GOB continued 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. Of 5,070 hectares of coca eradicated in 2006, 4,926 hectares were in the Chapare. In the Yungas, 46 hectares were eradicated. GOB interdiction results also suggest a rise in marijuana production, likely for internal consumption. As of November 2006, seizures of marijuana were up 241 percent in 2006 compared with 2005.

Drug Flow/Transit. Significant quantities of cocaine from Peru and Colombia traverse Bolivia to enter Brazil, Paraguay and Argentina. There are indications, based upon seizures in Argentina, that small amounts of Colombian heroin also transit Bolivia. 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, probably for eventual sale in the United States). Drug traffickers are continuing to seek new routes to escape the pressure being exerted by the New Dawn Operation inside the Chapare. Operation New Dawn is an innovative USG-supported, six-month financial model/interdiction strategy, which began in late July, whose purpose is to flood key areas of Bolivia with law enforcement personnel and to squeeze Bolivian drug traffickers out of their traditional patterns.

Alternative Development (AD). Funded under the Andean Counterdrug Initiative (ACI), the United State Agency for International Development's (USAID) AD assistance program is used strategically to support coca control in Bolivia's changing and challenging counternarcotics context. The AD program supports coca control by 1) establishing well-developed licit economic alternatives for coca farmers to transition to, as a necessary pre-condition to sustainable coca reduction (especially given Bolivia's political, economic, and social context); 2) targeting social infrastructure and community development projects (always in exceptionally high demand) to those communities that are cooperating fully with coca control; and 3) strengthening state presence in far-flung and lawless coca growing areas, though strengthening of municipal and justice institutions and land titling efforts.

Average licit gross farm gate family income in the Cochabamba area rose, reaching \$2,826 in 2006 (compared with \$2,667 in 2005). Estimated net licit family income in the Chapare area increased from \$1,958 in 2005 to \$2,123 in 2006, while in the Yungas, it increased from \$1,711 to \$1,942. In both areas average licit incomes are substantially above the national average.

The licit economies in coca-growing regions expanded and consolidated in FY 2006, 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 \$87.7 million. Chapare and Yungas high-value licit crop exports—such as bananas, coffee, pineapple, cocoa, and palm heart—increased from \$35 million in FY 2005 to \$46.9 million in FY 2006. Over 600 kilometers of improved roads helped farmers reach markets while providing collateral social benefits to thousands of families.

Domestic Programs (Demand Reduction). 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. In

2006, the GOB undertook, with USG assistance, efforts to combat documented increases in drug consumption. This included an expansion of the D.A.R.E. program and implementation of a Drug Demand Reduction Decentralization Project in 20 municipalities and a project on accreditation of rehabilitation centers.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG promotes the institutional reform and strengthening of the GOB to address the following counternarcotics objectives: reducing coca cultivation; arresting and bringing drug traffickers to justice; 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. Bolivian and U.S. officials meet regularly to coordinate policy, implement programs/operations, and resolve issues. The State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) principally supports and assists Bolivian interdiction and eradication forces. USAID is a significant supporter of GOB efforts on alternative development.

Road Ahead. The USG plans to continue to support existing eradication and integrated alternative development in the Chapare; push for expansion of eradication in the Yungas; and enhance efforts to interdict precursors and traffickers to include stronger precursor control legislation. The USG will encourage the GOB to exert tighter control over the licit coca market and to conduct a study on the licit demand of coca in Bolivia. Additionally, the USG will continue training prosecutors; and encourage the GOB to enact new anti-money laundering, chemical control, and wire intercept legislation. Although the President did not find in his September 15 2006 Majors List Report to Congress that Bolivia had failed demonstrably in counternarcotics cooperation, he requested that an evaluation be conducted in six months to gauge the GOB's progress on counternarcotics efforts. That evaluation report is due in mid-March 2007.

V. Statistical Tables

BOLIVIA STATISTICS (1996-2006)											
	2006*	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Coca											
Net Cultivation ¹ (ha)	-	26,500	24,600	23,200	24,400	19,900	19,600	21,800	38,000	45,800	48,100
Eradication (ha) **	5,070	6,073	8,437	10,000	11,839	9,435	7,953	16,999	11,621	7,026	7,512
Leaf: Potential Harvest ³ (mt) ***	37,000	36,000	37,000	33,000	35,000	32,000	-	-	-	-	-
HCl: Potential (mt)	115	115	115	100	110	100	-	-	-	-	-

South America

HCl: Potential (mt) ***	115	115	115	100	110	100	-	-	-	-	-
Seizures											
Coca Leaf (mt)	1,344	887.4	395.0	152.0	101.8	66.0	51.9	56.0	93.7	50.6	76.4
Coca Paste (mt)	-	-	-	-	-	-	-	-	-	0.008	-
Cocaine Base (mt)	12.7	10.2	8.2	6.4	4.7	4.0	4.5	5.5	6.2	6.6	6.8
Cocaine HCl (mt)	1.3	1.3	0.5	6.5	0.4	0.5	0.7	1.4	3.1	3.8	3.2
Combined HCl & Base (mt)	14	11.5	8.7	12.9	5.1	4.5	5.3	6.9	9.3	10.4	10.0
Agua Rica ⁴ (ltrs)	-	-	-	-	-	20,240	15,920	30,120	44,560	1,149	2,275
Arrests/Detentions	4,503	4,376	4,138	3,902	3,229	2,948	3,414	3,503	407	3,428	3,324
Labs Destroyed											
Cocaine HCl	3	3	4	2	2	1	2	1	1	1	7
Base	4,070	2,619	2,254	1,769	1,285	877	620	893	1,205	1,022	2,033
* The USG was unable to provide an estimate for the net coca cultivation in time for this report.											
**As of 12/17/06											
***Due to recent revision of the USG's cocaine production estimates for Bolivia, one cannot accurately compare 1996-2000 with future years.											
¹ The reported leaf-to-HCl conversion ratio is estimated to be 370 kg of leaf to one kg of cocaine HCl in the Chapare. In the Yungas, the reported ratio is 315:1.											
² As of 06/01/2001.											
³ Most coca processors have eliminated the coca paste step in production.											
⁴ Agua Rica (AR) is a suspension of cocaine base in a weak acid solution. AR seizures first occurred in late 1991. According to DEA, 37 liters of AR equal one kg of cocaine base.											

Brazil

I. Summary

Brazil is a major transit country for illicit drugs shipped to Europe and, to a somewhat lesser extent, the United States. Brazil cooperates with its neighbors in an attempt to control its remote and expansive border areas where illicit drugs are transported. The Tri-border area with Paraguay and Argentina is particularly porous; in 2006, the Brazilian Federal Police seized over 24 metric tons of marijuana and about 126 kg of cocaine in Foz do Iguacu, which had been smuggled from Paraguay.

The Brazilian Federal Police (DPF) had a number of successes in 2006 against foreign narcotics trafficking organizations operating within Brazilian territory, the most significant of which was the arrest of kingpin target Pablo Joaquin Rayo Montano in Sao Paulo. In 2006, the Government of Brazil (GOB) broke up Mexican and Colombian groups involved in sending heroin to the U.S., and is now targeting groups that sell prescription drugs illegally via the Internet. The DPF is placing a higher priority on interdiction capabilities along the Bolivian border, where seizures of cocaine base increased.

Brazil is a signatory of various counternarcotics agreements and treaties, the 1995 bilateral U.S.-Brazil counternarcotics agreement, and the annual Memorandum of Understanding (MOU) with the United States. Brazil is a party to the 1988 UN Drug Convention,

II. STATUS OF COUNTRY

Brazil is a significant transit country for cocaine base and cocaine moving from source countries to Europe, the Middle East and Brazilian urban centers, as well as for smaller amounts of heroin. Cocaine and marijuana are used among youths in the country's cities, particularly Sao Paulo and Rio de Janeiro, where powerful and heavily armed organized drug gangs are involved in narcotics-related arms trafficking.

III. COUNTRY ACTIONS AGAINST DRUGS IN 2006

Policy Initiatives. The GOB anti-money laundering legislation drafted in 2005 still has not been presented to Congress. If passed it 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. Brazil has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets. The Brazilian Government's interagency Financial Crimes Investigations Unit (COAF) and the Ministry of Justice manage these systems jointly. Police authorities and the customs and revenue services have adequate police powers and resources to trace and seize assets. The GOB is in the process of creating 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.

Narcotics terrorists exploit Brazil's heavily transited border crossings and its expansive border areas where Brazilian law enforcement only has a minimal presence. To more effectively combat trans-border trafficking organizations, Brazil cooperates closely with its neighbors through joint intelligence centers (JIC) in strategic border towns. The newest JIC is located near the common border of Brazil, Bolivia, and Peru, in the Brazilian town of Eptaciolandia. The JIC operates out of the Federal Police offices and is staffed by the Brazilian DPF and a Bolivian law enforcement representative. Another JIC, at the Tri-Border Area of Brazil, Paraguay, and Argentina has been

built and will commence operations following the finalization of staffing issues by the three countries. Brazil also currently has Federal Police Attachés in Argentina and Paraguay.

Accomplishments. In 2006, the BFP played a major role in “Operation Seis Fronteras” to disrupt the illegal flow of precursor chemicals in the region. The GOB also supported “Operation Alliance” with Brazilian and Paraguayan counterdrug interdiction forces in the Paraguayan-Brazilian border area.

Law Enforcement Efforts. In 2006, the Brazilian Federal Police seized 13.2 MT of cocaine and 144 kg of crack. Marijuana seizures totaled 161.1 MT in 2006. Brazilian Federal Police also seized 57 kg of heroin. While the GOB did not maintain heroin seizure statistics prior to 2006, DEA estimates that this is double the amount estimated to have been seized in 2005. Since only the Federal Police, and not local police forces report seizures on a national basis, and since Federal Police sources estimate they record perhaps 75 percent of seizures and detentions, all seizure statistics may be incomplete. 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 the GOB seized 2 airplanes, 909 motor vehicles, 179 motorcycles, 14 boats, 660 firearms, and 1,897 cell phones in 2006.

In conjunction with Operation Topaz the DPF agreed to work with the USG to perform a study on the use within Brazil and the exportation of Acetic Anhydride from Brazil. The DPF makes records relating to chemical transactions available to USG law enforcement officials when requested.

Corruption. As a matter of government policy, neither the GOB nor any of its senior officials condone, encourage, or facilitate production, shipment, or distribution of illicit drugs or laundering of drug money, although corruption remains a problem. 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. Late in 2006, the BFP arrested 75 Rio de Janeiro state police after an investigation into their involvement in illegal gambling and support of narcotics trafficking gangs.

Agreements and Treaties. Brazil became a party to the 1988 UN Drug Convention in 1991. Bilateral agreements based on the 1988 convention form the basis for counternarcotics cooperation between the U.S. and Brazil. The United States and Brazil are parties to a bilateral mutual legal assistance treaty that entered into force in 2001, which is actively used in a wide array of cases. In 2002, the U.S. Customs and Border Protection signed a Customs Mutual Assistance Agreement with the government of Brazil, which provides a basis for the exchange of information to prevent, investigate and redress any offense against the customs laws of the United States or 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).

Extradition. The Brazilian constitution prohibits the extradition of natural-born Brazilian citizens. It allows for the extradition of naturalized Brazilian citizens for any crime committed prior to naturalization. The constitution also allows for the extradition of naturalized Brazilian citizens specifically for narcotics-related crimes committed after naturalization, however no such extraditions have occurred, because the Brazilian congress has not passed implementing legislation. Brazil cooperates with other countries in the extradition of non-Brazilian nationals accused of narcotics-related crimes. Brazil and the U.S. are parties to a bilateral extradition treaty and protocol thereto, both of which entered into force in 1964.

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

Drug Flow/Transit. Cocaine arriving from Bolivia and marijuana from Paraguay are mainly destined for domestic consumption within Brazil. 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. 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 of Brazil's borders. Traffickers have reduced the number of long flights over Brazilian territory due to Brazil's introduction of a lethal-force air interdiction program in 2004. However, traffickers still make the short flight over Brazil en route to Venezuela and Suriname. 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. Domestic networks that operate in the major urban areas of the country carry out the distribution of drugs in Brazilian cities.

Demand Reduction. The National Anti-Drug Secretariat (SENAD) is charged with oversight of demand reduction and treatment programs. Some of the larger USG-supported programs include a nationwide toll-free number for drug-abuse 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.

IV. U.S. POLICY INITIATIVES

Policy Initiatives. U.S. counternarcotics policy in Brazil focuses on identifying and dismantling international narcotics trafficking organizations, reducing money laundering, and increasing awareness of the dangers of drug abuse and drug trafficking and related issues, such as organized crime and arms trafficking. Assisting Brazil to develop a strong legal structure for narcotics and money laundering control and enhancing cooperation at the policy level are key goals. Bilateral agreements provide for cooperation between U.S. agencies, SENAD, and the Ministry of Justice.

Bilateral Cooperation. U.S.-Brazil bilateral programs include support of the northern border interdiction Operation COBRA and the joint intelligence center located in Tabatinga; the establishment of the joint intelligence center on the Bolivian border; and training courses in airport interdiction and container security. Prevention and treatment assistance included support for DARE and the toll free drug counseling/information hotline as well as an ongoing national household survey of drug usage.

In 2006, various operations, such as the annual Operation Alianza (Brazil, Paraguay) that involved marijuana eradication/interdiction, Operation Seis Fronteras and Operation Twin Oceans were supported with USG funds. During 2006, the USG provided training throughout Brazil in combating money laundering, airport interdiction, community policing, container security, counter-drug SWAT operations, maritime law enforcement, and demand reduction programs. Brazilian Law Enforcement attended training programs in the United States, such as money laundering prevention seminars and the Federal Bureau of Investigation academy. Seminars and courses for State police representatives will also assist the Brazilian authorities with security preparations for the 2007 Pan American games. In 2005, the USG implemented the Container Security Initiative in Santos, Brazil to promote secure containerized cargo to the United States.

The Road Ahead. While 2006 proved to be a productive year for Brazilian Federal Police in their fight against narcotics trafficking organizations, daunting challenges remain. Increased attention

must be given to the expansive land border regions to stem the smuggling of cocaine into Brazil. Improving control of Brazil's immense land borders became a significant political issue in the 2006 presidential race and will remain a priority for both Brazil and the USG. According to the U.S. DEA, the amount of heroin interdicted in 2006 indicates that Brazil is increasingly being utilized as a transshipment route to the U.S. Plans to strengthen airport interdiction and target international trafficking networks should show positive results over the next year. In early 2007, the USG will conduct a comprehensive review of USG counterdrug and law-enforcement assistance to Brazil, to ensure that the changing policy priorities of both countries are being properly addressed.

Chile

I. Summary

Chile is a transit country for cocaine and heroin shipments destined for the U.S. and Europe. In 2006, Chilean authorities seized 15 metric tons of cocaine -- more than five times that which was reportedly seized in 2005. 2006 was also the first full year of Chile's newly instituted adversarial judicial system. Chile has a domestic cocaine and marijuana consumption problem, and the amphetamine-type drug Ecstasy is increasing in popularity. Chile is a source of precursor chemicals for use in cocaine 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 hydrochloride (HCl) consumption has increased domestically, although cocaine base abuse is more prevalent. Marijuana, primarily supplied by Paraguay, as well as by a small domestic cultivation industry, is consumed domestically.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2006, the National Drug Control Commission (CONACE) continued to implement its 2003-2008 National Drug Control Strategy. In January 2006, an "informal" drug court pilot program was initiated in Santiago, under the leadership of the Santiago Southern Regional Prosecutor, and the Chilean Drug Prevention Network (CHIPRED). In May 2006, CONACE and Citizen Peace Foundation (FPC) created a special committee to study legal issues related to the "conditional suspension" of a case to allow the possibility of providing drug rehabilitation treatment to offenders and analyzing technical aspects of the project.

Accomplishments. In September 2005, the Chilean court system approved the release of the results of an Arrestee Drug Abuse Monitoring (ADAM) test sponsored by the USG. Developed by the Citizen Peace Foundation and the National Institute of Drug Abuse, the test revealed that 73 percent of arrestees for violent crimes in Santiago were using drugs at the time of their arrest. This test was the first scientific test in Chile showing a definitive link between drug use and crime. Until its release, Chilean officials had tended to believe that drugs played no significant role in crime. Now these officials often cite this survey in studies and speeches that address the link between drug use and crime, and the need for further investment in drug rehabilitation.

2006 was the first full year of Chile's newly instituted adversarial judicial system, which is based on oral trials rather than documents. Initial feedback suggests greater public trust in the new system, and cases are reportedly being resolved faster than before. Ongoing challenges include training judges, prosecutors and law enforcement officials on evidence collection and analysis, courtroom presentation methods, and court administration procedures.

Law Enforcement Efforts. In 2006, Chilean authorities seized 15,295 kg of cocaine HCl (more than five times that reportedly seized in 2005), 2,388 kg of cocaine base, 147 kg of crack cocaine, 3,639 dosage units of Ecstasy, 2,700 kg of marijuana (about half that seized in 2005), and 118,762 marijuana plants. Chilean authorities made two seizures (27kg in May, and 120 kg in September) of crack cocaine in 2006, the first reported seizures of this type of cocaine in Chile. They also seized 220 liters of acetone, and 27,400 kg of sulfuric acid. Law enforcement agencies arrested 27,343 persons for drug-related offenses, more than twice the 12,878 who were arrested on similar charges in 2005. Chilean authorities are also undertaking proactive enforcement initiatives to address the domestic distribution sources of cocaine, marijuana, and Ecstasy. One joint

investigation in 2006 conducted by DEA and the Carabineros, led to the seizure of more than 400 kg of cocaine and the disruption of a major Colombian transportation cell. In a separate operation the Carabineros seized approximately 650 kg of cocaine from Colombia

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. After slipping one place in 2005, in 2006, Chile regained its traditional standing in the top 20 least-corrupt countries in the world in Transparency International's Annual Corruption Perception Index. In the same survey, Chile ranked behind only Canada as the second least corrupt country in the Americas.

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 Organization of American States' 1992 Inter-American Convention on Mutual Assistance in Criminal Matters (which it ratified in 2004) and the 1988 UN Drug Convention, both of which permit mutual legal assistance. Chile is also party to the Inter-American Convention Against Corruption.

Cultivation/Production. There is no known major cultivation or production of drugs in Chile for export. The very small amount of marijuana that is cultivated in Chile is consumed domestically. A new law passed in 2005 gives CONACE responsibility for registry and inspection of companies that produce, use, import or export any of 64 types of chemicals that are used in the production of various illegal drugs. The regulations to implement the new law were under revision in 2006 by the National Comptroller's Office, and CONACE plans to begin implementing the registry in January 2007.

Drug Flow/Transit. Most narcotics arrive in Chile overland from Peru and Bolivia, but some enter through Argentina. The most recent trend is to traffic drugs into Chile 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. Though much of Bolivia's cocaine is shipped to Brazil, a smaller amount is smuggled into Chile. The treaty signed after the War of the Pacific allows cargo originating in Peru and Bolivia to pass through Chile and out of the ports in Arica and Antofagasta without Chilean inspection. Chilean efforts to intercept illicit narcotics are obviously hampered by this treaty. Recent seizures provide evidence that Colombian drug trafficking organizations are utilizing overland transportation routes to ship their cocaine to Chile for further distribution. Small amounts of Ecstasy enter the country primarily via couriers traveling by air.

Domestic Programs/Demand Reduction. In 2006, the GOC spent \$373,000 to finance about 700 drug prevention projects in Chile. The 2007 budget will increase funding of CONACE by 32 percent to expand programs for drug-prevention and rehabilitation. CONACE runs a variety of community, family and youth programs, including prevention-oriented artistic programs, sports programs, youth employment programs, and the creation of programs using internet technology, such as an "on-line brigade" against the use of drugs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. support to Chile in 2006 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-gathering capability; and, 5) combating money laundering.

Bilateral Cooperation. During 2006, the USG pursued numerous initiatives including: an International Visitor Program for three Chilean judges, concerning drug and intellectual property rights (IPR) issues and conducting a seminar on recovering proceeds from acts of corruption, attended by personnel from Chile's Financial Investigative Unit (FIU). The USG also sponsored a Chilean judge, a Carabinero, a prosecutor and a customs agent to an IPR seminar for law enforcement officials; and sent 42 Chilean law enforcement officials to a USG-Sponsored conference on Media Piracy that took place in Santiago and sponsored a workshop on effective practices in border enforcement of intellectual property rights; as well as numerous other programs. In March 2006, a U.S. judge and a U.S. prosecutor participated in the first International Seminar on Drug Courts in Chile, organized by the Citizen Peace Foundation (FPC) and the United Nations Office of Drugs and Crime.

The USG also conducted Operation Pipeline training for the Carabineros during 2006 in the northern city of Iquique. Operation Pipeline is a highway drug interdiction program used throughout the continental United States and other countries with great success.

The Road Ahead. In 2007, the USG plans to support Chilean efforts to combat narcotics-related problems and will continue to emphasize the importance of interagency cooperation to better confront drug trafficking in Chile. Efforts to establish a joint USG-GOC narcotics task force in Arica, the primary point of entry of Peruvian cocaine, have been fruitless, thus far, due to the history of mistrust and turf battles between the Policia de Investigaciones de Chile (PICH – Chile's investigative police) and the Carabineros. The PICH have begun to realize that inter-agency cooperation is necessary for effective counternarcotics operations, and is moving toward a greater acceptance of a joint task force. The GOC also needs to continue capacity building and reforms of Chile's criminal justice system. The USG is prepared to provide assistance and will host training in the investigation of money laundering, and prosecution of such crimes in the new criminal justice system in 2007.

Colombia

I. Summary

Although Colombia remains a major drug producing country, the Government of Colombia (GOC) is completely committed to fighting the production and trade in illicit drugs. Colombia had a sixth consecutive record year for illicit crop eradication and continued its aggressive interdiction programs and strong commitment to extradite persons charged with crimes in the United States. The country's public security forces prevented hundreds of tons of cocaine and heroin from reaching the United States, including the seizure of over 170 metric tons of cocaine and cocaine base. In 2006, the U.S.-supported Colombian National Police (CNP) Anti-Narcotics Directorate (DIRAN) sprayed 171,613 hectares of illicit coca and opium poppy, and manual eradication accounted for the destruction of an additional 42,111 hectares of coca and 1,697 hectares of poppy. Colombia is a party to the 1988 UN Drug Convention.

II. Status of Country

Colombia is the source of almost 90 percent of the cocaine entering the United States. Colombia is also the primary source of heroin used east of the Mississippi River, a leading user of precursor chemicals, and the focus of significant money laundering activity. Developed infrastructure, including ports on the Pacific and Atlantic, multiple international airports, and a highway system; as well as extensive rivers and miles of remote and unguarded borders, provide narcotics traffickers with many options to transport their product. Although official statistics are limited, most experts agree that drug use in Colombia is increasing. While demand reduction programs exist in large municipalities, there is no coordinated national demand reduction strategy.

Two Foreign Terrorist Organizations (FTOs) - the Revolutionary Armed Forces of Colombia (FARC) and, to a lesser degree, the National Liberation Army (ELN) - participate in all phases of the drug trade. These groups exercise considerable influence over areas with high concentrations of coca and opium poppy cultivation, and their involvement in narcotics is a major source of violence and terrorism. Another FTO, the United Self-Defense Forces of Colombia (AUC), almost completely demobilized in 2005 and 2006. Some former AUC members continue to engage in narcotics trafficking.

III. Country Actions Against Drugs

Policy Initiatives. Colombia's criminal justice system is in transition to an accusatorial system. The new procedures are now in place in Bogota, Medellin, Cali, and seven other municipalities. Criminal cases in those areas are now being resolved more quickly and with a higher percentage of convictions. Although challenges remain, the GOC, with USG assistance, is working to have the system fully functioning nationwide by the end of 2008.

The GOC's coca and poppy manual eradication program expanded considerably in 2006, resulting in the eradication of 43,800 hectares of illicit crops, according to the GOC. The CNP provided security for manual eradication projects nationwide, and 41 security force personnel and civilian eradicators were killed in 2006 by improvised explosive devices and narcotics terrorist attacks directed at manual eradication operations. In 2006, the CNP formally made manual coca eradication a nationwide responsibility of regular, municipal-level police units with the initiation of an institutional plan entitled "Todos Contra la Coca," or "Everyone Against Coca." This plan put all police units into the business of illicit crop eradication, a duty that had previously been the sole domain of DIRAN.

DIRAN also instituted a special ten-member judicial police group to gather evidence for asset forfeiture processes against property owners who use their land for the cultivation or processing of illegal crops. Starting at mid-year, this unit developed, investigated, and presented to the Prosecutor General's office ("Fiscalia") 273 separate cases. In November, 59 of these properties in western Boyaca were occupied by GOC authorities. Despite substantial bureaucratic, legal, and security obstacles, this asset seizure initiative is a crucial step towards real deterrence of cultivation and replanting after eradication.

In response to President Uribe's push to eradicate more coca in 2006, DIRAN created a temporary fourth spray aviation group (in addition to the three permanent USG-supported groups) to eradicate coca in El Bagre, Antioquia. Although the USG provided aviation, chemical, and fuel support for this pilot project, the CNP had complete organizational and operational control. This was an important first step towards nationalization of aerial eradication operations, and resulted in the spraying of more than 2,600 hectares of coca.

Law Enforcement Efforts. In 2006, the CNP, led by DIRAN, interdicted over 84 metric tons of processed cocaine (HCl) and cocaine base and destroyed 156 HCl laboratories and 965 base labs. In total, Colombia authorities seized 170 metric tons of cocaine and cocaine base. DIRAN also conducted several operations with the military against high-value narcotics terrorist targets.

The CNP Mobile Rural Police Squadrons (EMCAR or Carabineros) captured 175 narcotics traffickers, 223 FARC/ELN guerrillas, 32 AUC members, and 1,099 common criminals through September 2006. They also seized 25,507 gallons of liquid precursors, 15,870 kg of solid precursors, 377 kg of cocaine base, and 2,570 kg of marijuana. They contributed to the eradication of 188.9 hectares of opium poppy and 17,772 hectares of coca. The squadrons also provide public security in areas vacated by demobilized AUC members to help prevent the FARC from taking control of those areas. They provide road security throughout the country and security for municipal police units under threat of attack. Fifty-six 150-man Carabiniro squadrons have been trained thus far.

DIRAN's Jungle Commandos (Junglas) airmobile units destroyed over half of the HCl and cocaine base labs taken down by the CNP. They also seized significant quantities of drugs, and captured the chief of security for the Norte del Valle Cartel. The Colombian Army's Counter-Drug (CD) Brigade conducted interdiction missions, High Value Target (HVT) operations and provided security for aerial eradication. It seized over 1.8 metric tons of cocaine, 237,000 gallons of liquid precursors, and 106 tons of solid precursors as of October 2006. They also destroyed 14 HCl labs and 235 base labs and dismantled 34 narcotics terrorist base camps. While conducting operations, the CD Brigade killed or captured 57 guerrillas and suffered 24 casualties.

Port Security. Various USG agencies worked with Colombian government entities and private seaport operators to improve port security and prevent drug trafficking in Colombia's ports. In 2006, more than 13 metric tons of cocaine, 82 kg of heroin, 312 kg of marijuana, and more than 70 tons of chemical precursors were seized in Colombian ports. Additionally, the DIRAN and Customs Police (POLFA) units arrested 39 persons in the four principal Colombian ports. The USG also works with DIRAN and Airport Police to prevent Colombia's international airports from being used as export points for drugs. In 2006, DIRAN airport agents confiscated tons of illicit drugs and made over 100 drug-related arrests.

Extradition and Mutual Legal Assistance. Colombia extradited 417 individuals to the U.S. since August of 2002, 102 of them in 2006. Extradited Cali Cartel leaders Miguel and Gilberto Rodriguez Orejuela pled guilty to conspiring to import cocaine and to money laundering and agreed to a record USD 2.1 billion-asset forfeiture judgment. Prominent figures extradited in 2006 include: Consolidated Priority Targets (CPOT) Jhonny Cano Correa, Manuel Felipe Salazar-Espinosa, and Gabriel Puerta-Para; FARC associates Cesar Augusto Perez-Parra and Farouk

Shaikh-Reyes, the first FARC associates to be convicted in the U.S. for drug offenses; and AUC paramilitary associates Huber Anibal Gomez Luna, Freddy Castillo Carillo, and Jhon Posada Vergara. The Colombians also provided excellent investigative and trial support related to the trials of FARC leaders Juvenal Palmera-Pineda (aka “Simon Trinidad”) and Nayibe Rojas Valderama (aka “Comandante Sonia”). Obstacles remain regarding the extradition of the AUC leaders.

There is no bilateral mutual legal assistance treaty in force between the U.S. and Colombia, although the two countries cooperate extensively via multilateral agreements and conventions, such as the OAS Convention on Mutual Legal Assistance and the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the 1988 UN Drug Convention). During 2006, the United States submitted more than 100 legal assistance requests and received well over 60 responses, with many pending due to their complexity. 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 has two programs for demobilization: collective and individual. Under the 2005 Justice and Peace Law, the High Commissioner for Peace oversees the collective demobilization program, which to date has applied only to the AUC. The individual demobilization or deserter program applies to all three formally designated Foreign Terrorist Organizations (the FARC, ELN and AUC), plus any other armed group in Colombia. Since 2002, the GOC estimates over 41,000 persons have demobilized - 11,000 under individual desertion program and over 30,000 AUC under the collective program. AUC members who chose not to demobilize, as well as those who do not qualify for the demobilization program, will continue to be investigated and prosecuted under normal Colombian law. In 2006, FARC desertion increased over 50 percent compared to 2005.

Public Security. Following fulfillment in 2004 of the GOC’s goal to establish or reestablish a police presence in all “municipios” (roughly equivalent to U.S. counties), the CNP initiated a program to place police in additional larger townships. This expansion of police presence in 2006 further limited the influence of illegal armed groups and truncated their sources of income. Homicides continued to decline in 2006, down five percent to 17,277; and kidnappings were down by 20 percent, to 637.

Operation All-Inclusive. Colombian authorities participated in a regional, multi-agency international drug flow prevention strategy designed to disrupt the flow of drugs, money, and chemicals between the source and transit zones and the United States. The strategy included coordinated enforcement operations with counterparts in Mexico and Central America, resulting in seizures of 43.77 metric tons (MT) of cocaine, 83.6 kg of heroin, 19.65 MT of marijuana, 92.6 MT of precursor chemicals, and over USD 4 million. Arrests totaled 131.

Operation Twin Oceans. The CNP, Brazilian Federal Police, Panamanian Judicial Police, and the U.S. Drug Enforcement Agency (DEA), along with the Colombia Fiscalia and the U.S. Department of Justice, dismantled the Pablo Rayo-Montano drug trafficking organization responsible for smuggling more than 15 tons of cocaine per month to the United States and Europe. The three-year investigation culminated in over 100 arrests and the seizure of 52 tons of cocaine and nearly USD \$70 million in assets.

High-Value Targets. In 2006, the GOC organized all security forces that focus on High Value Targets (HVTs) within one Ministry of Defense office. During 2006, at least six high interest FARC leaders were killed, including a FARC General Staff member, alias “Juan Carlos.” The security forces continue to identify and arrest narcotics traffickers, several of whom have been, or are waiting to be, extradited to the United States.

Corruption. According to Transparency International and the World Bank, Colombia has made significant improvements in fighting corruption. However, concerns remain with respect to the corrupt influences of criminal organizations. Such influences are believed to be at the root of the shooting of 10 GOC counternarcotics police in May by members of a Colombia Army battalion. That incident, which occurred in the Jamundi municipality of the western department of Valle Del Cauca, is still under investigation. Another example is the paramilitary (AUC) corruption cases which the Prosecutor General's Office (Fiscalia) is investigating using information found on a laptop allegedly belonging to a former paramilitary leader known by his alias "Jorge 40," that links him to crimes and contains records of his alleged ties to politicians. Based on the information stemming from this investigation, three members of Congress are in jail and more than a dozen are under investigation for alleged paramilitary ties.

The use of polygraph exams, primarily within the police, continues to be a constructive tool in the fight against corruption. The Government of Colombia does not encourage or facilitate any aspects of the illegal narcotics trade. Colombia is party to both the Inter-American Convention Against Corruption and the UN Convention against Corruption.

Agreements and Treaties. The GOC is a party to the 1988 UN Drug Convention, the OAS Convention on Mutual Legal Assistance, the UN Convention against Transnational Organized Crime, and the protocol on trafficking in persons. In 2006, Colombia signed bilateral counternarcotics agreements with the governments of Spain and Russia. These agreements primarily focus on information sharing, but could include training and technical assistance. The GOC's 1998 national counternarcotics plan meets the strategic requirements of the UN Drug Convention, and the GOC is generally in line with its other requirements.

In 1997, the GOC and the U.S. signed a Maritime Ship boarding Agreement; a highly successful arrangement that provides faster approval to board ships in international waters and has facilitated improved counternarcotics cooperation between the Colombian Navy and the U.S. Coast Guard. In 1999, U.S. Customs and Border Protection signed a Customs Mutual Assistance Agreement with the GOC. This agreement provides a basis for the exchange of information to prevent, investigate, and repress any offense against the customs laws of the U.S. or Colombia. In September 2000, Colombia and the United States signed an agreement establishing the Bilateral Narcotics Control Program, which provides the framework for specific counternarcotics project agreements with the various Colombian implementing agencies. This agreement has been amended annually and is the vehicle for the bulk of U.S. counternarcotics assistance.

Cultivation/Production. Cocaine. From 2004 to 2005, the USG's estimate of coca cultivation in Colombia increased by 26 percent, from 114,100 hectares to 144,000 hectares, largely due to increased areas surveyed (by 81 percent). Coca cultivation in areas already surveyed in 2004 declined by 8 percent in 2005, mainly due to Colombia's aggressive aerial eradication program. Using a survey area less than half the size in 2001, the U.S. found 170,000 hectares under cultivation. As a consequence of the increased crop estimate, the USG increased by 27 percent its estimate of Colombia's potential cocaine production during this same time period, from 430 metric tons in 2004 to 545 metric tons in 2005. Even so, the exponential growth of coca cultivation that commenced in the late 90s has clearly been halted.

Heroin. According to USG estimates, Colombian counternarcotics efforts reduced opium poppy cultivation by 68 percent between 2000 and 2004, from 6,540 hectares to 2,100 hectares. Cloud cover in the key opium growing areas of Colombia prevented the USG from making an imagery-based opium poppy cultivation estimate in 2005. The CNP estimated a total of 1,748 hectares of opium poppy at mid-year 2006. CNP sources reported at the end of 2006 that they had manually eradicated nearly 1,700 hectares and aerielly eradicated more than 200 hectares during the year,

and that no “plantation-sized” poppy fields remained. The announcement noted that smaller cultivations probably still exist, due to replanting and interspersing of poppy with licit crops.

Synthetic Drugs. Based upon available intelligence, Colombian drug trafficking organizations profit from the illicit trafficking of ephedrine, but there is little substantiated evidence that Colombian drug trafficking organizations are currently producing methamphetamine on a large-scale basis. However, the trafficking of ephedrine, the limited presence of methamphetamine production in Colombia, the potential for high profit margins, established drug trafficking routes, and high methamphetamine demand in the United States are all areas of concern. There have been minor seizures of Ecstasy in Colombia, but no indication of significant production or export.

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. Transportation nodes include the larger airports, clandestine airstrips, and seaports and harbors from which small go-fast and fishing vessels can be launched. Cocaine is also smuggled using small aircraft from clandestine airstrips in eastern and southeastern Colombia to Brazil, Suriname, Venezuela, or Guyana, where it is either consumed domestically or transferred to airplanes or 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 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, Buenaventura, and elsewhere. In addition to go-fast vessels, commercial fishing vessels are also used regularly.

In 2006, traffickers began to shift their go-fast routes to the “edges of Colombia” to access Venezuelan and Ecuadorian waters and avoid the interdiction units of the Colombian Navy and CNP. Small aircraft air routes have undergone a similar shift, with more air smuggling now involving short-hop flights from and to Venezuela. 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, although mules also swallow heroin wrapped in latex. Colombia’s Airport Interdiction Group has experienced great success in identifying and arresting “swallowers” at the international airports in Bogota, Cali, and Medellin. There are also quantities of heroin being shipped from Colombia’s Pacific Coast, particularly from Buenaventura. Heroin shipments are combined with cocaine shipments on go-fast boats departing from the Atlantic Coast, although with less frequency in 2006. 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 Cartagena, and then transit one or more countries before arriving in Mexico and on to the United States.

Demand Reduction. The Colombian Government has been developing a national demand reduction strategy since 2004; however, it has not yet been presented for approval to the National Council on Dangerous Drugs. GOC authorities involved in demand reduction hold monthly meetings to share information and discuss plans. With USG and Organization of American States support, the Ministry of Social Protection conducted a national drug use survey in 2004. Although an official report has not yet been published, and the GOC does not keep official statistics on drug abuse treatment, evidence suggests there is increased drug use by Colombians. Throughout Colombia, numerous private entities and nongovernmental organizations (NGOs) work in the area

of demand reduction, and DIRAN has an active Drug Abuse Resistance Education (DARE) program. The USG supports several Colombian and international NGO programs targeted at keeping children drug-free. In 2006, the USG sponsored a conference that laid the foundation for the development of NGO networks and sponsored community coalition training in the United States for representatives from four Colombian NGOs.

IV. U.S. Policy Initiatives and Programs

2006 was the sixth consecutive year of record aerial eradication in Colombia, surpassing the previous year's record by 24 percent. The GOC's decision to manually eradicate opium poppy freed up air assets for additional coca spraying, while close intelligence coordination and more intensive utilization of ground forces resulted in a more secure environment for aerial eradication operations and an increased operational tempo. However, the increased tempo, as well as increased helicopter assistance to manual eradication, strained available helicopter resources for all operations.

The USG continues to support DIRAN's aviation unit, ARAVI, comprised of 18 fixed-wing and 54 rotary-wing aircraft. In addition to counternarcotics missions, ARAVI has used USG-supported assets for humanitarian missions, targeted intelligence gathering, and anti-terrorism, anti-kidnapping, HVT, and public order missions. As part of USG and GOC nationalization efforts, the USG continues to help ARAVI train more pilots and mechanics within Colombia and perform more maintenance and repairs in Colombia. A process is underway to shift procurement operations for aviation repair and maintenance parts from the U.S. to Colombia, and an on-the job training program commenced in 2006. With USG assistance, ARAVI began training for over-water Night Vision Goggle (NVG) missions in 2006.

The Plan Colombia Helicopter Program (PCHP) consists of UH-1N, UH-1H II, UH-60, and K-Max helicopters and is part of the Colombian Army (COLAR) Aviation program. It provides support to eradication, interdiction, counterterrorism, HVT, and humanitarian missions, using human rights-certified Colombian military personnel. Nationalization efforts to train pilots and mechanics continue, and the number of U.S. contractors is declining, according to plan.

The Air Bridge Denial (ABD) program completed its third year of operations, and the number of illegal flights over Colombia decreased significantly. In 2003, there were 637 suspected and known illegal flights over Colombia. In 2006, there were only 171, a decrease of more than 70 percent. Coordination between the Colombian Air Force (COLAF), other GOC ground forces, and Colombia law enforcement agencies also increased. One aircraft was forced down. The COLAF also coordinated with other GOC authorities to destroy illegal airfields and monitor legal airfields. In 2006, the program resulted in eight law enforcement actions, resulting in four aircraft impounded, 1.6 tons of cocaine seized, and one arrest.

The USG provides training, coordination, and technical assistance, including polygraph tests, for Colombian security units stationed in the ports and airports. U.S. Customs and Border Protection trained and provided technical assistance to the CNP in such areas as passenger documentation analysis, firearms handling, and the inspection of containerized cargo.

In 2006, the USG conducted port physical security and vulnerability training with members of the Colombian Coast Guard, naval intelligence and port security officers from the major ports in Colombia. Hundreds of Colombian companies participate in the private sector-led Business Alliance for Secure Commerce (BASC) program supported by U.S. Customs and Border Protection.

The USG also supported Culture of Lawfulness program promotes respect for rule of law and civic responsibility in Colombia, and its curriculum has been taught to over 16,000 ninth-graders at 200 schools in 11 municipalities. In 2006, the program was integrated into CNP basic training programs

for officer cadets, and a pilot program was developed for patrol cadets in the CNP's 11 regional academies.

Environmental Safeguards. Biennial verification missions continue to show that aerial eradication causes no significant damage to the environment or human health. The coca and poppy 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. In addition to the biennial verification missions, soil and water samples are taken before and after spray for analysis. The OAS, which published a study in 2005 positively assessing the chemicals and methodologies used in the aerial spray program, is currently conducting further investigations, to be completed in 2007.

Complaints Verification. As of September 2006, the GOC had received 6,449 complaints alleging legal crop damage by spray planes since the tracking of complaints began in 2001. The GOC had concluded investigation of 5,875, with 1,045 complaints processed in 2006. 33 complaints were found to be valid and compensation paid (approximately \$168,000). The GOC investigates all claims of human health damage alleged to have been caused by aerial spraying. Since spraying began, the Colombian National Institute of Health has not verified a single case of adverse human health effects linked to glyphosate spraying.

Other Law Enforcement Initiatives and Programs. A number of U.S. law enforcement agencies maintained programs in Colombia. U.S. Customs and Border Protection (CBP) authorized the Container Security Initiative (CSI) program in the Port of Cartagena, and initial program implementation is underway. Immigration and Customs Enforcement (ICE) created the Trade Transparency Unit in conjunction with the GOC to target cases utilizing legitimate trade practices to commit customs fraud and money laundering. Operations by different USG agencies to seize cash from narcotics traffickers were successful. In a single weekend, an ICE operation seized 4.6 million dollars from persons in Ecuador and Colombia, and three were arrested.

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. In addition, ATF's firearms program traces every U.S.-made firearm recovered in Colombia (including those turned in by demobilized paramilitaries and guerrillas) to determine how those weapons arrived in Colombia. U.S. Office of Foreign Assets Control (OFAC) efforts to increase the number of Specially Designated Narcotics Traffickers resulted in tens of millions of dollars being seized by the GOC. Finally, the U.S. Coast Guard conducted patrol boat operations, maritime law enforcement, and maritime operations and planning training with the Colombian Coast Guard to strengthen operational cooperation between the services. The USG provides quarterly reports to the Colombian Navy on the status of all cases prosecuted pursuant to the maritime bilateral agreement, and promptly investigates all claims of impropriety during sea boardings.

Alternative Development. Joint USG and GOC efforts are encouraging farmers to abandon the production of illicit crops. USG programs have supported the cultivation of over 102,000 hectares of legal crops and completed 1,117 social and productive infrastructure projects in the last five years. More than 81,700 families in 17 departments have benefited from these programs. In addition, to ensure that Colombians are provided with alternatives, the USG has worked with Colombia's private sector to create an additional 53,000 full-time equivalent jobs.

Support for Vulnerable Groups. The USG is assisting Colombians in areas that have been most ravaged by the drug trade. In total, 264 municipalities have benefited and 156 municipalities received assistance in delivering public services, including water, sewage, and electricity. To date, the USG has provided non-emergency support for over 2.7 million Colombians internally displaced by narcotics terrorism, including aid for over 3,200 former child soldiers. Nine peaceful-coexistence centers have been created in small municipalities to provide onsite administrative and

legal assistance, educational opportunities, and a neutral space for community meetings, discussions, and events.

Support for Democracy and Judicial Reform. With USG support, the GOC expanded access to justice for conflict- impacted communities, creating a national system of 45 “justice houses.” Through the Justice Sector Reform Program and rule of law assistance, the USG is helping reform and strengthen the criminal justice system in Colombia. DOJ, USAID, and other USG agencies have provided training, technical assistance, and equipment to enhance the capacity and capabilities of the Colombian justice system and to make it more transparent and credible. To date the DOJ Justice Sector Reform Program has provided training to 53,261 prosecutors, judges, criminal investigators, and forensic experts in Colombia.

Military Justice. Twelve teams of trainers from the DOD’s Defense Institute of International Legal Studies provided training to the Colombian Military Justice Corps prior to the passage of legislation that will change their system from paper-based to oral advocacy. Assistance was also provided to identify, measure effectiveness, and improve respect and understanding of human rights in the military. Reports of human rights abuses by the military are now a small percentage of the human rights cases reported each year in Colombia.

The Road Ahead. Challenges for 2007 include continuing to transfer to the GOC greater responsibilities in counternarcotics funding and operations currently supported by the USG, while maintaining operational results; countering the rapid replanting and pruning of coca in areas sprayed by the eradication program; addressing increased illicit cultivation in no-spray zones (e.g. Colombia’s national parks, indigenous reserves, and certain border areas); supporting the GOC’s efforts to demobilize and reintegrate ex-combatants, while advancing reconciliation and victim reparations processes; increasing the number of police to fill 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 supporting the Colombian people as they confront and defeat their internal enemies.

V. Statistical Tables

<i>Colombia Statistics 1997–2006</i>	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Coca										
Estimated Year End Cultivation (ha)		144000	114,100	113,850	144,450	169,800	136,200	122,500	101,800	79,500
Estimated Potential Pure HCl Production (mt)	Estimate not yet available	545	430	460	571	839	580	520	435	350
Aerial Eradication (ha)	171,613	138,775	136,555	132,817	122,695	84,251	47,371	43,246	66,366	41,843
Manual Eradication (ha)*	42,111	31,285	10,991							
Opium										
Estimated Year End Cultivation (ha)	Estimate not yet available	No USG estimate for 2005	2,100	4,400	4,900	6,540	5,010	5,000	4,050	6,600
Estimated Potential Pure Heroin Production (mt)			3.8	7.8	8.5	11.4	8.7			
Aerial Eradication (ha)	232	1,624	3,060	2,994	3,371	2,583	9,254	—	—	6,972
Manual Eradication (ha)*	1,697	497	1,497							
Seizures (metric tons)*										
Heroin	0.5	0.7	0.7	0.5	0.8	0.8	0.6	0.5	0.3	0.3
Opium			0.8	—	0.1	0.0	—	0.2	0.1	0.1
Cannabis	105.7	139.9	—	126.1	76.9	36.6	46.0	65.0	69.0	136.0
Cocaine Base/Paste	48.1	43.8	28.3	31.1	30.0	26.7	0.0	9.0	29.3	10.0
Cocaine HCl	130.2	179.0	138.6	114.0	94.0	57.3	69.0	22.7	54.7	34.0
Total Cocaine HCl/Base	178.3	222.8	166.9	145.1	124.0	84.0	69.0	31.7	84.0	44.0
Drug Laboratories Destroyed*										
Cocaine HCl	205									
Cocaine paste/base	1,952									
Heroin	9									
Total labs destroyed	2,166	1964								
Drug Related Arrests*										
	64,123	82,236	63,791	—	15,868	15,367	8,600	—	1,961	1,546
*Data are provided by Colombia's National Drug Observatory										

Ecuador

I. Summary

Situated between two of the world's largest illicit drug producers, Ecuador is a major transit country for illicit drugs. In 2006, authorities, for the first time, took down three cocaine laboratories capable of refining multi-ton quantities of cocaine. Cocaine and heroin from Colombia and Peru are trafficked by land and sea to Ecuador's air and seaports for international distribution in volumes ranging from ingested individual loads of a few hundred grams to multi-ton sea shipments. Traffickers exploit Ecuador's porous land borders, maritime ports, and its vast Exclusive Economic Zone in the Pacific. The growth of drug production by Colombian armed insurgent groups has rendered Ecuador's northern border particularly vulnerable to illicit trafficking and production. Similarly, successes against Colombian drug transport organizations have forced them to shift tactics to load drugs onto Ecuadorian vessels at sea without having crossed Ecuadorian soil.

Counternarcotics results for Ecuador were mixed in 2006. Cocaine seizures were down, while seizures of heroin and precursor chemicals continued at high levels. To address the growth in seaborne trafficking, the U.S. and Ecuador agreed to boarding procedures to facilitate maritime interdiction. Uneven implementation of the criminal procedures code and a faulty judicial system hampered prosecutions.

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 remain weak and easily evaded. The National Police (ENP) and military forces have neither personnel nor equipment adequate to meet all of the international criminal challenges they face.

Authorities have found and eradicated coca cultivation occasionally in widely scattered, sparsely planted small plots. Coca base, cocaine hydrochloride (HCl) and heroin from Colombia and Peru are distributed internationally through Ecuador's sea and airports in volumes ranging from a few hundred grams to multi-ton loads. The practice of shipping drugs via international mail and messenger services continued at a high level in 2006. There has been a dramatic increase in the use of Ecuadorian-flagged mother ships carrying drugs since 2004. The U.S. is working with Ecuador to facilitate effective law enforcement regarding interdiction of suspected vessels and the judicial treatment to be accorded persons engaged in illegal trafficking.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The reorganization and re-staffing of the National Drug Council (CONSEP) continued in 2006. Efforts also continued to revise the basic anti-drug law, Law 108, to harmonize it with the new money laundering law. CONSEP activity against trafficking in controlled precursor chemicals continued at a high level. However, CONSEP still is not funded at a level consistent with its broad responsibilities. Military and police forces generally cooperated at the local level, conducting some joint operations in 2006 to destroy illicit crops and seize precursor chemicals. The GOE continued to reinforce its security presence in the northern border area.

The Counternarcotics Directorate (DNA) of the National Police was increased from 1,385 to 1,500 members in 2006. 1,538 police and other judicial operators throughout the country received training in the implementation of the new code of criminal procedures. New DNA bases and

stations were opened with USG assistance in 2006 in El Oro Province at Puerto Bolivar (Machala) and Y de Jobo, and in Pichincha Province at Santo Domingo de los Colorados.

Accomplishments. Ecuadorian authorities arrested 3,327 people for drug trafficking in 2006. While many arrests result in convictions, prosecutions in general are impeded by problems in the judicial system, such as lengthy trial delays and persistent confusion over proper implementation of the 2001 Code of Criminal Procedures. Total seizures in 2006 were 38.16 metric tons (mt) of cocaine, 410 kilograms (kg) of heroin and 1.10 mt of cannabis. By comparison, in 2005 the GOE seized 44.68 mt of cocaine, 230 kg of heroin, and 640 kg of cannabis. A total of 2.74 million gallons of drug precursor chemicals were seized in 2006, but there still have been no prosecutions.

Law Enforcement Efforts. Ecuadorian law enforcement agencies cooperated well with U.S. and certain other foreign law enforcement agencies in 2006. Maritime cooperation increased in response to a surge in maritime smuggling out of Ecuador. Ecuadorian cooperation with Colombia to address border issues has depended more on accommodation between local commanders than on GOE policy. Ecuador does not extradite its nationals, but it is taking steps with USG assistance to establish a rapid method to confirm the validity of national ID cards (*cedulas*) of individuals detained on drug smuggling vessels on the high seas and claiming Ecuadorian citizenship to avoid extradition.

By law, seized assets cannot be forfeited until the owner is convicted of a drug offense and a judge orders their forfeiture. Judges commonly delay issuing forfeiture orders and problems arise in safeguarding the assets pending forfeiture. Real estate, vehicles, and other personal property have historically been used by government agencies or officials while awaiting forfeiture, and have depreciated during the interim. The responsible governmental agency, CONSEP, endeavored to curb this practice in 2006 by enforcing inventory controls. In 2006, CONSEP sold two forfeited real properties as well as several forfeited items of personal property.

Corruption. Ecuadorian law criminalizes the illicit production or distribution of drugs or other controlled substances, as well as the laundering of drug money. The 1990 drug law (Law 108) provides for prosecution of any government official who deliberately impedes the prosecution of anyone charged under that law. Some elements of other official corruption are criminalized in Ecuadorian laws, but there is no comprehensive anti-corruption law. There were no known allegations of, or prosecutions for, drug-related official corruption in 2006. However, a bribery scandal that rocked the Supreme Court late in the year, although it did not involve a drug case, served as evidence that such corruption could be possible.

Agreements and Treaties. The United States and Ecuador are parties to an extradition treaty, which entered into force in 1873, and a supplement to that treaty which entered into force in 1941. Ecuador is a party to the 1962 Single Convention on Narcotics Drugs and the 1972 amending protocol, the 1971 Convention of Psychotropic Substances, and the 1988 UN Drug Convention. It is also a party to the 1992 Inter-American Convention on Mutual Assistance in Criminal Matters, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime and its protocols on trafficking and migrant smuggling. The GOE 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. The GOE and the USG has agreements on measures to prevent the diversion of chemical substances, on the sharing of information on currency transactions over \$10,000, and a Customs Mutual Assistance Agreement with the GOE.

Cultivation/Production. From January through August 2006, Ecuadorian military and police forces located and destroyed approximately 114,000 cultivated coca plants in small, scattered sites near the Colombian border. Half of these were seedlings rather than mature plants. (For comparison, 30,000 plants are equivalent to one hectare of plantings in Bolivia.) While not

commercially significant, this was nearly three times greater than the eradication total for 2005, which in turn was about double the 2004 total. The increased eradication may result, at least in part, from expanded patrol activity. However, it might also indicate a greater use of Ecuadorian territory by Colombian growers, especially for seedbeds.

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

Petroleum ether or "white gas," declared a controlled substance by CONSEP in June 2003, is 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, closed down the principal diversion points but seized 122,820 liters of the chemical in the first ten months of 2006, as traffickers found other vulnerable points in more remote oil fields near the Colombian border. The USG and the Government of Ecuador have a bilateral agreement under which the Drug Enforcement Administration (DEA) notifies CONSEP in advance of pending chemical shipments. These notices are passed on to port inspectors, who seize all controlled chemicals which enter the country without proper documentation or when the quantity surpasses that which was authorized by CONSEP.

Demand Reduction. Coordination of abuse prevention programs is the responsibility of CONSEP, which has reinvigorated a multi-agency national prevention campaign in the schools and expanded programs in 2006 to municipalities, reaching some 70 municipalities thus far. All public institutions, including the armed forces, are required to have abuse prevention programs in the workplace.

Regional Coordination. While substantial friction exists between Colombia and Ecuador on counternarcotics policies, GOE officials met frequently with their Colombian counterparts concerning border issues. Senior GOE officials have complained to the Government of Colombia (GOC) and to international organizations that Colombian aerial eradication near the border harmed humans, animals, and crops on the Ecuadorian side. In late 2005, the GOE lodged official complaints with the OAS and the UN, and, in response, the GOC declared a temporary spray moratorium in a ten-kilometer-wide zone along the border -- a zone that soon contained Colombia's greatest concentration of coca plantings. The OAS refused to investigate, citing the contrary evidence of its own CICAD study. The UN sent a team of experts in February 2006 in response to the GOE's request. The team's report offered several possible studies for assessing the environmental and health impacts of the spray mixture, while noting the need to improve access to health and other basic services in the Ecuador-Colombia border region. The report was delivered to the GOE in late spring 2006. Colombia resumed spraying in the ten-kilometer zone in December 2006.

Alternative Development. In 2006, UDENOR, the Ecuadorian agency for northern border development continued its implementation of the government's northern border development master plan aimed at preventive alternative development. Illicit crop cultivation is not currently significant in the area but is a severe problem in the immediately adjacent region of Colombia. The GOE and USAID developed new strategies for the northern border during 2006. UDENOR began more effective coordination with Foreign Ministry initiatives for a joint Colombia - Ecuador Border Integration (development) Zone.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. counternarcotics assistance is provided to improve the professional capabilities, equipment, and integrity of Ecuador's police, military, and judicial agencies and enable them to counter illicit drug activities more effectively. USG programs seek to increase awareness of the dangers of drug abuse and to disseminate proper information about abuse prevention through demand reduction programs.

Bilateral Cooperation. An initiative begun in 2001 that continued in 2006, seeks to improve the staffing, mobility, and communications of military and police forces in the northern border region. Resources were provided to the Ecuadorian Navy for expanded patrol and interdiction operations on Ecuador's northwestern coast and for in-port inspections. In August 2006, Ecuador and the U.S. agreed to procedures for boarding suspected smuggling vessels on the high seas. Cooperation between the USG and GOE agencies in 2006 resulted in several successful large-scale drug interdiction operations. The U.S. Customs and Border Protection Agency provided technical guidance and assistance to Ecuadorian Customs and National Police; from 2004 to 2006, approximately 1,914 officials received training in firearms use, canine handling, cargo processing, examination techniques, risk assessment, document analysis, and security and safety procedures. In 2006 the USG also provided communications equipment, ground vehicles, and support to the drug-detection canine program. Judicial police who successfully completed a USG-provided course on the new penal code in 2002 were, in 2006, now training their colleagues. Major USG-funded projects began in 2006 to train police, prosecutors, and judges for their roles under the revised criminal procedures.

The USG worked with the Ecuadorian Army to ensure that they can rapidly move trained forces to counteract incursions by Colombian insurgents on the northern border. The Narcotics Affairs Section (NAS) and the US Military Group provided operational support, including field rations, fuel, uniforms, and other non-lethal field gear. Additionally, antinarcotics funds from the U.S. Departments of State and Defense were used to construct an antinarcotics police base in Lago Agrio, the capital of Sucumbios Province, which borders Putumayo Department, a major drug-producing area and a center of insurgent activity in Colombia.

The USG also provided operational support in 2006 to financial intelligence and investigative units being formed and trained in order to combat money laundering and financial crimes. With a dollarized economy and weak banking controls, bulk currency enters and leaves Ecuador with little or no control.

USG-funded programs administered by USAID and implemented primarily by the International Organization for Migration (IOM), the NGO CARE, Associates for Rural Development (ARD), and The Futures Group (TFG) contributed to the Ecuadorian Government's Northern Border development efforts. USAID's social and productive infrastructure program in 2006 built 37 water and sanitation systems and 21 bridges, roads and irrigation canals. Coffee and cacao are becoming the most successful alternative development crop clusters, increasing family incomes by 50 percent or more, and generating some 3,000 full time equivalent jobs in 2006. CARE conducted a program of local government strengthening and citizen participation in eight municipalities and 14 parishes, providing training in participatory budgeting, ethics, accountability and financial management, sustainability of municipal services, and strategic planning at the municipal and parish levels. Reliable data for the five municipalities that were later surveyed found positive changes in public trust and satisfaction where these activities were combined with infrastructure investments.

The Road Ahead. The U.S. and Ecuadorian governments are cooperating to improve interdiction of illicit drugs and chemicals and to improve Ecuadorian safeguards against terrorism and illegal migration, but more coordination and improvements are needed. The GOE needs to target drug trafficking organizations by arresting their leadership, seizing their assets, and disrupting their operations, as well as strengthen its military drug interdiction efforts along its sea and land borders.

Increasing counter-drug staffing and inspection capacity at all ports of entry: land, seaports, and airports will also enhance drug control efforts. 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 establishing, training, and equipping the new, autonomous Financial Intelligence Unit mandated by the comprehensive law against money laundering. In July 2006, USAID approved a new Alternative Development (AD) Strategic Objective, to cover the period 2007-2009, designed to constrain the appeal of illicit activities by strengthening the ability of local governments to promote economic and social development in Ecuador's six northern border provinces.

V. Statistical Tables

Tables for CY:	2006	2005	2004
Drug seizures (MT):			
Coca base	7.07	2.57	1.37
Cocaine HCl	31.09	42.11	2.95
Cocaine Total	38.16	44.68	4.32
Heroin	.41	.23	.35
Cannabis	1.1	.64	1.90
 Drug laboratories:	 3	 0	 0
 EC-flag vessels interdicted:	 6	 7	 4
 Total Arrests	 3,327	 2,752	 1,632

Domestic consumption (information not available)

Paraguay

I. Summary

Paraguay is a major transit country for illegal drugs, primarily cocaine. The Government of Paraguay (GOP), through its National Anti-Drug Secretariat, has taken serious steps to combat illicit trafficking of narcotic drugs by disrupting transnational criminal networks in close cooperation with international law enforcement agencies. In 2006, Paraguayan authorities arrested several major drug traffickers, including Arnaldo Moreira de Macedo, a major Brazilian trafficker, and seized \$1.5 million in assets (including a farm). Paraguay is a party to the 1988 UN Drug Convention.

II. Status of Country

Paraguay is a transit country for cocaine destined for Argentina, Brazil, Europe, Africa and the Middle East. Brazilian nationals, some of whom purchase cocaine from the Revolutionary Armed Forces of Colombia (FARC) in exchange for currency and weapons, head most trafficking organizations in Paraguay. As part of a long-term effort to improve and strengthen the National Anti-Drug Secretariat's (SENAD) operational capabilities in the northeast region of Paraguay, on August 22, SENAD opened a new office on Paraguay's border with Brazil. This new office represents an important step towards expanding its operational activities and further improving both its reach and effectiveness. Paraguay is also a significant producer of marijuana, which is primarily trafficked for consumption to neighboring countries in South America. It is cultivated throughout the country, but principally along the borders with Brazil and Bolivia.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2006, SENAD continued its public information campaign, seeking information on drug traffickers operating in Paraguay. The 2006 campaign generated helpful leads for SENAD and led to some arrests. Symbolically, the campaign has sent a strong message to traffickers that SENAD is serious in the fight against drugs and traffickers. In October 2006, the Paraguayan Congress approved funding for 50 new SENAD agents, nearly doubling the number of SENAD's operational personnel. The additional agents will be assigned to the new SENAD offices at the Paraguay-Brazil border. SENAD has also created an Internal Affairs Unit to combat internal corruption. This unit has investigated several claims of misconduct in 2006, suspending at least 11 employees without pay for periods of 5 to 30 days.

Accomplishments. In 2006, SENAD arrested several important drug traffickers—such as Arnaldo Moreira de Macedo, Ubiratan Brescovich and Marcelinho Niteroi—all of whom were major Brazilian traffickers. Several of these arrests occurred in a region notorious for drug trafficking, which had been effectively off limits for law-enforcement authorities. SENAD achieved the arrest of de Macedo with the assistance of Brazilian intelligence and the U.S. Drug Enforcement Administration (DEA) and seized \$1.5 million in assets (including a farm). SENAD estimated that de Macedo was trafficking approximately one ton of cocaine per month. Paraguay also carried out joint counternarcotics operations with other countries in the region and Europe.

During 2006, SENAD seized 493 kg of cocaine, 58,671 kg of marijuana (of both Paraguayan and Bolivian origin), 39 vehicles, three boats, one farm, and three planes. SENAD also destroyed 1,202 hectares of marijuana. According to SENAD reports, the total financial loss to narcotics traffickers in 2006 from these seizures was over \$39 million.

Law Enforcement Efforts. Since the opening of the new SENAD regional office in Pedro Juan Caballero (PJC), Paraguay has expanded its counter narcotics and investigative activities in the region, producing more arrests and seizures. In addition, SENAD opened two new regional offices in Salto la Guaira and Pilar, in the Departments of Canindeyu and Neembucu respectively. All these regional offices will enhance SENAD's presence, as they are strategically located near Paraguay's borders with Brazil and Argentina.

In 2006, SENAD's drug detection dog unit assisted in successful interdiction operations in the city of Mariscal Estigarribia—in the Department of Boqueron—and at Asuncion's Silvio Pettirossi International Airport. The dogs are used in the airport in Asuncion and other cities, checkpoints throughout the country, and along the Paraguayan-Brazilian border.

Asset Forfeiture. In 2006, the GOP received approximately \$36,000 in proceeds from the auction of a seized vehicle and other seized assets. Under Paraguayan law, SENAD received 70 percent of these receipts, or approximately \$25,000, with the remainder provided to the Attorney General's office. SENAD used a portion of these proceeds to buy a sonogram machine to examine individuals suspected of trafficking drugs by swallowing them. The rest of the funds will be used to equip SENAD agents with new tactical equipment.

Corruption. There is no evidence that the government or senior officials directly facilitate the distribution or production of narcotics or other controlled substances. Nevertheless, corruption and inefficiency within the Paraguayan National Police (PNP) and the judicial system negatively affects SENAD operations. Combating official corruption remains a considerable challenge for the GOP. In December 2006, Police Commissioner Aristides Cabral an alleged corrupt police official with strong ties to drug traffickers, was retired from active police service. Prosecutors from Paraguay's Anticorruption Unit opened a number of high profile corruption cases including one against Victor Bogado, the current President of the House of Deputies, and another against Humberto Galeano, an influential military official who had led the President's protection regiment. A case was also opened against Colorado Party Deputy Magdaleno Silva, who is allegedly linked to drug traffickers in the Departments of Concepción and Amambay and has been accused of involvement in the disappearance of a journalist who had issued strong attacks on drug traffickers in Concepción. Silva has denied all charges against him. Faustino Villalta, the Colorado party leader in PJC and a defense attorney for most major traffickers, was shot and killed by a gunman in front of his house in October. Villalta's son remains in jail on charges relating to his arrest in June for involvement in trafficking 195 kg of cocaine.

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 a 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. In 2002, the USG signed a Customs Mutual Assistance Agreement with the government of Paraguay. This agreement provides a basis for the exchange of information to prevent, investigate and redress any offense against the customs laws of the United States or Paraguay. An extradition treaty entered into force between the U.S. and Paraguay in 2001. The 1987 bilateral letter of agreement under which the government of United States provides counternarcotics assistance to Paraguay was extended in 2006.

Cultivation/Production. Marijuana is the only illicit crop cultivated in Paraguay, primarily in the departments of Amambay and San Pedro in the eastern region of the country, and is

harvested throughout the year. Marijuana production has increased, spreading to nontraditional areas of the country. SENAD destroyed 1,202 hectares of marijuana plants in 2006, an increase of 202 hectares over 2005 (enough to produce three metric tons of marijuana) out of an estimated 5,500 hectares under cultivation.

SENAD is responsible for controlling drug precursor chemicals. Paraguay has no drug precursor laboratories; precursors are trafficked through Paraguay generally in route from Brazil to Bolivia. Laws regulating precursors are adequate but resources to implement them are lacking. In 2006, SENAD seized several tons of precursor chemicals including a June seizure of 15,380 kg of acetone and 7,440 kg of isopropyl alcohol.

Drug Flow/Transit. Paraguay remains a transit country for cocaine from Bolivia, Peru and Colombia. The cocaine is destined for Brazil, Argentina, Europe, Africa and the Middle East. Paraguay's porous borders—the product in large measure of poor border controls and its vast, relatively unmonitored region called the Chaco—in the northwestern part of the country, make it an attractive place for traffickers to transship narcotics and weapons. 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. SENAD's Office of Demand Reduction (Prevention Unit) does significant outreach work, primarily in schools in the Central Department. SENAD has the principal coordinating role under the "National Program Against Drug Abuse" and works with the Ministries of Education and Health and several NGOs. In 2006, the Prevention Unit held 1,409 drug awareness workshops in 167 schools reaching 43,482 people including students, parents and teachers. In June 2006, SENAD released its latest national study of the prevalence of risk factors associated with the consumption of drugs in school-aged children, ages 12 to 17. A survey, conducted for the study in the form of a standardized test at public and private schools, showed that children in all cities surveyed consumed alcohol most frequently, followed by cigarettes, sedatives and marijuana. Abuse of cocaine remains minimal, with only 0.7 percent of the population surveyed having ever tried it.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. USG programs and policies in Paraguay focus on the disruption of narcotics trafficking. The U.S. also provides training, equipment and technical assistance, supports efforts against money laundering, and sponsors projects to combat public corruption. In addition to providing funding for SENAD's new operations center in Pedro Juan Caballero, in 2006 the USG provided funding for SENAD Agents to attend police academies in Brazil and Bolivia, for advanced training. The USG provided funding and logistical assistance for the creation of Paraguay's first Intellectual Property Rights (IPR) manual, which provides standard guidance to prosecutors and judges who handle IPR infringement cases. The USG also provided a Resident Legal Advisor in Asuncion, to advise the GOP in the creation of its anti-money laundering and anti-terrorism legislation.

The Road Ahead. The USG will continue to support strengthening the technical and operational ability of SENAD to conduct complex criminal investigations. The USG will also continue to support Paraguayan efforts to undertake operational activities to decrease the flow of drugs through Paraguay and arrest major trafficking figures and otherwise disrupt trafficking networks. The U.S. will support a helicopter pad and support facilities scheduled for completion in 2007 on Paraguay's border with Brazil. Paraguay's commitment to dedicate two helicopters to this facility should significantly enhance SENAD's operational effectiveness. Although the GOP had great success against narcotics traffickers in 2006, it needs to increase

its efforts in related areas and fulfill its international obligations, by adopting the anti-money laundering and anti-terrorism legislation that has been pending for two years in the Congress.

V. Statistical Tables

	<u>2006</u>	<u>2005</u>
Cocaine seized	493 kg	489 kg
Marijuana seized	58,671 kg	66,964 kg
Marijuana crops destroyed	1,202 ha	1,000 ha

Peru

I. Summary

Peru's national, regional, and municipal elections created uncertainty and provided a volatile political backdrop to counternarcotics strategies in 2006. The election of several new cocalero members of Congress raised the profile of the debate surrounding coca cultivation and amplified the voice of an organized, well-funded and often violent opposition from politically active cocalero groups working to stop eradication and to undermine alternative development.

In FY 2006, the Government of Peru (GOP) eradicated 12,688 hectares (ha) and interdicted over 19 metric tons (mt) of cocaine. Peru also made significant progress in strengthening police capacity east of the Andes by training 750 new police dedicated to counternarcotics. Their entry on duty will allow the Peruvian National Police (PNP) to sustain interdiction and eradicate coca cultivation in valleys where growers have violently resisted programmed eradication. The Alternative Development (AD) program offered assistance to farmers' programmed eradication. This direct link between AD and programmed eradication has proved to be a major success and model for subsequent AD project implementation.

The terrorist group Shining Path/Sendero Luminoso (SL) openly identified with coca growers and drug traffickers in the Upper Huallaga Valley (UHV) and Apurimac and Ene River Valleys (VRAE) and engaged in violent ambushes of police and intimidation of alternative development teams in coca growing areas. GOP demand reduction efforts created a greater public understanding of the close linkage between illegal coca cultivation and the hugely negative impact of narcotics trafficking on Peru and its people. Peru is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2006, the GOP planned and mounted an aggressive eradication campaign in the Upper Huallaga Valley (UHV) in the San Martin Department. The return to the Huallaga after successful eradication operations there in 2005 was designed to deal coca growers a second blow and demonstrate that replanting would be eradicated. This operation caused a delay of as much as twelve to fifteen months between harvests in some areas.

Though fewer deadly attacks in 2006 were linked to SL than in 2005, evidence continues to indicate stronger links between the SL and coca growers. This includes SL members providing protection for coca transporters and cocaine base processing and in some cases directly participating in processing cocaine base.

Peru is also a major importer of precursor chemicals for cocaine production. In 2006, the PNP Chemical Investigations Unit (DEPCIQ) initiated Operation Chemical Choke to deny and disrupt illicit diversion of sulfuric acid and hydrochloric acid.

III. Country Actions Against Drugs in 2006

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

Following the passage of a precursor chemical control law and regulations in late 2005, operational work began in 2006 with key ministries to identify requirements and begin building and integrated

precursor chemical user registry that will enable all relevant government entities to exercise control and make arrests and seizures based on real time information.

Law Enforcement Efforts. In 2006, the GOP made significant strides in investigating and dismantling major Colombian and Mexican drug trafficking organizations and attacking drug-processing sites in key growing areas of the UHV and VRAE. The Peruvian National Police Narcotics Directorate (DIRANDRO) mounted operations in the UHV and VRAE, destroying 684 cocaine base laboratories, over 88 MT of coca leaf and 19 tons of precursor chemicals. The GOP conducted operations on land, sea, and air to disrupt the production and transshipment of cocaine. Peruvian law enforcement authorities seized 14.66 mt of cocaine HCl and 5.11 mt of cocaine base in these operations. Additionally, the GOP seized 104 kg of opium latex and 1.71 kg of heroin.

The PNP operates Basic Training Academies at Santa Lucia and Mazamari Police Bases, located in two coca-growing areas. In January, the PNP established a third Training Academy in Ayacucho. Recognizing that applicants from coca growing areas encountered difficulties passing written entrance exams to enter police academies, NAS, in coordination with the Peruvian National Police, provided a grant to establish Pre-police Basic Training Academies. The increase of DIRANDRO personnel in the source zones has contributed to more effective eradication and interdiction operations.

A PNP Canine Training Program has been implemented with support of U.S. Customs. The trained PNP officers were assigned to mobile teams in the Ayacucho area to deter the flow of precursor chemicals destined for cocaine laboratories in the Apurimac/Ene Valley. These operations resulted in a 300 percent price increase in the price of these chemicals in the illicit market. Additionally, as part of the Canine Training Program, PNP canine teams are being trained to detect improvised explosive devices (IEDs) in open fields where eradication and helicopter operations take place and to support mobile road interdiction units to detect precursor chemicals, drugs and money transiting through the source zones.

An Advanced PNP Officers Tactical Operations Training School is being established in Santa Lucia. The training will be designed to enhance leadership abilities and tactical operation skills of junior officers who will command newly graduated police from the PNP/NAS basic training academies.

The PNP also cooperated with neighboring countries and in Operation Seis Fronteras, a regional chemical interdiction operation aimed at seizing chemicals in the production of illicit drugs, primarily cocaine and heroin. Over a 45-day period, PNP/DEPCIQ recorded seizures of precursor chemicals totaling approximately 175 metric tons.

Maritime/Airport Interdiction Programs. Peruvian Customs has focused on improving its access to information and intelligence to better target interdictions, and on technology and equipment to conduct more effective and efficient searches. Customs (SUNAT) and the Police Manifest Review Unit (MRU) have implemented a new link analysis and cataloging software that allows the tracking of a company's history, export trends, and timing of shipments, as well as personnel associated with multiple companies. SUNAT enacted a new Export Control System that changes export notification requirements for shippers and provides SUNAT with detailed manifests with container numbers, greatly enhancing the information available for targeting cargo searches. SUNAT began using a container scanner in Callao maritime port, and a second is planned for the northern port of Paita. Authorities use a personnel x-ray scanner at Lima's airport to screen people carrying weapons and identify internal drug carriers (swallowers). In 2006, 11.82 mt of cocaine of the national total of 19.77 mt were seized in maritime and airport interdictions.

The NAS funded the purchase and training of seven narcotics detector dogs, whose handlers also received training at CBP's Canine Training Center in Virginia. In July, based on Peruvian law

enforcement information, the U.S. Coast Guard (USCG) located and seized the Peruvian-flagged fishing vessel (F/V) CECI in international waters, an example of DTOs pushing further south and exploring the option of utilizing Peruvian flagged vessels to transport illicit drugs through the transit zone.

Cultivation/Production. DEVIDA adopted the United Nation's 2005 estimate of 48,200 ha of coca under cultivation in Peru, which produces a potential annual harvest of approximately 110,000 mt of coca leaf. However, in 2005, the USG estimates 38,000 ha of coca cultivation, of which 4,000 are in new measured areas. This represents a rise of 23 percent in the traditional cultivation areas and 38 percent overall. According to the Peruvian Institute of Statistics and Information (INEI), approximately 4 million Peruvians use up to 9,000 mt of coca leaf for legal purposes each year, leaving approximately 100,000 mt of coca leaf available to produce an estimated 190 mt of cocaine annually.

Drug Flow/Transit. 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 Colombia. Maritime smuggling of larger cocaine shipments is one of the primary methods of transporting multi-ton loads of cocaine base and cocaine. U.S. law enforcement and counterparts from Australia, Hong Kong, Japan, Malaysia, and Thailand report that Peruvian trafficking organizations operate in the Far East.

Opium Poppy. In CY 2006, the PNP seized over one million opium poppy plants, (approximately 88 ha), thanks in part to a nationwide drug-tip hotline. Opiate trafficking is primarily concentrated in the northern and central parts of the country, as well as the Huallaga and Apurimac Valleys. Opium latex from Peru is shipped by land to Ecuador and Colombia for production of morphine base and heroin. In 2006, DIRANDRO seized 104 kg of opium latex.

Eradication. In 2006, CORAH surpassed the GOP goal of 10,000 hectares for programmed eradication, the second year in a row that they exceeded the goal. The primary reasons for the success in the eradication campaign were the resolve of the police to hold their ground against cocalero threats, the flexibility of aviation assets to change tactics as situations dictated, and the understanding on the part of CORAH workers that they were eliminating cocaine, not coca. Using the Cocaine Production Avoided (CPA) formula approved by the GOP and USG in 2006 CORAH helped keep the equivalent of 25.8 metric tons of cocaine from market.

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.

Extradition and Mutual Legal Assistance. The United States and Peru are parties to an extradition treaty that entered into force in 2003. Among the U.S. extradition and provisional arrest requests to Peru in 2006, nine were related to narcotics trafficking. Five of these have been approved, but surrender is pending completion of judicial and penal processes in Peru. In his inaugural address, President Garcia pledged to expedite extraditions of Mexican narcotics terrorists. A Department of Justice delegation visited Peru in 2006 to discuss ongoing extradition requests and improve the efficiency of the process, including permitting defendants to be temporarily surrendered to the United States to stand trial. The United States and Peru are also parties to multinational mutual legal assistance conventions that permit the exchange of evidence and information, including the 1988 UN Drug Convention and the 1992 Inter-American Convention on Mutual assistance in Criminal Matters. While the United States does not frequently utilize these agreements with Peru, one request for assistance in a narcotics matter was pending in 2006.

Judiciary, Congress and Legislation. In April, over half a dozen candidates with strong ties to coca growers were elected to Congress and formed an informal legislative bloc. Judge Saturno Vergara, who was trying members of the Tijuana Cartel, was assassinated on July 19. The assassination was widely condemned by civic leaders and the press, and the trial resumed after new judges were appointed to oversee it.

Domestic Programs/Demand Reduction. A public opinion poll conducted in Lima and five cities in coca-growing regions in 2005 indicated that the Peruvian public is greatly concerned about the extent of influence of narcotics traffickers over public institutions, and believes that both the Peruvian Government and the Congress must do more to defeat narcotics trafficking. Over 77 percent of those polled recognized that most coca leaf is destined for narcotics trafficking and over 90 percent of respondents thought that drug trafficking is a problem that affects both Peru and other countries. The change in Peruvian perceptions about coca growing and the complicity of coca farmers in narcotics trafficking is to a great extent due to multiple U.S. and GOP efforts to inform the public debate in the press, via television and radio, and among Peruvian government officials. Despite this change in perception, surveys continue to show that illegal drug use is increasing at all levels of society since drugs are inexpensive and easy to obtain.

The U.S. funds local NGOs in the development of six community anti-drug coalitions (CAC) targeting poor communities in Lima. The U.S.-based NGO Community Anti-Drug Coalitions of America (CADCA) is assisting in the adaptation of the CAC model to the realities of Peruvian society (e.g., high levels of poverty weak institutions, and corruption). Peruvian communities have participated with enthusiasm in CACs, donating their time and resources for projects. The CAC model emphasizes the participation of all sectors of the community in long-term, sustainable activities to reduce drug use.

Alternative Development (AD) Program. The alternative development program in Peru has achieved sustainable reductions in coca cultivation through a multi-sectoral approach that increases the economic competitiveness of coca-growing areas while improving local governance and working to change perceptions and behaviors of coca farmers for the long term. At the close of its fourth year, over 53,700 families have committed to the voluntary eradication program, substantially eradicating a total of over 13,300 ha of coca in their communities. In FY 2006 alone, over 17,000 families joined the voluntary eradication program, pulling up 3,717 ha of coca. Assistance to the licit economy in alternative development areas resulted in approximately \$5 million of additional sales where voluntary eradication is taking place and approximately \$20 million in other regions.

Additionally, in the final months of FY 2006, the development and law enforcement components of the USG counternarcotics program launched a post-programmed eradication alternative development program in the area of Tocache. With tailored alternative development programs to keep communities from replanting coca, 1,954 families in 39 communities signed up in the last three months of the fiscal year despite a tenuous start.

IV. U.S. Policy Initiatives and Programs

Bilateral and Multilateral Cooperation. Recognizing that national borders do not hinder drug trafficking organizations, Peru's law enforcement organizations have participated in joint operations and shared drug intelligence with other countries. In Operation Amazonas, the PNP conducted a joint operation with Ecuadorian National Police. The PNP attended International Drug Enforcement Conferences (IDEC) in Canada and Europe. This IDEC conference brought together law enforcement representatives from Central and South America, Europe and the Far East, Andean nations as well as Brazil, Panama and the U.S. The conference highlighted counter narcotics initiatives and issues including money laundering, as well as growing problems with

narcotics terrorism. Peru is actively participating in Counternarcotics Officer Exchange Programs with Bolivia, Brazil, and Ecuador to enhance cross-border drug enforcement efforts.

The USG is funding a study of opium poppy, to be conducted by the local United Nations Office Against Crime and Drugs and the Assistance Corps for Alternative Development (CADA), to determine the best way to detect opium poppy fields, if they exist, in Peru.

Regional Aerial Interdiction Initiative Program (RAII). Under the 2005 Cooperating Nation Information Exchange System (CNIES) Agreement the Military Assistance and Advisory Group (MAAG) is coordinating and conducting CNIES training for Fuerza Aerea del Peru (FAP) personnel. In addition, MAAG and the FAP are cooperating on establishing radar coverage for aerial trafficking routes. The new FAP Joint Anti-Drug C-26 Air Squadron, supported by NAS, has conducted CN reconnaissance and airlift east of the Andes. The C-26 Forward Looking Infrared camera (FLIR) has been used to map suspected clandestine runways

The Road Ahead. The USG and GOP CN efforts are focused on prevention, interdiction/eradication, and alternative development. The GOP's 5-year CN strategy emphasizes control and interdiction of precursor chemicals, seizures, reduction in coca cultivation, enforcement of money-laundering laws, reduction in drug use, and improvement in economic conditions to reduce dependency on coca cultivation.

An integral part of the CN strategy, effective interdiction is dependent on the GOP's ability to put a sufficient number of trained police personnel into the coca-growing regions. The USG will assist in increasing CN police presence east of the Andes to 2,800 personnel by the end of 2008, help improve security at air and seaports thereby directly contributing to U.S. national security, and continue basic and specialized courses at the three academies. Specialized U.S.-based training will also be provided to enhance the capacity of PNP and further the nationalization of the aviation support program.

USG efforts will also require the continuation of the alternative development program, which directly supports the interdiction and eradication programs by introducing alternative development into areas seeking alternatives to coca cultivation. Additionally, the USG will work with NGOs, universities and media to sustain an anti-drug and education campaign and expand presence and influence in coca-growing regions. While USG financial assistance is crucial to the implementation of these programs, continued political-will of the GOP is essential if they are to be successful.

V. Statistical Table

	2006	2005	2004
Coca Net Cultivation (ha)	TBD	38,000	27,500
Eradication Total (ha)	12,688	12,232	10,338
-Programmed (ha)	10,137	8,966	7,605
-Voluntary (ha)	2,551	3,266	2,733
Leaf (Potential Harvest, mt)	TBD	62,500	54,200
HCl (pure, mt)	TBD	165	145
Cocaine Production Averted by Programmed Eradication	TBD	N/A	N/A
Seizures (mt)			

-Coca Leaf	88	1,558	.915
-Cocaine Base	5.11	4.57	6.34
-Cocaine HCl	14.66	11.58	7.30
-Total Cocaine	19.77	16.15	13.64
-Opium Latex (kg)	104	505	285
-Heroin (kg)	1.71	8	.91
Aircraft Items	0	0	0

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 2006

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 2006, 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 kg of marijuana was seized, while the amount of cocaine seized more than doubled from 2004 to 76.3 kg. The total amount of LSD seized decreased from 100 doses in 2004 to only one dose in 2005. In 2005, 15.5 kg 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 one of the principal drug-transit countries in the Western Hemisphere. Counternarcotics successes in Colombia are causing a shift in trafficking patterns toward neighboring countries like Venezuela, whose geography, rampant high level corruption, weak judicial system and lack of international counternarcotics cooperation are increasingly enabling a growing illicit drug transshipment industry.

During 2005, the GOV indicated that counternarcotics cooperation with the United States would be contingent on the signing of an addendum to a 1978 USG-GOV Bilateral Counternarcotics Memorandum of Understanding (MOU). While the USG did not agree that the addendum was essential to ensuring appropriate counternarcotics cooperation, in the interests of maintaining a coordinated effort, the USG negotiated a mutually acceptable version of the addendum and has been prepared to sign it since December 2005. However, GOV authorities have refused to schedule the signing, while still refusing to permit normal counternarcotics cooperation until the addendum is signed.

Meanwhile, organized crime is flourishing, and seizures and arrests are limited to low-level actors. Given the Venezuelan government's refusal to cooperate, the President determined in 2006, as in 2005, that Venezuela failed demonstrably to adhere to its obligations under international counternarcotics agreements and take the measures set forth in U.S. law.

Despite the GOV's refusal to cooperate, the Drug Enforcement Administration (DEA) has continued working with its law enforcement contacts, developing information and leads that resulted in several multi-ton seizures in 2006 outside Venezuela. Seizures of illicit drugs within Venezuela dropped sharply in 2006, while seizures by other countries of drugs coming out of Venezuela more than tripled. There is no evidence that the GOV has sought to formalize and expand its cooperation on counternarcotics with other key countries affected by drugs transiting from Venezuela. Venezuela is a party to the 1988 UN Drug Convention.

II. Status of Country

A remote and poorly secured 2,200-kilometer border 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 exploited a variety of routes and methods to move hundreds of tons of illegal drugs through Venezuela. These routes include the Pan-American Highway, the Orinoco River, the Guajira Peninsula, and dozens of clandestine airstrips.

The USG estimates that over 200 metric tons (MT) of cocaine transit Venezuela annually. Cocaine is smuggled from Venezuela to the U.S. and Europe in various quantities via maritime cargo containers, fishing vessels, go-fast boats, and private aircraft deploying from clandestine airstrips. USG estimates of the amount of cocaine moving on these private aircraft have increased from 25 MT in 2004, to 50 MT in 2005, and to 66 MT in 2006. Additionally, cocaine and heroin continue to be routinely smuggled through Venezuela's commercial airports. Drugs destined for the United States from Venezuela are shipped through Central America, Mexico, Haiti, the Dominican Republic and other Caribbean countries. Drugs destined for Europe are shipped through West Africa, notably Guinea and Guinea Bissau. Multi-kg shipments of cocaine and heroin are also mailed through express delivery services to the United States. Colombian guerrilla and paramilitary organizations, including the Revolutionary Armed Forces of Colombia (FARC) and the National

Liberation Army (ELN), move through parts of Venezuela without significant interference from the Venezuelan security forces.

Because of the permissive and corrupt Venezuelan environment, and the success of Plan Colombia in neighboring Colombia, traffickers have set up operations to transship illicit drugs through Venezuela to the eastern Caribbean, Europe, Africa and the United States. Venezuelan traffickers have been arrested in The Netherlands, Spain, Ghana, the Dominican Republic, Mexico and other countries. In 2006, traffickers shifted their go-fast boat routes to the “edges of Colombia” to access Venezuelan and Ecuadorian waters and avoid the interdiction units of the Colombian Navy and CNP. Thanks to the Air Bridge Denial program in Colombia, small aircraft air routes have undergone a similar shift, with more air smuggling now involving short-hop flights from and to Venezuela. In 2003, there were 637 suspected and known illegal flights over Colombia. In 2006, there were only 171, a decrease of more than 70 percent. However, that decrease was mitigated in 2006 by a marked increase in suspect and known illegal flights from Venezuela to Caribbean transshipment points, particularly Haiti and the Dominican Republic, which are ill equipped to address the violence and corruption which often afflict major drug transshipment countries.

III. Country Actions against Drugs in 2006

Policy Initiatives. There were no new counterdrug policy initiatives by the GOV in 2006, and there is no evidence that Venezuela's political and judicial institutions vigorously and impartially implemented the two important laws promulgated in October 2005 that brought Venezuela law into line with the 1988 UN Drug Convention. The country's Financial Intelligence Unit is not independent, and conspiracy to traffic in drugs has yet to be criminalized. These shortcomings must be addressed if Venezuela is to effectively investigate and prosecute criminal organizations and government officials involved in trafficking at every level.

Law Enforcement Efforts. In general, Venezuelan police and prosecutors do not have adequate training or tools to carry out investigations properly. The public has little faith in the judicial system due to ineffective criminal prosecutions, politicization, and corruption. Honest prosecutors often shrink from taking on narcotics cases, wary of the pressures and corrupt practices that are often linked to these proceedings. At the judicial level, prisoners miss hearings if unable or unwilling to pay guards to escort them, which may delay cases by months. In addition, judges may delay hearings on, or recuse themselves from, cases with political interest.

Precursor Chemical Control. The GOV did not participate in the 2006 Operation Seis Fronteras, an annual USG-supported chemical control operation that normally includes Venezuela, Colombia, and other neighboring countries. In 2006 The Ministry of Light Industry and Commerce, under provision of the “Law Against the Trafficking and Consumption of Narcotics and Psychotropic Substances,” established a National Registry to monitor precursor chemicals. Ministry officials are confident the registry captures the import and export of all lawful shipments of precursor chemicals. The Ministry, however, lacks personnel trained to recognize the possible diversion of precursor chemicals, an automated system to track and identify irregularities, and the resources needed for regular and spot inspections.

Demand Reduction. The 2005 “Law Against the Trafficking and Consumption of Narcotics and Psychotropic Substances” mandates that companies having more than 200 workers donate one percent of their profits to what is now the National Anti-Drug Office (ONA), which would in turn transfer those funds to demand reduction programs carried out by NGOs who have been approved by the ONA. This represents a significant departure from how the program functioned under the ONA's predecessor organization (The National Commission Against Illegal Drug Use, or CONACUID), wherein companies made donations directly to CONACUID-approved NGO's. The ONA's implementation of the law has been slow and cumbersome. The number of NGOs working on demand reduction and rehabilitation programs has declined as a result, and the GOV has no

other programs in place. Several NGOs that were denied ONA's certification claim the decision was politically motivated. NGOs receiving assistance from the USG are closely scrutinized. Several legal challenges to the requirement that funds be donated directly to ONA have frozen that donation process. As a result, companies have postponed making donations, either to ONA or to NGOs, until the statutory requirement is clarified. Many NGOs have shut their doors for lack of funding. The GOV does not track statistics on drug abuse/treatment, with the exception of a 2005 ONA survey, which suggested that drug abuse among Venezuelan youth was decreasing. However, the veracity of that survey is uncertain, and other reports suggest that in fact drug abuse is on the rise.

Corruption. Public corruption continued to plague Venezuela in 2006. U.S. Embassy officials report that Venezuelan security forces often facilitate or are themselves involved in drug trafficking. Press and intelligence reports suggest that, within the security forces, the most likely to be involved in drug trafficking are the special counternarcotics units of the National Guard and the Federal Investigative Police. For instance, in 2006, a plane and part of its crew were seized in Mexico with over five MT of cocaine packed in 128 suitcases. The plane's flight plan revealed that it had traveled directly from Caracas' Simon Bolivar International Airport at Maiquetia. Sources revealed that the National Guard in fact had loaded the suitcases while it sat on the tarmac at Maiquetia. Security forces at the airport routinely take bribes in exchange for facilitating drug shipments. Seizures are most likely to occur when payoffs have not been made. Also, there is evidence that even when seizures occur, the drugs are not always turned over intact for disposal, and seized cocaine is returned to drug traffickers.

There have been instances in which GOV officials facilitated the operations of known traffickers and/or members of Foreign Terrorist Organizations (FTOs). In June 2006, accused drug trafficker Jose Maria Corredor escaped from the GOV's Internal Security Directorate (DISIP). GOV law enforcement officials had arrested Corredor in Caracas in October 2005 at the request of the USG. Venezuelan courts refused to authorize his extradition because the USG could not guarantee that he would not receive a sentence in excess of 30 years. The GOV admitted that several DISIP officers facilitated Corredor's escape.

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 and the United States are parties to a Mutual Legal Assistance Treaty that entered into force in March 2004. 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 bilateral agreements with the U.S., including a 1991 ship-boarding agreement updated in 1997, a 1978 Memorandum of Understanding concerning cooperation in narcotics, and a customs mutual assistance agreement. The GOV continues to honor the provisions of its ship boarding agreement, authorizing the USG to board suspect Venezuelan flagged vessels on the high seas.

Extradition and Mutual Legal Assistance. The United States and Venezuela are parties to an extradition treaty that entered into force in 1923. The more recent Venezuelan constitution bars the extradition of its nationals, however. Non-Venezuelans can be extradited, but Venezuelan judges historically have attached conditions – such as unilateral attempts to restrict the term of years that an extradited defendant may serve in prison - that have the effect of precluding extradition. On occasion, Venezuelan authorities have deported non-Venezuelan criminals to a third country - usually Colombia - where they can be more easily extradited. Venezuela and the United States negotiated and signed a Mutual Legal Assistance Treaty, which entered into force in March of 2004.

Cultivation/Production. While illicit crop cultivation and drug production in Venezuela have not been significant historically, the success of Plan Colombia is pushing traffickers to increase the quantity of illicit drugs being transported through Venezuela. No eradication operations were carried out in 2006. The most recent eradication operation took place in November 2005 in the Serrania de Perija mountain range, on Venezuela's northwestern border with Colombia.

Drug Flow/Transit. The GOV reported seizures of 38.92 MT of cocaine during the first nine months of 2006, a third less than what it claimed to have seized in 2005 for the same time period. These figures, moreover, include seizures made by third countries in international waters that are subsequently returned to Venezuela, the country of origin. Discounting seizures in international waters by third countries, DEA Caracas estimates that GOV authorities seized between 20-25 MT of cocaine in 2006, and between 35-40 MT in 2005. Additionally, the GOV reported seizing 270 kilos of heroin (a 30 percent reduction from 2005), 21 MT of marijuana (a 16 percent increase over 2005), and 1,750 methamphetamine tablets.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The GOV has minimized all counternarcotics related cooperation and contact with the USG. The GOV postponed signing the 2005 Letter of Agreement (LOA), which would enable the USG to provide funding to Venezuela to support joint counternarcotics efforts.

Some cooperation still takes place with the Venezuelan judiciary, largely via the United Nation's Office of Drugs and Crime (UNODC). The NAS sponsored three UNODC programs in 2006; two on money laundering and a third on the preparation of a manual, based on Venezuelan law, and on counternarcotics related law enforcement matters. Notwithstanding the GOV's minimal cooperation, the USG sought to maintain ties and to encourage cooperation with its traditional counternarcotics partners in the GOV. The USG also sought out non-traditional partners, increasing support for NGOs involved in demand reduction, and working with countries that receive cooperation from the GOV, including regional and municipal institutions.

Despite USG efforts, the GOV has not made the Container Inspection Facility (CIF) at Puerto Cabello operational. The CIF has a high-tech pallet x-ray system, forklifts, tools, and safety equipment that can provide the Venezuelan authorities with a safe and secure location to unload and examine containers in an efficient manner. The Port Security Program was designed to address the movement of narcotics from Colombia to the United States through Venezuela utilizing the Tachira - Puerto Cabello corridor, where over 70 percent of narcotics from Colombia that are transshipped through Venezuela flow, according to the DEA. The drugs are smuggled by land into the state of Tachira and then trucked through Venezuela to Puerto Cabello where they are laden on vessels bound for other transshipment points or directly for the U.S. or Europe. Venezuelan authorities have not allowed the CIF to operate, however, pending an investigation into improper handling of the radioactive source used to scan the outbound cargo for drugs or other illicit shipments. There was no progress in this investigation in 2006 and the CIF remains closed.

Dozens of Venezuelan companies participate in the U.S. Customs Service's Business Anti-Smuggling Coalition (BASC) program. This program seeks to deter smuggling, including of narcotics, in commercial cargo shipments by enhancing private sector security programs. There are BASC chapters in Valencia and Caracas. The latter is failing and may be merged into the Valencia chapter. The Valencia chapter is a potentially effective smuggling deterrent. BASC is part of DHS's Americas Counter-Smuggling Initiative (ACSI).

The Road Ahead. In 2007, the USG remains prepared to renew cooperation with Venezuelan counterparts to fight drugs. In addition to providing a new impetus for stalled projects (e.g., development of a drug intelligence fusion and analysis center and initiation of riverine interdiction

operations on the Orinoco River), renewed focus should be placed on disrupting the transit of drugs entering Venezuela, dismantling organized criminal networks, and prosecuting those engaged in trafficking. In particular, the USG will try to work with the Government of Venezuela to make the Container Inspection Facility (CIF) at Puerto Cabello operational. The GOV must carry out its obligations under numerous international counternarcotics agreements and conventions if it is to stem the rising tide of security and corruption problems that have been further compounded by its own inaction.

V. Statistical Tables

<i>Venezuela Statistics 1997–2006</i>	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Seizures (metric tons)										
Cocaine Total	20-25****	35-40***	31.22	19.46*	17.79	14.18	15.17	13.1	8.6	16.18
Heroin	0.27	0.39	0.65	.364**	0.56	0.28	0.13	0.04	0.04	0.11
Cannabis	21.12	18.27	11.31	6.13	20.92	14.43	12.43	19.69	4.50	5.52
Arrests/Detentions	809	869	1179	2,187	2,711	3,069	2,616	6,630	7,531	5,379
*The GOV's reported number of 27.70 mtw as revised downward based on an independent, case-by-case verification of seizures.										
**The GOV's reported number of 443 kgs w as revised downward based on an independent, case-by-case verification of seizures.										
***The GOV's reported number of 58.43 mt included seizures made by third countries outside of Venezuela. Actual GOV seizures were likely within the indicated range.										
****The GOV's reported number of 38.92 mt included seizures made by third countries outside of Venezuela. Actual GOV seizures were likely within the indicated range.										

**CANADA, MEXICO AND
CENTRAL AMERICA**

Belize

I. Summary

While Belize is not a major drug source, transit or consuming country, it is part of the trans-shipment corridor to the United States. The Government of Belize (GOB) supported narcotics operations and investigations in 2006 and collaborated with the United States, including on extradition of fugitives wanted in the United States. Belize is party to the 1988 UN Drug Convention.

II. Status of Country

Because of its location and geography, Belize is part of the trans-shipment corridor for illicit drugs between Colombia and Mexico and the U.S. Belize has borders with Guatemala and Mexico, large tracts of unpopulated jungles and forested areas, a lengthy unprotected coastline, hundreds of small keys and islands and numerous navigable inland waterways. In 2006, GOB law enforcement officers found abandoned, suspect trafficking boats in Belizean waters and hidden near the sea, ready for use in trafficking. Underdeveloped infrastructure and a small population limit what the authorities can do to suppress narcotics trafficking. The Belize Police Department (BPD), the Belize Defence Force (BDF), the International Airport Security Division and the new Belize National Coast Guard (BNCG) lead counternarcotics efforts. A small amount of locally consumed marijuana is cultivated in Belize. There is no evidence of trafficking in precursor chemicals in Belize, nor are there industries in Belize requiring precursor chemicals. Corruption and the potential for money laundering are areas of concern.

III. Country Actions Against Drugs in 2006

Policy Initiatives/Accomplishments. In its first year the BNCG began patrolling the Belizean coastline and keys and conducted several counternarcotics operations. The GOB also instituted anti-corruption measures related to conflict of interest and migration. The newly assigned Ministry of Home Affairs Chief Executive Officer opened the Belize National Forensic Science Services (NFSS) laboratory at the end of 2006 and a two-year training program continues.

Law Enforcement Efforts. The GOB's most serious internal drug problem is rooted in drug-associated criminality. Obtaining convictions remains difficult, as the Office of the Director of Public Prosecutions remains under-trained, under-staffed, and under-funded. In 2006, the BNCG conducted several counternarcotics operations with USG assistance. Although there were no significant drug seizures, these operations resulted in the confiscation of 34 high-powered automatic and semi-automatic weapons. Seizures in 2006 include: 8 kg (kg) of crack cocaine, 81 kg of cocaine, 651 kg of marijuana, and minor quantities of other drugs. From January through September 2006, law enforcement made 1,397 arrests.

Corruption. The GOB does not facilitate the production, processing, or shipment of narcotic and psychotropic drugs or other controlled substances, or the laundering of the proceeds from illegal drug transactions. Nor is any senior official of the government known to be involved in those activities. The GOB takes limited legal and law enforcement measures to prevent and punish public corruption. No laws specifically cover narcotics-related public corruption, but it is covered under the 1994 Prevention of Corruption in Public Life Act. The Act created an integrity commission with powers to investigate various forms of corruption and levy civil penalties on offenders. Despite allegations of corruption, to date no government officials have been punished under the Act. 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 and at all levels. Laws against

bribery are rarely enforced. IN 2006 there were two high profile cases of conflict of interest or suspected or confirmed corruption in the Financial Intelligence Unit, Passports, and the Department of Immigration and Nationality.

In June 2001, the GOB signed the OAS Inter-American Convention against Corruption and supported the revival of the Committee on Public Probity and Ethics to review implementation of the convention, but Belize is not a party to the UN Convention against corruption.

Agreements and Treaties. Belize has been a party to the 1988 UN Drug Convention since 1996. Belize is one of three countries that has signed and ratified the Caribbean Regional Agreement on Maritime Counter Narcotics. In September 1997, the GOB signed the National Crime Information Center Pilot Project Assessment Agreement (data- and information-sharing). Recent bilateral agreements between the U.S. and Belize include a protocol to the Maritime Agreement that entered into force in April 2000, a bilateral Extradition Treaty with the United States that entered into force in August 2001, a U.S.-Belize Mutual Legal Assistance Treaty (MLAT) that entered into force in July 2003, and the Inter-American Convention on Serving Criminal Sentences Abroad that entered into force in 2005.

Although there were no extraditions from Belize in 2006, a number of U.S. fugitives were deported. In 2005, a U.S. extradition request in a major drug case was denied on the basis of insufficient evidence. This resulted in a call by U.S. for clarification of standard review in the extradition treaty to which the Belize Solicitor General responded that there may be a need for a technical exchange of notes to clarify the standard review. The matter remains pending. In another extradition case, pending since 1999, the GOB has not scheduled arguments on the fugitives' appeal since 2002. Although the Mutual Legal Assistance Treaty entered into force in 2003, it was not implemented by the GOB until 2005. Response to U.S. requests for assistance has been slow.

Belize is a party to the UN Convention against Transnational Organized Crime and it's Trafficking in Persons protocol. In 2005, Belize joined other Central American countries participating in the Cooperating Nations Information Exchange System (CNIES), which assists in locating, identifying, tracking and intercepting civil aircraft in Belize's airspace. The program has resulted in several significant seizures in coordinated interdiction operations, particularly with Guatemala.

Cultivation/Production. The widespread marijuana cultivation of a decade ago has been reduced, but small amounts of illicit cultivation continue, as do GOB eradication efforts. Between January and August 2006, 121,267 marijuana plants were eradicated.

Drug Flow/Transit and Distribution. 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 Belize's lengthy coastline and reef system, then transshipment along navigable inland waterways and to remote border crossings. Interdiction is hampered by the lack of adequate host nation resources and lax customs enforcement.

Domestic Program/Demand Reduction. The National Drug Abuse Control Council (NDACC), which provides drug abuse education, information, counseling, rehabilitation, outreach, and a public commercial campaign, coordinates GOB's demand reduction efforts. In 2006, the USG and the United Nations Office against Drugs and Crime (UNODC) assisted the GOB to establish a treatment, rehabilitation and social integration center for drug abusers in Belize, and the USG added more support for 2007. Through CICAD, the Inter-American Drug Abuse Control Commission, the U.S. also supported school-based substance abuse prevention and life skills education.

U.S. Policy Initiatives and Bilateral Cooperation. The U.S. strategy in Belize continues to focus on assisting the GOB in developing a sustainable infrastructure to combat drug trafficking. The USG provides support to the Belizean Forensic Laboratory to increase the justice system's

successful investigations and prosecution of crimes; programs for at-risk school youth and prison drug rehabilitation; and maritime security and law enforcement. In 2006 the USG provided a third refurbished “go-fast” boat for counternarcotics operations and tactical gear. The USG also assisted the GOB with the establishment of a Voluntary Polygraph Testing program. Members of the Police Department Anti-Drug Unit, Police Special Branch, Belize Defence Force Air Wing and Belize National Coast Guard participated in this exercise, led by the Commandant of the BNCG.

A number of training courses were provided in 2006 to improve Belizean anti crime capacity. The USG and Canada provided Carrier Liaison training to airlines and Fraudulent Detection and Smuggling Deterrence training to local Belize Police Officers, Immigration and Customs officials, and Belize National Coast Guard. The USG provided maritime law enforcement, search and rescue, engineering, and professional development training to the BNCG. The USG continues to provide technical assistance for developing and implementing an appropriate legislative framework to provide the BNCG with clear authorities. Additionally, the USG provided training to the Police Department in interdiction, narcotics officer survival, parcel investigations, anti-terrorism, anti-gang, asset seizure and other related topics.

The Road Ahead. Given frequent changes in trafficking routes and lack of resources for maritime and air assets, the potential remains for trans-shipment of cocaine through Belize to increase. Local marijuana cultivation necessitates continual monitoring and periodic eradication. After eight years in power, the People's United Party continues to advocate combating drug trafficking and associated crime, but provides limited resources. USG assistance will continue to focus on supporting police counternarcotics units, Belize National Coast Guard, investigative, forensic and prosecutor units, and the Financial Intelligence Unit.

Canada

I. Summary

In 2006, the Government of Canada (GOC) implemented the Precursor Control Amendments to the Controlled Drugs and Substances Act to establish a regulatory framework to curtail the production of illicit drugs. Canada has an active strategy to combat illicit drug use, production, and distribution, including public-private partnerships such as “MethWatch” to assist retailers in identifying irregular sales of precursor chemicals. In addition, integrated U.S.-Canadian law enforcement teams disrupted drug smuggling operations, highlighted by one involving pilots transporting marijuana and cocaine across isolated parts of the border. Canada has graduated from being a transit country to a source country for ecstasy (MDMA), due to organized criminal activities. Canada is party to the 1988 UN Drug Convention, and serves as a member of the UN Commission on Narcotic Drugs.

II. Status of Country

While Canada is primarily a drug-consuming country, it also a significant producer of high-quality marijuana and has emerged as a source country for MDMA. Additionally it serves as a transit or diversion point for precursor chemicals and over-the-counter pharmaceuticals used to produce illicit synthetic drugs (notably MDMA and methamphetamine). Canada's Renewed Drug Strategy (2003) provides a federal policy response to the harmful use of substances.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In January 2006, the Precursor Control Amendments to the Controlled Drugs and Substances Act went into effect. These amendments strengthen verification of import and export licensing procedures, require that companies requesting licenses provide additional detail in their initial requests, establish guidelines on the suspension and revocation of licenses for abusers, and add controls on six chemicals that can be used to produce gamma-hydroxybutyric acid (GHB) and/or methamphetamine. They also authorize Health Canada to consider adverse law enforcement information in licensure and renewal decisions. When the Royal Canadian Mounted Police (RCMP) seized one ton of red phosphorous in September, the Precursor Control Amendments enabled the RCMP to charge an individual with selling and possession for the purpose of selling a precursor chemical. The individual was also charged with cultivation of marijuana under the Controlled Substances and Drugs Act.

Law Enforcement Efforts. According to unofficial GOC statistics, during 2006 it seized 1,500 kilograms (kg) of cocaine during 100 operations, 80 kg of heroin in 60 operations, 20 kg of opium in 20 operations and one metric ton of hashish oil. The RCMP did not provide statistics on marijuana seizures for 2006, or information on operations against MDMA production. A joint MDMA and marijuana trafficking investigation, Operation Northern X-Posure, resulted in the arrests of approximately 26 high-level distributors in both countries, including six persons in Toronto. In August, The RCMP identified 250 outdoor marijuana-growing sites and seized 16,500 marijuana plants in a two-week period on Vancouver Island, British Columbia.

Corruption. Canada has strong anti-corruption controls in place and holds its officials and law enforcement personnel to a high standard of conduct. 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 USG and GOC exchange forfeited assets through a bilateral asset sharing agreement, and exchange information to prevent, investigate, and repress any offense against U.S. or Canadian customs laws through a Customs Mutual Assistance Agreement. 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.

Cultivation/Production. Commercial marijuana cultivation thrives in Canada in part because growers do not face strict legal punishment. 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. In fact, the marijuana industry in Canada is becoming increasingly sophisticated, with organized crime groups relying on marijuana sales as a primary source of income and using the profits to finance other illicit activities. The RCMP reports that frequently Canadian marijuana is trafficked to the United States and exchanged for currency, firearms, and cocaine. Recently, Asian drug trafficking organizations based in Canada have experimented with new methods to evade law enforcement and expand their businesses. This trend includes the increasing use of eastern ports of entry along the Canadian border for marijuana smuggling and the establishment of indoor-grow operations on the U.S. side of the border, especially in the Pacific Northwest and California.

The demand for, and production of, synthetic drugs is on the rise in Canada, particularly methamphetamine and MDMA. Reports of GHB use are increasing. According to DEA, GHB has been used in the commission of sexual assaults because it renders the victim incapable of resisting, and may cause memory problems that could complicate case prosecution. Clandestine laboratories – once largely located in rural areas but expanding into urban, residential neighborhoods - are becoming larger and more sophisticated. Approximately 95 percent of the methamphetamine sold originates from multi-kilogram operations. In June 2006, authorities in Ontario seized a methamphetamine super lab, the largest in Ontario's history, with 35 kilograms of finished methamphetamine and 25 kilograms of ephedrine.

Drug Flow/Transit. U.S. and Canadian law enforcement received reports of seizures of ephedrine (a methamphetamine precursor) in India destined for Canada, including two large seizures in August and September 2006. The shipment of the precursor appears to be controlled by Canadian criminal organizations. In June 2006, the U.S. and Canadian Integrated Border Enforcement Team (IBET) busted a drug smuggling organization that utilized helicopters and fixed-wing aircraft to smuggle marijuana to and from the two countries through sparsely populated regions. The August 2006 Criminal Intelligence Services Canada annual report on organized crime indicates that there are 800 organized crime groups in Canada, of which approximately 80 percent are involved in the illegal drug trade in some capacity. The report also highlighted an increase in the cross-border drug trade, especially in MDMA. Asian-Pacific (AP) officials indicate that Canada has become a source country for drugs to their region. AP officials report increasing drug smuggling from Canada,

primarily to Australia, Japan, and Korea, but also to Hong Kong, New Zealand, the Philippines, and Vietnam.

Domestic Programs. Canada has embarked on a number of harm-reduction programs at the federal and local levels. On September 1, Health Canada announced that no new government-sponsored injection sites will be opened until a new National Drug Strategy is promulgated and additional research is completed on the existing sole site in Vancouver. The Vancouver site has been in operation since 2003 and is authorized to operate until December 2007. Several cities have also approved programs to distribute drug paraphernalia, including crack pipes, to chronic users. Delivery of demand reduction, education, treatment and rehabilitation is primarily the responsibility of the provincial and territorial governments and Health Canada provides funding for these services.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Canada cooperate closely at the federal, state/provincial, and local levels. In November 2006, the annual U.S./Canada Cross-Border Crime Forum engaged 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. Two examples are Project North Star, a mechanism for law enforcement coordination at the state and local level; and the joint Integrated Border Enforcement Teams (IBETs), which have become a primary tool in ensuring that criminals cannot exploit the international border to evade justice. The joint MDMA and marijuana trafficking investigation, Operation Northern X-Posure, underscored bilateral law-enforcement efforts between the two nations. In May, the RCMP and DEA co-hosted the 2006 International Drug Enforcement Conference (IDEC) in Montreal. This annual, DEA-sponsored conference brought together high-ranking law enforcement officials for the largest IDEC contingent ever, representing 81 countries, to share drug-related information and to develop a coordinated approach to combat criminal threats. Canada also 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. U.S. Customs and Border Protection and Canada Border Security Agency meet between two and four times a year to discuss programs and initiatives of mutual concern.

Road Ahead. In 2007, 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, interception of suspicious shipments, and addressing the rise in MDMA production there. 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. With much of the legal framework already in place, Canada should focus on improving the effectiveness of its inspectorate regime. Canada should also continue its efforts to identify, disrupt and prosecute money-laundering operations.

The USG wishes to embark on a new cooperative, joint policing model designed to make the maritime border as seamless to law enforcement officers as it is to criminals. The Integrated Marine Security Operations (IMSO) program, also referred to as "Shiprider," would facilitate effective maritime law enforcement by cross-designating each party's law enforcement officers as customs officers. It would allow cross-designated officers to operate from the vessels or aircraft of the other country; thereby, permitting a single vessel to patrol both Canadian and U.S. waters and pursue suspect vessels. All law enforcement activities in host nation waters would be conducted under the direction and supervision of host nation officers. The USG is also seeking reciprocal treatment for U.S. federal maritime law enforcement officers by expanding on USG-granted blanket diplomatic clearance for Canadian law enforcement officers to carry their weapons while transiting in and out of U.S. waters on the Great Lakes aboard Canadian government vessels. The

U.S. further encourages Canada to take steps to improve its ability to expedite investigations and prosecutions. Strengthening judicial deterrents in Canada would be extremely useful in curbing the expansion of criminal organizations in Canada. 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 a significant trans-shipment point for narcotics destined for the United States and Europe. Drug seizures rose dramatically under the new Arias administration, nearly doubling last year's total. Costa Rican authorities seized a record 11.5 metric tons (MT) of cocaine and 84.9 kg (kg) of heroin in 2006 in addition to the nearly 14 MT of cocaine seized off Costa Rica's coasts by U.S. law enforcement with Costa Rican cooperation. Local consumption of illicit narcotics, particularly crack cocaine, along with the violent crimes associated with drug use, is a growing concern. In 2006 the Government of Costa Rica (GOCR) continued to implement a 2002 narcotics control law that criminalized money laundering. Joint implementation of the 1998 bilateral Maritime Counterdrug Cooperation Agreement continues to improve the overall maritime security of Costa Rica. In 2006 the Costa Rican Counternarcotics Institute (ICD) enhanced its coordination efforts in the areas of intelligence, demand reduction, asset seizure, and precursor chemical licensing. Costa Rica is a party to the 1988 UN Drug Convention.

II. Status of Country

Costa Rica's long Atlantic and Pacific coastlines and strategic point on the isthmus linking Colombia with the United States make it vulnerable to drug transshipment for South American cocaine and heroin destined primarily for the United States. The GOCR cooperates with the USG in combating narcotics trafficking by land and sea.

Costa Rica also has a stringent governmental licensing process for the importation and distribution of controlled precursor chemicals

III. Country Actions Against Drugs in 2006

Policy Initiatives. The Costa Rican Counternarcotics Institute (ICD) changed leadership in 2006 and greatly enhanced its coordination efforts in the areas of intelligence, demand reduction, asset seizure, and precursor chemical licensing. Costa Rica is focusing on adapting its plans to realistic goals given its somewhat limited resources.

Accomplishments. Close relations between U.S. law enforcement agencies and GOCR counterparts resulted in regular information-sharing and joint operations. As a result, authorities seized record amounts of drugs in 2006. Costa Rican authorities (in coordination with U.S. law enforcement) seized a record 25.5 MT of cocaine while increasing seizures of crack and eradicating over 650,000 marijuana plants. Costa Rican drug police tripled seizures of processed marijuana to 2,881 kg and increased heroin seizures to 84.9 kg. In addition, Costa Rican authorities seized 3,405 Ecstasy tablets and confiscated over \$4 million in suspect currency. Thanks to a crack down after the Arias Administration came to power, drug-related arrests skyrocketed to 21,199 in 2006 as compared to 6,251 in 2005 and only 1,024 in 2004.

Law Enforcement Efforts. The primary counternarcotics agencies in Costa Rica are the Judicial Investigative Police (OIJ) in the judicial branch, and the Ministry of Public Security's Drug Control Police (PCD) of the executive branch. Other authorities include the Costa Rican Coast Guard, the Air Surveillance Section, and the nearly 10,000-member police force. The OIJ operates a small, highly professional Narcotics Section that specializes in investigating domestic and international narcotics trafficking. The PCD investigates both domestic and international drug smuggling, and coordinates international operations. Both entities conduct complex investigations of drug trafficking organizations, resulting in arrests and the confiscation of cocaine and other drugs.

The interagency Mobile Enforcement Team (MET), consisting of canine units, drug control police, customs police and specialized vehicles, coordinated six cross-border operations with authorities in Nicaragua and Panama in 2006. The ICD increased the frequency of MET deployments but has not yet met its goal of two per month.

Corruption. No senior official of the GOCR engages in, encourages, or facilitates the illicit production or distribution of such drugs, or the laundering of proceeds from illegal drug transactions. In 2006, Costa Rica passed a draconian law against illicit enrichment in response to unprecedented corruption scandals, involving three ex-presidents that were exposed in 2004. Although the ex-presidents' cases have not yet gone to trial, Costa Rica's commitment to combat public corruption appears to have been strengthened by the scandals.

The GOCR aggressively investigates allegations of official corruption or abuse. U.S. law enforcement agencies consider the public security forces and judicial officials to be full partners in counternarcotics investigations and operations.

Agreements and Treaties. The 1998 bilateral Maritime Counterdrug Cooperation Agreement continues to serve as the model maritime agreement for Central America and the Caribbean. Provisions of the maritime agreement were actively used in joint operations that resulted in record seizures at sea during 2006.

The United States-Costa Rican extradition treaty, in force since 1991, was actively used in 2006. Costa Rica ratified the Inter-American Convention Against Corruption in 1997 and signed the UN Convention Against Corruption in 2003. 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 on Narcotic Drugs, as amended by its 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Costa Rica ratified the UN Convention against Transnational Organized Crime and its Supplemental Protocols in 2003.

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 was one of the first countries to sign the Caribbean regional maritime counternarcotics agreement when it opened for signature in April 2003, and is the depository for the document, but has not yet taken the necessary internal steps to bring it into force.

Cultivation/Production. Low quality marijuana is grown in remote areas. An indoor hydroponics cannabis production facility was seized in 2006. The last similar seizure was in 2004. The small scale of the operation indicated domestic consumption only, despite export-quality potency of the marijuana. Costa Rica does not produce other illicit drug crops or synthetic drugs.

Drug Flow/Transit. In 2006, the trend toward frequent, smaller (50-500 kg) shipments of drugs transiting Costa Rica in truck and passenger car compartments continued. With two notable exceptions in 2006, this modality accounted for almost all cocaine seizures on land. The trend toward increased trafficking of narcotics by maritime routes has also continued with nearly 14 MT of cocaine seized at sea in 2006 by U.S. law enforcement. One of these seizures was the largest in Costa Rican history (7.8 MT seized on a Costa Rican-flagged fishing vessel). Traffickers continue to use Costa Rican-flagged fishing boats to smuggle multi-ton shipments of drugs and to provide fuel for other go-fast boats.

Domestic Programs/Demand Reduction. The Prevention Unit of the ICD oversees drug prevention efforts and educational programs throughout the country. The ICD and the Ministry of Education distribute 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 make effective emissaries for demand-reduction messages.

In 2006, the ICD worked closely with the U.S. Embassy to produce a demand reduction video and discussion guide for use in public schools and took the lead in organizing a demand reduction event during Red Ribbon week in Limon, one of Costa Rica's poorest and most crime-ridden provinces.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The U.S. seeks to compliment and build upon the on-going successful maritime experience by turning more attention and resources to land interdiction strategies, including expanded coverage of airports, seaports and border checkpoints.

Bilateral Cooperation. In 2006, the USG sought to implement the bilateral Maritime Counterdrug Cooperation Agreement and enhance the ability of the Air Section of the Public Security Ministry to respond to illicit drug activities by providing equipment and technical training. The USG also improved law enforcement capacity by providing training and equipment to the OIJ Narcotics Section, the PCD, the Intelligence Unit of the ICD, the National Police Academy, and the Customs Control Police; and increasing public awareness by providing assistance to Costa Rican demand-reduction programs. In addition, the USG provided training, computer equipment, software and other equipment to the Ministry of Public Security, the Judicial Branch, the ICD's Financial Intelligence Unit, and the inter-agency MET unit.

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 independent maritime law enforcement operations in accordance with the bilateral Maritime Counterdrug Cooperation Agreement. In the coming year, the GOCCR will continue professionalization of its public security forces; implement and expand controls against money laundering; and expand its efforts against corruption. It intends to deploy the MET interdiction team twice a month. The GOCCR also plans to increase its police force by 4,000 additional officers over the next four years.

El Salvador

I. Summary

El Salvador is a transit country for narcotics, mainly cocaine and heroin. Illicit drugs that enter the country from South America make their way to the United States by land, eventually through Mexico. In 2006, the National Police (PNC) seized 445 kg (kg) of marijuana, 100 kg of cocaine, and 23 kg of heroin. Although El Salvador is not a major financial center, assets forfeited and seized as the result of drug-related crimes amounted to over \$2 million. El Salvador is party to the 1988 UN Drug Convention.

II. Status of Country

Along with its Central American neighbors, El Salvador is a transit point for cocaine and heroin that flow through the Eastern Pacific and by land. El Salvador hosts a Forward Operating Location for trafficking detection and interception. Criminal youth gangs also plague El Salvador. While not deemed to be major traffickers, gangs retail drugs and provide “muscle” for protecting shipments. Precursor chemical production, trading, and transit are not significant problems in El Salvador.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2006, the Government of El Salvador (GOES), in cooperation with the United States, Mexico, and other Central American countries, implemented Operation All Inclusive against trafficking along Central America's Atlantic and Pacific coastlines and money laundering operations. The Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) also targeted overland transportation, commercial air, package delivery services, and maritime transportation in the Gulf of Fonseca. As a result of the operation, the PNC seized 12 kg of cocaine and arrested 12 individuals for trafficking offenses.

Accomplishments. Several significant developments during the year demonstrated the GOES commitment to the objectives of the 1988 UN Drug Convention. USG-supported Containerized Freight Tracking System (CFTS) at the Amatillo border crossing with Honduras permits the GOES to inspect commercial and passenger vehicles arriving from Honduras. In 2006, police at the CFTS inspected 1,750 commercial freight trucks, 4,748 passenger buses, and 7,680 passenger vehicles, and seized 13 kg of marijuana, seven kg of cocaine, and 10 kg of heroin. Police operations at the Amatillo border crossing resulted in the arrests of 28 individuals for trafficking offenses. In 2006, the National Police (PNC) seized a total of 445 kg (kg) of marijuana, 100 kg of cocaine, and 23 kg of heroin.

Law Enforcement Efforts. Law enforcement efforts in 2006 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. Policies initiated by the newly elected Salvadoran Attorney General, such as embedding prosecutors within police units, exponentially increased cooperation between prosecutors and the police over the previous year. The narcotics police are professionally competent, but their capabilities are hampered by a lack of resources and legal impediments against wiretapping.

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.

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, and the 1988 UN Drug Convention. 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. There is no evidence of coca or 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. (Drug Abuse Resistance Education) 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 USG-supported Salvadoran NGO FundaSalva works with the GOES to provide substance abuse awareness, counseling, rehabilitation, and reinsertion services (job training) to the public. In 2006, FundaSalva provided demand reduction services to over 2,301 individuals. The USG 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 and on increasing the GOES ability to combat money laundering and public corruption, and ensuring a transparent criminal justice system. From September 28 to October 7, 2006, the DEA country office, in conjunction with the U.S. Department of Defense, the U.S. Coast Guard (USCG), and police and naval forces from Guatemala and El Salvador, conducted a combined maritime operation to disrupt trafficking operations off the littoral coasts of Central America. The operation resulted in the seizure of eight kg of cocaine and the arrest of 22 individuals for trafficking offenses.

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 anti-gang measures. Drug Enforcement Administration 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. El Salvador has benefited from several USCG courses including the Maritime Boarding Officer Course and the International Maritime Officer's Course. Additionally, they hosted a regional, multi-national Port Security / Vulnerability mobile training team course in which eight other countries participated.

Road Ahead. The United States will continue to provide operational and training support to Salvadoran law enforcement institutions, with an emphasis on improving intelligence, investigations and prosecutions leading to convictions. Increased integration of police and prosecutors' work will enable El Salvador to increase convictions, as will increased use of evidence tools, such as fingerprint analysis and case databases to solve crimes. Sharing information among law enforcement and financial institutions will help El Salvador to facilitate money laundering and trafficking investigations. In the coming year, El Salvador will also be an active participant in the regional anti-gang program.

Guatemala

I. Summary

Guatemala is a major drug-transit country for cocaine and heroin en route to the United States and Europe. The Government of Guatemala (GOG) made substantial progress in restructuring counternarcotics police functions, passed an organized crime control act that will permit wiretapping, and continued opium poppy eradication efforts. In spite of these efforts in 2006, traffickers exploited air, road, and sea routes to move cocaine through Guatemala. The government is committed to attacking corruption and has fired hundreds of corrupt police since taking office. Insufficient resources, weak GOG middle management, and widespread corruption hamper the GOG's ability to deal with narcotics trafficking and organized crime. Guatemala is party to the 1988 UN Drug Convention.

II. Status of Country

Most cocaine destined for the United States transits the Mexico/Central America corridor. Guatemala is an important transit point for onward shipment of cocaine to the United States. Guatemalan drug law enforcement agencies underwent substantial restructuring after the arrest of the country's three top drug law enforcement officials in November 2005. Guatemalan authorities interdicted 281 kg. of cocaine in 2006. Guatemala has limited capability to control the northern area of the country where traffickers operate clandestine airstrips, or the Eastern Pacific coastline, where traffickers are able to offload cargoes with little impediment. Narcotics traffickers at times paid for transportation services with drugs, which enter into local markets leading to increased domestic consumption and crime.

In 2006, Guatemalan authorities eradicated 79 hectares of opium poppy. Marijuana is also grown, but only for local consumption. During 2006, the Ministry of Health inspected all drug manufacturers and distributors for compliance to rules related to potassium permanganate, a precursor chemical for cocaine processing. Separately, as a result of a 2005 inspection, the GOG filed its first court case alleging illicit storage of and commerce in pseudoephedrine.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The GOG uses a multi agency-working group to focus their counternarcotics efforts. In 2006 Guatemala enacted a law against organized crime. This law authorizes wiretaps, undercover operations and controlled deliveries, and also provides a stronger conspiracy statute. In 2005, the Berger government obtained congressional reauthorization for three years of a law permitting joint U.S./Guatemalan military and law enforcement operations in Guatemala. Two such operations (known as "Mayan Jaguar") were held in 2006 as part of an operation involving other Central American countries and DOD's Joint Interagency Task Force South, including implementation of the U.S.-Guatemala bilateral maritime agreement and support for DEA's region-wide Operation All Inclusive.

Law Enforcement Efforts. Since the investigation and arrest of three top officials from the GOG's Anti-Narcotics Analysis and Information Services (SAIA), in November 2005, SAIA has been fully restructured with USG assistance. SAIA now focuses solely on investigations, while the newly formed Division of Ports and Airports (DIPA) staffs land points of entry and airports. All officers assigned to these units, including management, are vetted.

In October, the GOG agreed to the boarding of a Guatemalan-flagged vessel under the terms of the bilateral maritime agreement. As a result, the U.S. Coast Guard seized approximately 1,632 kg of

cocaine, arrested four drug traffickers, and transferred them to the U.S. for prosecution. SAIA seized 281 kg of cocaine in 2006. The GOG also eradicated 79 hectares of opium poppy.

There is close cooperation between the USG and the Guatemalan Air Force (GAF), particularly during Mayan Jaguar exercises. While aging aircraft and lack of money for fuel continue to be constraints, the GAF provides air assets for interdiction missions and airlift for police and prosecutors conducting drug interdiction and eradication operations.

The Public Ministry's narcotics prosecutors receive USG training and assistance, which aids them in achieving convictions, but success in prosecuting major organized crime figures, including narcotics traffickers, has been limited.

The USG supports the model police precinct in Villa Nueva to help the PNC control police corruption and make inroads against gang-related drug distribution, extortion, and murder. During 2006, the Villa Nueva investigative unit had a 200 percent increase in cases investigated and resolved, and now clears more than 60 percent of its cases. Crime indices in Villa Nueva decreased and more citizens are filing formal complaints as confidence in the police improves. Villa Nueva initiated directed patrolling based on area crime statistics; the increased patrols in Villa Nueva's highest crime areas should further reduce crime and increase public confidence.

Corruption. Guatemala 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 government officials are not known to be involved in these activities. Guatemala is pursuing numerous public corruption cases against former public officials, army officers and police. The anti-money laundering law is also being used as an anticorruption tool. The attorney general opened 54 corruption cases during 2006, including the prosecution of four former mayors for diversion and misuse of public funds.

Corruption remains an obstacle for GOG counternarcotics programs. After the 2005 arrest of the three top SAIA officers, the GOG redoubled efforts to fight corruption in the National Civilian Police (PNC), using rigorous vetting procedures. The Director General of the police enforces a "zero tolerance" policy on corruption, investigating complaints through the Office of Professional Responsibility. A landmark case was the July murder of the chief investigator in Villa Nueva. Two former and one active duty police officers were arrested.

Agreements and Treaties. Guatemala is a party to the 1961 UN Single Convention and its 1972 Protocol; the 1971 UN Convention on Psychotropic Substances; the 1988 UN Drug Convention; the Central American Commission for the Eradication of Production, Traffic, Consumption and Illicit Use of Psychotropic Drugs and Substances; and the Central American Treaty on Joint Legal Assistance for Penal Issues. Guatemala is a party to the UN Convention against Transnational Organized Crime and its three protocols. Guatemala has a maritime counternarcotics agreement with the U.S., and was one of the first countries to approve the Caribbean Regional Maritime Counternarcotics Agreement when it opened for signature in April 2003, but has not yet deposited it. Guatemala also is a party to the Inter-American Convention Against Corruption. In addition, Guatemala ratified the Inter-American Mutual Legal Assistance Convention, and is a party to the Inter-American Drug Abuse Control Commission (an entity of the OAS).

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. Guatemala does extradite its citizens, but the required legal procedures can make the process somewhat onerous. In 2006, the GOG extradited one Guatemalan citizen to the U.S. U.S. citizen fugitives are usually expelled to U.S. custody on the basis of violations of Guatemalan immigration laws. All U.S. requests for extradition in drug cases are consolidated in specialized courts located in Guatemala City.

Cultivation/Production. There is opium poppy cultivation, usually in small fields situated in the San Marcos department, roughly totaling about 100 ha at the end of 2006. Guatemala manually eradicated 48 ha of poppy in 2005 and 47 ha in 2006. Guatemala and the USG conducted aerial reconnaissance missions to plan GOG manual poppy eradication operations. There is significant marijuana cultivation, all of which is consumed locally.

Drug Flow/Transit. In 2006, the trend for maritime drug transit to Guatemala shifted from go-fast boats to increased use of mother ships working in concert with fishing vessels. These ships position themselves beyond the 12 mile territorial waters limit and offload cocaine to the smaller fishing vessels, which then smuggle the loads into the many ports and estuaries along Guatemala's Pacific coast. Once the cocaine is landed in Guatemala, it is then broken down into smaller loads for transit to Mexico enroute to the U.S.

Commercial containers continue as major land and sea avenues for smuggling larger quantities of drugs through Guatemala's ports of entry. To address corruption in the seaports, the Ministry of Government (MOG) ordered the formation of the DIPA to specialize in interdiction at seaports, airports and land border points of entry. Initial experience with the DIPA has been good, with increased detection of money and drug couriers transiting La Aurora International Airport in Guatemala City. DEA information suggests that Guatemalan opium gum is shipped into Mexico, and 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 (PRONEPI) and trained 1,600 teachers using the "train the trainer" concept with the participation of the Ministries of Health and Education. GOG has enough teachers trained that drug prevention course is being institutionalized for 2007 academic year. SECCATID, with NAS support, provides technical assistance in developing the curriculum appropriate for each grade level and methods of evaluation.

The GOG approved regulations setting forth minimum legal requirements for rehabilitation centers to operate. SECCATID provides technical and commodity assistance to at least 50 centers to enable them to come into compliance with the new standards.

The preschool Second Step pilot program implemented for 300 children, three to five years old, yielded improvements in children's coping skills, ability to manage and express their emotions, and capacity for achieving solutions to their problems as measured in post tests and teacher and parent observation. SECCATID, with USG assistance, is expanding the program to other schools in the city and two departments outside the capital. In coordination with the Ministry of Government, SECCATID also expanded the Drug Abuse Resistance Education (DARE) program from 6 to 28 PNC agents to cover more schools nationwide.

IV. U.S. Policy Initiatives and Programs

U.S. strategy in Guatemala focuses on strengthening the law enforcement and judicial sectors through training, technical assistance, and the provision of equipment and infrastructure, especially for the units directly involved in combating narcotics trafficking, gang crime, 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 aims at reducing corruption in Guatemala by assisting in implementing strong vetting and internal inspection regimes, as well as through training, education, and public awareness programs.

Bilateral Cooperation. The USG provides technical assistance in education, training and public awareness programs to Guatemala's demand reduction agency, SECCATID. 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 provided maritime law

enforcement (MLE) training, and assistance in developing a “train the trainer” MLE curriculum to the Guatemalan Navy. The USG provides support for SAIA through an agreement with the Ministry of Government and to DIPA for ports. An important part of this program is the Regional Counternarcotics Training Center. The school teaches the basic entry course for new SAIA agents, as well as advanced narcotics investigations and canine narcotics detection courses. They also offer regional courses in polygraph, false documents, intelligence analysis, and canine drug and explosive detection, among others. In 2006, students from Belize, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, and Panama participated.

The USG supports the development of a model police precinct in Villa Nueva (a suburb of Guatemala City plagued by crime and gang violence). In 2006, police in Villa Nueva arrested 157 gang members, many of whom were involved in street level drug distribution. As a result, crime indices declined, including homicides, auto theft, and robberies. This work also includes community policing and directed patrolling based on area crime patterns.

During FY-06, SOUTHCOM provided counter-drug funding to purchase Harris radios and spare parts for ten M113's (an armored personnel carrier). These items are being used by Interagency Task Force North (ITFN), based in the Peten region, in connection with its border security and drug interdiction missions.

The Road Ahead. Future efforts will focus on investigations, interdiction, corruption, money laundering, and task force development, with emphasis on assisting the restructured SAIA and DIPA to become more effective drug enforcement partners. A successful interdiction and maritime strategy will involve close cooperation with units of the Guatemalan military that have a clean human rights record. 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 flowing north from South America by land, sea and air. The Government of Honduras (GOH) cooperates with the U.S. in investigating and interdicting narcotics trafficking, but faces significant obstacles in terms of funding, a weak judicial system with heavy caseloads, lack of coordination, and leadership challenges. Honduran President Jose Manuel “Mel” Zelaya, took office in January 2006, and kept his promise to attack corruption by implementing new measures, such as passing the Transparency Law, which allows public scrutiny of government actions; reforms to the Civil Procedure code, which will speed up judicial processes and allow for public oral arguments; and instituting polygraphs for members of special investigative units. Honduras is a party to the 1988 UN Drug Convention.

II. Status of Country

Honduras is a transit country for drug trafficking from the source zone to the United States. Recent reports indicate that such transit is increasing, as narcotics traffickers have been shifting their boat traffic from Guatemala to Honduras. USG and Honduran counternarcotics police and military units actively monitor the transshipment of drugs through the country via air, land, and sea routes. Violent youth gangs are also involved in retail drug distribution.

III. Country Actions Against Drugs in 2006

Policy Initiatives President Zelaya and his new administration took office in January 2006 vowing to take stronger measures against crime and drugs, promising stronger international cooperation, and an increase in the number of national police. President Zelaya has made combating drug activities one of its major priorities. This includes the expansion of maritime interdiction, especially along the north coast where most of the drug trafficking occurs; strengthening international cooperation; and Ministry of Public Security initiatives to weed out corrupt officials. In 2006 Honduras passed two important laws: the Transparency Law will give public access to more of the government’s dealings and allow the public to obtain information about the ministries and agencies; and the recently passed reforms to the Civil Procedure Code will speed up the judicial process and allow for public oral arguments. The GOH also instituted measures to polygraph members of special investigative units, and to fire police who have committed crimes or are linked to drug traffickers.

President Zelaya requested USG assistance to support a plan of action to reorganize the National Police and the Honduran law enforcement counternarcotics efforts. This plan, which also includes reforms to the Police Organic Law, is expected to pass Congress early in 2007. GOH actions to reform and improve the National Police in 2006 include the addition of 2,300 officers, with plans to add another 2,000 in 2007; reorganization of the police command to decentralize the police and appoint regional commanders with more autonomy to fight crime in their areas; creation of motorcycle patrols for the cities to put more cops on the streets; and a purge of cops who have committed crimes or are linked to drug traffickers. Police operations have been supplemented by training 300 military personnel in law enforcement techniques and implementing two joint patrol operations searching for drugs, stolen vehicles, criminals, and illegal weapons.

Accomplishments. Drug-related arrests at Honduras' borders increased as a result of road interdiction operations by the Frontier Police and other forces. An intelligence initiative and a criminal database to organize information have given positive results. GOH maritime interdiction has been successful in apprehensions and arrests of persons and ships involved in drug trafficking

in conjunction with USG assistance. GOH law enforcement agencies have also intercepted several major shipments of weapons for drugs conducted between Honduran gunrunners and Colombian drug dealers.

Law Enforcement Efforts. Honduras was a major participant in Operation All Inclusive, a USG interagency counternarcotics operation. The operation was initiated as a regional counternarcotics initiative directed at major drug trafficking organizations exploiting the countries of Central America and Mexico. With the participation of the Honduran Navy, U.S. Coast Guard (USCG) assets searched Honduran flagged vessels and seized over 6,636 kg of cocaine at sea. In other actions, counternarcotics forces seized 736 kg of cocaine, 807 kg of marijuana, and arrested 403 people in 2006. Authorities seized \$194,273 in cash. It is unusual for large amounts of marijuana to be smuggled in Honduras, but, in 2006, police arrested two subjects transporting approximately 500 kg of marijuana on a public bus near La Ceiba. Prosecution, however, was less successful due to judicial corruption, inefficiency, overwhelming caseloads and funding constraints.

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 although convictions are rare. Honduras is a party to the OAS Inter-American Convention Against Corruption and the UN Convention against Corruption. In 2006, the Minister and Vice Minister of Public Security voluntarily took and passed polygraph and drug tests. Minister Romero has asked the Honduran Congress to pass legislation requiring all GOH national law enforcement personnel to submit to polygraphs and drug testing. Police reforms are also directed at rooting out corruption.

Agreements and Treaties. Honduras has counternarcotics agreements with the United States, Belize, Colombia, Jamaica, Mexico, Venezuela, and Spain. Honduras is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by its 1972 Protocol. Honduras' major public maritime ports are in compliance with International Ship and Port Facility Security codes and the country 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 Counter Drug Agreement with the U.S., but has not yet ratified it. 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.

Cultivation and Production. Marijuana, the only known drug cultivated in Honduras, is planted throughout Honduras in small isolated plots and sold locally. The most productive areas for marijuana cultivation are the mountainous regions of the departments of Copan, Yoro, Santa Barbara, Colon, Olancho, and Francisco Morazan.

Drug Flow and Transit. South American cocaine destined for the United States flows through Honduras by land and sea. Remote areas, such as the Department of Gracias a Dios, are a natural safe haven for the traffickers, offering an isolated area to refuel maritime assets or effect boat-to-boat transfers. Most of the area is accessible only by sea or air. Aircraft is also used to smuggle cocaine, but numbers decreased after a surge in 2003. Heroin is believed to be transported through Honduras to the United States, possibly also in liquid form that is sold and transported in small quantities.

Domestic Programs/Demand Reduction. Increased drug trafficking and use by gang members, which target young school children, is a growing concern. The Honduran Government is conscious that drug trafficking and usage poses security threats as well as social problems. Programs to deal

with these problems include the cooperation of numerous church and NGO groups dealing with pro-active drug awareness and rehabilitation programs. Job skills, family counseling, and demand reduction are included in the USG-sponsored umbrella NGO project with the Ministry of Public Health.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Honduras cooperates closely with the USG in investigations and operations against drug trafficking. The Special Vetted Unit gathers sensitive narcotics intelligence that is then passed to other Honduran law enforcement agencies. The unit targets major traffickers operating in Honduras and has been instrumental in the disruption and disbanding of international organized crime groups. In 2006, the unit developed and implemented a biometric database of all known youth gang members. The USG also supports anti-corruption programs within the Ministry of Public Security by providing funding and logistical support to the newly formed National Police Internal Affairs Office.

The Road Ahead. The Zelaya administration's steps to improve the National Police will translate into stronger counternarcotics activities. The GOH would like to institutionalize anti-corruption and improved methodology with improvements to the police academy. A new Organic Police Law will come up for approval this year, and will allow for mandatory drug tests and polygraphs of the police. The USG is encouraging GOH law enforcement entities to conduct cooperative criminal investigations on trafficking organizations on the North Coast and other areas of the country. The GOH is especially concerned about traffickers establishing bases in the department of Gracias a Dios, and is investigating ways to beef up government presence there. The Declaration of Principle Agreement (DOP) that initiated the Container Security Initiative (CSI) shared by the U.S. Customs and Border Protection with participating countries will be a major deterrent to target drug smuggling, weapons trafficking, and terrorism utilizing ocean-going, containerized cargo.

Mexico

I. Summary

Throughout 2006, the Fox Administration cooperated with U.S. law enforcement counterparts at levels unmatched by any previous Mexican government. Mexican authorities dismantled major drug trafficking organizations, and extradited 63 fugitives to the United States. The Government of Mexico (GOM) also continued to eradicate opium poppy and marijuana, and pursue money-laundering cases. Health officials dramatically reduced the legal importation of methamphetamine precursors into Mexico. The GOM also seized large amounts of methamphetamine, precursors, marijuana, cocaine and heroin. Mexico is party to the 1988 UN Drug Convention.

II. Status of Country

Mexico is a major transit and source country for illicit drugs reaching the United States. Roughly 90 percent of all cocaine consumed in the United States transits Mexico. Given their close proximity, Mexican processors and growers supply a large share of the heroin distributed in the United States, even though Mexico produces a relatively small percentage of the global supply of opium poppy and heroin. Mexico remained the largest foreign supplier of marijuana to the United States and is a major supplier and producer of methamphetamine.

Seizure statistics for cocaine and methamphetamine during 2006 demonstrate Mexico's significance as a production and transit country. The GOM dismantled two cocaine labs and seized four methamphetamine "super labs" (i.e., having a production capacity of 10 pounds or more per processing cycle). During 2006, Mexican authorities seized 21 metric tons (MT) of cocaine and 0.6 MT of methamphetamine.

Mexico itself has been profoundly affected by this drug trafficking. Levels of violence, corruption and internal drug abuse rose in 2006. Mexican drug trafficking organizations (DTOs) control domestic drug production and trafficking, as well as the laundering of drug proceeds. These DTOs also undermined and intimidated Mexican law enforcement and public officials. The extensive licit cross-border traffic between the two countries provides ample opportunities for drug smugglers to deliver their illicit products to the U.S. market. The escalation of drug-related crime and violence was of particular concern during 2006. Press reports indicate that between 2,000 to 2,500 drug-related homicides occurred in Mexico during 2006.

III. Country Actions Against Drugs in 2006

Policy Initiatives. President Fox's domestic policy agenda emphasized the promotion of a more transparent, professional and accountable law enforcement and judicial system. Yet, no laws were passed that significantly changed the underlying structure. Legislation passed included a new juvenile justice code, as well as a constitutional amendment that guaranteed the right of defendants to be represented by a professional public defense, rather than by a "trusted individual."

In 2006, Congress also passed legislation-delegating jurisdiction to state authorities to pursue or investigate individuals engaging in retail sales ("narcomenudeo") of illicit drugs. The Fox Administration initially supported the draft law to promote greater involvement by state and local police agencies. However, the addition of provisions that decriminalized possession for personal use of small quantities of certain drugs, however, led to its eventual veto by President Fox.

During 2006, the Federal Investigative Agency (AFI) investigated and arrested drug traffickers, violent kidnappers and corrupt officials. AFI also brought on-line nine Clandestine Laboratory Response Vehicles donated by the USG to support First Responders at the discovery of

methamphetamine labs; over 1,700 AFI agents were also trained on how to conduct raids of meth labs. U.S. law enforcement agencies provided AFI personnel with basic equipment instruction and advanced contraband detection training on three mobile Vehicle and Cargo Inspection System (VACIS) vehicles deployed in 2006 to inspect trucks for drugs, explosives and other contraband.

Multilaterally, Mexico promoted efficient and effective anti-drug and anti-corruption policies. In December 2006, Mexico was elected Chair of the OAS/CICAD Working Group on Precursor Chemical and Pharmaceutical Control because of its leadership in the region in controlling precursor chemical diversion.

Accomplishments. Significant Mexican counternarcotics enforcement actions in 2006 included sophisticated organized crime investigations, marijuana and poppy eradication, strong bilateral cooperation on drug interdiction and arrests of several major drug traffickers. Those included Estephan Marin, an associate of the Juarez Cartel, Jorge Asaf who was wanted for distributing 1.5 MT of cocaine, Rolando Villareal and Octavio Arellano for each distributing 1 MT of marijuana and over 5 kg of cocaine, and Claudio Garcia Rodriguez for transporting 550 kg of opium. In 2006, the GOM arrested over 11,000 persons, including many significant drug leaders, lieutenants, operators, money launderers and assassins.

Law Enforcement Efforts. In 2006, Mexican authorities seized more than 21 MT of cocaine hydrochloride (HCl), 1,849 MT of marijuana, 0.4 MT of heroin and 0.6 MT of methamphetamines. They seized 1,220 vehicles, 46 maritime vessels and 15 aircraft, and arrested 11,579 persons on drug-related charges, including 11,493 Mexicans and 86 foreigners.

Corruption. As a matter of policy, no senior GOM official, nor the GOM encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or laundering of proceeds from illegal drug transactions. During 2006, the Fox Administration strictly targeted corruption. Aggressive investigations, better pay and benefits for employees and better selection criteria for Federal government employment have all deterred corruption. In 2006, the Secretariat of Public Administration (which investigates corruption across the Federal government) reported that 3,597 inquiries and investigations into possible malfeasance or misconduct by 2,693 federal employees resulted in the dismissal of 202 federal employees, the dismissal of an additional 743 employees with re-employment restrictions, the suspension of 953 employees, 1,040 reprimands and the issuance of eight letters of warning, as well as the imposition of 651 economic sanctions that brought over seven billion pesos in fines and reimbursements into the Treasury.

Agreements and Treaties. Mexico is a party to the 1961 United Nations Single Convention on Drugs (as amended by the 1972 Protocol) and to 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. 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), bringing the country into full adherence to the Convention. Mexico is also a party to the Inter-American Convention Against Corruption; in July 2004, it ratified its membership to the United Nations Convention Against Corruption. Mexico is a party to the 1988 UN Drug Convention.

The current bilateral Extradition Treaty has been in force since 1980. The 2001 Protocol to this Treaty allows for the temporary surrender for trial of fugitives serving a sentence in one country but wanted on criminal charges in the other. The United States and Mexico are also parties to a bilateral Mutual Legal Assistance Treaty (MLAT - 1991).

Extradition and Mutual Legal Assistance. In 2006, Mexican authorities extradited 63 fugitives to the United States, making it the fifth consecutive record year. Of the total number of extraditions, 30 were for narcotics related offenses in the United States and 47 were Mexican citizens. Extradition of significant leaders of drug trafficking organizations in 2006, however, was complicated by numerous and lengthy delays that these wealthy and powerful fugitives were able to procure through the use of the “amparo” appeal process in Mexico’s courts. Cooperation with Mexico for the return of fugitives steadily increased during the Fox Administration. In November 2005, the Mexican Supreme Court reversed a ruling that had prohibited Mexico’s extradition of fugitives facing life imprisonment without parole. That decision was a major breakthrough in the U.S./Mexico extradition relationship and in 2006 facilitated the extradition from Mexico of fugitives charged with narcotics and violent offenses.

Just prior to publication of this report in January 2007, for the first time, Mexico extradited several high-level traffickers whose extraditions had been delayed for some time due to judicial appeals or pending charges. Those included Osiel Cardenas Guillen, the leader of the Gulf cartel, Jesus Hector Palma Salazar of the Sinaloa cartel, and Ismael and Gilberto Higuera Guerrero of the Arellano Felix Organization, as well as Gilberto Salinas Doria and Miguel Angel Arriola Marquez.

In addition to extraditions, U.S. and Mexican law enforcement agencies also coordinated closely to deport or otherwise expel numerous fugitives to the United States. During 2006, Mexican police and immigration authorities -- in cooperation with the U.S. Marshals Service (USMS) and the Federal Bureau of Investigation (FBI), deported 150 non-Mexican fugitives (mostly U.S. nationals) to the United States to stand trial or to serve sentences. Many of these fugitives were wanted on U.S. drug charges.

Cultivation and Production. Mexican authorities also conducted extensive eradication efforts against opium poppy and marijuana, dedicating up to 30,000 soldiers and 6,000 sailors to eradication efforts in 2006. With annual Mexican domestic consumption estimated at 100-500 MT, the majority of the marijuana Mexico produces is bound for the U.S. market. Preliminary GOM data indicated that overall eradication of marijuana remained near the 2005 level, amounting to 29,928 ha of cannabis in 2006. The GOM also reported eradicating 16,831 ha of opium poppy cultivation in 2006. While this reflects a 12 percent decrease compared to 2005, it remains within the range set in prior years.

Drug Flow and Transit. U.S. officials estimate that over 90 percent of the cocaine departing South America that reaches the United States transits through Mexico. After cocaine arrives in Mexico, most is transported overland to the land border with the United States. En route, the cocaine is warehoused at various points throughout the country, with storage locations typically depending on where the DTO wields influence. Like marijuana, cocaine is primarily moved on commercial trucks modified with hidden compartments or concealed within legitimate cargo, as well as in autos, railcars and aircraft.

The Mexican heroin trade remains highly fragmented, unlike Mexican cocaine trafficking, which is dominated by the DTOs. A mix of opium farmers, heroin processors and small-scale trafficking groups operating independently or in mutually supportive business relationships controls Mexican heroin production. Typically, farmers sell their opium harvest to a trafficker with access to heroin processors and distribution networks.

Both the Mexican and U.S. Governments are concerned over the shift of the manufacture and trafficking of methamphetamine and its precursors into Mexico. Although concentrated in the areas of Baja California, Michoacan, Jalisco, Sinaloa and Sonora, methamphetamine production and trafficking can occur virtually anywhere in the country. While seizures of cocaine, heroin and marijuana along the U.S.-Mexico border have remained relatively stable over the last four years, seizures of methamphetamine have risen.

Domestic Programs. Domestic drug use is rising in Mexico. The most commonly used drug is marijuana, followed by cocaine and such inhalants as aerosol-propelled paints, glue, etc. Use is most prevalent along the border with the United States and in Mexico's central regions, while use is on the decline in southern Mexico. Methamphetamine abuse is on the rise, especially along the U.S. border. Mexico has 70,000-100,000 methamphetamine users, who consume 5-10 MT of the drug annually. The state of Baja California has a particularly severe abuse problem, centered in Tijuana. Federal health officials coordinate prevention, treatment and rehabilitation programs through use of state organizations, ancillary federal entities and private foundations.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Bilateral counternarcotics cooperation continued at unprecedented levels and represented one of the most positive aspects of the bilateral relationship. U.S. law enforcement personnel shared sensitive information on drug traffickers with select Mexican counterparts, resulting in the capture and conviction of drug traffickers, as well as significant seizures of illicit narcotics. USG/GOM coordinated interdiction efforts led to the Mexican military seizing over 16 MT of cocaine from maritime vessels; it also led to the seizure of 30 MT of marijuana. On several occasions USG assets on the high seas chased suspected smugglers into Mexican waters where the Mexican Navy continued the pursuit.

The GOM and the USG inaugurated the SENTRI (Secure Electronic Network for Traveler's Rapid Inspection) access lanes, constructed with NAS funding, at Tijuana/San Ysidro and Mexicali/Calexico in March, Nogales/Nogales in September, and Nuevo Laredo/Laredo in October. Construction began on the SENTRI access lane at Matamoros/Brownsville in October. Contractors prepared the design drawings for the new SENTRI lane at Reynosa/Hidalgo, and construction should begin early 2007. The SENTRI projects facilitate the cross-border movement of travelers who have enrolled in the program and undergone background investigations.

In 2006, the USG also provided Clandestine Laboratory training for law enforcement personnel to bolster local capabilities against synthetic drugs, particularly methamphetamine. The USG provided the AFI with equipment, including nine specially designed Clandestine Laboratory Vehicles.

Throughout 2006, the USG also supported institutional development across Mexico's law enforcement structure, one of the Fox Administration's top priorities. The U.S. and Mexican Governments cooperated on initiatives that enhanced the ability of law enforcement agencies to track and take down DTO members, while also targeting their ill-gotten gains through enhanced anti-money laundering efforts. Both governments also worked closely to address the border violence, particularly in Nuevo Laredo, that reflects a fierce struggle for control of the smuggling corridor in this area following the capture of various DTO leaders.

The USG's Law Enforcement Professionalization and Training Program provided 136 training courses to 4,526 GOM law enforcement officers. The PGR Police Academy continued the successful Criminal Investigations School initiated by the USG in 2004. Over 1,700 AFI candidates and agents have received this course in the past three years. In 2006, 385 information technology engineers received 79 related courses on computer software applications.

The Road Ahead. The record of accomplishment during the outgoing Fox Administration fosters high expectations for what might be achieved with the incoming Calderon Administration. Important institutional changes have resulted in a level of cooperation with U.S. law enforcement that would have been unimaginable even ten years ago.

The incoming Calderon Administration has enunciated a vision of public security that includes innovations in counternarcotics and law enforcement, including the reform of the justice system, the creation of a unified federal police force under a single command, the establishment of a

unified criminal information system and the development of a regime that will combat drug addiction.

V. Statistical Tables

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Drug Crop Cultivation (Unit):				
Opium:				
Harvestable Cultivation (Ha)	--	--	--	--
Eradication (Ha)	16,831	21,609	15,925	20,034
Potential Opium Gum (Mt)	--	--	--	--
Potential Heroin (Mt)	--	--	--	--
Cannabis:				
Harvestable Cultivation (Ha)	--	--	--	--
Eradication (Ha)	29,928	30,842	30,851	36,585
Net Cannabis Production (Mt)	--	--	--	--
Labs Destroyed:	17	39	23	22
Seizures:				
Cocaine (Mt)	21	30	27	21
Cannabis (Mt)	1,849	1,786	2,208	2,248
Opium Gum (Kg)	75	275	464	198
Heroin (Kg)	351	459	302	306
Methamphetamine (Kg)	621	979	951	751
Arrests:				
Nationals	11,493	19,076	18,763	8,822
Foreigners	86	146	180	163
Total Arrests	11,579	19,222	18,943	8,985

Notes:

(1) The PGR National Center for Analysis, Planning and Intelligence against Organized Crime (CENAPI) provided statistics on eradication, seizures and arrests.

Nicaragua

I. Summary

As part of the Central American isthmus, Nicaragua's position makes it a significant sea and land transshipment point for South American cocaine and heroin. The Government of Nicaragua (GON) is making a determined effort to fight both domestic drug abuse and the international narcotics trade, despite an ineffectual, corrupt, and politicized judicial system. The GON is also trying to prevent establishment of the criminal youth gangs. In 2006, Nicaraguan drug police and Navy forces seized 9,720 kg (kg) of cocaine. 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 United States and Canada but also to European markets. In 2006, Nicaragua seized large amounts of narcotics along its Atlantic coast, an area physically and culturally isolated from the rest of Nicaragua, including an April seizure of 763 kg of cocaine. In the last year, drug traffickers have shifted their methods of operation to avoid heavy patrols and detection on the Atlantic side; it is now estimated that three quarters of drug trafficking occurs on the Pacific Coast. Traffickers are using the numerous fishing channels on the Pacific side to hide their activities.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The GON is aware of its need to strengthen the legal system especially money laundering legislation, but was unable to pass adequate legislation in 2006. The Nicaraguan Navy established its first Naval Infantry Company to staff outposts on the numerous rivers and estuaries on Nicaragua's Caribbean Coast where drug trafficking predominates.

Accomplishments. In 2006, the GON carried out major seizures of transshipped South American cocaine and heroin headed for U.S. markets. The Nicaraguan National Police (NNP) also conducted operations against local drug distribution centers and large shipments transiting the country, gathering intelligence on their locations and making arrests. The extent of marijuana planting is unknown, but the GON eliminated 14,000 plants in 2006.

Law Enforcement Efforts. Nicaraguan authorities seized a total of 23.39 kg of heroin and 9,720 kg of cocaine in 2006, arrested 67 international traffickers (20 of which have been convicted and sentenced), and seized nearly \$3 million in U.S. currency. The GON also uncovered arms trafficking related to these cases and seized a cache of weapons that included 3 grenade launchers, 2 Uzis, 9 AK-47s, several pistols and machine guns and ammunition for all the weapons in April. In October, the NNP seized 39 AK-47s and two pistols which were directly tied to drug trafficking. According to law enforcement sources, most weapons cases in Nicaragua are linked to Colombian terrorist organizations.

The police Narcotics Unit have 95 officers (down from 116 in 2005), including administrative support, to cover all of Nicaragua. The 850-man Nicaraguan Navy, with assistance from the USG, is developing a long-range patrol capability, using two donated patrol boats have been completely retrofitted as of 2006. With USG assistance the Nicaraguan Navy has revamped and put into operation a captured narcotics vessel, which will support extended blue water operations off the Caribbean coast of Nicaragua.

Corruption. As a matter of policy, The GON does not encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of

proceeds from illegal drug transactions. However corruption is a pervasive and continuing problem, despite attempts to address it. Multiple factors make it difficult to eliminate corruption, including low salaries for police and judges and poor law enforcement infrastructure. Nicaragua's weak and corrupt criminal justice system lowers the risk of detection and effective prosecution, encouraging the proliferation of narcotics trafficking and transnational criminal organizations. Cash rich criminals have acquired a cloak of impunity through bribery and extortion of judicial and law enforcement officials.

The Nicaraguan justice system is also politicized, with posts awarded based on political affiliation and court decisions manipulated for political ends. 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. Several judges had their U.S. visas revoked in 2006 due to corruption and/or their involvement in drug trafficking. The Nicaraguan Attorney General (who represents the interests of the state) has been publicly critical of the inactivity and ineffectiveness of the Financial Analysis Commission controlled by the Prosecutor General (who represents society). The Prosecutor General initiated not a single money-laundering investigation in 2006. On a positive note, the new Police Chief began her tenure in September by implementing immediate anti-corruption measures, including replacing some key personnel. Naval personnel working counter drug operations are routinely rotated and personal effects are searched to deter corruption. Nicaraguan Army military justice regulations allow for the imposition of strict penalties for corruption and treason.

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) and is about to be sanctioned for its failure to comply with the requirements and recommendations outlined in its most recent country report. 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. The exact amount of marijuana cultivated in Nicaragua is unknown, but the quantity and quality are low, and it is consumed locally. Other illegal drugs are not cultivated or produced in Nicaragua.

Drug Flow/Transit. GON and USG law enforcement authorities report that there is evidence of increased trafficking on the Pacific coast by air and sea. Aircraft suspected to be smuggling narcotics have crashed along the Pacific Coast, but drugs and passengers were gone before law enforcement officials arrived on the scene. Clandestine airstrip construction on the Pacific Coast is another indicator of the shift in trafficking. Along with the air transport of narcotics, maritime transport of cocaine along the Pacific Coast increased dramatically in 2006. The Navy seized several vessels near San Juan del Sur and Pochomil. Together with the NNP, the Nicaraguan Army Special Operations Unit seized 3,100 kg of cocaine and 12 assault rifles on the Montelimar-Managua highway, near San Juan del Oeste -- the largest seizure of cocaine in Nicaraguan history. Five suspects were arrested with links to a Mexican drug trafficking cartel. Another key area for Nicaraguan law enforcement is the Penas Blancas land crossing on the Costa Rican border, which

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.

The Atlantic/Caribbean coast is 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, which makes the illicit drug trade extremely attractive to local residents. 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.

Domestic Programs (Demand Reduction). Drug consumption in Nicaragua is a growing problem, particularly on the Atlantic coast, where the increase in narcotics trans-shipment during recent years has generated a rise in local drug abuse. The Ministries of Education and Health, the NNP, and the Nicaraguan Fund for Children and Family (FONIF) have all undertaken limited demand reduction campaigns. The D.A.R.E. (Drug Abuse Resistance Education) Program, established in Nicaragua in 2001, has grown to include secondary schools. During the second two years of the program, 2004-2006, 22,000 students received certificates.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During 2006, the United States provided counternarcotics and law enforcement assistance to the NNP. The USG continued support to the Nicaraguan Navy with maintenance and refurbishment of three large naval boats and numerous smaller patrol boats for maritime interdiction on both the Atlantic and Pacific coasts. The USG provided eight Zodiac boats with motors to the Nicaraguan Navy and Naval Infantry to begin patrolling in the numerous estuaries along Nicaragua's Caribbean Coast, and secure communications devices for the Navy. In 2006 the USG ordered specialty equipment, spare parts, and outboard motor replacements for the Nicaraguan Navy patrol boats, which will be delivered in 2007. 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 USG provided a Resident Legal Advisor and other related programs and activities to the GON in support of a new multi-agency anticorruption initiative that will include the police, Attorney General and other government agencies.

The Road Ahead. The USG hopes to work cooperatively with Nicaragua's new leaders to address the threat that illegal drugs pose to Nicaraguan society and the country's sovereignty. Nicaragua still needs anti-corruption reform, including professionalization and de-politicization of the judiciary and the Prosecutor General's office, and the passage and application of stronger statutes to combat corruption and money laundering. Amendment of Nicaraguan law and constitution to allow for extradition of Nicaraguan citizens who commit extraterritorial crimes could break the cycle of impunity.

Panama

I. Summary

By virtue of its geographic position and well-developed transportation infrastructure, Panama is a major drug trans-shipment country for illegal drugs to the United States and Europe. The Torrijos Administration has cooperated closely with the U.S. and its other neighbors on security and law enforcement issues. U.S. support to Panama's law enforcement agencies, including assistance in restructuring their organizations, remains crucial to ensure fulfillment of agency missions. Panama is a party to the 1988 United Nations Drug Convention.

II. Status of Country

Panama's geographic proximity to the South American cocaine and heroin producing countries makes it an important trans-shipment point for narcotics destined for the U.S. and other global markets. Panama's containerized seaports, the Pan-American Highway, a rapidly growing international hub airport, numerous uncontrolled airfields, and unguarded coastlines on both the Atlantic and Pacific facilitate drug movement. Smuggling of weapons and drugs continues, particularly between the Darien region and Colombia. Over the last year, Panamanian authorities have paid greater attention to security along the border with Costa Rica, inaugurating a border check post in Guabala in May 2006. The flow of illicit drugs has contributed to increasing domestic drug abuse, encouraged public corruption, and undermined the Government of Panama's (GOP) criminal justice system. Panama is not a significant producer of drugs or precursor chemicals. However, cannabis is cultivated for local consumption.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The Torrijos Administration considers counternarcotics and anti-crime cooperation with the U.S. and combating corruption key priorities. A legal reform proposal currently before Congress will modify the criminal system from a written (inquisitorial) to an oral (accusatorial) system. The GOP has also drafted legislation to merge the current National Air Service (SAN) and National Maritime Service (SMN) into a Coast Guard.

Accomplishments. USG law enforcement agencies continued to enjoy a cooperative relationship with GOP counterparts in narcotics-related criminal matters. International drug-related arrests increased slightly since last year. A three-year investigation by the Drug Prosecutors Office (DPO), the Public Ministry's Technical Judicial Police (PTJ), and several other law enforcement agencies in the region culminated in the May 2006 arrest in Brazil of Pablo Rayo Montano, a Colombian-born drug kingpin. Assets located in Panama belonging to his criminal cartel were among those seized by the GOP following his indictment by a U.S. federal court in Miami.

Law Enforcement Efforts. Drug Enforcement Administration (DEA)-monitored statistics for 2006 indicate seizures of over 36 metric tons (MT) of cocaine, 107.24 kg (kg) of heroin, over 4 MT of marijuana, over \$8 million (including cash, diamonds and gold), 299 arrests for international drug-related offenses, and seven extraditions for such offenses. In 2006, U.S. Immigration and Customs Enforcement (ICE) developed a joint strategic bulk cash smuggling initiative with Panamanian Customs called Operation Firewall, which resulted in seizures of approximately 40 kg of gold (valued at approximately \$900,000), \$357,100 in U.S. currency, and 26,000 Euros.

Several USG-supported GOP units grew and expanded operations in 2006- the PTJ Sensitive Investigative Unit (SIU) responsible for investigations of major drug and money laundering organizations; as well as the Panamanian National Police (PNP) Mobile Inspection Unit and Paso

Canoas (Costa Rica border) Interdiction Enhancements, the Tocumen International Airport Drug Task Force, and the Canine Unit made major arrests and seizures.

The SMN responds to USG requests for boarding and interdictions, assists the U.S. Coast Guard (USCG) with verifying ship registry data, and transfers prisoners and evidence to Panama for air transport to the United States.

The SAN provides excellent support for counternarcotics operations, for example, seizing 500 kg of cocaine and a stolen aircraft, and apprehending two Mexican traffickers in April 2006. The SAN also participated in the interdiction of several go-fast targets in cooperation with JIATF South, and seized a twin engine King Air B-90 when traces of drugs were detected through an IONSCAN machine donated by the USG. The SAN patrols and photographs suspect areas, identifies suspect aircraft, and provides logistical support in the transfer of detainees and drug evidence through Panama to U.S. jurisdiction.

The GOP has begun to draft legislation (requiring passage by Congress) to merge the SMN and SAN into a “Coast Guard.”

Corruption. President Torrijos’s administration, through its National Anti-Corruption Commission, which is charged with coordinating the government’s anticorruption activities, made strides towards purging corruption from government, including auditing government accounts and launching investigations into major public corruption cases. Despite the Torrijos Administration’s public stance on corruption, few high-profile cases, particularly involving political or business elites, have been acted upon. A USG-funded “Culture of Lawfulness” program has trained officials from the Ministry of Education, the PNP, and the PTJ, and a separate initiative to train twelve PNP officers as certified polygraphists has resulted in improved PNP candidate selection.

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 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. A mutual legal assistance treaty and an extradition treaty are in force between the U.S. and Panama, although the Constitution does not permit extradition of Panamanian nationals. A Customs Mutual Assistance Agreement and a stolen vehicles treaty are also in force. 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 three protocols, and is a signatory to the UN Convention Against Corruption. Panama is a member of the Organization of American States and is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters and the Inter-American Convention Against Corruption.

Cultivation and Production. There have been no confirmed reports of cocaine laboratories in Panama since 1993-94. Limited cannabis cultivation, principally for domestic consumption, exists in Panama, particularly in the Pearl Islands.

Precursor Chemicals. Panama is not a significant producer or consumer of chemicals used in processing illegal drugs. However, it is believed that a significant volume of chemicals transits the Colon Free Zone (CFZ) for other countries. The Panamanian agencies responsible for chemical control are the National Drug Control Council (CONAPRED) and the Ministry of Health. Legislation to strengthen Panama’s chemical control regime was signed by President Torrijos in April 2005. With the new precursor chemical control legislation in place, focus shifted in 2006 towards capacity building to implement the new laws. The new legislation created a chemical control unit, which is co-located with the Joint Intelligence Coordination Center (JICC), a multi-agency intelligence information center manned by members of all public forces and the PTJ with direct access to over 25 databases. The Chemical Control Unit worked closely with DEA Diversion

Investigators to initiate investigations on suspicious companies. The Chemical Control Unit identified 20 companies that need to be monitored on a regular basis and conducted administrative inspections at several company sites. The Chemical Control Unit also coordinated with the PNP Narcotics Unit to conduct the necessary enforcement operations. The GOP also improved its ability to combat precursor chemical diversion through training and by conducting joint investigations with the DEA in 2006.

Drug Flow/Transit. Panama remains an integral territory for the transit and distribution of South American cocaine and heroin, as indicated by the more than 36 metric tons (MT) of cocaine and over 100 kg of heroin seized in 2006. The drugs were moved in fishing vessels, cargo ships, small aircraft, and go-fast boats. Illegal airplanes utilized hundreds of abandoned or unmonitored legal airstrips for refueling, pickups, and deliveries. Couriers transiting Panama by commercial air flights also moved cocaine and heroin to the U.S. and Europe during 2006.

Domestic Programs (Demand Reduction). Through CONAPRED the GOP is implementing a five-year counternarcotics strategy that includes 29 demand reduction, drug education, and drug treatment projects for 2002 through 2007. The GOP has set aside \$6.5 million to fund the projects. In 2006, CONAPRED funded seven prevention and/or treatment projects with a total cost of approximately \$1.05 million. The Ministry of Education and CONAPRED, with USG support, promoted anti-drug training for teachers, information programs, and supported the Ministry of Education's National Drug Information Center (CENAID).

IV. U.S. Policy Initiatives and Programs.

Policy Initiatives. USG-supported programs focus on improving Panama's ability to intercept, investigate, and prosecute illegal drug trafficking and other transnational crimes; strengthening Panama's judicial system; assisting Panama to implement domestic demand reduction programs; encouraging the enactment and implementation of effective laws governing precursor chemicals and corruption; improving Panama's border security; and ensuring strict enforcement of existing laws.

The Narcotics Affairs Section (NAS) in the U.S. Embassy provided crucial equipment and training support for the Fluvial (riverine) division of the PNP, one of the major success stories of the GOP's interdiction efforts. The NAS Department of Homeland Security (DHS), and USCG provided resources for modernization and upkeep of SMN boats and bases, and began assisting SAN in providing air patrol platforms for drug interdiction efforts. The USG provided Panamanian Customs with training, operational tools, and a canine program that has become a linchpin of the Tocumen Airport Drug Interdiction Law Enforcement Team.

A major NAS law enforcement modernization project to professionalize the PNP involves implementing community policing, expanding existing crime analysis technology, and promoting managerial change to allow greater autonomy and accountability. Work is nearly complete on the initial phase of the national crime tracking and mapping system (INCRIDEFA), which will enable the PNP to track criminal incidents in real time. Training to achieve police management change has been developed with the Miami-Dade Police Department and the University of Louisville Southern Police Institute.

In 2006 the USG also assisted the GOP in upgrading the Attorney General's Anti-Corruption Prosecutor's Office. The USG supplied training, computers, office equipment, and other necessary gear.

Bilateral Cooperation. The Torrijos' Administration continued to sustain joint counternarcotics efforts with the DEA and to strengthen national law enforcement institutions. The maritime interdiction agreement has facilitated enhanced cooperation in interdiction efforts, with Panama

playing a vital role in facilitating the transfer of prisoners and evidence to the U.S. enabling USG assets to remain on patrol in theater.

The Road Ahead. The USG encourages Panama to devote sufficient resources to enable its forces to patrol land borders along Colombia and Costa Rica; its coastline, and the adjacent sea-lanes; and to increase the number of arrests and prosecutions of major violators, especially in the areas of corruption and money laundering. The USG will work closely with the GOP on the development of a new Panamanian Coast Guard, and support law enforcement modernization through improved equipment maintenance, strategic planning, decentralization of decision-making, and community-oriented policing philosophies.

V. Statistical Tables

Drug Seizures and Arrests in Panama

CY 2004 – CY 2006

(In kg unless otherwise specified)

	2004	2005	2006
Cocaine	7,080	13,793	36,635.5*
Heroin	97	41.6	107.24
Marijuana	4,046	12,411.9	4,276.9
MDMA	-0-	2,432 tablets	-0-
Pseudoephedrine	3,006,430 tablets	-0-	-0-
Amphetamines	-0-	-0-	926 tablets
Currency	\$1,946,645.00	\$10,294,798	\$8,384,761.39+
Arrests	231	308	299
Prisoner Transfers (#of events/# of prisoners)	9/113	12/84	12/100
Renditions	3	3	0
Extraditions/Self-Surrenders	3	5	7
Labs Destroyed	-0-	-0-	-0-

* Includes 8 interdiction/seizure events in international waters resulting from PCO information/coordination.

+ Includes U.S. currency value of seized diamonds and gold.

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. In 2006, the GCOB extradited drug trafficker, Samuel “Ninety” Knowles, who had been fighting his extradition to the U.S in the courts since 2001. The GCOB also seized or froze nearly \$2 million in assets derived from drug trafficking and money laundering. A joint GCOB/USG investigation into narcotics smuggling at the airport resulted in the arrest of nine baggage handlers in the U.S. and The Bahamas. 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 astride maritime and aerial routes between South American drug producing countries and the U.S., is an attractive location for drug transshipments of cocaine, marijuana and other illegal drugs. Based upon seizures, cultivation of marijuana on remote islands and cays appears to have increased in 2006. The Bahamas is not a producer or transit point for drug precursor chemicals. In 2006, The Bahamas continued to participate as an active partner in "Operation Bahamas and Turks and Caicos" (OPBAT)--a multi-agency international drug interdiction effort established in 1982.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In furtherance of its efforts to implement the 2004 National Anti-Drug Plan, in June 2006 the GCOB dedicated office space for the National Drug Secretariat but has yet to name someone to head it. The Cabinet approved draft precursor chemical control legislation and sent it to the Law Commission for reconciliation with existing laws. The measure should be introduced into Parliament in early 2007. The GCOB and the Government of Haiti began negotiations concerning the placement of Haitian National Police officers on Great Inagua Island to improve the collection of intelligence from Haitian trawlers passing through Bahamian waters.

Accomplishments. In 2006, 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 August 2006, the GCOB extradited accused drug trafficker, Samuel, “Ninety” Knowles to the U.S. Knowles was designated as a drug Kingpin by President Bush in 2001, and his extradition was a top USG priority. During 2006, including OPBAT seizures, Bahamian authorities seized 1.6 metric tons of cocaine (double that seized in 2005) and over 140 metric tons of marijuana (a ten-fold increase over 2005). The DEU arrested 1,399 persons on drug-related offenses and seized drug-related assets valued at nearly \$2.5 million.

Law Enforcement Efforts. During the year, the RBPF participated actively in OPBAT whose mission is to stop the flow of cocaine and marijuana through The Bahamas to the U.S. U.S. Army and Coast Guard helicopters intercepted maritime drug smugglers detected by Department of Homeland Security surveillance aircraft and on occasion, the Cuban Border Guard. Officers of DEU and the Royal Turks and Caicos Islands Police also flew on OPBAT missions and made arrests and seizures. Aerial reconnaissance identified marijuana fields under cultivation on remote islands and cays leading to record seizures of marijuana by the GCOB in 2006. GCOB 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. Following an eight-month long RBPF/DEA investigation into narcotics smuggling at the airport, five baggage handlers were arrested in the U.S. and four others were arrested in The Bahamas.

To enhance the results of drug interdiction missions, The Royal Bahamas Defense Force (RBDF) provided vetted officers to the DEU in 2006. The RBDF also agreed to position a DOD funded fast-boat in Great Inagua to provide OPBAT endgame capabilities. The DEA in conjunction with the DEU and Bahamian Customs initiated a program in Great Inagua to enforce GCOB requirements that vessels entering Bahamian waters check-in with Bahamian Customs. In September, the GCOB and the Government of Haiti reached an agreement in principle to provide Haitian National Police officers to work with Bahamian counterparts to interview Creole-speaking crewmembers of trawlers that are interdicted or that register with Bahamian Customs in Great Inagua. During 2006, the RBDF assigned 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 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 2006. The RBPF anticorruption unit reported that during 2006 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 30 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. In the case of Samuel Knowles the process took five years. The USG also has a Comprehensive Maritime Agreement (CMA) with The Bahamas, which entered into force in 2004 replacing a patchwork of disparate safety, security and law enforcement agreements. Among its provisions, the CMA permits seamless cooperation in Counterdrug and migrant interdiction operations in and around Bahamian territorial seas, including the use of ship riders and expedited boarding approval and procedures.

Cultivation and Production. The majority of marijuana seized in 2006 was in plant form grown by Jamaican nationals on remote islands and cays of the Bahamas. OPBAT and the RBPF cooperated in identifying, seizing and destroying the marijuana. Although there are no official estimates of marijuana hectareage in the islands, cultivation of marijuana by Jamaicans is a new trend.

Drug Flow/Transit. The cocaine flow originates in South America and arrives in The Bahamas via go-fast boats, small commercial freighters, or small aircraft from Jamaica, Hispaniola and Venezuela. According to USG law enforcement, sport fishing vessels and pleasure crafts then transport 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 1,000 to 3,000 pounds of marijuana shipments from Jamaica to The Bahamas. These shipments are moved to Florida in the same manner as cocaine. During 2006, law enforcement officials identified 35 suspicious go-fast type boats on Bahamian waters. In addition, there were 11 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 cruise ship ports.

In 2006 Bahamian law enforcement officials also identified shipments of drugs in Haitian sloops and coastal freighters. According to the U.S. Joint Interagency Task Force – South, multi-ton cocaine shipments to the Turks and Caicos Islands and The Bahamas from Venezuela and Colombia took place during the year. However, none of these shipments were successfully interdicted. Illegal drugs have also been found in transiting cargo containers stationed at the Port Container facility in Freeport. DEA/OPBAT estimates that there are a twelve to fifteen major Bahamian drug trafficking organizations.

Domestic Programs. In 2006, the quasi-governmental National Drug Council coordinated 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. The focus of the prevention/education program in 2006 was schools and youth organizations.

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 2006, 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 2006, the U.S. and the CGOB concluded negotiations to include the Freeport Container Port as part of the Department of Homeland Security's Container Security Initiative (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 also provided funding to the National Drug Council and the Drug Action Service to extend their demand reduction education campaign throughout Bahamian public schools and to the Family Islands.

Road Ahead. The Bahamas will likely continue to be a preferred route for drug transshipment and other criminal activity because of its location and the expanse of its territorial area. We encourage the Bahamian Government to continue its strong commitment to joint counternarcotics efforts and its cooperative efforts to extradite drug traffickers to the U.S. The GCOB can further enhance its drug control efforts by integrating Creole speakers into the DEU and work with HNP officers stationed in Great Inagua to develop information on Haitian drug traffickers transiting the Bahamas, as well as introducing precursor chemical control legislation to the Parliament. The USG will continue to support RBPF efforts to convert seized boats for use in interdiction operations, and 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 within the transshipment corridor for narcotics trafficking in the Caribbean. A key factor exposing Cuba to the dangers of narcotics trafficking is residual shipments of drugs that sometimes wash ashore. Over 600 kg (kg) of marijuana and cocaine was recovered by Cuban Border Guard troops along the Cuban shores in 2006 and another 943 kg of marijuana was seized from a go-fast boat in Cuban waters. Cuba is also exposed to drug trafficking by foreign tourism, trade, and economic relations with other source and transit countries.

This drug problem has been fought as part of the “Battle of Ideas”, a national propaganda campaign launched by the Cuban government in 2000. Enforcement activities during 2006 were limited. The GOC national strategy for maritime and aerial interdiction stems from its continued execution of Operation Hatchet III, a multi-force initiative. Although there was a slight increase in aerial and maritime sightings in Cuban territory in 2006 compared to 2005, drug seizures declined to the lowest level in 10 years.

The GOC pursues an aggressive internal enforcement and investigation program against its incipient drug market. It has increased the range and effectiveness of its drug law enforcement authorities. Cuba has maintained Operation Popular Shield, its effective nationwide drug prevention and awareness campaign. This social-order approach to combating illicit drug trafficking is established through a national crime watch-training program for neighborhood organizations to reinforce control of drug trafficking and other crimes in the community. The training, organized by the Committees for the Defense of the Revolution (CDR), is within the scope of the control and surveillance activities performed by the CDR.

II. Status of Country

Although Cuba is not a major drug-producing country and its level of internal consumption is small compared to other countries in the region, Cuban officials acknowledge an incipient market does exist. There are Cubans willing to cultivate low quality marijuana or tempted to try to sell contraband that may have been found washed ashore. According to the Cuban Government, the Border Guard interdicts ninety percent of the drugs that Cuban law enforcement authorities seize. The lead investigative law enforcement agency on drugs in Cuba is the Ministry of Interior’s National Anti-Drug Directorate (DNA).

III. Country Actions Against Drugs in 2006

Policy Initiatives. The Government of Cuba enforced its Decree 232 “On the Confiscation for Deeds Related with Drugs, Acts of Corruption and Other Illicit Behavior” which entered into effect in 2003 and is in agreement with Article 60 of the Cuban Constitution. 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 investigates suspected narcotics traffickers, and works with the drug commission to carry out a nation-wide public awareness campaign.

In December of 2006, the GOC hosted the eighth bi-annual International Penal Science Congress in Havana to modernize legal frameworks and criminal justice systems. The congress brings together lawyers, judges, prosecutors and criminologists and provides a forum to discuss more effective prosecution of major criminals.

Law Enforcement Efforts. Cuba's Operation Hatchet, in its sixth year, disrupts maritime and air trafficking routes, recovers washed-up narcotics, and denies 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 relies on shore-based patrols, visual and radar observation posts, and the civilian fishing auxiliary force and civilians ashore to report 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 self-defense 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 reported to U.S. Coast Guard authorities sightings of 33 suspect targets (9 aircraft and 24 go-fasts) in 2006 transiting their airspace or territorial waters, a slight increase over the 31 sightings (7 aircraft and 24 go-fast) in 2005. They have also provided, albeit with occasional impediments, investigative criminal information on drug trafficking cases.

The lead investigative law enforcement agency on drugs is the Ministry of Interior's National Anti-Drug Directorate (DNA). The DNA is comprised of criminal law enforcement, intelligence and justice officials. Cuban Customs maintains an active counternarcotics inspection program at maritime ports and airports. In 2004, Cuba re-established its International Criminal Police Organization (INTERPOL) office in Havana. The GOC works with the World Customs Organization and in 2005 established an integrated container examining facility at the port of Havana to house a large custom's x-ray system.

Cuba has received counternarcotics training from Canada, France and the United Kingdom. The GOC has set up an internal program to pass this knowledge on to over 300 of their customs officers. The training extends from narcotic dog handling to x-ray techniques for the detection of suspected "mules" and "swallowers".

Drug Seizures/Arrests. Drug seizures declined during 2006 to their lowest level in ten years. The GOC reported the seizure of 1.5 metric tons of illicit narcotics. In October, Cuban Border Guard disrupted, chased and recovered seventy-three bales of marijuana from a drug laden go-fast boat. The marijuana, weighing 943 kg, marked Cuba's largest seizure of drugs for 2006. An additional 600 kg. (525 kg. of marijuana and 75 kg. of cocaine) were confiscated from the recovery of washed-up contraband picked up by Cuban Border Guard troops and coastal watch stations. Eleven cases of airport seizures netted 14 kg. of narcotics. All eleven cases took place at Jose Marti International Airport in Havana. In almost all cases involving foreign tourists detected with narcotics for personal consumption, after being fined, they are allowed to continue their visit. Operation Popular Shield resulted in the final 22kg of narcotics (20kg of marijuana and 2kg of cocaine) seized from Cuba's domestic market. Since Operation Popular Shield began in 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.

Corruption. The U.S. government does not have direct evidence of current narcotics-related corruption among senior GOC officials, although regular anecdotal reports of corruption throughout all levels of Cuban society and government continue to circulate. No mention of GOC complicity in narcotics trafficking or narcotics-related corruption was made in the media in 2006; however, the media in Cuba is completely controlled by the state, which permits only laudatory press coverage on itself. Crime is almost never reported. Cuba has not signed the Inter-American Convention Against Corruption.

Agreements and Treaties. Cuba is a party to the 1988 UN Drug Convention, the Convention on Narcotic Drugs as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention.

The GOC cooperates with the United Nations Office for Drug Control and Crime Prevention and 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. In an effort to demonstrate international collaboration, Cuba is an active participant in the annual Latin America and the Caribbean meeting for Heads of National Law Enforcement Agencies (HONLEA).

Cultivation/Production. Cuba's National Revolutionary Police and National Association of Small Farmers acknowledge the smuggling of marijuana seeds into the country. In 2006, GOC seized 2,115 plants of marijuana and 16,839 marijuana seeds. Cuba is not a source of precursor chemicals, nor have there been any incidents involving precursor chemicals reported in 2006.

Drug Flow/Transit. According to JIATF-S, narcotics smuggling through Cuban territory decreased in 2006. Traffickers take advantage of Cuba's 4,000 small keys and the 3,500 nautical miles of shoreline, which create ample opportunities for clandestine smuggling operations. Traffickers use high-speed boats to bring drugs northward from Jamaica to the Bahamas, Haiti and to the U.S. around the Windward Passage or small aircraft from clandestine airfields in Jamaica. Small quantities of narcotics are trafficked via Cuba's international airports, in which drug couriers or "mules" carried narcotics to and from Europe.

Domestic Programs. The governing body for prevention, rehabilitation, and policy issues is the National Drug Commission (CND), 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 and Public Education. Also represented on the commission are the Attorney General's Office and the National Sports Institute. 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 CND aims to implement a long-term domestic prevention strategy that is included as part of the educational curriculum at all grade levels.

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. 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. In January 2006, the GOC invited the DIS to provide technical assistance and observe Cuban officials conduct an inspection of the M/V "Megan". A specialized Cuban team conducted a three-day search, complete dockside boarding and sounding of the vessel, which yielded negative results for drugs. At the GOC request, DIS has provided briefings on compartmentalized search techniques. These professional exchanges cover specific U.S. Coast Guard boarding methods. DIS was also taken for a site visit in November and given an operational synopsis of Cuba's only maritime drug disruption of the year, a go-fast vessel that eluded capture and discarded 943kg of marijuana.

Cuban authorities, on occasion, have arrested individual drug traffickers and provided investigative information on narcotics trafficking cases. The sharing of this information, however, is never systematic. In May 2006, the GOC denied permission for a DEA delegation to meet and debrief incarcerated drug trafficker Luis Hernando Gomez-Bustamante, of Colombia's Norte del Valle cartel, who was detained on immigration charges.

The Road Ahead. Cuban officials profess interest in developing with the U.S. government bilateral agreements to combat drug trafficking. Such agreements are not possible until the Cuban regime grants access to international narcotics traffickers seeking refuge and protection under the GOC and the regime stops using alleged counternarcotics efforts as a pretense to also repress economic and political activities. When Cuba transitions to the post-Fidel-Castro era, cooperation on law enforcement could become more significant. Additionally, both the USG and Cuba could be more successful if cooperation were more systematic. Cuba's geographic position alone makes it a key to halting the flow of drugs through the Caribbean to the United States. A post-Castro, democratic Cuba could be a valuable ally in the war against drugs.

Dominican Republic

I. Summary

The Dominican Republic (DR) is a major transit country for illicit drugs from South America, with cocaine transiting to Europe, and both cocaine and heroin to the United States and Europe. In 2006, the DR saw a surge in air smuggling of cocaine out of Venezuela. The DR continued cooperation in extraditing fugitives to the U.S. and increased deportations of criminals. Seizures of heroin, cocaine and MDMA increased. The DR made advances in its domestic law enforcement capacity, institution building and interagency networking; and made progress in prosecuting major bank fraud and government corruption cases. In spite of these positive signs, corruption and weak governmental institutions remained an impediment to controlling the flow of illegal narcotics. The DR 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 and use the DR as a trans-shipment hub. According to the U.S. Joint Interagency Task Force –South (JIATF-S) the number of drug smuggling flights from Venezuela to Hispaniola increased by 167 percent from 2005 to 2006. Approximately two thirds of the flights went to the DR. Fishing and “go-fast” boat crews involved in drug trafficking in the Caribbean include Dominican nationals. Interdicted MDMA (Ecstasy) was most often transported from Europe to the United States. The DR does not import or export a significant amount of ephedrine or any other precursor chemicals utilized in the manufacture of amphetamines or methamphetamines.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2006 the DR continued to struggle to implement anti-money laundering legislation passed in 2002; and its Financial Analysis Unit, which became operational in 2005, still lacks the resources and institutional support to perform effectively. The U.S. is working with DR prosecutors and law enforcement agencies on joint money-laundering investigations. In 2006, the DR signed the Cooperating Nations Information Exchange System agreement allowing the installation of equipment to track and respond to suspected drug smuggling aircraft headed for the DR.

Accomplishments In 2006 Dominican authorities seized 5 metric tons of cocaine, 236.8 kg. of heroin, 363,433.6 units of MDMA, and 362.4 kg. of marijuana. One single seizure in September netted a record 2.5 metric tons of cocaine. The DNCD made 8,809 drug-related arrests in 2006. Of these, 8,563 were Dominican nationals and 246 were foreigners.

Law Enforcement Efforts. The DEA Center for Drug Information (CDI), housed in the DR National Drug Control Directorate (DNCD), serves as a clearinghouse for intelligence within the Caribbean, and this intelligence sharing plays an important part in interdiction efforts. 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 DEA counterparts concentrated on investigations leading to the takedown of large criminal organizations.

In 2006, the DR supported its counternarcotics and explosive detection canine units at its international airports and major seaports. Canine units at the five major airports in the country also received updated explosives training and certification in 2006. Plans are underway to establish a canine training facility at an active Army base, and the DNCD is purchasing additional canines for

training in drug detection. 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 U.S. Coast Guard (USCG) executed two joint maritime operations with the Dominican Navy that focused on the human smuggling and illicit drug threats from DR to Puerto Rico via maritime routes in the Mona Passage.

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.

Drug Flow/Transit. In 2006, 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. According to JIATF-S, there were 75 suspect drug flights from Venezuela where a permissive environment is allowing smuggling aircraft to operate with impunity. During the year, drugs were easily accessible for local consumption in most metropolitan areas. In 2006, 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 kg of cocaine.

Extradition. The U.S.-Dominican Extradition Treaty dates from 1909. Extradition of nationals is not mandated under the treaty, but, in 1998, President Fernandez signed legislation permitting such extraditions. During 2005, judicial review was added to the procedure for extradition, making extraditions more transparent. In 2006, the U.S. Marshals Service continued to receive excellent cooperation from the DNCD Fugitive Surveillance/Apprehension Unit and other relevant Dominican authorities in arresting fugitives and returning them to the United States to face justice. The DR extradited 26 Dominicans, notable among them Luis de la Rosa Montero, the head of a well-organized international drug trafficking organization responsible for transporting thousands of kg. of cocaine and heroin into Puerto Rico from the DR and neighboring islands using go-fast boats. The DR also arrested and deported 21 U.S. and third-country national fugitives back to the U.S. for prosecution purposes. Of these 47 cases, 38 were narcotics-related.

Agreements and Treaties. The DR is a party to the 1988 UN Drug Convention. In 1984, the USG and the DR 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 DR signed, but has not yet ratified, the Caribbean Regional Maritime Agreement. The DR is not party to the OAS Mutual Legal Assistance Treaty and no bilateral mutual legal assistance treaty is in effect. Direct requests for judicial cooperation continue to be made through letters derogatory, but are always scrupulously honored. The DR signed the Cooperating Nations Information Exchange System agreement in 2006.

Corruption. As a matter of policy, the DR does not encourage or facilitate illicit production or distribution of narcotics, psychotropic drugs, and other controlled substances, nor does it contribute to drug-related money laundering. The DR has made efforts to reduce the influence of narcotics traffickers in the judicial system – removing at least 24 judges from office in 2006 for improperly handing out favorable sentences to known narcotics traffickers. Dominican institutions nevertheless remain vulnerable to influence by narcotics traffickers. Aggravating this situation is the fact that endemic corruption and favoritism among the DR's law enforcement elite lead to frequent changes in office among its command-level officers, retarding any progress made with prior officials. In October 2006, the DR prosecuted its first money laundering case, filing charges against drug trafficker Quirino Paulino and member of his family. The DR has moved forward on implementing

the 2003 Career Law for Prosecutors, graduating 100 newly hired prosecutors from the National School of the Public Ministry and converting another 27 prosecutors from provisional status. The Attorney General pursued several corruption investigations in 2006, at least one of which resulted in the arrest of a senior DNCD official for extortion. A financial disclosure law for senior appointed, civil service and elected officials has been implemented in the DR, but lack of auditing controls and sanctions weakened the effectiveness of this measure. The DR is a party to the Inter-American Convention Against Corruption.

Demand Reduction. In 2006, the DNCD conducted 155 sporting events and seminars regarding the effects and use of narcotics and drugs. Approximately 300,000 Dominican youths participated in these events. The USG believes that the demand for narcotics in the Dominican Republic is increasing because narcotics are often used as a method of payment for transit. No official surveys regarding domestic drug use have ever been undertaken due to a lack of resources.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During 2006, the USG continued to provide equipment and training to maintain the drug and explosive detection canine units, support the DNCD's vetted special investigation unit, enhance DNCD computer training, database expansion and systems maintenance support, improve the DNCD's capability to detect drugs smuggled through airports, and provide training and equipment to enhance the DR's anti-money laundering capacity. The FBI office presented a course on Basic Crime Scene Investigation in March 2006. FBI instructors taught 30 National Police Officers and 10 prosecutors about the collection and preservation of crime scene evidence. The 30 police officers that graduated were presented with Crime Scene Kits for use in their investigations.

The USCG participated in joint counternarcotics and illegal migrant operations. In addition, the USCG held two training exercises for the benefit of the Dominican Navy – the Annual Interoperability Conference aimed at improving coordination in maritime interdictions and the International Shipping and Port Security Conference geared toward enhancing port security in the DR.

The Law Enforcement Development Program, implemented by the Embassy's Narcotics Affairs Section (NAS) to assist in reforming the DR's National Police, progressed more rapidly in 2006. Internal Affairs (IA) was restructured and is operating efficiently. In the last few months of 2006, approximately 60 police officers were terminated who tested positive for drug use. IA investigators also completed 20 internal investigations against police personnel, which were referred to the Prosecutor General's office. Deaths as result of police involved shootings have declined considerably due to a new training curriculum for basic police training developed and implemented in 2006. A community based policing program was initiated in several barrios with preliminary positive results. National Police and Prosecutors continue to receive combined training, which promises to further enhance institutional cohesion. In 2006, the Public Prosecutor's office continued to strengthen the forensics lab to improve security, handling, and processing of the drugs and arms it receives as evidence.

In 2006, 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 2006, the BASC DR chapter expanded to 30 the number of companies who met the strict criteria for certification.

The Road Ahead. The USG will continue to help the DR to institutionalize judicial reform and good governance in furtherance of U.S. narcotics control strategy. The DR is working to build coherent counternarcotics programs that can resist the pressures of corruption and can address new

challenges presented by innovative narcotics trafficking organizations. Money laundering will be a priority, and the USG will provide prosecutors and police investigators the training necessary to help the DR conduct complex financial investigations. Anti-corruption efforts within the Law Enforcement Development Program will continue with a focus on special training for IA investigators. The DR will expand its community-policing program to additional neighborhoods in Santo Domingo through the training of in-house Nation Police instructors in the concepts of community-based policing.

Dutch Caribbean

I. Summary

Aruba and the Netherlands Antilles are part of the Kingdom of the Netherlands. The two Caribbean parts of the Kingdom have autonomy over their internal affairs, with the right to exercise independent decision making in a number of counternarcotics areas. The Government of the Netherlands (GON) is responsible for the defense and foreign affairs of all three parts of the Kingdom and assists the Government of Aruba (GOA) and the Government of the Netherlands Antilles (GONA) in their efforts to combat narcotics trafficking. Dutch Sint Maarten continues to serve as a staging ground for moving cocaine and heroin into the U.S. market. The Kingdom of the Netherlands is a party to the 1988 UN Drug Convention, and all three parts are subject to the Convention. Both Aruba and the Netherlands Antilles are active members of the Financial Action Task Force (FATF) and Caribbean Financial Action Task Force (CFATF).

II. Status

Netherlands Antilles. The islands of the Netherlands Antilles (NA) (Curacao and Bonaire off 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, 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 drug couriers using commercial flights. The DEA and local law enforcement saw continued go-fast boat traffic in 2006 with some load sizes reduced because of a potential detection by the Antilles new ground based radar system capable of identifying inbound vessels.

The hardening of border controls in Curacao in 2006 resulted in a marked increase of drug traffic to Sint Maarten from the source zones. These shipments were generally enroute to Puerto Rico or the U.S. Virgin Islands, but Sint Maarten continued to serve as a gateway for couriers to Europe. In addition to go-fast boat activity and smuggling via commercial airlines, large quantities of narcotics moved through in shipping containers. Recreational sailing vessels were sometimes identified as being used to move multi-hundred kg shipments of cocaine.

Significant seizures in 2006 indicate that Dutch Sint Maarten serves as a staging ground for moving cocaine and heroin into the U.S. market. Officials in Sint Maarten have responded to this threat by initiating joint U.S. cooperative investigations as well as by adopting new law enforcement strategies to combat the problems.

In October 2006, the Antillean authorities reported a significant reduction in courier traffic as a result of efforts to crackdown on “mules”- who either ingest or conceal on their bodies illegal drugs at Curacao's Hato International Airport, and the “100 percent Check” instituted by Dutch officials in The Netherlands on all passengers arriving at Amsterdam's Schiphol Airport from the Antilles. 95 percent of the drug courier traffic was destined for Europe, and from 2002 to 2006, at least 13,000 persons were denied boarding based on suspicion of drug trafficking. As Hato airport tightened controls, traffickers shifted their activities to regional airports. Law enforcement reporting indicated a rise in Dutch passport holders being detained in the neighboring countries of Dominican Republic, Haiti, Jamaica, and Cuba. French Guyana and Peru also reported notable increases in Dutch passport holders being involved in drug trafficking. Dutch Sint Maarten, to a lesser extent, detected increasing numbers of “mules.”

Elected officials, law enforcement and the judicial community recognize that the Netherlands Antilles, chiefly due to geography, faces a serious threat from drug trafficking. The police, who are

understaffed and need additional training, have received some additional resources. This included support, from the National Guard, which was given authority in 2004 to participate in the crime reduction effort. The rigorous legal standards that must be met to prosecute cases constrain the effectiveness of the police; nevertheless, local police made some progress in 2006 in initiating complex, sensitive investigations targeting upper-echelon traffickers.

Successful joint Antillean/Dutch investigations conducted by the Hit and Run Money Laundering Team (HARM) became commonplace during 2006. The specialized Dutch police units (Recherche Samenwerking Teams--RSTs) that support law enforcement in the NA cooperated with local Antillean officers in the development of investigative strategies to ensure exchange of expertise and information. During October 2006, the RST Sint Maarten cooperated with five other countries in a multi-jurisdictional investigation that resulted in the seizure of 1,900 kg (kg) of cocaine and 28 arrests.

The Netherlands Antilles and Aruba Coast Guard (CGNAA), in coordination with RST Curacao, seized approximately 40 kg of cocaine and a go-fast vessel. Seizures like this by the CGNAA have become commonplace and highlight the CGNAA's desire to be a regional player in law enforcement. The CGNAA's three cutters, outfitted with rigid-hull inflatable boats (RHIBs) and new 'super' RHIBs designed especially for counternarcotics work in the Caribbean, have demonstrated their utility against "go-fast" boats and other targets. The CGNAA remained, in 2006, a valuable law enforcement partner with the U.S. Coast Guard and DEA

Under the leadership of the Attorney General, the GONA strengthened its cooperation with U.S. law enforcement authorities throughout 2006. This cooperation extended to Sint Maarten, where the United States and the GONA continued joint efforts against international organized crime and drug trafficking.

In 2006, the Dutch Navy operated in the Netherlands Antilles under the auspices of Component Task Group 4.4 (CTG 4.4), under the oversight of the Joint Inter Agency Task Force (JIATF) South. The U.S. Coast Guard routinely deployed Law Enforcement Detachments (LEDETs) on Dutch Navy vessels conducting counter drug patrols in the Caribbean. Under blanket Netherlands clearances renewed annually, the USG placed assets in the territorial waters of Netherlands Antilles and Aruba as well as its airspace/airfields to carry out detection and monitoring operations in support of the counter drug mission. As a result, several notable seizures occurred during 2006, including approximately 3,000 kg of cocaine following a one-week joint surveillance operation on a shipping vessel west of Aruba.

The GONA also supported the U.S. Forward Operating Location (FOL) at the Curacao Hato International Airport. Under a ten-year use agreement signed in March 2000, U.S. military aircraft conduct counternarcotics surveillance flights over both the source and transit zones from commercial ramp space provided free of charge.

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. While Aruba enjoys a low crime rate, there are indications of established drug traffickers operating on the island. Various types of drugs are easily purchased within walking distance of Oranjestad's cruise pier and are frequently peddled to cruise ship tourists. Cruise lines that call on Aruba have instituted strict boarding/search policies for employees to thwart trafficker's efforts to establish regular courier routes back to the United States. The expanding use of MDMA (Ecstasy) in clubs has also attracted increasing attention. Private foundations on the island work on drug education and Aruba government's top counternarcotics official 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. In 2006, the government established an interagency commission to develop plans and

programs to discourage youth from trafficking between the Netherlands and the U.S. The Aruba Government has been very clear that it intends to pursue a dynamic counternarcotics strategy in close cooperation with its regional and international partners.

In 2006, Aruba law enforcement officials investigated and prosecuted mid-level drug traffickers who use drug couriers. In 2006, there were several instances where Aruba authorities worked with the U.S. to prosecute American citizens arrested in Aruba while attempting to transport multi-kg quantities of drugs to the U.S.

In 2006, the GOA continued to make valuable commercial ramp space at Reina Beatrix International Airport available to both U.S. military and U.S. Customs aircraft conducting counternarcotics surveillance missions. Further development of the U.S. Customs Forward Operating Location (FOL) facilities on Aruba is underway. The GOA also continued to host the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection pre-inspection and pre-clearance personnel at Reina Beatrix airport. These officers occupy facilities financed and built by the GOA. DHS seizures of cocaine, heroin, and Ecstasy declined slightly in 2006. Drug smugglers arrested are either prosecuted in Aruba or returned to the U.S. for prosecution. . The GOA established special jail cells in which to detain those suspected of ingesting drugs. Aruba participated in the Coast Guard of the Netherlands Antilles and Aruba.

III. Actions Against Drugs in 2006

Accomplishments: Available drug seizure statistics as of November 2006 show that Aruba seized 3,006 kg of cocaine and 3 kg heroin; and the Netherlands Antilles seized 1,989 kg of cocaine, 18.5 kg of heroin and 6 kg of marijuana.

Corruption: As a matter of policy, no senior GOA and GON officials, nor GOA and GON encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or laundering of proceeds from illegal drug transactions. The effect of official corruption on the production, transportation, and processing of illegal drugs is not an issue for Aruba. During 2006, the NA continued an aggressive and notably successful program to identify links between prominent traffickers in the region and law enforcement officials. The NA is quick to investigate evidence of corruption and monitors law enforcement officials in sensitive positions. The judiciary maintains close ties with the Dutch legal system and has a reputation for integrity. It is involved in the seconding of Dutch prosecutors and judges to fill positions for which there are no qualified candidates among the small Antillean and Aruba populations.

Agreements and Treaties: The Netherlands extended the 1988 UN Drug Convention to the NA and Aruba in March 1999; with the reservation that its obligations under certain provisions would only be applicable in so far as they were in accordance with NA and Aruban criminal legislation and policy on criminal matters. The NA and Aruba subsequently enacted revised, uniform legislation to resolve a lack of uniformity between the asset forfeiture laws of the NA and Aruba. The obligations of the Netherlands as a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, apply to the NA and Aruba. The obligations of the Netherlands under the 1971 UN Convention on Psychotropic Substances have applied to the NA since March 10, 1999. The Netherlands's Mutual Legal Assistance Treaty (MLAT) with the

United States applies to the NA and Aruba. Both Aruba and the NA routinely honor requests made under the MLAT and cooperate extensively with the United States on law enforcement matters at less formal levels. In 2002 the NA, followed by Aruba signed a Tax Information Exchange Agreement with the U.S. In September 2004 Aruba ratified the agreement; ratification in the NA remains pending. 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.

Domestic Programs (Demand Reduction) Both the Netherlands Antilles and Aruba have ongoing demand reduction programs, but need additional resources. The Korps Politie of Curacao includes a well-trained demand reduction staff, which does presentations at local schools.

IV. U.S. Policy Initiatives and Programs

The United States encourages Aruba and Netherlands Antilles 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. 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 and the USG has expanded intelligence sharing with GOA and GONA officials. 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.

Road Ahead. Drug trafficking and related money laundering and criminal violence will remain a threat to the Dutch Caribbean. Vigorous law enforcement against the traffickers and money launderers will be necessary to prevent the Dutch Caribbean from becoming a haven for illegal activity.

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. 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. In 2006, the seven Eastern Caribbean countries supported the treaty-based Regional Security System (RSS). Barbados funds 40 percent of the RSS's budget.

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. Each one individually also has signed bilateral maritime counter-drug agreements with the U.S. allowing expedited cooperation.

II. Status of Countries and Actions Against Drugs

In 2006, the seven Eastern Caribbean countries supported the treaty-based Regional Security System (RSS). Barbados funds 40 percent of the RSS's budget. The RSS operated a maritime training facility in Antigua for member-nation forces. The USG provided partial support to the RSS for its twice-yearly basic training course for marijuana eradication exercises for police special services units. Additionally, the USG provided the maritime security forces of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, and St. Lucia with various training courses that prepared them to conduct counter-drug operations including maritime law enforcement, port security, engineering, seamanship, and professional development. In 2006, the U.S. Coast Guard continued to operate a three person Technical Assistance Field Team (TAFT) in a security assistance partnership with the RSS nations. This team provides engineering, technical, procurement and logistics advice and support to the RSS maritime forces.

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. 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, and is imported primarily from St. Vincent.

According to Government of Antigua and Barbuda (GOAB), in 2006, approximately 75 percent of the cocaine that transits Antigua and Barbuda was destined for the United Kingdom -- a 15 percent increase from the previous year, while the percentage transited to the United States dropped by five percent -- from 20 percent in 2005 to 15 percent in 2006. Approximately 10 percent of the cocaine transiting Antigua and Barbuda is destined for St. Martin/Sint Maarten. Through October 2006, GOAB forces seized eight kg (kg) of cocaine and 75 kg of marijuana, arrested 112 persons on drug-related charges, and prosecuted five traffickers. Eradication efforts increased significantly from the previous year, from 500 marijuana plants in 2005 to more than 25,000 marijuana plants in 2006.

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.

In 2006, the police operated a Drug Abuse Resistance Education (D.A.R.E.) program, and lectured church groups and other civic organizations on the dangers of drugs. Local organizations such as the Optimist Club and Project Hope conducted their own school programs or assisted groups that work with drug addicts.

The USG provided technical assistance in 2006 during the dry-docking of the patrol boat LIBERTA and restored the Antigua and Barbuda Coast Guard's three patrol vessels to operational readiness after they sustained damages during operations.

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.

In 2006, GOB agencies reported seizing 92.6 kg of cocaine and 4,698 kg of marijuana. The GOB brought drug charges against 623 persons during 2006, five of whom were major drug traffickers. Total reported drug charges in 2006 were significantly lower than the previous year, which reported 2,551. In 2006, 2,583 cannabis plants were eliminated; more than triple the amount eliminated in 2005. A new trafficking trend encountered in 2006 was the use of yachts to move drugs between the islands, and onward to Europe and the United States. The Barbados Police Force estimates 60 percent of the cocaine that transits Barbados is destined for the UK, 15 percent to Canada. Approximately 10 percent is destined to the U.S., representing a 50 percent reduction from the previous year. Most of the cannabis that enters Barbados is consumed locally, while local consumption of cocaine represents only five percent of the amount thought to transit the island.

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 an asset-sharing agreement with Canada. Barbados has signed but has not yet ratified the UN Convention against Transnational Organized Crime and its three protocols.

In 2006, the GOB's National Council on Substance Abuse (NCSA) and various concerned NGOs sponsored prevention and education efforts, skills-training centers, a "Drugs Decisions" program in 45 primary schools, prison drug and rehabilitation counseling, and the Drug Abuse Resistance Education (D.A.R.E.) and Parents Resource Institute for Drug Education (P.R.I.D.E.) programs.

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 October 2006, Dominican law enforcement agencies reported seizing 50.85 kg of cocaine and 583.5 kg of marijuana. Most of the more than 92,000 marijuana plants under cultivation were eradicated. Dominica police arrested 287 persons on drug-related charges, double that of the previous year, and prosecuted eight major drug traffickers. According to the Government of the Commonwealth of Dominica (GCOD) Police, most of the drugs that transit through Dominica are intended for foreign markets: 10 percent to Canada; 10 percent to the U.S.; 20 percent to the U.K.; and 20 percent to France. Within the region, 40 percent of marijuana is intended for Guadeloupe and 10 percent for Antigua. Approximately 20 percent of cocaine is intended for St. Martin and 10 percent for St. Thomas. Domestic consumption of marijuana is approximately 90 percent of all drug consumption on the island, while cocaine is at 10 percent.

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 including the D.A.R.E. Program. The GCOD continued to implement its 2005-2009 National Drug Prevention Program.

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.

In 2006, the USG provided technical assistance to restore the Marine Police Unit's patrol boat MELVILLE and rigid hull inflatable to operational readiness.

Grenada. South American and Caribbean drug traffickers use Grenada's coastal waters and its often un-policed islands to transship cocaine and marijuana en route to U.S., Canada and the UK, including by drug couriers on commercial aircraft and via yachts. A small percentage of the cocaine smuggled through Grenada remains on the island and is converted to crack cocaine for local consumption. In 2006, the police drug squad collaborated closely with DEA officials in the targeting and investigation of a local drug trafficking organization associated with South American and other Caribbean traffickers. 2006 saw an increase in violence and gang activity associated with the drug trade, including armed robbery and kidnapping. Additionally, there was a slight increase in petty crimes, including theft and break-ins for cash, to pay for drugs. On May 1, 2006, police drug squad carried out an operation that resulted in four arrests, 2.5 kg of cocaine, a quantity of ammunition and an unlicensed firearm.

Through October 2006, Grenadian authorities reported seizing approximately 20.52 kg of cocaine; 8,149 marijuana plants; 98.61 kg of marijuana; and 1,934 marijuana cigarettes. During that period, they arrested 407 persons on drug-related charges. Regular rural patrols continue to contribute significantly to deter marijuana cultivation on the island, which usually consists of around 50 or fewer plants in any one plot. Marijuana is smuggled through Grenada from both St. Vincent and Jamaica. Of the total smuggled, local officials estimate that about 75 percent remains on the island. The remaining 25 percent is destined for Canada and the UK.

The 2005 draft Precursor Chemical Bill that would implement controls preventing the diversion of controlled chemical substances, remained with the Ministry of Legal Affairs in 2006. However, the Prevention of Corruption Act, which has been languishing in Parliament for 18 months, had its first reading in the House of Representatives (the lower house of Grenada's parliament) on October 30, 2006. An additional two readings in the House and passage by the Senate are required for the bill to become law.

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 against 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 undertook a number of demand reduction initiatives, including Community Caravan, D.A.R.E., and other community outreach programs. Drug use prevention education remains incorporated into all levels of the educational curriculum, and “Living Drug Free,” a one-hour television program aired on the public access channel to sensitize the public to the dangers of drugs. In 2006, Grenada, with OAS assistance, began working on a new national master plan for drug control to run through 2009.

In 2006, USG assistance to the Royal Grenada Police Force Marine Unit included replacing a patrol vessel engine and restoration of two additional patrol boats to operational readiness following damage sustained during operations.

St. Kitts and Nevis. St. Kitts and Nevis is a transshipment site for cocaine from South America to the United States and the United Kingdom, as well as to regional markets. 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, 90 percent of which is consumed locally.

The Government of St. Kitts and Nevis (GOSKN) Defense Force augments police counternarcotics efforts, particularly in marijuana eradication operations. GOSKN officials reported seizing 21.4 kg of cocaine, representing a 50 percent reduction in seizures from the previous year, and approximately 57.5 kg of marijuana from January through October 2006. From January to October 2006, 67 arrests were made, almost double the number of arrests in 2005. Eradication of marijuana plants increased from approximately 6,243 in 2005 to over 31,000 in 2006. According to the GOSKN, this figure does not represent an increase in cultivation, but rather an increase in eradication efforts. Despite these successes in 2006, the police drug unit on St. Kitts remained largely ineffective due to insufficient political will and the lack of complete independence for police to operate.

The 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 protocols.

In 2006, drug demand reduction programs included D.A.R.E. and Operation Future. There are no drug rehabilitation clinics in SKN and persons seeking such treatment are sent to St. Lucia.

USG provided technical assistance in 2006 with the dry-docking of the St. Kitts and Nevis Coast Guard’s two patrol boats, STALWART and ARDENT, to repair damage sustained during operations.

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

French officials are seeing an increase in cocaine coming directly to France from the French Caribbean, and created the Martinique Task Force in response. The USG is concerned that some of this increased in trafficking could flow to the United States. French Customs also takes an active part in the undertakings of the Caribbean Customs Law Enforcement Council (C.C.L.E.C.), which was established in the early 1970's to improve the level of cooperation and exchange of information between its members in the Caribbean. C.C.L.E.C. has broadened its scope to include training programs, technical assistance and other projects.

III. Country Actions Against Drugs

In 2006, there were some 7,600 French troops in the Caribbean area and Guiana who played a major role in countering drug trafficking alongside the U.S. Joint Interagency Task Force South. During the year, important drug seizures in the French Caribbean included the April 29, discovery by French Customs agents of 808 kg of cocaine on board a Gibraltar flagged sailboat named "le Canito" in the open seas near Guadeloupe. Three Italian nationals were arrested. On May 2, French sailors aboard a patrol boat stopped a sailing vessel named "Ocean Breeze" approximately 700 kilometers from Martinique, and recovered some 50 kg of cocaine (it was suspected that the boat originally carried approximately a ton of cocaine, but much of the cargo was thrown overboard by the traffickers before the ship could be stopped). On July 2, two large drug seizures of cocaine – 14.044 kg and 14.124 kg respectively – were discovered in the suitcases of two passengers arriving at Orly airport from a flight originating from Pointe-a-Pitre in Guadeloupe.

Agreements and Treaties. In addition to the agreements and treaties discussed in the report on France, USG and Government of France (GOF) counter narcotics cooperation in the Caribbean is enhanced by a 1997 multilateral Caribbean customs mutual assistance agreement that provides for information sharing to enforce customs laws and prevent smuggling, 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. In October 2005, the French Parliament approved the "Aruba Accord" (formally the "Accord Concerning the Cooperation in Suppressing Illicit Maritime and Aeronautical Trafficking in Drugs and Psychotropic Substances in the Caribbean Region") and in February 2006, France deposited its instrument of ratification in Costa Rica, completing action on the French side. In October 2006, France, along with 11 other nations, signed the "Paramaribo Declaration" at a conference in Suriname, which is an agreement to establish an intelligence sharing network, to coordinate and execute drug sting operations among countries, and to address money laundering.

The French Customs and Excise Service operates, together with the French National Police and French National Mounted Police, the Inter-ministerial Drug Control Training Center (CIFAD) in Fort-de-France, Martinique. CIFAD offers training in French, Spanish and English to law enforcement 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 UNDOC, the Organization of American States/CICAD, and individual donor nations. U.S. Customs officers periodically teach at CIFAD. French Customs is co-funding with the Organization of American States (OAS), on a regular basis, training seminars aimed at Customs and Coast Guard officers from O.A.S. member countries.

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 kg of cocaine from a ship docked in Georgetown. Publicly reported seizures for 2005 totaled approximately 43kg.

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 kg. 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 kg 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 kg of cocaine in 2005. This represents a significant decrease from 2004 and 2003, when authorities recovered 269 kg and 277 kg 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 kg 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" speedboats 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 kg of cocaine from Guyana on board flights arriving in New York. They concealed the drugs inside frozen fish and chow mein 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 kg of cocaine into the UK in bags of coconuts from Guyana. In November, Barbadian authorities discovered 120 kg 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, a major transit country for cocaine from South America, is experiencing a surge in air smuggling of cocaine out of Venezuela. The new Government of Haiti (GOH) headed by President Preval, like the Interim Government it replaced following elections in 2006, struggled to overcome pervasive corruption, weak governance and mismanagement. Haiti's law enforcement institutions are weak and its judicial system dysfunctional. Another challenge confronting the GOH is the need to curb continuing violence and disorder perpetrated by criminal elements – some of whom are involved in drug trafficking - that continues to undermine efforts to promote the economic, social and political development of the country. The GOH with assistance from international donors – principally the United Nations Stabilization Mission in Haiti (MINUSTAH) and the USG - took important steps during the year toward restoring the rule of law. President Preval reappointed a reform-minded Haitian National Police Director General to a three-year term in June 2006. The GOH also reached agreement with MINUSTAH on a plan to reform the Haitian National Police (HNP) that includes a vetting and certification process for new police recruits as well as existing officers. With the support of MINUSTAH troops, the GOH initiated a campaign to dismantle and disarm the criminal gangs in Port au Prince involved in kidnappings and other criminal activity. The HNP's anti-drug unit carried out limited operations during the year that resulted in some seizures of drugs and drug-related funds. Haiti is a party to the 1988 UN Drug Convention.

II. Status of Country

Haiti is a significant transit country for cocaine destined for the United States and to a lesser extent Canada and Europe. According to the U.S. Joint Interagency Task Force–South (JIATF-S), the number of drug smuggling flights from Venezuela to Hispaniola increased by 167 percent from 2005 to 2006. Approximately one third of these flights went to Haiti. In addition to 1,125 miles of unprotected shoreline, uncontrolled seaports, and numerous clandestine airstrips, Haiti's struggling police force, dysfunctional judiciary system, corruption, a weak democracy and a thriving contraband trade contribute to the prolific use of Haiti by drug traffickers as a strategic point of distribution.

III. Country Actions Against Drugs in 2006

During 2006, the HNP trained 1,044 new recruits and provided in-service training to 860 existing officers. In December, the HNP graduated a class of 565 new officers, most of whom were initially assigned to traffic control duties. Since 2004, a total of 2,300 new recruits have been trained and 1,100 existing officers have been given in service training. The HNP and MINUSTAH reached agreement on a reform plan with the goal of creating a police force of 12,000 trained and vetted officers within five years. Since August MINUSTAH troops, United Nations Police (UNPOL) and HNP officers have made progress in dismantling gangs that support drug trafficking organizations. The GOH reaffirmed its support of the DEA-led Sensitive Investigative Unit (SIU) with the signing of an agreement in September. With a location for the unit leased and renovated and the procurement of necessary investigative equipment underway, the SIU is expected to become fully operational in early 2007.

The GOH Central Financial Intelligence Unit (French acronym UCREF), and the Financial Crimes Task Force (FCTF) within it, continued to investigate money laundering and corruption cases during the year. However, none of the hundreds of investigations conducted by UCREF and the FCTF since 2004 have been prosecuted. UCREF confiscated \$800,000 and froze \$1.4 million as well as the equivalent of \$5 million in local currency related to money laundering offenses.

UCREF provided assistance to DEA in two investigations and to an IRS investigation during the year.

Law Enforcement Efforts. With assistance from DEA and the Narcotics Affairs Section (NAS), the counterdrug unit of the HNP (French acronym BLTS) conducted limited operations against drug trafficking. In August, the BLTS seized 372 kg (kg) of cocaine linked to a Haitian trafficker currently under indictment in the U.S. In November, the BLTS unit at the airport in Port au Prince arrested a former HNP officer and known associate of Colombian traffickers and seized \$254,000 before he was able to board a flight to Panama. As a result of an investigation into drug trafficking across the border with the Dominican Republic, the BLTS set up a checkpoint on the main road and seized 238 kg of cocaine. DEA provided training to two BLTS agents in the use of the Centers for Drug Information database that is linked to DEA offices in the Caribbean via the Internet. The BLTS formed a drug detection canine unit with support from American Airlines that will inspect baggage and cargo at the airport. American Airlines provided two dogs and training for four BLTS agents and the Narcotics Affairs Section (NAS) contributed a vehicle to the new unit.

The Haitian Coast Guard (HCG) conducted limited drug and migrant interdiction operations from its bases in Port au Prince and Cap Haitien during the year. The HCG deployed one 40 ft vessel and two 35 ft. "Eduardono" fast boats to Cap Haitien for patrol and port security operations. In May, the HCG successfully interdicted a boat with more than one hundred Haitian migrants aboard that had departed the north coast for The Bahamas.

Corruption. There is rampant corruption in almost all public institutions in Haiti, including the HNP. Since 2004, all new police recruits are vetted and the HNP reached agreement in August 2006 with MINUSTAH on procedures to vet all currently serving police officers. The HNP Director General dismissed 500 officers during the year for misconduct. However, in June, a magistrate ordered the release of funds frozen by UCREF as the result of its investigations into money laundering and corruption and briefly jailed the director of UCREF when he refused to do so. Over \$1.4 million were eventually released by the magistrate to the suspected money launderers.

Agreements and Treaties. Haiti is a party to the 1988 UN Drug Convention. A U.S.-Haiti maritime counternarcotics agreement entered into force in 2002. Haiti has signed and ratified the Inter-American Convention Against Corruption. Haiti has signed but not ratified the Caribbean Regional Maritime Agreement, the UN Convention Against Transnational Organized Crime and the UN Convention Against Corruption. Haiti has not signed or ratified the OAS Mutual Legal Assistance Treaty. There is no bilateral mutual legal assistance treaty between the U.S. and Haiti. Requests for assistance historically have been made through letters rogatory but there have been no formal requests for assistance in years.

Extradition. Haiti and the U.S. are parties to an extradition treaty that entered in force in 1905. Although the Haitian Constitution prohibits the extradition of nationals, in the past Haitians under indictment in the U.S. have been returned to the U.S. by non-extradition means. During 2006, no Haitian fugitives were returned to the U.S. nor were there any extraditions.

Cultivation/Production. There is no known cultivation or production of illicit drugs in Haiti with the exception of low quality cannabis, which is grown on a small scale and sold locally.

Drug flow/transit. For the greater part of 2006, traffickers used small aircraft to make offshore air drops of illegal drugs, however, near the end of 2006, traffickers shifted to land deliveries using clandestine airstrips. According to JIATF-South, in 2006 there were 46 suspect drug flights from Venezuela, where a permissive environment is allowing smuggling aircraft to operate with impunity. Fast boats transporting cocaine from South America to the United States through a variety of strategic Haitian locations frequented the southern coast of Haiti. Drug shipments

arriving at the various seaports are transported overland to Port-au-Prince where they are frequently concealed on cargo and coastal freighters destined for the United States and Europe. Marijuana is shipped via fast boats from Jamaica to waiting Haitian fishing vessels and cargo freighters to seaports along Haiti's southern coast. It is then shipped directly to the continental United States or transhipped through the Dominican Republic or Puerto Rico. Cocaine, crack and marijuana are readily available and consumed in Haiti.

Demand Reduction. Drug abuse is not yet a major problem in Haiti. In 2006, the GOH continued a public awareness campaign designed to discourage drug use launched in 2005 with USG assistance.

IV. U.S. Policy Initiatives and Programs

Reform of the HNP continues to be the cornerstone of USG efforts to combat drug trafficking in Haiti. In cooperation with MINUSTAH, the USG provided equipment and technical assistance in 2006, aimed at transforming the HNP into an effective law enforcement institution. The NAS Police Advisory Group identified specific requirements and coordinated the procurement of vehicles, radios and other technical equipment for the HNP. The police advisers also oversaw the construction of four model police stations in Leogane, Petit Goave, Carrefour and Thiotte and the installation of 58 solar-powered radio base stations for the HNP throughout the country. The USG contributed 50 officers to MINUSTAH's UNPOL contingent, many of whom are involved in training recruits at the HNP academy. The USG also is contributing three corrections experts to form the nucleus of a sixteen-member UN team that will work on improving the infrastructure and management of Haiti's prison system. In addition, the USG has provided an adviser to help the HNP Director General implement anti-corruption measures. Advisers from U.S. Treasury's Office of Technical Assistance provided training and mentoring in financial investigations to UCREF and the Financial Crimes Task Force. The U.S. Coast Guard supported HCG operations with leadership and technical courses, visits by Mobile Training Teams that advised on boat maintenance and handling, law enforcement techniques and port security operations, and by refitting one 40 ft. patrol vessel.

Road Ahead. Continued USG support for the reform and expansion of the HNP as well as reform of the judicial system is prerequisites for effective counternarcotics operations throughout the country. More importantly, the restoration of the rule of law will provide the security and stability Haiti needs to fully meet the economic, social and political development needs of the Haitian people.

Jamaica

I. Summary

Jamaica is a major transit point for cocaine enroute to the United States and is also a key source of marijuana and marijuana derivative products for the Americas. There is robust cooperation between U.S. Government (USG) and the Government of Jamaica (GOJ) law enforcement agencies. During 2006, the GOJ seized narcotics destined for the United States, arrested key traffickers and criminal gang leaders and dismantled their organizations. The GOJ began 2006 with an ambitious legislative agenda that included financial crimes, port security, and use of DNA in criminal cases, but had little success in moving the legislation through Parliament. The Jamaica Constabulary Force's (JCF) anti-crime program achieved a 16 percent decrease in crime for 2006. The GOJ however, seems unable to move with equal efficacy against official corruption. In 2006, Jamaica's Minister of National Security warned of the dangers of a narcotics/political link within Jamaica, and pledged the GOJ's full support to combat corruption, but there were no prosecutions of high-level officials for corruption over the last 12 months.

II. Status of Country

Jamaica's difficult to patrol coastline, over 100 unmonitored airstrips, busy commercial and cruise ports and convenient air connections make it a major transit country for cocaine. Jamaica remains the Caribbean's largest producer and exporter of marijuana. Consumption of cocaine, heroin and marijuana is illegal in Jamaica. Marijuana is the drug most frequently abused. Consumption of powder and crack cocaine is rising, despite their cost and limited availability. The possession and use of Ecstasy (MDMA) is controlled by the Food and Drug Act and is subject to light non-criminal penalties.

III. Country Actions Against Drugs in 2006

Policy Initiatives/Accomplishments. In 2006, the GOJ announced an ambitious agenda of key security and counternarcotics legislative and policy initiatives: civil forfeiture, use and collection of DNA evidence, port security, human trafficking, digital fingerprinting, and anti-corruption but was unable to move all but the digital fingerprinting program beyond the initial stages.

The Proceeds of Crime Act, which would provide the GOJ with the powerful tool of civil forfeiture and permit a more expeditious seizure and forfeiture process, was stalled in Parliament, despite a lack of opposition. The GOJ also tabled a Human Trafficking Bill in November 2006. However, the GOJ prepared legislation to expand the collection of DNA evidence in criminal cases in late 2006, and signed an agreement with the FBI to share DNA information with the USG through the FBI's Combined DNA Index System (CODIS) database, scheduled to begin in early 2007. Legislation to criminalize the manufacture, sale, transport, and possession of Ecstasy, methamphetamine, and their precursor chemicals, was also drafted in 2006 and is slated for presentation to Parliament in 2007.

In late 2006, the USG Container Security and MegaPorts initiatives began. Although the focus of these two programs is not counternarcotics, the side-by-side working relationship between U.S. and Jamaican customs officials should enhance other USG efforts against narcotics trafficking through Kingston's commercial port.

Law Enforcement Efforts. Both the Jamaica Constabulary Force (JCF) and Jamaica Defense Force (JDF) gave priority to counternarcotics missions in 2006. While they were hampered by internal corruption and a lack of sufficient resources, their efforts enabled cannabis seizures to increase by over 200 percent in 2006. The JDF Air Wing and Coast Guard (JDFCG) are involved

in maritime interdiction efforts, and they, along with the JCF and Financial Investigations Division worked closely with the USG to investigate significant narcotics trafficking and money laundering organizations. The JCF also continued to implement its 2005-2008 Corporate Strategy for Reform, which includes a reorganization of police divisions. During 2006, the JCF's efforts to control crime and improve community policing, resulted in a reduction in crime by 16 percent overall. In 2006, the JCF arrested 5,409 persons on drug related charges including 269 foreigners.

In August 2006, two priority targets associated with major cocaine trafficking organizations were arrested in Jamaica and await extradition to the United States where they are charged with conspiracy to import illegal drugs. Jeffrey and Gareth Lewis (father and son) allegedly transported cocaine shipments from Colombia to the United States. Jamaican, Colombian, Panamanian, Mexican and U.S. law enforcement agencies cooperated in an operation that resulted in seizure of five tons of cocaine in international waters. The Lewis' cargo vessel was seized by Panama. In conjunction with the arrests in Jamaica, 11 vehicles were seized, along with the equivalent of \$70,158 in cash.

Since its inception in October 2004, through December 2006, Operation Kingfish, a multinational task force (GOJ, U.S., United Kingdom and Canada) to coordinate investigations leading to the arrest of major criminals, launched 1,378 operations resulting in the seizure of 56 vehicles, 57 boats, one aircraft, 206 firearms, and two containers conveying drugs. Kingfish was also responsible for the seizure of over 13 metric tons of cocaine (mostly outside of Jamaica), and over 27,390 pounds of compressed marijuana. In 2006 Operation Kingfish mounted 870 operations, compared to 607 in 2005.

In 2006, through cargo scanning, the Jamaican Custom's Contraband Enforcement Team seized over three thousand pounds of marijuana, ten kg of cocaine and approximately \$500,000 at Jamaican air and seaports. Nonetheless, the Service is understaffed and ill equipped to combat effectively the ever-complex methods of smuggling illicit drugs in commercial goods.

Corruption. No Senior GOJ official, nor the GOJ as a matter of 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. However, USG funded polygraphing of JCF, Immigration, and Customs officers starkly illuminated the pervasive nature of corruption, which continues to undermine efforts against drug-related and other crimes, plays a major role in the safe passage of drugs and drug proceeds through Jamaica and remains a major barrier to improve counternarcotics efforts. High profile corruption scandals plagued the GOJ throughout 2006. The GOJ has a policy of investigating credible reports of public corruption; however, despite stern warnings that corruption at any level would not be tolerated, in 2006, the GOJ made little progress as there were no prosecutions of high-level officials for corruption, or of officials linked by reliable evidence to drug-related activity.

The JCF established a Professional Standards Branch and appears to be taking steps to deal with corruption within the Force's lower levels. The JDF investigates any reports of corruption, and takes disciplinary action when warranted in furtherance of its zero tolerance policy. In Parliament for consideration is the Corruption Prevention Act, which would grant Jamaica's Commission for the Prevention of Corruption greater powers, and make Jamaica's legislation consistent with its commitments under the Inter-American Convention against Corruption.

Agreements and Treaties. The extradition treaty between the USG and the GOJ has been actively used, with the vast majority of cases involving requests to Jamaica. Jamaica and the U.S. regularly use their mutual legal assistance treaty (MLAT). The U.S. and Jamaica have a reciprocal asset sharing agreement, and 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 participate in the

Cooperating Nation Information Exchange System. The GOJ signed, but has not ratified, the Caribbean Regional Maritime Counterdrug Agreement. Jamaica is a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

Cultivation/Production. Jamaica is the Caribbean's largest producer and exporter of marijuana, but exact cultivation levels are unknown due to a lack of crop surveys. Marijuana is grown mostly in smaller plots nested in hilly and rocky terrain inaccessible to vehicular traffic. Jamaica uses manual eradication without the use of herbicides. The GOJ does not have any alternative development or crop substitution programs.

Drug Flow/Transit. In 2006, Cocaine smugglers changed their methods of moving cocaine to Jamaica and through Jamaica to the United States. Smugglers now primarily use container cargo transshipments or sea drops that are then brought on shore for smuggling via checked luggage, couriers and in commercial shipments. It is believed that the volume of cocaine smuggled through Jamaica, which was trending downward in 2005, was on the rise in 2006. However, due to better concealment by traffickers, seizures of cocaine within Jamaica decreased from 153 kg (kg) in 2005 to 109 kg in 2006. With 113 unmonitored landing strips/fields, the potential to also use land drops remains high. In 2006, marijuana seizures increased from 19,777 kg in 2005 to 59,771 kg in 2006, and eradication of marijuana increased from 423 hectares to 524 hectares for the same period. Marijuana traffickers barter for cocaine and finance gunrunning activities.

Domestic Programs/Demand Reduction. A 2006 survey indicates that the use of narcotics and alcohol by youths aged 11 to 19 remains elevated, with alcohol and marijuana being the substances of choice. There is also evidence that the use of Dutch-produced Ecstasy is on the rise among the "tourist" market. Jamaica has several demand reduction programs including the Ministry of Health's National Council on Drug Abuse that receive U.S. funding support. The UNODC works directly with the GOJ and NGOs on demand reduction; however, due to limited resources these programs make little impact.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2006, the U.S. concluded the four-year tenure of the Law Enforcement Advisor to the JCF's National Intelligence Bureau and the three-year tenure of the Law Enforcement Development Advisor to assist the JCF's strategic planning and reform efforts. Due to a combination of internal resistance to change, and a lack of power to ensure implementation of the programs' recommended changes, neither program fully achieved its goals. The Jamaica Fugitive Apprehension Team (JFAT) received specialized training, equipment, guidance and operational support from the U.S. Marshals permanently stationed in Kingston. The U.S. Marshals report that there are 210 open/pending cases regarding U.S. fugitives. In 2006, there were 15 arrests, 12 extraditions and 5 deportations.

Operation Riptide allows partner nations to conduct law enforcement operations within each other's maritime zones and is authorized under the Joint Jamaica-United States Maritime Cooperation Agreement. The GOJ participated in one deployment in Jamaican waters during 2006 along with one British vessel and two U.S. vessels. Although no drugs were seized, the deployment provided a useful training opportunity. The JDF continued to work with USG's Joint Interagency Task Force-South (JIATF-S) in 2006 to disrupt maritime trafficking.

Continued use of the USG funded International Organization for Migration (IOM) Border Control System, and follow on DHS training of Jamaican Immigration, and airline staff in 2006 resulted in the detection of over 30 fraudulent Jamaican passports, the interception of more than 100 fraudulent visas and enabled Jamaican authorities to identify a number of victims of human smuggling.

Multi-lateral Cooperation. In 2006, the USG funded renovations and provisioning of computer equipment for the Kingston-based multi-nation (GOJ, U.S., United Kingdom and Canada) Airport Interdiction Task Force. The Task Force, set to begin in early 2007, will combat narcotics and arms smuggling, as well as human trafficking and immigration fraud. The U.S. continues to support the Mini-Dublin Group, and reinvigorated cooperation with the local UK and Canadian embassies to prevent duplication of efforts and ensure the most effective use of our combined counternarcotics resources.

The Road Ahead. Official corruption ranging from petty shakedowns by street cops to higher-level graft and other criminal activities remains a cancerous force in Jamaica. To prevent Jamaica from becoming a full-fledged kleptocracy, the GOJ must investigate, prosecute and convict corrupt officials at all levels of government service.

In 2007, the U.S. will enhance cooperation with our international partners to better assist the GOJ with tackling corruption. In addition, by partnering with the United Kingdom and Canada, the U.S. intends to rationalize its expenditures on operational equipment for the GOJ, thereby ensuring more uniform provisioning of JCF and JDF units. GOJ plans to push passage and implementation of key security and counternarcotics legislation, such as the Proceeds of Crime Act in early 2007. Once passed, the USG will be able to intensify the capacity building of the FID and JCF Financial Crimes Group. The U.S. urges the GOJ to interdict at least two major cocaine shipments, arrest at least one major target operating within an international drug trafficking organization, and take certain concrete steps to reform the Jamaica Constabulary Force in the coming year.

V. Statistical Tables

Seizures in Jamaica		2006	2005	2004	2003
	Unit				
Cannabis	kg	59,770.69	19,777.31	20,952.14	36,603.60
Hash Oil	kg	0	910.49	37.70	1,897.33
Cocaine	kg	109.15	152.85	1,735.51	1,586.16
Crack Cocaine		2.62 kg	1.79 kg	3,049 pieces	2,949 pieces
Ecstasy	Tablets	500	13,070	133,032	0

Eradication in Jamaica		2006	2005	2004	2003
	Unit				
Cannabis	ha	524	422.96	411.64	444.639
Nurseries		180	392	403	279
Seedlings		9,902,279	7,277,000	5,004,930	3,711,975
Seeds	kg	7,677* 44	7,603.67 15	551.12	N/A
Huts					

*** There was one seizure in 2006 of 7,500 kg of seeds, which is indicative of the suspected massive increase in cultivation on the island.

Arrests	2006	2005	2004	2003
Total Arrests	6,793	6,215	3,319	
Foreigners	269	203	294	

Seizure and Tracking Reports -- within Jamaica and overseas	Unit	2006	2005	2004
Marijuana	KG	33,961	422,842	18,455
Cocaine	KG	24,550	40,602	26,598
Cash	USD	2,877,233	1,041,375	N/A
Go Fast Events		11	60	56

Suriname

I. Summary

Suriname is a transit point for South American cocaine en route to Europe and, to a lesser extent, the United States. The Government of Suriname's (GOS) inability to control its borders, inadequate resources, limited training for law enforcement, 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 2006, Suriname's law enforcement officials continued their anti-narcotics efforts by arresting and convicting high-profile narcotics traffickers. Over the past five years, the GOS has successfully eliminated eight out of ten major local narcotics organizations. Suriname is a party to the 1988 United Nations Drug Convention but has not implemented legislation to bring itself into full conformity with the Convention. However, in October 2006, the country hosted an international anti-narcotics conference, showing its commitment to combat drug trafficking.

II. Status of Country

Suriname is a transshipment point for cocaine destined primarily for Europe and, to a lesser extent, the United States. The GOS is unable to detect the diversion of precursor chemicals for drug production, as it has no legislation controlling precursor chemicals and hence no tracking system to monitor them. The lack of resources, limited law enforcement capabilities, inadequate legislation, drug related corruption, a complicated and time-consuming bureaucracy, and overburdened and under-resourced courts inhibit GOS's ability to identify, apprehend, and prosecute narcotic traffickers. In addition, Suriname's sparsely populated coastal region and isolated jungle interior, together with weak border controls and infrastructure, make narcotics detection and interdiction efforts difficult.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Suriname's National Drugs Master Plan (2006-2010) was approved in January 2006. The plan covers both supply and demand reduction and includes calls for new legislation to control precursor chemicals. The development of the plan through multi-sectoral consultation was a significant step in fostering national coordination to address Suriname's drug problem. To coordinate implementation of the Master Plan, the Executive Office of the National Anti-Drug Council was established.

Accomplishments. In 2006, the Ministry of Justice and Police and law enforcement institutions in Suriname were more active and effective in pro-actively targeting large trafficking rings and working with international partners. Through September 2006 the GOS seized 577 kilograms (kg) of cocaine and 42 kg of cannabis. 571 persons were arrested for drug-related offenses. While seizures and arrests have significantly decreased compared to 2005, law enforcement sources attribute this to the GOS' renewed focus on targeting major narcotics traffickers -- within the past five years GOS law enforcement has rounded up eight of the ten known major criminal organizations operating in the country.

Law Enforcement Efforts. Through September, GOS law enforcement agencies arrested 112 people who were carrying cocaine in their stomachs. 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 all inbound flights from Suriname. In February and March 2006, Surinamese law enforcement officials destroyed marijuana fields in the interior, consisting of four and two hectares, respectively. In 2006, the judiciary handed down several stiff

sentences in high-profile drug cases, such as in March, when a judge convicted and sentenced two men to eight and four years' imprisonment, respectively, based on the April 2005 seizure of 118 kg of cocaine that had been hidden in a container of lumber and shipped to France.

In a major success in 2006, Surinamese authorities arrested Shaheed "Roger" Khan, a Guyanese national suspected of narcotics trafficking, on charges of false documentation. He was set to return to Guyana via Trinidad and Tobago, but was deported, instead, to the United States, where he is currently awaiting trial on narcotics-related charges.

Corruption. As a matter of policy, no senior GOS official, nor the GOS, encourages or facilitates 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. Moreover, the GOS has demonstrated some willingness to undertake law enforcement and legal measures to prevent, investigate, prosecute, and punish public corruption. Through October, nine police officers suspected of narcotics trafficking and membership in criminal organizations were investigated. Public corruption is considered a problem in Suriname and there are reports of drug use and drug sales in prisons. Reports of money laundering, drug trafficking, and associated criminal activity involving current and former government and military officials continue to circulate. According to Customs reports, the GOS loses roughly \$45 million annually in uncollected Customs revenues due to corruption and false invoicing. Investigations show that false invoicing occurs daily, despite heavy fines.

Agreements and Treaties. Suriname is party to the 1961 United Nations Single Convention as amended by the 1972 Protocol, and the 1971 U.N. Convention on Psychotropic Substances. Suriname is also a party to the 1988 U.N. Drug Convention and has accordingly passed legislation that conforms to a majority of the convention's articles, but it has failed to pass legislation complying with precursor chemical control provisions. The GOS has not ratified the Inter-American Convention on Mutual Assistance in Criminal Matters or the Optional Protocol thereto. 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 counter-narcotics 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. In January 2006, Suriname, the Netherlands Antilles, and Aruba signed a Mutual Legal Assistance Agreement allowing for direct law enforcement and judicial cooperation between the countries, thereby no longer requiring the process to be first routed through The Hague. Parties met in October to discuss progress in implementing the agreement, which covers cooperation with regard to drug trafficking, trafficking in persons, and organized crime. 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 has signed agreements with the United States, Netherlands and France that allow for police attachés to work with local police. Suriname is not a party to the U.N. 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 amount 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 that are cut into the dense jungle interior and sparsely populated coastal districts. The lack of resources, infrastructure, law enforcement personnel, and equipment makes detection and interdiction difficult. Drugs are transported along interior roads to and from the clandestine airstrips. Drugs are also shipped to seaports via numerous river routes to the sea or

overland for onward shipment to Caribbean islands, Europe, and the United States. Sea-drops are also used. 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 commercial airline flights from the Netherlands to Suriname (three to six flights per week, varying seasonally).

Domestic Programs. Suriname has a National Drug Demand Reduction Office, which conducts drug awareness and drug prevention campaigns throughout the year and trained schoolteachers and police officers in early detection of drug use. The Suriname Epidemiological Network on Drug Use (SURENDU), which is a network of governmental and non-governmental organizations, was strengthened in the areas of drug-use prevention and treatment in 2006. With funding from the Organization of American States, the National Anti-Drugs Council (NAR) embarked on a project to survey drug use in Suriname, and will interview approximately 6,000 persons between the ages of 12 and 65. The Council will also do a study on drug use in prisons. In the area of supply reduction, a U.S.-funded computer database was established to keep track of drug criminals from their detention up to their sentencing.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The U.S. provides training and equipment to strengthen the GOS law enforcement and judicial institutions and their capabilities to detect, interdict, and prosecute narcotics trafficking activities. In October 2006, Suriname hosted an anti-narcotics conference attended by many regional and international players, including the United States. The "Paramaribo Declaration," which was endorsed in principle by the participants at the end of the conference, proposes a framework to establish an intelligence-sharing network, coordinate and execute sting operations, and tackle money laundering. .

Bilateral Cooperation. A high level of cooperation exists between U.S. and GOS law enforcement officials. In 2006, once again the U.S. provided both training and material support to several elements of the national police to strengthen their counternarcotics capabilities and promote greater bilateral cooperation. In May 2006, the U.S. conducted an assessment to assist the Suriname Defense Force (SDF) determine the structure, training, equipment, and facilities needed to support the creation of a Maritime Security Service (Coast Guard). In July 2006, the DEA intensified its cooperation with Surinamese law enforcement by establishing an office in Suriname. The U.S. was a participant and presenter at the October 2006 anti-narcotics conference in Paramaribo.

The Road Ahead. The U.S. will continue to encourage the GOS to pursue large narcotics traffickers and to dismantle their organizations. The GOS Ministry of Justice and Police have highlighted this goal to the news media, and the Khan arrest bears out its seriousness and commitment. Port security improved in 2006, and we urge the GOS to continue its efforts to strengthen its focus on port security, specifically seaports, which are seen as the primary conduits for large shipments of narcotics exiting 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 illegal drugs from South America to the U.S. and Europe. While there has been an increase in illicit drug traffic out of Venezuela, the quantity of drugs transiting Trinidad and Tobago does not have a significant effect on the U.S. Cannabis is grown in Trinidad and Tobago, but not in significant amounts. Trinidad and Tobago's petrochemical industry imports and exports chemicals that can be used for drug production and the Government of Trinidad and Tobago (GOTT) has instituted export controls to prevent diversion. In 2006, the GOTT cooperated with the U.S. on counter-drug issues and allocated significant resources of its own to the fight against illegal drugs. The GOTT is party to the 1988 UN Drug Convention.

II. Status of Country

Trinidad and Tobago, situated seven miles off the coast of Venezuela, is a convenient transshipment point for illicit drugs, primarily cocaine and marijuana but also heroin. Increased law enforcement success in Colombia has led to greater amounts of illegal drugs transiting the Eastern Caribbean. While the drugs entering the U.S. from Trinidad and Tobago do not have a significant effect on the U.S. market, their steady entry into the U.S. occupies the resources of American law enforcement.

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 previously been found in illegal drug labs in Colombia. The GOTT is working to track chemical shipments through the country, and export controls have been instituted to prevent future diversion to narcotics producers.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2006, the GOTT National Drug Council continued to implement counter-drug policy initiatives, including elements of the country's counter-drug master plan, which addresses both supply and demand reduction. The GOTT also enhanced the capabilities of the Special Anti-Crime Unit (SAUTT), which has responsibility for both anti-drug and anti-kidnapping operations. This unit was provided with training in crime scene management, first responder responsibilities, investigation techniques, forensic evidence gathering, surveillance, interview techniques and also given technical support. In addition, a multi-purpose building was constructed to house the Crime Academy, where police and SAUTT officers are taught anticrime techniques.

In 2006, the two major parties set aside political differences to pass anti-crime and law enforcement bills. The bills focus on streamlining the police service and holding it more accountable as well as increasing the penalties for certain crimes, to include kidnapping. These laws significantly enhance the effectiveness of law enforcement in fighting narcotics and other criminal offenses. The GOTT continued to implement training recommendations made by an American criminal justice specialist to improve capacity to detect narcotics and appropriately manage crime scenes. The Government is also considering recommendations from the Department of Justice's International Criminal Investigative Training Assistance Program, which suggested changes in the structure, recruiting and retention of SAUTT officers.

In 2006, the GOTT also 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, and twenty-four mobile police radios.

Accomplishments. As a result of joint operation between GOTT authorities and foreign law enforcement counterparts, there were 43 arrests from January to September 2006 and 2,500 kilograms (kg) of cocaine were seized/intercepted in the Caribbean Sea, Barbados, United Kingdom and Spain, and 3,200 kg of marijuana in Canada and the Netherlands. As of September 30, 2006, the GOTT seized approximately 1,000 kg of cocaine, 162 kg of heroin, and over 1,500 kg of cannabis in various forms. The GOTT also eradicated over 192,550 cannabis plants, 47,400 seedlings, and 271,264 kg of cured marijuana. In a series of operations in April and June, the Organized Crime Narcotics and Firearms Bureau (OCNFB) seized approximately 45 kg of cocaine valued at \$5 million. During one incident, a DHL employee was arrested while attempting to ship the drug to London. In another incident, three persons were arrested following a high-speed chase, which netted 23 kg of cocaine. GOTT authorities also arrested a total of 36 foreigners for drug trafficking and for attempting to export narcotics. In July 2006, Dutch national Andre Van Dijk was sentenced to 4 years' hard labor for possession of liquid cocaine valued at over \$600,000. In addition nationals from Venezuela, Africa, Canada, Europe and some Americans were arrested for possession of cocaine and marijuana in 2006.

Law Enforcement Efforts. The Coast Guard (TTCG), Organized Crime and Narcotics Unit (OCNU), CDCTF, SAUTT and other specialized police/military units continued drug interdiction and eradication operations throughout 2006, sometimes in cooperation with the DEA and U.S. Customs and Border Protection. The country has purchased technical equipment to augment human resources. However, some agencies complain that they have been overlooked in budgetary allocations and do not have adequate funds for upkeep or necessary new equipment. The Government hired Scotland Yard officers to work alongside T&T law enforcement agents as "on-the-job mentors" and to provide further technical assistance. The GOTT also provided support for the Caribbean Financial Action Task Force (CFATF), which has its secretariat in Port of Spain, and began to implement several of its recommendations to combat money laundering.

The GOTT also consolidated the OCNU and the Firearms Interdiction unit (FIU) into the Organized Crime Narcotics and Firearms Bureau (OCNFB), resulting in increased seizures of various types of illicit drugs and disruption of the drug trade. Additionally, in 2006, the GOTT established an Incident Coordination Center, staffed by personnel from a number of specialized agencies, to facilitate information sharing and more effective response by law enforcement. The Counter Drug and Crime Task Force (CDCTF) continue to be active in developing and implementing counter drug operations in Trinidad and Tobago. It is also responsible for conducting financial investigations.

Corruption. Trinidad and Tobago is a party to the Inter-American Convention against Corruption and has signed the UN Convention against Corruption. During 2006, there were no charges of drug-related corruption filed against GOTT senior officials, and post 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. The country actively fights against the production or distribution of illicit narcotics and works against laundering the proceeds of such crimes. The 1987 Prevention of Corruption Act and the 2000 Integrity in Public Life Act contain the ethical rules and responsibilities of government personnel. The Integrity in Public Life Act requires public officials to declare and explain the source of their assets and an Integrity Commission initiates investigations into allegations of corruption. At GOTT request, the USG has polygraphed police and mid- and high-level officials selected 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. The GOTT updated its domestic extradition legislation in April 2004 to make it consistent with the extradition treaty and to streamline the extradition process. 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. Small amounts of cannabis are cultivated year-round in the forest and jungle areas of northern, eastern, and southern Trinidad and, to a lesser extent, in Tobago. The total amount of cultivation cannot accurately be determined because plants are grown in small lots in remote areas.

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 continued to rise in 2006. Cocaine has also been found on commercial airline flights from Tobago en route to North America and Europe. Drug seizures reported by U.S. law enforcement officials at JFK International Airport link directly to Trinidad and Tobago, and the Drug Enforcement Administration (DEA) believes there has been an increase in the amount of heroin transiting the country. Some shipments are bypassing Trinidad and Tobago in favor of other islands, due in large part to the counter-drug efforts of GOTT security forces.

Domestic Programs/Demand Reduction. The GOTT does not maintain statistics on domestic consumption or numbers of drug users. 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 reduce demand. In addition, the GOTT promotes job skills training programs for high-risk youths, and supports police youth clubs with its community-policing branch. The GOTT also has a D.A.R.E. (Drug Abuse Resistance Education) program. The USG provided funding to enable the NGO Servol to expand its program of early childhood education, and continues to support demand reduction efforts in Trinidad and Tobago through the sponsorship of schools, police youth clubs, football leagues and public awareness campaigns.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. To assist the GOTT to eliminate the flow of illegal drugs through Trinidad and Tobago to the United States, joint U.S./GOTT efforts focus on strengthening the GOTT's ability to detect and interdict drug shipments, bring traffickers and other criminals to trial, attack money laundering, and counter drug-related corruption. The U.S. also seeks to strengthen the administration of justice by providing training and technical assistance to help streamline Trinidad and Tobago's judicial process, reduce court backlogs, and protect witnesses from intimidation and murder.

Bilateral Cooperation. In 2006, the USG provided drug, cadaver and explosive-detection canine/handler training to the Police Service and the Customs and Excise Division as well as assisting in the establishment of a Canine Academy on the island. In addition, the USG offered training courses in crime scene investigation, explosive detection and combating terrorism. Over the past year, the DEA and/or its local counterparts have been involved in investigations that led to the seizure of over 10 metric tons of cocaine that came into or through Trinidadian waters. The

GOTT-funded U.S. Customs Advisory Team provided technical assistance to Customs and Excise in tracking and intercepting marine vessels, including cargo container ships. In 2006, an IRS Tax Assistance and Advisory Team assisted the GOTT in developing a Criminal Investigation and Tax Fraud Unit that tracks tax evasion and underreporting usually associated with money laundering.

The Road Ahead. The U.S. will continue to work closely with the GOTT's law enforcement agencies to strengthen their counter-drug/crime capabilities and will continue to provide training and operational support to the TTCG to enhance the GOTT's maritime interdiction capabilities. The GOTT needs to pass the outstanding DNA and Wire-Tapping bill, which would strengthen their criminal justice system, starting with the admission of hearsay evidence to lessen the likelihood of witness tampering and decrease witness intimidation. The GOTT needs to strengthen border protection by automating their system to include container scanning. The GOTT should provide additional training to prepare officers to deal with counterfeit merchandise and money. The U.S. will continue efforts to provide the GOTT law enforcement with stronger border patrols on the western side of the island in order to decrease the flow of drugs. The U.S. will also encourage the GOTT to participate in the SOUTHCOM initiative, Carib Ventur, which is a multinational mission on the southern Caribbean focused on stemming the flow of drugs in the region.

SOUTHWEST ASIA

Afghanistan

I. Summary

Afghanistan remained the world's largest producer of opium in 2006, cultivating 172,600 hectares of opium poppy according to USG estimates. This equates to 5,644 metric tons of opium, up from 4,475 metric tons in 2005. The export value of this opium harvest, \$3.1 billion, was approximately one-third of Afghanistan's combined licit and illicit GDP of \$9.8 billion according to the UNODC. Approximately 25 percent of the opium's value, \$755 million, was paid to farmers, with the rest going to the narcotics traffickers. Afghanistan's huge drug trade undercuts efforts to rebuild the economy and to develop a strong democratic government based on the rule of law. There is strong evidence that narcotics trafficking is linked to the Taliban insurgency. These links between drug traffickers and anti-government forces threaten regional stability. Corruption and dangerous security conditions constrain government and international efforts to combat the drug trade and provide alternative livelihoods. President Karzai appointed a new Chief Justice of the Supreme Court and a new Attorney General in 2006, who has taken initial steps to combat corruption.

The international community assists the GOA in its efforts to develop institutions capable of combating opium cultivation and trafficking. The GOA focuses on an eight-pillar strategy that includes Public Information, Alternative Livelihoods, Law Enforcement, Criminal Justice, Eradication, Institutional Development, Regional Cooperation, and Demand Reduction. The United States complements the GOA's strategy with a five pillar strategy that consists of Public Information, Alternative Livelihoods, Law Enforcement/Justice Reform, Elimination/Eradication, and Interdiction, which are the focus of U.S. government assistance. The GOA's Poppy Elimination Program (PEP), developed in 2005 in seven major poppy-growing provinces, engaged in its first full year of activity and is becoming a trusted institution for disseminating information to farmers and the general public about the risks of cultivating opium poppy and the availability of alternative livelihoods. The GOA also focused on building capacity within its law enforcement and justice sector institutions to increase arrests, prosecutions, and convictions of drug traffickers.

The large increase in poppy cultivation in 2006 spurred the GOA to take stronger action in discouraging farmers from pursuing opium crops. In August 2006, the Ministry of Counter Narcotics organized a national conference on counternarcotics, marking the ministry's first effort to initiate and plan a nationwide event. President Karzai used the conference as an opportunity to press provincial governors to take responsibility for reducing and eliminating opium production in their regions of control. During the 2006 pre-planting and planting season, the GOA built on this message and informed provincial and district governors and chiefs of police that the government would hold them accountable for pursuing an active pre-planting information campaign that reduces poppy cultivation. The Minister of Interior dismissed some district-level officials due to their failure to implement the pre-planting campaign. Opium cultivation is hard to deter since an infrastructure is in place to finance farmers and market what they produce. No other current crop has a combination of features – reliably high price, financing, and ready marketability – to compare with opium cultivation. In order to make sustained progress in combating narcotics trafficking, the GOA will need to continue to extend credible governance throughout Afghanistan's provinces and districts and demonstrate its ability to enforce the rule of law across the country. This will require international and political support over many years.

II. Status of Country

Afghanistan produced more than 90 percent of the world's opium poppy during 2006, and it is the world's largest heroin producing and trafficking country. Afghan traffickers trade in all forms of

opiates: unrefined opium, semi-refined morphine base, and refined heroin. An increasing share of Afghanistan's opium is refined into morphine base and heroin in Afghanistan itself. The GOA's Central Statistics Office estimated Afghanistan's licit GDP (excluding illicit opium activity) as \$6.7 billion in 2006. UNODC estimated the export value of the country's illicit opium at \$3.1 billion (farm-gate value plus trafficking proceeds) for the same time period. Opium represented roughly one-third of Afghanistan's total GDP (licit and illicit). The \$755 million farm gate price paid to farmers represented 8 percent of total licit and illicit GDP. Reconstruction efforts that began in 2002 are improving Afghanistan's infrastructure, providing the necessary foundation for more effective efforts to combat the cultivation and trafficking of drugs throughout the country, but this is a slow process that will take years. Crime financiers and narcotics traffickers will continue to exploit the government's weakness and corruption.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The United States, with the United Kingdom, continues to work to ensure that counternarcotics is at the forefront of Afghan policy initiatives. President Karzai has reiterated his commitment to stemming drug production and trade in Afghanistan, publicly stating that drugs are Afghanistan's biggest threat. In January 2006, the GOA presented an update to its National Drug Control Strategy (NDCS), which lays out a five-year plan for strengthening the GOA's ability to control narcotics production and trafficking. In October 2006, the GOA formalized the NDCS with detailed implementation plans for each of the pillars identified in the strategy. The GOA took the following actions in support of the NDCS during the year:

-- **Illicit Crop Control** - The GOA's Poppy Elimination Program (PEP), established in 2005, became operational in seven of Afghanistan's largest poppy-producing provinces, with U.S. and UK support. PEP teams work at the local level to provide year-round, targeted public information to farmers and local officials about the dangers of poppy cultivation, the availability of assistance for alternative livelihoods, and the credible threat that eradication poses to farmers who choose to grow poppy. These teams lay the foundation for the GOA's Afghan Eradication Force (AEF) and Governor-Led Eradication (GLE) to operate in an environment where the public is well informed about its alternatives and aware that illegal crops are subject to destruction.

-- **Legislation** - In December 2005, President Karzai adopted a counternarcotics law. Afghan prosecutors assisted by the U.S. Department of Justice Senior Federal Prosecutors Program drafted the law. After review of the law, Parliament proposed amendments that were still under review at time of publication. This legislation was the first step in supporting Amendment 7 of the Afghan Constitution prohibiting the cultivation and smuggling of narcotics and provides the legal and investigative authority for high-level investigations and prosecutions.

-- **Justice Reform** - The United States, the United Kingdom, and other donors mentor and assist the Criminal Justice Task Force (CJTF) to investigate and prosecute narcotics traffickers using modern investigative techniques provided for in the counternarcotics law (adopted in December 2005). Narcotics cases are tried before the Counter Narcotics Tribunal (CNT), which has exclusive national jurisdiction over mid- and high-level narcotics cases in Afghanistan. In April 2006, the CNT convicted three major narcotics traffickers — Misri Khan, Haji Bahram Khan, and Noor Ullah — and sentenced them to 17 years in prison for possession, sale, and attempted exportation of heroin. The Counternarcotics Justice Center (CNJC), which will be completed in mid 2007, will provide secure facilities for the CJTF and CNT. It will contain offices, secure courtrooms, and a detention facility to house defendants throughout the trial process. The GOA, with assistance from the United Nations Office on Drugs and Crime (UNODC) and the United States, refurbished a section of the Pol-e Charkhi prison to house 100 maximum-security narcotics traffickers following CNT conviction.

Law Enforcement Efforts. Continued insurgency and lack of GOA capacity to establish the rule of law throughout the entire country have hampered drug law enforcement efforts. The Ministry of Interior (MOI) established the Counter Narcotics Police of Afghanistan (CNPA), comprised of investigation, intelligence, and interdiction units, in 2003. At the end of 2006, the CNPA had approximately 1,100 of its 2,900 authorized staff, which includes the AEF. The DEA works closely with the CNPA, offering training, mentoring, and investigative assistance. Developing MOI capacity and capability for the CNPA remains a high priority for the GOA and foreign donors.

The GOA, with the support of DEA, created the National Interdiction Unit (NIU), a specialized unit within the CNPA that focuses on interdiction and investigations targeting command and control structures of mid-value and high-value drug trafficking organizations in Afghanistan. The DEA trained the sixth NIU class of 50 new recruits in 2006, and the unit now has more than 125 officers. The DEA provided support to the NIU throughout the year by continuing its program of Foreign Advisory Support Teams (FAST) for mentoring and assistance. 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 UK trained and supported paramilitary interdiction unit used to attack large, hard targets. With this cooperation, the NIU is developing the ability to perform specialized narcotics interdiction and investigative functions capable of disrupting and dismantling major trafficking organizations. NIU operations began in October 2004.

In calendar year 2006 (data through September 2006), the CNPA reported the following seizures: 1,927 kg of heroin, 105 kg of morphine base, 40,052 kg of opium, and 17,675 kg of hashish. During the year, the CNPA also raided 248 drug labs. The CNPA seized 30,856 kg of solid precursor chemicals and 12,681 liters of liquid precursors. The CJTF reported 548 arrests for trafficking under the provisions of the CN law where possession of 2 kg of heroin (or morphine base), 10 kg of opium, or 50 kg of hashish mandates automatic jurisdiction for the CNT. The CJTF obtained 328 convictions during the year.

In August 2006, the DEA cooperated with the GOA on the first controlled delivery of heroin from Afghanistan to the United States (a related delivery connected to the same case went to the United Kingdom). The Minister of Counter Narcotics authorized the law enforcement operation, and the GOA is working to develop a more routine mechanism for future controlled deliveries across international borders. The August case led to arrests in the United States connected to a trafficking network. The Afghan conspirators fled to Pakistan in order to avoid arrest, highlighting the tough problems narcotics law enforcement faces in Afghanistan.

Efforts to interdict precursor substances and processing equipment also suffer from limited police and judicial capacity. While there is a legal requirement to track precursor substances, an active registry does not yet exist to record the data. Many developing countries find their systems strained by this difficult task. 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 and potentially illicit uses of dual-use chemicals, and establishing a specialized police force to enforce the new system.

There is direct evidence linking the insurgency in Afghanistan and narcotics. Poppy cultivation contributes to Taliban funding to include the taxing of poppy farmers by the Taliban. In addition, some drug traffickers willingly finance insurgency activities and provide money to buy weapons. Traffickers provide weapons, funding, and personnel to the Taliban in exchange for the protection of drug trade routes, poppy fields, and members of their organizations.

Haji Bashir Noorzai, a major Afghan trafficker, was arrested in April of 2005, upon entry to the United States at JFK airport. Noorzai is incarcerated in New York pending trial. His indictment

alleges that he has a symbiotic relationship with the Taliban. The case of Bashir Noorzai illustrates the link that exists between drug trafficking and terrorist organizations. Noorzai was the leader of the largest Central and Southwest Asia-based heroin drug trafficking organization known to DEA. Noorzai provided explosives, weaponry, and personnel to the Taliban in exchange for protection for his organization's opium poppy crops, heroin laboratories, drug transportation routes, and members and associates. Noorzai was also a close associate of former Supreme Taliban leader Mullah Mohammad Omar, who is now a fugitive. Noorzai himself was a former leader of the Taliban Shura, or Ruling Council.

Haji Baz Mohammed, a major Afghan trafficker, was extradited to the United States in October 2005. In July 2006, he pled guilty to conspiracy to import heroin into the United States. He faces a mandatory minimum of ten years in prison and up to a potential life sentence when he is sentenced in early 2007. Similar to Noorzai's indictment, Mohammed's indictment also alleged that he was closely aligned with the Taliban.

Corruption. GOA policy prohibits the illicit production or distribution of narcotic or psychotropic drugs and other controlled substances and the laundering of proceeds from illegal drug transactions. However, some GOA officials have been accused of profiting from the illegal drug trade. The Government of Afghanistan, with support from the United States, is investigating these allegations. Drug-related corruption remains a problem, being particularly pervasive at provincial and district government levels. Corruption behaviors range from facilitating drug activities to benefiting from revenue streams that the drug trade produces. In 2006, the Ministry of Interior dismissed a district governor and district chief of police from office after they failed to assist in pre-planting campaigns against poppy cultivation. The provincial governor alleged that the two were corrupt and involved in narcotics trafficking and cultivation. During the year, the CNPA arrested a former police officer, Nadir Khan, for selling two kg of heroin to a law enforcement informant. Khan previously had directed a special narcotics unit within the Ministry of Interior.

President Karzai appointed a new Attorney General (AG) in September 2006 who has become an anti-corruption activist, dismissing prosecutors across the country for corruption. The AG is also pursuing corruption investigations against politically sensitive targets. The President also appointed a new reformist Chief Justice of the Supreme Court to head an anti-corruption task force, made up of high-level officials, to tackle the problem of corruption in the government. The GOA recognizes that it must take stronger action against corruption in order to facilitate good governance and assist in implementing its National Drug Control Strategy.

Agreements and Treaties. Afghanistan is a party to the 1988 UN Drug Convention, the 1971 UN Convention, and the 1961 UN Single Convention on Psychotropic Substances. The GOA has no formal extradition or legal assistance arrangements with the United States, but recent Afghan counternarcotics legislation allows the extradition of drug offenders under the 1988 UN Drug Convention. The U.S. Department of Justice extradited a major trafficker, Haji Baz Mohammed, from Afghanistan to the United States in October 2005 under the 1988 UN Drug Convention. A similar effort in 2006 to extradite a major trafficker met with a request from President Karzai that the defendants first stand trial in Afghanistan. The CJTF tried and convicted the defendants; the CNT then sentenced them to 17 years prison. The defendants were still incarcerated in Afghanistan as of November 2006. Afghanistan is not a party to any bilateral treaties that provide mutual legal assistance with any nation, including the United States. 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. According to USG estimates, the number of hectares under poppy cultivation in Afghanistan increased 61 percent, from 107,400 hectares (ha) in 2005 to 172,600 ha in 2006, second to 2004 as the highest level on record. Resulting opium production reached a

record 5,644 mt, due to a 36 percent increase in yields for 2006 versus 2004. The opium yield per hectare, however, fell between 2005 and 2006, dropping 41.5 k/ha to 32.7 kg/ha. Based on UNODC data, Afghanistan is the largest cultivator of illicit opium poppy in the world, accounting for 82 percent of global cultivation and 92 percent of potential opium production (based on UNODC's estimated production of 6,100 metric tons in 2006). The number of people involved in opium cultivation increased in 2006, from 2.0 million to 2.9 million. According to UNODC estimates, 12.6 percent of Afghans were involved in opium cultivation during the year.

The decision to plant poppy determines access to land and credit, making it the principal source of livelihood in several areas. Strong linkages between poppy and all aspects of Afghanistan's still profoundly underdeveloped economy exist. The GOA has been unable to prevent opium production due to a number of factors: uneven and fluid security throughout the country, weak governance, limited reach of law enforcement, corruption, some lack of government will, and weak judicial institutions. The lack of equally remunerative economic alternatives to opium also appears to deter vigorous enforcement. The GOA will not likely have the capacity to prevent opium production for some years.

Twelve of Afghanistan's 34 provinces were poppy-free in 2006. Helmand province in the south was the most significant opium producer during the year, cultivating 46 percent of Afghanistan's poppy crop--greater than 79,000 ha (USG estimate). The neighboring provinces of Farah, Oruzgan and Kandahar together produced an additional 24 percent of the country's production. Security problems in the south prevented the government from launching effective eradication and prevention programs. A stable, high farm-gate price for raw opium, along with minimal risk of law enforcement, contributed to farmers' motivations to plant poppy last year.

Eradication efforts in 2006--using manual and mechanical methods--improved over the previous year, increasing from 5,100 ha in 2005 to 15,300 ha in 2006, according to UNODC estimates. Governor-Led Eradication (GLE) accounted for greater than 13,000 ha eradicated nationwide, and the centrally deployed Afghan Eradication Force (AEF) accounted for more than 2,200 ha of eradicated crops in Helmand and the northern provinces of Badakhshan and Baghlan. Opium poppy cultivation increased 61 percent overall, from 107,400 - to 172,600 - hectares. Nevertheless, the percent of opium actually eradicated almost doubled to 8.9 percent of planted poppy versus 4.7 percent the year before. UNODC's Afghanistan survey shows that poppy farmers whose fields were eradicated in 2006 are only 44 percent likely to plant again. Over 80 percent of poppy farmers who did not experience eradication are likely to plant poppy again. Provincial PEP teams reported similar results in their informal surveys.

Rebuilding the rural economy to provide viable alternatives to poppy growing is critical to reducing opium cultivation. USAID continued with its comprehensive Alternative Livelihoods Program (AL) that allocated and obligated \$198.4 million to AL projects in the major opium cultivation areas of Afghanistan. These projects are focused on providing increased opportunities in the legal economy for those who no longer grow poppy. AL aims to revitalize the licit rural economy in Afghanistan and create long-term sustainable employment. AL achieves this through projects such as farm to market road construction, irrigation system repair, development of high value crop production, crop diversification, associated agribusiness development, and capacity building activities in rural areas. The full effects of these initiatives are realized over years and are not likely to result in a massive shift away from poppy cultivation in the near future.

Drug Flow/Transit. Drug traffickers and financiers lend money to Afghan farmers in order to facilitate drug cultivation in the country. These traffickers buy the farmers' crops 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 warlords who also control the illicit arms trade and

trafficking in persons. Traders sell to the highest bidder in these markets with little fear of legal consequences, and the gangsters tax the trade.

Drug labs operating within Afghanistan process an increasingly large portion of the country's raw opium into heroin and morphine base, reducing its bulk to 1/10th that of opium. This facilitates its movement to markets in Asia, Europe, and the Middle East with transit routes through Iran, Pakistan, and Central Asia. Organized criminal groups are involved in transporting the opium products onwards to Turkey, Russia, and the rest of Europe. Distribution networks often operate within regional and ethnic kinship groups. Pakistani nationals play a prominent role in all aspects of the drug trade in the South, Southeast, and Northeast border regions.

Domestic Programs/Demand Reduction. The GOA recognizes a growing domestic drug use problem, particularly with opium and increasingly with heroin. The GOA, in cooperation with UNODC, conducted its first nationwide survey on drug use in 2005. According to this survey, Afghanistan had 920,000 drug users, including an estimated 150,000 users of opium and 50,000 heroin addicts, including 7,000 intravenous users (updated statistics not yet available for 2006).

The Afghan National Drug Control Strategy includes rehabilitation and demand reduction programs for existing and potential drug abusers. However, Afghanistan has a shortage of general medical services, and the GOA directs limited resources to these programs. The United Kingdom and Germany--and to a lesser degree, the United States--have funded specific demand reduction and rehabilitation programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Solving the narcotics problem is critical to reconstruction, effective governance, and rule of law in Afghanistan and remains one of the United States' top priorities for Afghanistan. The United States, in coordination with the GOA and the United Kingdom, has crafted a comprehensive, integrated strategy and is providing substantial resources to the following objectives:

- Win popular support for the government's CN program through a broad public affairs campaign. The U.S. Embassy supports radio, print and person-to-person outreach campaigns that highlight the perils of Afghanistan's continued dependence on opium trade and provide information about alternative livelihood programs that are available. Special emphasis has been placed on person-to-person community outreach activities through the Multiplying Messengers (MM) and PEP programs, which engage local community, religious, and tribal leaders on CN issues.
- Develop alternative sources of income to poppy in rural areas. USAID offers a range of development programs and quick-impact, immediate relief-work programs. Starting in late 2006, USAID implemented a widespread rural finance program that will provide credit to farmers and small- and medium-sized enterprises in areas where financial services were previously unavailable. The poppy-basket of Helmand is one of the highest recipients of USAID assistance reaching \$114 million of programmed Alternative Livelihood assistance through June 2007. Most of this alternative livelihood assistance is concentrated in central Helmand, which is the focus of our eradication programs in 2007, in addition to the Kajakai dam that provides power to the whole area.
- Enhance the GOA's capacity to arrest, prosecute, and incarcerate drug offenders. DEA and DOJ prosecutors work closely with their Afghan counterparts in providing developmental training and pursuing specific cases.
- Destroy drug labs and stockpiles. The NIU and ASNF, in cooperation with the DEA, target drug labs and seize drug stockpiles.

- Dismantle the drug trafficking/refining networks. DEA works closely with the CNPA, NIU, and ASNF in pursuing criminal investigations and disrupting the narcotics trade.
- Enhance counternarcotics efforts through a strong eradication campaign. Eradication in 2006 employed manual and mechanical techniques. The United States, through the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL), provides training and financial and material support to the Afghan Eradication Force. The United States provides financial support to provincial governors for Governor-Led Eradication.

The Road Ahead. Afghanistan's unstable security, political, and economic environment limit the government's ability to combat narcotics production and trade. The 61 percent increase in the poppy crop in 2006 is discouraging. The GOA understands that its CN implementation plan was not effective during the previous pre-planting season, and it took more focused action during the 2006 pre-planting season in an effort to deter farmers from planting poppy, but the task is challenging for many different reasons set out above. The GOA should also build on its use of eradication as a deterrent by incorporating herbicide, through ground-based spray, to augment and expand its eradication efforts. However, sustained progress against the drug trade will require continued commitment to the GOA's comprehensive counternarcotics implementation plan over several years, and the GOA will require international assistance in combating narcotics over this time period. Drug production and trafficking will continue in Afghanistan until the GOA is able to guarantee a stable security environment and exert its influence through credible law enforcement institutions throughout the country. These developments will provide a foundation for the rural sector to rebound and pursue legal livelihoods. Long-term, sustained assistance and political support from the international community will be necessary to ensure that the GOA can achieve its goals.

V. Statistical Tables

Drugs Seized (kg)

(Through September 2006)

	2003	2004	2005	2006
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Opium	2,171	17,689	50,048	40,052
Heroin	977	14,006	5,592	1,927
Morphine Base	111	210	118	105
Hashish	10,269	74,002	40,052	17,675

Precursor Chemicals Seized

(Through September 2006)

	2003	2004	2005	2006
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Solid (kg)	14,003	3,787	24,719	30,856
Liquid (liters)	0	4,725	40,067	12,681

**Arrests (for trafficking)
(Through September 2006)**

	2003	2004	2005	2006
	----	----	----	----
Arrests	203	248	275	548

**Drug Labs Destroyed
(Through September 2006)**

	2003	2004	2005	2006
	----	----	----	----
Labs Destroyed	31	78	26	248

Bangladesh

I. Summary

Several high-profile cases this year have proven that Bangladesh is susceptible to use by organized criminals as a transit point for heroin trafficking. Increases in the seizure of heroin, cannabis, phensidyl (a codeine-based, highly addictive cough syrup produced in India), and pethedine (an injectable opiate with medical application as an anesthetic) within the country point to growing narcotics abuse in Bangladesh. There is no evidence that Bangladesh is a significant cultivator or producer of narcotics. The Bangladesh government (GOB) officials charged with controlling and preventing illegal substance trafficking lack training, equipment, continuity of leadership, and other resources to detect and interdict the flow of drugs. There has been an historical lack of cooperation among law enforcement agencies, but the situation improved somewhat in 2006. Corruption at all levels of government, and in particular law enforcement, hampers the country's drug interdiction efforts. Bangladesh is a party to the 1988 UN Drug Convention.

II. Status of Country

The country's porous borders make Bangladesh an attractive transfer point for drugs transiting the region. After years of unwillingness to recognize narcotics issues, the country's law enforcement bodies took a stance against drugs in 2006, largely due to two factors: high-profile cases of heroin smuggling to the United Kingdom, and growing methamphetamine (locally, yaba) use among the young elite. A newly formed "Anti-Drugs" task force made comprehensive recommendations to the government, most notably moving to strengthen the law enforcement capabilities of the Department of Narcotics Control (DNC).

III. Country Actions Against Drugs in 2006

Policy Initiatives. The DNC is governed by the National Narcotics Control Board (NNCB), which is authorized by 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, composed of up of 11 ministers, seven appointed members, and the DNC Director General, is charged to meet quarterly. Infrequent meetings of the NNCB in recent years have hampered the DNC's ability to make agency changes. In a proactive effort, the Home Minister called for the creation of an Anti-Drugs Committee, and charged the committee with developing a set of recommendations to improve the narcotics situation in the country. This effort was in part a response to growing methamphetamine addiction among college students. Although their work has not been formally released, the Committee made short, medium, and long-term recommendations to improve the administrative organization of law enforcement units, curb drug-related crime, increase law enforcement training, and improve addict treatment and rehabilitation. The NNCB must approve and enact the recommendations of the Anti-Drugs Committee. Follow-up over the long term will be a key issue, as the changes likely to be sought would be significant in scope.

Law Enforcement Efforts. The GOB demonstrated its commitment to fighting narcotics in its response to high-profile heroin smuggling cases this year. The United Kingdom discovered heroin totaling 140 kg in several shipments originating from the Chittagong port in Bangladesh. The UK government requested and received the assistance of the GOB to gather information on the case. The Bangladesh Ministry for Home Affairs established a task force to investigate the case itself, leading to several charges against employees of a prominent business. Law enforcement units engaged in counternarcotics operations include the police, the DNC, the border defense forces known as the Bangladesh Rifles (BDR), customs, the navy, the coast guard, and local magistrates.

Elements of these agencies are widely believed to abet the smuggling of goods, including narcotics, into Bangladesh. Regular police are viewed as so corrupt and inept at combating everyday crime that a new “Rapid Action Battalion” (RAB) force was established in 2004 by the central government. Customs, the navy, the coast guard and the DNC all suffer from poor funding, inadequate equipment, understaffing and lack of training. Customs officials also lack arrest authority. At ports of entry where customs officials are not stationed with police units, they have no capacity to detain suspected traffickers. Instead, they can only retain the contraband items found. There is no DNC presence at the airports in Dhaka and Chittagong, or at the Chittagong seaport. These obstacles significantly undermine overall GOB counternarcotics efforts.

Drug seizures are reported to the DNC by all law enforcement agencies. Until 2006, the DNC did not compile these statistics across agencies; as a result, previous years' data cannot be compared directly to 2006 seizure records. Drugs seized by all Bangladesh authorities from January through June 2006 are as follows: 46.5 kg of heroin (more than a 25 percent increase over the amount seized during the same period in 2005); 5.34 metric tons of marijuana (more than a 60 percent increase over the amount seized during the same period in 2005); nearly 250,000 bottles of phensidyl; 1197 ampoules of pethedine and T.D. Jasick brand injections (an anesthetic intended for animal use, active ingredient: buprenorphine); and 216 ampoules of methamphetamine, or yaba.

Corruption. Corruption is a major problem at all levels of society and government in Bangladesh. At the working level, authorities involved in jobs that have an affect on the drug trade facilitate the smuggling of narcotics. Corrupt officials can be found throughout the chain of command. If caught, prosecuted, and convicted, most officials receive a reprimand at best and termination from government service at worst. Adjudicating authorities do not take these cases seriously. An Anti-Corruption Commission was formed in November 2004 with a mandate to investigate corruption and file cases against government officials. The Commission remained largely inactive, however, and questions have been raised about its commitment to operate effectively and independently. The GOB does not, as a matter of government policy, encourage or facilitate illicit production or distribution of drugs or controlled substances or launder proceeds from their transactions. No senior official has been identified as engaging in, encouraging, or facilitating the production or distribution of drugs or controlled substances.

Agreements and Treaties. Bangladesh is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention, and the 1972 Protocol amending the Single Convention. The GOB and USG signed a Letter of Agreement on Law Enforcement and Narcotics Control (LOA) in September 2002 under which the U.S. would provide equipment and technical assistance to the DNC and its central chemical laboratory. The LOA also provided for training, via the U.S. DOJ, to law enforcement personnel involved in counternarcotics activities. There is no US-Bangladesh extradition treaty; however, Bangladesh law permits extradition without the existence of a treaty. There has been limited cooperation with the return of fugitives from Bangladesh.

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 acknowledges that a limited amount of cannabis is cultivated in the hill tracts near Chittagong, in the southern silt islands, and in the northeastern region, claiming it is for local consumption. The DNC also reports that as soon as knowledge of a cannabis crop reaches its officers, that crop is destroyed in concert with law enforcement agencies.

Drug Flow/Transit. The heroin smuggling cases to the UK in 2005, and the resulting investigations by the GOB in 2006, identified weaknesses in the country's narcotics-detection infrastructure. Bangladesh is situated between the Golden Crescent to the west and the Golden Triangle to the east, placing the country at continued risk for transit crimes. Opium-based

pharmaceuticals and other medicinal drugs are being smuggled into Bangladesh from India. White (injectable) heroin comes in from Burma.

Domestic Programs (Demand Reduction). There is no widely accepted estimate of the number of drug addicts in Bangladesh. A recent Anti-Drugs Committee report acknowledges at least 1.5 million addicts in Bangladesh. 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. Recent cases of yaba addiction in wealthy neighborhoods and on university campuses are of particular concern to the government. The GOB runs several domestic programs, but is not funding them at levels to ensure their success. The DNC sponsors rudimentary educational programs aimed at youth in schools and mosques, but there is little funding for these programs and no clear indication of their impact. In addition, the DNC currently runs outpatient and detoxification centers in Dhaka, Chittagong, Khulna, and Rajshahi. Its 250-bed facility is closed for renovation for the next few months. These centers only remove the drug from the addict's system; they do not address the underlying causes of individual addiction. Hence, they are not successful in assisting addicts to overcome their addiction over the long term. There are other, non-governmental centers with a variety of treatment therapies available. Unfortunately, most of these are quite expensive by Bangladeshi standards and therefore beyond the reach of most drug addicts. One drug addicts' rehabilitation organization, APON, operates five long-term residential rehabilitation centers, including the first center in Bangladesh for the rehabilitation of female addicts (opened in 2005). APON and other NGOs have expressed concerns about new regulations imposed on treatment facilities by the GOB. New requirements passed in 2005 for certification and additional medical professional oversight of private facilities will increase the cost of operating these facilities and therefore put continued operation of many of these grass-roots organizations at risk.

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. As part of a program directed at curbing the spread of HIV/AIDS, USAID provided a grant to add treatment facilities directed at intravenous drug users. Pursuant to the 2002 LOA, equipment and law enforcement courses were provided in 2004, primarily to the police, but also to DNC laboratory technicians and officers; the equipment is used daily to identify narcotics for evidence in criminal cases. A limited number of BDR personnel have attended U.S. funded boarder security courses. Department of Justice efforts to improve the anti-money laundering and financial intelligence capabilities of the Bangladesh Bank will support counternarcotics activities in the country.

The Road Ahead. The USG will continue to provide law enforcement and forensic training for GOB officials and work with the GOB to construct a comprehensive strategic plan to develop, professionalize, and institutionalize Bangladesh counternarcotics efforts. With existing State Department narcotics assistance funds under the LOA, the U.S. Drug Enforcement Administration will hold a "Basic Drug Enforcement" training academy in Bangladesh in the spring of 2007. The program will be offered through the DNC, with some seats reserved for the BDR and Customs officers from the Chittagong Port. This effort should be followed by continued professional support from the regional DEA office in New Delhi, and additional capacity-building programs under the 2002 LOA. In addition, the USCG will provide a Container Inspection MTT, and a Boarding Officer resident course.

India

I. Summary

India is the only country authorized by the international community to produce opium gum for pharmaceutical use, rather than concentrate of poppy straw (CPS), the processing method used by the other producers of opiate raw material. India's strategic location, between Southeast and Southwest Asia, the two main sources of illicit opium, make it a heroin transshipment area. 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. Insurgent groups operating in the Northeast finance their activities through smuggling of drugs from Burma into India. Much of the hashish and cannabis intended for international markets is smuggled into India from Nepal. India produces heroin from diverted licit opium for both the domestic addict market and is a modest, but growing, producer of heroin destined for the international market. The Government of India (GOI) formally released the results of the 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, particularly in the Northeast states bordering Burma, continues to be a concern, resulting in an extremely high incidence of HIV/AIDS in these populations. Major metropolitan areas increasingly report the use of cocaine, Ecstasy and other synthetic 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 past year (2005-06), the GOI and the U.S. Embassy conducted another opium study, focusing on limiting the area and number of plots where the data are collected. India is a party to the 1988 UN Drug Convention.

II. Status of Country

Under the terms of international agreements, supervised by the International Narcotics Control Board, India must maintain licit opium production and carry-over stocks at levels no higher than those consistent with world demand to avoid excessive production and stockpiling, which could be diverted into illicit markets. India has complied with this requirement and succeeded in rebuilding stocks over the past four 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, stocks rose to 1,776 metric tons last year (2004/05), but are now down to 1,476 metric tons at the end of the 2005/06-crop year.

Licensed farmers are allowed to cultivate a maximum of 10 "ares" (one tenth of a hectare), the same as last year. "Opium years" straddle two calendar years. All farmers must deliver all the opium they produce to the government alone, meeting a minimum qualifying yield (MQY) that specifies the number of kg of opium to be produced per hectare (HA), per state. The MQY is established yearly by the Central Bureau of Narcotics (CBN) prior to licensing. At the time the CBN establishes the MQY, it also publishes the price per kilo the farmer will receive for opium produced that meets the MQY, as well as significantly higher prices for all opium turned into the CBN that exceeds the MQY.

The MQYs are based on historical yield levels from licensed farmers during previous crops. Increasing the annual MQY has proven effective in increasing average yields, while deterring diversion, since, if the MQY is too low, farmers could clandestinely divert excess opium they produce into illicit channels, where traffickers often pay up to ten times what the GOI can offer. Thus, an accurate estimate of the MQY is crucial to the success of the Indian licit production control regime.

During the 2002/03-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. This year the CBN intends to use this technology to identify illicit cultivation of opium in various parts of the country as well.

Any cultivation in excess of five percent of the allotted cultivation area is not only uprooted, but the cultivator is also subject to prosecution. During the lancing period, the CBN appoints a village headman for each village to record the daily yield of opium from the cultivators under his charge. CBN regularly checks the register and physically verifies the yield tendered at harvest. The CBN has also reduced the total procurement period of opium in order to minimize opportunities for diversion and deployed additional teams of officers from the Central Excise Department to monitor harvesting and check diversion. In 2006, the CBN also began experimenting with closed circuit television cameras to monitor the collection and weighing of opium gum.

In 2006, the CBN continued issuing microprocessor chip-based cards (Smart Identity Cards) to opium poppy cultivators. The card carries the personal details of the cultivator, the licensed area, the measured/test measured field area and the opium tendered by him to the CBN. The card 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. For crop year 2005/2006, the project was 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 kilo of opium, but illicit market prices are four to five, even 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. In the 2005/2006 opium harvest year, CBN significantly decreased the number of hectares licensed from 8,771 in 2004/2005 to 6,976 in 2005/2006, and the number of farmers licensed from 87,682 in 2004/2005 to 72,478 in 2005/2006. Much of this reduction took place in Uttar Pradesh, where CBN is in the process of phasing out opium cultivation. The estimated yield for the 2005/06-crop year is 372 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 significant quantities of opium or its derivatives diverted from India's fields reaches the U.S. In 2006, the GOI reports it seized 142 kg of licit opium and closed down three morphine-manufacturing facilities.

Poppies harvested using concentrate of poppy straw (CPS) are not lanced, and since the dried poppy heads cannot be readily converted into a usable narcotics substance, diversion opportunities

are minimal. However, it is inherently difficult to control diversion of opium gum collection because opium gum is collected by hand-scraping the poppy capsule, and the gum is later consolidated before collection. The sheer numbers of Indian farmers, farm workers and others who come into contact with poppy plants and their lucrative gum make diversion appealing and hard to monitor. Policing these farmers on privately held land scattered throughout three of India's largest states is a considerable challenge for the CBN. All other legal producers of opium alkaloids, including Turkey, France, and Australia, produce narcotics raw materials using the CPS process. The GOI believes the labor intensive gum process used in India is appropriate to the large numbers of relatively small-scale farmers who grow poppy in India.

Processing opium gum is difficult because a residue remains after the narcotic alkaloids have been extracted. 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, with the exception of certain companies, which have adapted their equipment and methods to be able to use gum opium.

To meet this challenge, 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 domestic opiate pharmaceutical processing industry and the availability of opiate pharmaceutical drugs to Indian consumers through ventures with the private sector. However, regardless of the GOI's interest in CPS, the financial and social costs of the transfer and the difficulty of purchasing an appropriate technology are daunting. Since alkaloid extraction requires highly specialized equipment, some of the most obvious places where such equipment and technologies would be available, along with advice on how to use them, are in the other countries licensed to produce legal opiate alkaloids and thus in countries in direct competition with India for licit opium sales.

Morphine base ("brown 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 recent period of Indian/Pakistani border tensions, are on the upswing.

III. Country Actions Against Drugs in 2006

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. Prosecutions under the NDPSA have increased dramatically, from 7,874 persons in 2003 to 20,138 in calendar year 2005. The overall conviction rate has also increased, from 38 percent in 2003 (3,006 convictions) to 45 percent in 2005 (9,074 convictions). In certain cases involving repeat offenders dealing in commercial quantities of illegal drugs, the law allows for the death penalty, although there have been no such sentences to date.

In April 2003, GOI moved the Narcotics Control Bureau (NCB) from the Ministry of Finance to the Ministry of Home Affairs. The Ministry of Finance remains the GOI's central coordinating ministry for counternarcotics and continues to cooperate with the NCB. The move has enhanced

the NCB's law enforcement capabilities and helped align the bureau with other GOI police agencies under the control of the Home Ministry.

Law Enforcement Efforts. While heroin seizures have remained steady (991 kg in 2003 and 981 in 2005), seizures of opium have grown from 1,720 in 2003 to 2,009 in 2005. Seizure statistics for other drugs, such as cocaine, methaqualone and ephedrine, tend to fluctuate more dramatically as a result of larger single seizures, but statistics for all three so far in 2006 show large increases. Marijuana and hashish seizures have shown constant explosive growth in recent years. Marijuana seizures almost doubled the last two years (from 79,653 kg in 2003 to 153,660 in 2005), and hashish seizures are up 32 percent over the same period (3,013 kg in 2003 to 3,965 in 2005).

The year 2006 saw a number of major seizures that indicate an increasing sophistication in the law enforcement response to illicit narcotics and precursor trafficking in and through India. In June, in what was reported to be the largest cocaine seizure in Asia, the NCB seized 200 kg on a cargo ship in the port of Mumbai. The ship M.V. Voyager had been tracked from Ecuador through the Far East and into India.

The New Delhi police had two major successes in August 2006. On August 14 and 15 they seized 100 kg of ephedrine, 600 kg of ketamine, and 3 kg of hashish in an operation that resulted in the arrest of 4 individuals. The accused were in the process of shipping at least some of the goods to Canada using commercial express mail services, with indications that they had been doing the same for the past two years. In the second incident, officials seized more than 4,400 kg of Methaqualone on August 27, the largest such seizure in India. The accused were in the business of stealing the contents of shipping containers.

On September 3, the NCB seized a total of 550 kg of ephedrine at two DHL locations in New Delhi, again destined for Canada. Using information from the September seizure, on October 18 the NCB raided a factory in New Delhi that was being established as a methamphetamine laboratory and arrested seven individuals and seized an additional 550 kg of ephedrine. In November, the NCB searched a container in the port of Calcutta and found extensive laboratory equipment that is believed was destined for a methamphetamine laboratory outside of New Delhi. The seizures of ephedrine made in these cases dwarf the 8 kg of ephedrine reported to have been seized in India in 2005. These seizures, along with the seizure made by Delhi Police in 2006, highlight a possible emerging trend of Canadian and Chinese drug trafficking organizations attempting to exploit India as a source for ephedrine, a critical component in the manufacture of methamphetamine.

A joint investigation by the DEA and NCB in 2005 led to the dismantling of a major international pharmaceutical drug organization that was distributing controlled pharmaceuticals such as bulk ephedrine (a controlled precursor chemical) and ketamine (a Schedule III non-narcotic controlled substance in the U.S.) internationally through the Internet. The international drug trafficking ring, consisting of over 20 individuals in the U.S. and India, may have had as many as 80,000 retail customers. The 108 kg of Indian ketamine seized in the U.S. was valued at \$1.62 million. The total amount of U.S. money and property seized in this investigation was \$2 million dollars in India and \$6 million in the United States. In another joint investigation, DEA and NCB cooperated to take down another Internet pharmacy. The result of this case was seven arrests in the United States and five arrests in India. The Internet pharmacies were being operated by individuals in India in conjunction with a call center that was processing orders for U.S.-based customers. The call center in India employed fifteen people and processed approximately \$400,000 worth of pharmaceuticals per month.

Subsequent joint investigations have shown the continuing use of the Internet to distribute drugs and pharmaceuticals of all kinds from India to the U.S. and other countries. In the fall of 2005, Indian Customs seized five international mail packages that were found to contain a kg or more of

Southwest Asian heroin destined for individuals in the United States, with controlled deliveries leading to the arrest of five individuals in the U.S. Heroin being smuggled into India from Afghanistan and Pakistan has picked up over the past year, with West Africans often arrested as the carriers. This trend may continue as the border between Pakistan and India opens up to increasing commerce and travel as relations between the two countries improve. Indian law enforcement agencies are also becoming more proactive in fighting international drug trafficking.

Corruption. The Indian media periodically 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. The GOI does not, as a matter of government policy, encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. Similarly, we are not aware of any individual senior government official so involved. Both the CBN and NCB periodically take steps to arrest, convict, and punish corrupt officials within their ranks. The CBN frequently transfers officials in key drug producing areas to guard against corruption. The CBN has increased the transparency of paying licensed opium farmers to prevent corruption and appointing village coordinators to monitor opium cultivation and harvest. These coordinators receive 10 percent of the total paid to the village for its crops, in addition to what they receive for their own crops, so it is advantageous for them to ensure that each farmer under their jurisdiction turns in the largest possible crop.

Agreements and Treaties. India is a party to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The United States and India signed a Mutual Legal Assistance Treaty (MLAT) in 2001 that came into force in October 2005. An extradition treaty is in effect between the U.S. and India. India has signed but has not yet ratified the UN Convention against Transnational Organized Crime. The USG and the GOI signed a Customs Mutual Assistance Agreement on December 15, 2004. A modern US-India extradition treaty entered into force in 1999, replacing the outdated US-UK 1931 treaty, and a US-India mutual legal assistance treaty (MLAT) entered into force in 2005.

Cultivation/Production. The bulk of India's illicit poppy cultivation is now confined to Arunachal Pradesh, the most remote of northeastern states, which has no airfields and few roads. The terrain is mountainous, isolated jungle, requiring significant commodity and personnel resources, just to reach it. 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 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 kg per hectare.

Drug Flow/Transit. Although trafficking patterns appear to be changing, India historically has been an important transit area for Southwest Asia heroin from Afghanistan and Pakistan and, to a lesser degree, from Southeast Asia - Burma, Thailand, and Laos. India's heroin seizures from these two regions continue to provide evidence of India's transshipment role. Most heroin transiting India appears bound for Europe. Seizures of Southwest Asian heroin made in New Delhi and Mumbai tend to reinforce this assessment. However, the bulk of heroin seized in the past two years has been of domestic origin, and it was seized in South India, and was apparently destined for Sri Lanka. Trafficking groups operating in India fall into four categories. Most seizures in Mumbai and New Delhi involve 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. In addition, insurgent groups in these states have utilized drug trafficking as a means to finance their operations against the Indian Government.

Indian-produced methaqualone (Mandrax) trafficking to Southern and Eastern Africa continues. Although South Africa has increased methaqualone production, India is still believed to be among the world’s largest known clandestine methaqualone producers. Seizures of methaqualone, which is trafficked in both pill and bulk forms, have varied significantly, from 7,458 kg in 2004 to 472 kg in 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 manufacturer and 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. DHS Customs and Border Protection are intercepting thousands of illegal “personal use” shipments in the mail system in the United States each year. 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.

Domestic Programs/Demand Reduction. Newspapers frequently refer to Ecstasy and cocaine use on the Mumbai and New Delhi “party circuit,” but there is little information on the extent of their use. There has been a considerable amount of reporting in local newspapers indicating that the use of cocaine and Ecstasy are on the rise. While smoking “brown sugar” heroin (morphine base) and cannabis remain India’s principal recreational drugs, intravenous drug use (IDU) of LOPPS is rising in India, replacing, almost completely, “white” heroin. In parts of India where intravenous drug users (IDUs) have been denied access to LOPPS, IDUs have turned to injecting “brown sugar” heroin. Various licitly produced psychotropic drugs and opiate painkillers, cough medicines, and codeine are just some of the substances that have emerged as the new drugs of choice. In 2004, the Ministry of Social Justice and Empowerment (MSJE) released a 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. Although drug abuse cuts across a wide spectrum of Indian 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. Widespread needle sharing has led to high rates of HIV/AIDS and overdoses. The states of Manipur and Nagaland are among the top five states in India in terms of HIV infection (disproportionately affecting the 15- to 30-year old population in these states), primarily due to intravenous drug use.

The popularity of injecting licit pharmaceuticals can be attributed to four factors. First, they are far less expensive than their illegal counterparts. Second, they provide quick, intense “highs” that many users prefer to the slower, longer-lasting highs resulting from heroin. Third, many IDUs believe that they experience fewer and milder withdrawal symptoms with pharmaceutical drug use. Finally, licit opiate/psychotropic pharmaceuticals are widely available and easy to obtain since virtually any drug retail outlet will sell them without a prescription.

The 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 on-going community-based program for

prevention, treatment and rehabilitation through some 400 NGOs throughout the country. The MSJE spends about \$5 million on NGO support each year.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States has a close and cooperative relationship with the GOI on counternarcotics issues. In September 2003, the United States and India signed Letter of Agreement (LOA) amendments to provide State Department drug assistance funding worth \$2.184 million for counternarcotics law enforcement. In 2004, another \$40,000 was added to the LOA. In 2004 a Customs Mutual Assistance Agreement was signed. The U.S. and India have had a long-standing extradition relationship; however, India's efforts to bring about prompt conclusion of extradition proceedings have been poor. The USG has repeatedly asked the GOI to take steps to bring extradition proceedings to fruition more promptly. It is hoped that India will be able to soon conclude the extradition proceeding for Sarabeet Singh, charged with narcotics trafficking, which have been underway since 2002. In 2006 India's NCB provided prompt and effective cooperation under the MLAT in connection with ah narcotics prosecution in EDPA; other requests have been stalled, however. The USG hopes to consult with India soon on MLAT implementation.

The Road Ahead. The NCB's move to the Ministry of Home Affairs has enhanced the U.S. relationship with the Ministry and NCB. DEA gave more courses to more law enforcement officials from a wider variety of state and central government law enforcement agencies in 2004 and 2005 than ever before. Other training included standard and advanced boarding officer training by the USCG. Our joint LOA (Assistance Agreement) Monitoring Committee Meetings with the GOI ensure that funds achieve desired results, or are otherwise reprogrammed to higher priority projects. The LOA project to enhance and improve NCB's intelligence gathering and information sharing will enable it to better target drug traffickers and improve its cooperation with DEA. Another project managed by the Ministry of Finance trains law enforcement officials across India on asset forfeiture regulations. We also use LOA funds to build the capacity of Indian law enforcement agencies to fight international narcotics trafficking by providing them with badly needed commodities and equipment. 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.

V. Statistical Tables (through October 2006)

Drug seizure statistics are kept by the NCB (Ministry of Home Affairs) and updated on a monthly basis. The accuracy of the statistics is dependent upon the quality and quantity of information received by the NCB from law enforcement agencies throughout India. Statistics relative to opium cultivation and production are kept by the CBN (Ministry of Finance).

Note — not all information is available in all categories

POPPY CULTIVATION

Poppy cultivation/harvest in hectares

Final figures for opium gum yields in metric tons at 90 percent consistency; provisional yields at 70 percent consistency

Average yield of gum per hectare in kg

<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>
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Hectares			
Licensed	7,252	7,901	21,141
Farmers			
Licensed	72,478	79,016	105,697
Hectares			
Harvested	6,976	7,833	18,591
Gum Yield			
(MT)	N/A	N/A	825
Opium			
Yield (kg/ha)	59.9	N/A	57.07

2006/07 (Estimate)

Hectares	
Licensed	6,220
Farmers	
Licensed	N/A
Hectares	
Harvested	N/A
Gum yield	
(MT)	372
Opium	
Yield	
(kg/ha)	60

Opium prices paid to farmers in rupees (RS. 45 equals one USD). The price of opium for the 2006/07 crop year has yet to be declared by the GOI

	<u>2005/6</u>	<u>2004/5</u>	<u>2003/4</u>
44-54			
kg/ha	750-1075	756-1076	1550-2100
55-70			
kg/ha	1100-1600	1102-1601	1050-1525
71-100+			
kg/ha	1625-2200	1627-2205	1550-2100

DRUG SEIZURES 2004-2006

(2006 statistics through October, 2005 figures revised)

	<u>UNIT</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Opium	kg	2494	2009	2237
Morphine	kg	30	47	97
Heroin	kg	856	981	1162
Cannabis	kg	133,131	153,660	144,055
Hashish	kg	2,735	3,965	4,599
Cocaine	kg	204	4	6
Methaqualone	kg	4,420	472	1,614
Ephedrine	kg	1,200	8	72

Acetic				
Anhydride	kg	98	300	2,665
Amphetamine	kg	0	0	91

PERSONS	<u>2006*</u>	<u>2005</u>	<u>2004</u>
Arrested	13,434	19,746	12,106
Prosecuted	11,702	20,138	10,173
Convicted	5,936	9,074	4,294

*Through October

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 number of Nepalese couriers apprehended by the police suggests that Nepalis 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 hindered interdiction and monitoring efforts in many parts of the country. New in 2006, the Government of Nepal adopted a Narcotics Control National Policy. Legislative efforts are also underway to increase control over the trafficking of precursor chemicals between India and China. Nepal is a party to the 1988 UN Drug Convention.

II. Status of Country

Police confirm that production of cannabis is on the rise in the southern areas of the country, and that most is destined for the Indian market. Abuse of locally grown and wild cannabis and locally produced hashish, which is marketed in freelance operations, remains widespread. Heroin from Southwest and Southeast Asia is smuggled into Nepal across the open border with India and through Kathmandu's international airport. Licit, codeine-based medicines continue to be abused. Nepal is not a producer of chemical precursors but serves as a transit route for precursor traffic between India and China.

The ongoing Maoist insurgency has obstructed rule-of-law, interdiction and monitoring efforts in many parts of the country. The Maoists are most likely involved in drug smuggling to finance their insurgency. Nepal's NDCLEU reports that Maoists have called upon farmers in certain areas to increase cannabis production and have levied a 200 Nepal Rupees per kg (approximately \$2.75) tax on cannabis production. The inaccessibility of areas due to the insurgency has also skewed the NDCLEU's statistics.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Nepal's basic drug law is the Narcotic Drugs (Control) Act, 2033 (1976). Under this law, the cultivation, production, preparation, manufacture, export, import, purchase, possession, sale, and consumption of most commonly abused drugs is illegal. The Narcotics Control Act, amended last in 1993, conforms in part to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol by addressing narcotics production, manufacture, sales, import, and export.

In August 2006, the Home Ministry drafted a Narcotics Control National Policy, which has been adopted by the Cabinet. Noting the growing incidence of HIV infection among narcotic-using sex workers, abuse of narcotics and psychotropic medicines among youth, and illicit trafficking by organized mafia, the new policy, an update of the 1996 Narcotics Control National Policy, attempts to address these concerns in a more "transparent and enforceable" manner. It consists of five strategies to control drug production, abuse and trafficking: (1) supply control, (2) demand reduction (treatment and rehabilitation and drug abuse prevention), (3) risk reduction, (4) research and development, and (5) collaboration and resource mobilization.

To ensure institutional support, the policy calls for the creation of a Narcotic Control Bureau in the Ministry of Home Affairs, to include the NDCLEU and a special Nepal Police Taskforce trained in counter narcotics. In addition, the policy would establish a high-level narcotics control national guidance and coordination committee, chaired by the Home Minister, and a narcotics control executive committee, chaired by the Home Secretary. The policy has also set up an autonomous body to create a National Drug Demand Reduction Campaign involving awareness and advocacy programs, but the campaign group has not yet met.

Nepal is actively implementing a National Drug Abuse Control Plan (NDACP), but other proposed efforts still await legislative approval. Legislative action on mutual legal assistance and witness protection, developed as part of the NDACP, has stalled for a fifth year. The government has not submitted scheduled amendments to its Customs Act to control precursor chemicals. Legislation on asset seizures, drafted in 1997 with United Nations Office on Drugs and Crime assistance, is also awaiting approval. All are under review by the Ministry of Law and Justice. Legislation on criminal conspiracy has not yet been drafted.

In response to reports from the NDCLEU of increased trafficking and criminal behavior among Nigerian tourists, the Home Ministry has sent the Ministry of Foreign Affairs a proposal to restrict the travel of Nigerians to Nepal. The Home Ministry and the NDCLEU reported that Nigerians travel on false passports to Nepal, via South Africa and India, to widen their organized crime network and traffic heroin, humans and arms.

Law Enforcement Efforts. The NDCLEU has developed an intelligence wing, but its effectiveness remains constrained by a lack of communication and surveillance equipment. Coordination and cooperation among NDCLEU and Nepal's customs and immigration services, while still problematic, are improving. The reallocations of resources to fight the Maoist insurgency and the lack of security in the countryside have hampered crop destruction efforts. While the amount of destroyed areas of illicit drugs cultivation has been fluctuating since 1991, final statistical data for 2005 indicate that destruction of cannabis plants has declined since 2004. In 2005, 4 ha of opium and 121 ha of cannabis cultivation were destroyed, compared to 231.5 h of cannabis destroyed in 2004.

The NDCLEU reported that it is responsible for arresting 35 percent of the prisoners in Nepali jails. In 2005, the Nepal Police arrested 33 foreigners on the basis of drug trafficking charges. From January-May 2006, police arrested 16 foreigners and 138 Nepalese citizens. In the same time period, the NDCLEU and local units reportedly seized 1,574 kg of cannabis - more than the amount of cannabis seized in all of 2005 (1,532 kg). The NDCLEU also seized 6 kg of heroin in this period, compared to the 9 kg seized in 2005. Of the 6 kg seized, 2.5 kg were seized at Kathmandu's international airport. The NDCLEU further reported the seizure of 63.7 kg of hashish (54.3 kg in 2005) at Kathmandu's Tribhuvan International Airport (TIA) from January-May 2006. Most seizures of heroin and hashish in 2006 occurred along the Nepal-Indian border, within Kathmandu, or at TIA as passengers departed Nepal. Seizures of illicit and licit, but illegally abused, pharmaceuticals in January-May 2006 were higher than 2005 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, psychotropic drugs, or other controlled substances, nor 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. The Cabinet has signed the latter and it is now in the House awaiting ratification. In addition, as agreed upon at the May 2006 SAARC Summit, the Home Ministry set up a SAARC Drug Offenses Monitoring Desk at TIA. Nepal has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. There is no U.S. extradition treaty with Nepal. Nepal does not extradite its nationals.

Cultivation/Production. Cannabis is an indigenous plant in Nepal, and cultivation of certain selected 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 reported that all heroin seized in Nepal originated elsewhere. Nepal does not produce precursor chemicals. Importers of dual-use precursor chemicals must obtain a license and submit bimonthly reports on usage to the Home Ministry.

According to the Home Ministry, there have been no seizures of precursor chemicals since 1997. There have not been reports of the illicit use of licensed imported dual-use precursor chemicals. Nepal is used as a transit route to move precursor chemicals between India and China. With ratification of the SAARC Convention on Narcotics Drugs and Psychotropic Substances, which holds countries liable for policing precursor chemicals, the Home Ministry said it planned to assert control over precursor chemicals. These chemicals are currently under the jurisdiction of the Ministry of Health and are not carefully monitored for abuse.

Drug Flow/Transit. According to NDCLEU, evidence from narcotics seizures suggests 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 have claimed that most narcotics are bound for India, and law enforcement sources indicated that most seizures occur at the India/Nepal border. The NDCLEU said customs and border controls were weak along Nepal's land borders with India and China, while the Indian border was essentially open. Security measures to interdict narcotics and contraband at TIA and at Nepal's regional airports with direct flights to India were also inadequate. The Government of Nepal (GON), along with other governments, is working to increase the level of security at the international airport, and the Nepal Army is detailed to assist with airport security. The NDCLEU took the increase in arrests of Nepalese couriers in other countries as an indication that Nepalese were becoming more involved in the drug trade 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 has continued 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 have limited 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 neighbors and occasionally with destination countries in Europe in connection with international narcotics investigations and proceedings.

The Road Ahead. The United States will continue information exchanges, training, and enforcement cooperation; work with the UNODC to further enhance the efforts of the NDCLEU and support their demand reduction and social rehabilitation efforts; provide support to various parts of the legal establishment to combat corruption and improve rule of law; and support improvements in the Nepali customs service. The United States will also encourage the GON to enact stalled drug legislation.

Pakistan

I. Summary

With continued pressures on its Western border, Pakistan remains on the frontline of the war against drugs as a major transit country for opiates and hashish from neighboring Afghanistan. Aiming to return to poppy-free status, Pakistan saw a 39 percent decrease in opium poppy cultivation in 2006, to approximately 1,908 hectares, of which 1,545 hectares were harvested. The Government of Pakistan (GOP) maintains that there is no evidence that opiate laboratories are currently operating in Pakistan. The GOP's Anti-Narcotics Force (ANF) conducted an operation on June 10, 2006, that destroyed eight mobile drug labs near the Afghan border in the Baluchistan Province, which the GOP states were the only labs in country. Estimates of the number of drug addicts in Pakistan range from two to three million.

Although GOP efforts to develop a five-year Master Drug Control Plan in coordination with UNODC have slowed, a draft should be available by spring 2007. 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 as well as the Home Departments of the Northwest Frontier Province (NWFP) and Baluchistan 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 improved their access to remote areas where some of the drug trafficking takes place, evidenced by more than 30 percent increase in narcotics seizures in 2006. Extradition to the United States of persons charged with narcotics offenses and other crimes continues to be delayed for years due to judicial and administrative delays. Pakistan is a party to the 1988 UN Drug Convention.

II. Status of Country

After seeing a steady increase in poppy cultivation from 213 ha in 2001 to 7,571 ha in 2004, Pakistan reversed the trend in 2005 and in 2006 reduced poppy cultivation by 39 percent. The GOP is committed to regaining its poppy-free status and nearly reached that goal in 2006. Of course, opium production in neighboring Afghanistan is at an all-time high, which could be attributed to the choice of Pakistani criminal elements to finance opium production there. According to the U.S. Drug Enforcement Administration (DEA), Pakistani traffickers are an important source of financing to the poor farmers of Afghanistan, who otherwise could not afford to produce opium. Since poppy cultivation continues to rise in post-Taliban Afghanistan, Pakistan remains a significant transit country of heroin, morphine, opium, and hashish, particularly as a conduit to Turkey, and to Iran by land and sea. The fact that opium poppy production in Pakistan added marginally to the vastly large flow of drugs from Afghanistan will bring additional pressure on Pakistani law enforcement bodies to increase interdiction of Afghan opiates moving through Pakistan. The U.S.-funded Border Security Project, which began in 2002, continues to contribute to the ability of the GOP to interdict traffickers along the porous 1500-mile western border, as shown by increased drug seizures in 2006. However, successfully interdicting drug shipments is extremely difficult given Pakistan's rough terrain and the fact that smugglers are well armed and not afraid to engage GOP forces. For example, in July 2006, five Frontier Corps/Pakistan Army troops were killed during a gun battle with smugglers near Chagai on the Pak-Afghan border in Baluchistan.

Pakistan's position as a major drug transit country has fueled domestic addiction, especially in areas of poor economic opportunity and physical isolation. The GOP estimates that they have two to three million drug addicts in the total population of 162 million, although no accurate figure exists. In 2000, the UNODC's National Assessment on Drug Abuse estimated that there were

500,000 chronic heroin abusers that year and identified a new trend of injecting narcotics, which raised concerns about HIV/AIDS. A new UNODC drug use study should be available in spring 2007.

Pakistan has established a chemical control program that monitors the importation of controlled chemicals used to manufacture narcotics. While some diversion of precursor chemicals probably occurs in Pakistan, it is not believed to be a major precursor source country. The ANF and DEA are working to determine the routes and methods utilized by traffickers to smuggle chemicals through Pakistan into Afghanistan. DEA continues to provide the ANF with information regarding chemical seizures that occur in Afghanistan and that may be linked to Pakistani smuggling groups and/or chemical companies, in order to facilitate further investigation within Pakistan.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The GOP, in coordination with UNODC, is working on a five-year plan to interdict and eradicate narcotics in Pakistan. Although movement on the plan has been slow, officials intend to have a draft ready for international review by Spring 2007. The goal of the plan is to identify prioritized strategies, agency responsibilities, and funding requirements for attacking drug supply and demand. The ANF is the lead counternarcotics agency in Pakistan, but other law enforcement agencies also have counternarcotics mandates, including the Frontier Corps (FC), the Coast Guards, the Maritime Security Agency, the Frontier Constabulary, the Rangers, Customs, the police, and the Airport Security Force (ASF). The GOP approved significant personnel expansions for the ANF and FC Baluchistan. The Coast Guards utilize antidrug cells within its headquarters to better coordinate and execute counternarcotics operations.

The GOP seeks to regain “poppy-free” status, which it had obtained from the United Nations in 2001, by enforcing a strict “no tolerance” policy for cultivation. Federal and provincial authorities continue antipoppy campaigns in both Baluchistan and NWFP, informing local and tribal leaders to observe the poppy ban or forced eradication, fines, and arrests will take place. Security concerns in Khyber Agency, where 67 percent of all Pakistani poppy was harvested in 2006, could threaten GOP’s “poppy-free” goal in the 2006-2007 season.

Law Enforcement Efforts. In 2006, GOP law enforcement and security forces reported seizing 2.7 metric tons (MT) of heroin, 32.7 metric tons of morphine base, and 8 metric tons of opium, a substantial increase in narcotics seizures from 2005. 110.5 metric tons of hashish was also seized in 2006. Other drugs seized by the ANF include over 1,630 kg of poppy straw, 50 kg of synthetic drugs, 1.7 kg of cocaine, 301,895 units of morphine injections, buprenorphine injections, Ecstasy tablets, and other synthetic drugs.

From January to October 1, 2006, GOP authorities reported arresting 34,170 individuals on drug-related charges. As of October 1, 2006, the ANF had registered 549 narcotics cases in the GOP’s court system, 265 of which were decided with an 84.5 percent conviction rate. The great majority of narcotics cases that go to trial continue to be uncomplicated drug possession cases involving low-level couriers and straightforward evidence. The problematic cases tend to involve more influential, wealthier defendants. The ANF continues to prosecute appeals in 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.

In an effort to address reversals of convictions, the ANF has hired its own special prosecutors, who have had commendable results despite limited resources. The ANF also added additional attorneys as part of its expansion. Since the DEA sponsored a judicial seminar in Pakistan in October 2005, DEA continues to work with the GOP to increase the number of cases and prosecutions of drug traffickers by the ANF, particularly the ANF Special Investigation Cell (SIC), by utilizing

conspiracy legal concepts. The recent arrival of a Resident Legal Advisor (RLA) to the U.S. Embassy in Islamabad will greatly assist these efforts. Through October 1, 2006, drug traffickers' assets totaling 105.39 million rupees (about \$1.79 million) remained frozen.

In 2005, Prime Minister Shaukat Aziz approved 1,166 new positions for the ANF (500 positions were hired and 666 are expected in 2007) and increased ANF's budget by 15.5 percent to cope with emerging narcotics challenges. The GOP also approved an increase of 10,264 personnel for the Frontier Corps Baluchistan to increase their capacity along the border with Afghanistan and Iran. In 2000, the DEA-vetted and funded the ANF SIC to target major drug trafficking organizations operating in Pakistan. The unit has grown to 59 members who were subjected to intensive background checks, polygraph examinations, and drug testing to ensure operational integrity. In May 2006, two members of the ANF SIC attended the Federal Law Enforcement Analysts Training (FLEAT) course held at the DEA Training Academy in Quantico, Virginia. In October 2006, instructors from DEA's Office of International Training traveled to Pakistan to conduct a weeklong investigative skills workshop.

Corruption. The United States has no evidence that the GOP or any of its senior officials encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances or the laundering of proceeds from illegal drug transactions. However, with government salaries low and societal and government corruption endemic, narcotics-related corruption among government employees is likely to be associated with the movement of large quantities of narcotics and precursor chemicals. In July 2006, ANF SIC agents arrested high-value target in the restroom of the Karachi Airport departure lounge after observing a uniformed ASF officer deliver him approximately one kg of heroin. During the course of the investigation, two additional ASF officers were arrested along with two more Pakistani nationals. The National Accountability Bureau (NAB), a Pakistani agency tasked with investigation and prosecution of corruption cases, reports that it received 12,255 complaints of corruption in 2005, of which it investigated 723 cases and completed 319 cases. The investigations resulted in 140 arrest warrants and 39 convictions. NAB recovered 1,357 million rupees (almost \$23 million) from officials, politicians, and businessmen in 2005 through plea bargains and voluntary return arrangements.

Agreements and Treaties. Pakistan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and the 1971 Convention on Psychotropic Substances. The United States provides counternarcotics and law enforcement assistance to Pakistan under a Letter of Agreement (LOA). This LOA provides the terms and funding for cooperation in border security, opium poppy eradication, narcotics law enforcement, and drug demand reduction efforts. There is no mutual legal assistance treaty. The U.S. and Pakistan's extradition agreement is carried out under the terms of the 1931 U.S.-U.K. Extradition Treaty, which continued in force after Pakistan gained independence in 1947. Lack of action by Pakistani authorities and courts on pending extradition requests for four drug-related cases continues to be of concern to the United States. Problems include inexperience of GOP public prosecutors, the tendency of appeals over a period of many years, in some cases more than a decade (due primarily to inability of the judiciary to deal effectively with unwarranted delays brought about by defense counsel) and corruption. There is a similar lack of action in responding to U.S. requests for mutual legal assistance. Pakistan has signed, but has not yet ratified the UN Convention on Transnational Organized Crime. In November 2005, Pakistan and India concluded negotiations on a Memorandum of Understanding for counternarcotics cooperation.

Cultivation/Production. Through interagency ground monitoring and aerial surveys, the GOP and USG confirmed that Pakistan's poppy cultivation levels decreased by 39 percent to about 1,908 hectares (50 in Baluchistan, and 1,858 in NWFP) in 2006. Only 19 percent of the overall cultivated crop was eradicated, leaving about 1,545 hectares harvested. Based on the GOP's methodology for determining poppy crop yield, which estimates that approximately 25 kg of opium are produced per

hectare of land cultivated, Pakistan's potential opium production was approximately 38.6 metric tons in 2006.

Pakistan's overall decrease in poppy cultivation was largely due to aggressive pre-sowing deterrence efforts by the NWFP Government. GOP announced that it destroyed almost 100 percent of the crop this year in Baluchistan and a small percentage of poppy in NWFP. Cultivation in the "non-traditional" areas in NWFP remained almost completely contained this year, with Kala Dhaka as the only trouble spot. With new USG counternarcotics and alternative development programs ramping up in Kala Dhaka this year, poppy cultivation should decrease there. The USG does not fund any application of aerially applied herbicides in Pakistan.

The NWFP Government intends to take a hard line on enforcement this season, employing the police force to control poppy growing in Charsadda and Peshawar Districts and ensure that farmers and traffickers are arrested early in the season to deter poppy growing practices. In Khyber, eradication efforts continue to be poor. However, this is attributed to a fear of disrupting community acquiescence to counterterrorism operations and a lack of available security forces due to ongoing counterterrorism operations in the area. Ground monitoring teams continue to observe, particularly in Khyber, a trend of increased cultivation within walled compounds to prevent eradication. In 2006, security problems and militancy intensified in Khyber and will likely be an obstacle to the GOP's goal of regaining "poppy-free" status in 2007.

Drug Flow/Transit. Although no exact figure exists for the quantity of narcotics flowing across the Pakistan-Afghan border, Pakistan's Anti-Narcotics Force estimates that 36 percent of illicit opiates exported from Afghanistan transit Pakistan en route to Western Europe, Africa, and East Asia. The GOP remains concerned that increased law enforcement efforts in Afghanistan will cause Drug Trafficking Organizations (DTOs) and labs to move into Pakistan. Many of the DTOs already have cells throughout Pakistan, predominantly in the rugged, remote terrain of Baluchistan where there is little or no law enforcement presence. DTOs in Pakistan are still fragmented and decentralized, but individuals working in the drug trade often become "specialists" in processing, transportation, or money laundering and sometimes 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 opiate shortfalls in the Southeast Asia region. Couriers intercepted in Pakistan are en route to Africa, Nepal, India, Europe, Thailand, China, Bangladesh, Sri Lanka, and the Middle East (especially the United Arab Emirates (UAE)). The ANF believes precursor chemicals are most likely smuggled 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, Bupropion, and other psychotropics are smuggled from India, UAE, and Europe for the local Pakistani market. The ANF has seized small amounts of cocaine smuggled into the country by West African DTOs.

Afghan opiates trafficked to Europe and North America enter Pakistan's Baluchistan and NWFP Provinces and exit either through Iran or Pakistan's Makran coast or through international airports located in Pakistan's major cities. 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 Baluchistan to Iran and from the tribal agencies of NWFP to Chitral, where they re-enter Afghanistan at Badakhshan Province for transit through Central Asia.

In Baluchistan, drug convoys are now smaller, typically two to three vehicles with well-armed guards and forward stationed scouts, who usually travel under cover of darkness. Several years ago

there were seizures of 100-kg shipments, but now traffickers are transporting smaller quantities of drugs through multiple couriers, both female and male, to reduce the size of seizures and to protect their investment. This is evidenced by the 20-30 kg seizures, which are now typical. Other methods of shipment include inside false-side luggage or concealed within legal objects (such as cell phone batteries), the postal system, or strapped to the body and concealed from drug sniffing dogs with special sprays. The ANF reports that traffickers frequently change their routes and concealment methods to avoid detection. West African traffickers are using more Central Asian, European, and Pakistani nationals as couriers. An increasing number of Pakistani females are being used as human couriers through Pakistan's international airports. In 2006, the GOP has also detected an increase in narcotics, both opium and hashish, traveling through Pakistan to China via airports and land routes. Arrests of couriers traveling via Pakistan to China have increased significantly.

Demand Reduction. Concerned about an increasing number of drug addicts in Pakistan, the GOP, in coordination with the UNODC, is completing a drug use survey to be published in Spring 2007. Early estimates indicate that Pakistan has approximately two to three million drug addicts, with half a million heroin users. The GOP views addicts as victims, not criminals. Despite the perseverance of a few NGOs and the establishment of two GOP model drug treatment and rehabilitation centers in Islamabad and Quetta, drug users have limited access to effective detoxification and rehabilitation services in Pakistan. The ANF is also tasked with reducing demand and increase drug use awareness.

In 2006, the ANF continued to conduct a number of drug abuse awareness programs, including a series of UNODC and USG-funded demand reduction workshops on raising the awareness of district officials and highlighting the increasing number of women identified as drug abusers. The ANF organized a seminar for religious leaders in Lahore, which led to the drafting of a resolution against drug use. The USG funded a faith-based drug treatment center in Peshawar via contributions to the Colombo Plan Secretariat, extending an already-successful program with a local NGO. The USG also funded outreach/drop-in centers in Karachi, Quetta, and Peshawar via the Colombo Plan, as well as directly funding four faith-based outreach centers in the FATA. Other USG-funded programs include technical support and assistance to aid UNODC's drug use survey, 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. In GOP rehabilitation and detoxification centers, the ANF uses a symptomatic method, utilizing Restoril and Dyzopan, when necessary.

The ANF plans to implement other projects to increase community participation in demand reduction, including the establishment of a national awareness media campaign. While the GOP has the political will to do more, it lacks the human and technical resources and an updated, comprehensive demand reduction strategy. We expect the results of the new drug use survey to propel the GOP to create a comprehensive strategy.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. It is becoming increasingly clear that there is at least a financial link between local militancy and opiates in South Asia. The United States maintains several counternarcotics policy objectives in Pakistan that are in sync with America's larger goals to block insurgency on the Pak-Afghan border and prevent terrorist support in the FATA and Baluchistan. These objectives are to continue to help the GOP fortify its borders and coast against drug trafficking and terrorism, support expanded regional cooperation, encourage GOP efforts to eliminate poppy cultivation, and inhibit further cultivation. The United States also aims to increase the interdiction of narcotics from Afghanistan and to destroy DTOs by building the capacity of the GOP, as well as to expand demand reduction efforts. USG agencies continue to strive to enhance cooperation on the

extradition of narcotics fugitives and to encourage enactment of comprehensive money laundering legislation. With the support of a new RLA, the United States is focusing on streamlining wiretap methods and legislation, making it easier for the ANF and other law enforcement agencies to use communication evidence in narcotics court cases. The United States presses for the reform of law enforcement institutions and encourages cooperation among the GOP agencies with counternarcotics responsibilities. Although the ANF is the premier counternarcotics agency in Pakistan, the United States also focuses on improving antimuggling capabilities of a number of agencies, including the Customs Department, the Frontier Corps, and the National Police.

Bilateral Cooperation. The United States, through the State Department-funded Counternarcotics Program and Border Security Project, provides operational support, commodities, and training to the ANF and other law enforcement agencies. The United States also provides funding for demand reduction activities. Under the Border Security Project, approximately 50 Frontier Corps outposts in Baluchistan and NWFP have been completed and 50 new outposts are under way in NWFP and Baluchistan, for a total of 100 outposts. Construction of 72 kilometers of roads in the border areas of the FATA is complete, and ongoing construction of 288 kilometers continues to open up remote areas to law enforcement. To date, the State Department has funded construction of more than 500 kilometers of counternarcotics program roads, which allow forces to eradicate poppy and facilitate farmer-to-market access for legitimate crops, and implemented 732 small schemes and alternative crops in Bajaur, Mohmand, and Khyber Agencies with an additional 21 schemes projected for completion in early 2007. Alternative development programs have expanded to Kala Dhaka and Kohistan in 2006, where the construction of 49 kilometers of roads has begun, and a total of \$10 million has been committed to road construction and small electrification and irrigation schemes for this earthquake-devastated area of NWFP. In October 2006, an RLA was deployed to the U.S. Embassy in Islamabad. It is anticipated that through the RLA's cooperative efforts productive changes in the administration of courts and the law enforcement agencies will occur.

The United States funds a Narcotics Control Cell in the FATA Secretariat to help coordinate counternarcotics efforts in the tribal areas, where the overwhelming majority of poppy is grown. The U.S.-supported MOI Air Wing program provides significant benefits to counternarcotics efforts and also serves to advance counterterrorism objectives. The DEA provides operational assistance and advice to ANF's SIC, which continues to raise investigative standards. In 2005, the Department of Defense began providing assistance to the Pakistan Coast Guards to improve the GOP's counternarcotics capacity on the Makran Coast.

The 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 patrolling of the remote border areas, and continued support for USG-provided Ministry of Interior Air Wing to enable expanded border surveillance and interdictions. Nine of the Air Wing's Huey II helicopters (the tenth spent much of the year being repaired due to battle damage) executed 83 operational missions involving 213 aircraft sorties. These included air assaults on a suspected drug compound and drug processing facilities, poppy surveys, medevacs for personnel injured during FC and ANF operations, support for Operation MOUNTAIN THRUST along the Afghan border, and border reconnaissance. The three fixed-wing Cessna Caravans, equipped with FLIR surveillance equipment, executed 87 missions, including surveillance, medevacs, and command and control support for large operations.

In May 2002 the first meeting took place of the US-Pakistan Joint Working Group on Law Enforcement and Counter-Terrorism ("JWG"). The JWG was established to create a bilateral mechanism to address the means of improving cooperative law enforcement efforts, assessing the progress on US-funded law enforcement projects in Pakistan, and combating terrorism. The fourth

meeting occurred in Washington, DC, in April 2006 and the next meeting is anticipated to occur later in 2007.

The Road Ahead. Despite the provision of air and ground mobility and communications capacity from the United States, the GOP will face an immense challenge in the coming year to interdict the increasing supply of drugs from Afghanistan. The United States will continue to assist the GOP in its efforts to eliminate poppy, to build capacity to secure the western border and coast, to conduct investigations that dismantle drug trafficking organizations, to increase convictions and asset forfeitures, and to reduce demand of illicit drugs through enhanced prevention, intervention, and treatment programs. Implementation of these strategies will require stricter GOP enforcement of the poppy ban and eradication, development of an indigenous drug intelligence capability, stronger GOP interagency cooperation, more effective use of resources and training, and enhanced regional cooperation and information sharing.

V. Statistical Tables

Drug Crop - Opium Poppy

Cultivation: 2006 - 1,908 ha; 2005 - 3,147 ha; 2004 - (6,600 - 7,500 ha); 2003 - 6,811 ha

Harvested: 2006 - 1,545 ha; 2005 - 2,440 ha; 2004 - 3,145 ha; 2003 - 3,170 ha

Eradication: 2006 - 363 ha; 2005 - 707 ha; 2004 - 4,426 ha; 2003 - 3,641 ha

Seizures heroin (including morphine base): 2006 — 35.3 mt; Jan - Nov 2005 - 24 mt; 2004 - 24.7 mt; 2003- 34 mt

Seizures opium: 2006 - 8 mt; Jan - Nov 2005 - 6.1 mt; 2004- 2.5 mt; 2003- 5.4 mt

Seizures hashish: 2006 -110.5 mt; Jan - Nov 2005 - 80 mt; 2004- 136 mt; 2003- 87.8 mt

Illicit Labs Destroyed: Eight mobile labs, June 10, 2006

Arrests (total): Jan - Oct 1, 2006 - 34,170 people; Jan - Nov 2005 - 33,932 people; 2004 - 49,186 people; 2003 - 46,346 people

Number of Users: No reliable data exists. The last National Survey of Drug Abuse in Pakistan in 1993 estimated 3.01 million drug addicts in Pakistan, with a 7 percent annual increase. Based on those figures, some estimates now put the number at two to four million. A 2000 UNODC survey estimated 500,000 chronic heroin users.

Sri Lanka

I. Summary

Sri Lanka has a relatively small-scale drug problem. The Government of Sri Lanka (GSL) remains committed to targeting drug traffickers and implementing nation-wide demand reduction programs. In early 2005, the U.S. government strengthened its relationship with Sri Lanka on counternarcotics issues by offering training for the Sri Lanka Police. Sri Lanka is a signatory to the 1988 UN Drug Convention, but as of 2006, Parliament had not enacted implementing legislation for the convention. In November 2006 the Attorney General's office submitted the legislation to the Cabinet of Ministers, and the bill is expected to be passed by parliament in the first quarter of 2007. In the meantime, amendments to the current laws, including some covering chemicals control, have been enacted as intermediate steps.

II. Status of Country

Sri Lanka is not a significant producer of narcotics or precursor chemicals and plays a minor role as a transshipment route for heroin from India. 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 upsurge in domestic consumption, consisting of heroin, cannabis, and increasingly Ecstasy.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2005, Sri Lanka made progress in further implementing its counternarcotics strategy, first developed in 1994. The lead agency for counternarcotics efforts is the Police Narcotics Bureau (PNB), headquartered in the capital city of Colombo. The GSL remains committed to ongoing efforts to curb illicit drug use and trafficking. The PNB recruited more officers, resulting in increased investigations and interdictions. In early 2006, a special court was established to try drug cases with minimal delays.

Accomplishments. The PNB and Excise Department worked closely to target cannabis producers and dealers, resulting in several successful arrests. The PNB warmly welcomed and was an active partner in taking full advantage of U.S.-sponsored training for criminal investigative techniques and management practices.

Sri Lanka continued to work with South Asian Association for Regional Cooperation (SAARC) and the United Nations Office of Drugs and Crime (UNODC) on regional narcotics issues. SAARC countries met in Maldives in early 2004 and agreed to establish an interactive website for the SAARC Drug Offense Monitoring Desk, located in Colombo, for all countries to input, share, and review regional narcotics statistics. GSL officials maintain continuous contact with counterparts in India and Pakistan, origin countries for the majority of drugs in Sri Lanka. The SAARC Drug Offences Monitoring Desk (SDOMD) is co-located within Colombo's PNB. The SDOMD Antidrug officials based in India and Pakistan regularly share information with the SDOMD, though other SAARC countries reportedly do not maintain such regular contact with the SDOMD desk.

Law Enforcement Efforts. The PNB continued to cooperate closely with the Customs Service, the Department of Excise, and the Sri Lankan Police to curtail illicit drug supplies in and through the country. As a result of these efforts, in 2005 GSL officials arrested nearly 11,700 persons on charges of using or dealing heroin and over 11,000 persons on cannabis charges. Police seized a total of 51.6 kg of heroin, with one major haul yielding 11.7 kg. Police also seized 29,490 kg of

cannabis in 2005. In addition, in response to slowly increasing Ecstasy usage in upscale venues in Colombo, the PNB made their first ever Ecstasy-related drug arrests in 2004.

Apart from its Colombo headquarters, the PNB has one sub-unit at the Bandaranaike International Airport near Colombo, complete with operational personnel and a team of narcotics-detecting dogs. Greater vigilance by PNB officers assigned to the airport sub-station led to increased arrests and narcotics seizures from alleged drug smugglers. During the year, the PNB began the process of establishing additional sub-stations. The next substation is due to open at the port of Colombo in late 2006/early 2007.

Corruption. 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. A government commission established to investigate bribery and corruption charges against public officials that resumed operations in 2004 continued through 2006. In December 2005, six police personnel were arrested for collusion with a high-profile drug dealer, but were released without charges in March 2006. On June 14, 2006, a Major in the army was arrested for allegedly trafficking 15.3 kg of heroin in Pesalai in Mannar.

Agreements and Treaties. Sri Lanka is a party to the 1988 UN Drug Convention and the 1990 SAARC Convention on Narcotic Drugs and Psychotropic Substances. Implementing legislation for both conventions had not reached Parliament by year's end. The Attorney General's office has reviewed both pieces of legislation and has submitted implementing legislation to Parliament in November 2006. The bill is expected to be passed by parliament in the first quarter of 2007. Sri Lanka is also a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Sri Lanka has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, and is a party to the UN Convention Against Corruption. An extradition treaty is in force between the U.S. and Sri Lanka.

Cultivation/Production. Small quantities of cannabis are cultivated and used locally, but there is little indication that it is exported. The majority of cannabis cultivation occurs in the southeast jungles of Sri Lanka. PNB and Excise Department officials work together to locate and eradicate cannabis crops.

Drug Flow/Transit. Some of the heroin entering Sri Lanka is transshipped to other markets abroad, including Europe. With the 2003 opening of the northwestern coastal waters in the advent of the ceasefire between the GSL and the LTTE, narcotics traffickers began to take advantage of the short distance across the Palk Strait to transit drugs from India to Sri Lanka. According to police officials, drugs are transported across the strait and then overland to the south. The PNB sought to open a sub-station in the region but was unable to do so because of the prevailing security situation in the northwestern coastal waters resulting from Sri Lanka's long-running ethnic conflict. With no coast guard, Sri Lanka's coast remains highly vulnerable to transshipment of heroin moving from India.

Police officials state that the international airport is the second major entry point for the transshipment of illegal narcotics through Sri Lanka. There is no evidence to date that synthetic drugs are manufactured in Sri Lanka. Police note that the Ecstasy found in Colombo social venues is likely imported from Thailand.

Domestic Programs (Demand Reduction). The National Dangerous Drugs Control Board (NDDCB) has begun to establish task forces in each regional province to focus on the issue of drug awareness and rehabilitation at the community level. Each task force works with the existing municipal structure, bringing together officials from the police, prisons, social services, health, education and NGO sectors. For the first time in 2004, NDDCB officials visited the war-affected north and east provinces to assess the local situation and investigate the possibility of establishing

treatment centers in those regions. The NDDCB officials held discussions with District Secretaries to conduct awareness programs, open counseling centers, and build medical centers in the war-affected areas. The NDDCB is awaiting approval from the Treasury for the necessary funding to implement the initiatives. The GSL continued its support, including financial, of local NGOs conducting demand reduction and drug awareness campaigns. The Sri Lanka Anti Narcotics Association, in collaboration with PNB, Colombo City Traffic Police, and Sri Lanka Telecom, organized an antidrug bicycle parade on a 100-kilometer route from Galle to Colombo in June 2005. The Colombo Plan Drug Advisory Program, a regional organization, pledged its assistance to the government and non-government agencies in their efforts to combat illicit drugs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG remained committed to helping GSL officials develop increased capacity and cooperation for counternarcotics issues. The USG also continued its support of a regional counternarcotics program, which conducts regional and country-specific training seminars, fostering communication and cooperation throughout Asia.

Bilateral Cooperation. Continuing a USG-PNB law enforcement program implemented in 2004, the USG-trained Sri Lanka police are replicating the seminars and scheduling training for colleagues of the original police trainees at the training academies and stations throughout the island. Regional U.S. government officials, primarily DEA, conducted narcotics officer training for their local counterparts in a seminar organized by the host government.

Road Ahead. The U.S. government will maintain its commitment to aid the Sri Lankan police to transition from a paramilitary force into a community-focused one. This will be accomplished with additional assistance for training and continued dialogue between U.S. counternarcotics related agencies and their Sri Lankan counterparts. The U.S. also expects to continue its support of regional and country specific training programs.

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 primarily a consumer nation for illicit narcotics; however, clandestine laboratories producing methamphetamine and MDMA (Ecstasy) continue to be seized throughout the country. Although, these laboratories are increasing in number and sophistication, it appears that the narcotics produced at these sites are consumed domestically and there is no evidence indicating that narcotics destined for the U.S. are produced in Australia or transit Australia. While domestically produced marijuana remains the most abused drug in Australia, the use of methamphetamine, primarily crystal methamphetamine (crystal meth), and MDMA (Ecstasy) continues to rise. The 2006 UN World Drug Report indicates that Australia has one of the highest rates of MDMA and methamphetamine abuse in the world. Arrests for possession of crystal meth in Australia have risen over 250 percent in the last ten years. Law enforcement and health officials have expressed concern about the dramatic increase in the abuse of crystal meth throughout Australia. In addition to the increased use of crystal meth, cocaine use also appears to be increasing throughout Australia in recent years. The use of cocaine, which previously had been limited to more affluent individuals, appears to be spreading into all segments of society. The use of heroin in Australia has declined significantly since the late 1990's and 2000, but law enforcement and health officials continue to aggressively target heroin traffickers and work to address the issues surrounding the abuse of heroin.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The Australian 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 Australian 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 Australian government committed an additional \$187.4 million in 2003 to its program to reduce the supply of, and demand for, illicit drugs. 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. In August 2005, the Australian Minister of Justice announced the implementation of the National Strategy to Prevent Diversion of Precursor Chemicals. On January 1, 2006 as part of this strategy, legislation tightening the access to pseudoephedrine on a national level went into effect. The Australian government has committed \$4.1 million to prevent the diversion of legitimate chemicals like pseudoephedrine into the manufacture of illicit drugs. There

is also an on-going initiative involving state jurisdictions to establish a computer system to permit the pharmacists around the country to track the purchases of pseudoephedrine products.

The Australian government continues to implement extensive multi-faceted programs to combat drug trafficking and use in Australia. Throughout 2006, Australian law enforcement officials continued to seize large amounts of MDMA, crystal meth and cocaine smuggled into Australia. These seizures are consistent with the reported increased use of these drugs throughout the country. Law enforcement officials continue to report increases in the seizures of clandestine laboratories producing methamphetamine and MDMA. Many of these laboratories are more sophisticated and have greater production capacity than the laboratories seized in the past. In order to circumvent Australian governmental efforts to control the availability of the precursor chemical pseudoephedrine, criminal organizations continue to attempt bulk importations of the chemical into Australia. In June 2006, a multi-agency investigation involving law enforcement agencies from Australia and Indonesia led to the dismantlement of a syndicate that had allegedly smuggled more than 380 kg of pseudoephedrine into Australia. In 2006, Australian law enforcement officials made three significant seizures of illicit narcotics smuggled into the country from Canada. These seizures included approximately 46 kg of crystal meth secreted in the hull of a boat, approximately 350 kg of MDMA secreted in barrels containing ink toner and approximately 135 kg of cocaine and 33 kg of MDMA secreted within computer monitors.

Law Enforcement Efforts. Australian law enforcement agencies continued their aggressive counternarcotics and anti-money laundering efforts in 2006. Responsibility for these activities is divided primarily between the Australian Federal Police (AFP), the Australian Customs Service (ACS), the Australian Crime Commission (ACC) and the Therapeutic Goods Administration (TGA), along with state/territorial police services throughout the country. In 2006, the AFP received funding to increase its, international deployment group from 570 to over 1000 individuals. Some of these individuals will be used to increase the AFP Overseas Liaison Network in order to better focus on transnational crime, including drug trafficking, terrorist activities and immigrant smuggling. The AFP currently maintains more than 86 officers in 26 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, the FBI and BICE.

Corruption. The Australian Government and state/territorial governments remain vigilant in their 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 convicted for drug-related corruption, including several members of the Victoria Police Drug Squad, 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 Corruption Convention.

Cultivation/Production. Cannabis is the only significant illicit drug cultivated in Australia. The use of hydroponics growth sites has been increasing throughout the country in recent years with well-organized syndicates operating multiple growth sites. 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 Tasmania. Although recent significant seizures of foreign produced methamphetamine have revealed a change in trafficking patterns, a large amount of the amphetamine and methamphetamine consumed in Australia is produced in domestic clandestine laboratories. As previously mentioned, many of these laboratories are more sophisticated and possess greater production capacity than laboratories seized in the past.

Drug Flow/Transit. Asian organized crime groups continue to be the primary suppliers of heroin into Australia, and also are heavily involved in the trafficking of crystal meth into Australia. This is consistent with regional trends in which many drug trafficking organizations are moving away from crop-based drugs, such as heroin, into the large-scale production and distribution of synthetic drugs, such as MDMA and crystal meth. MDMA consumed in Australia is primarily produced in Europe, but there have been significant seizures, which originated in Asia and Canada. It should be noted that many of the clandestine laboratories producing MDMA seized in Australia are very sophisticated and possess the capacity for large-scale production of MDMA. South American cocaine trafficking organizations continue to target Australia utilizing a variety of means to smuggle cocaine into the country — from personal couriers to cocaine secreted within legitimate cargo shipments. African based trafficking organizations are also involved in the smuggling of cocaine into Australia. Couriers attempting to smuggle cocaine, heroin, MDMA and crystal meth into Australia are intercepted at the international airports on a regular basis.

Domestic Programs. The Federal Government has continued to pursue an aggressive policy to prevent and treat drug use. The Prime Minister's National Illicit Drug Campaign committed the equivalent of \$4 million to drug prevention programs in schools and \$40 million for compulsory education and a treatment system for drug offenders. Under Australian law, the federal government has responsibility for national health and crime issues, while the states and territories have responsibility for the delivery of health and welfare services. The Ministerial Council on Drug Strategy brings together federal, state and territory ministers responsible for health and law enforcement to determine national policies and programs to reduce the harm caused by drugs in Australia. Although the Federal Government opposes supervised heroin 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, which provides for medically supervised heroin injections, for a trial period of 18 months. This trial period has been extended to October 2007. 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. The U.S. and Australia have a Memorandum of Understanding in place, which outlines these objectives. U.S. and Australian law enforcement agencies, also, have agreements in place concerning the conduct of bilateral investigations and the open exchange of intelligence information concerning narcotics trafficking organizations.

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 continuing 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 continued to cut opium poppy cultivation this year, but remains vulnerable to periodic spikes in opium production. Burma's reduction in opium cultivation has been accompanied by significant increases in the production and trafficking of synthetic drugs. While Burma remains the second largest opium poppy grower in the world after Afghanistan, its share of world opium poppy cultivation has fallen from 63 percent in 1998 to 11 percent in 2006. This large proportional decrease is due to a significant decrease of opium poppy cultivation in Burma and a large increase in cultivation in Afghanistan. Aided by Burma's decline, the Golden Triangle region in Southeast Asia no longer reigns as the world's largest opium poppy cultivating region. Its share of the world opium cultivation fell from 66 percent in 1998 to only 12 percent in 2006.

Over a longer time horizon of the last eight years, Burma's opium cultivation has declined dramatically. The UN Office on Drugs and Crime (UNODC) estimates a decrease from 130,000 hectares in 1998 to 21,000 hectares in 2006, an 83 percent decrease. Cultivation during the past year dropped from 40,000 hectares to 21,000 hectares. The most significant decline was observed in the Wa region following the United Wa State Army's (UWSA) pledge to end opium poppy cultivation in its primary territory, UWSA Region 2. UWSA controlled territory accounted for over 30 percent of the acreage of national opium poppy cultivation in 2005, but almost no poppy cultivation was reported in the Wa region in 2006.

The trend of continuing decline in opium poppy cultivation is welcome, but it also points to new challenges. Burma has not provided most opium farmers with access to alternative development opportunities. Furthermore, some opium farmers may be tempted to increase production to take advantage of higher prices generated by opium's relative scarcity, and continuing strong demand. Increased yields in remaining poppy fields (particularly in Southern Shan State) may partially offset the affects of decreased cultivation. Favorable weather conditions in 2006 and improved cultivation practices contributed to higher yields. Higher yields in some areas may also signal more sophisticated criminal activity, greater cross border networking, and the transfer of new and improved cultivation techniques.

Burma's declining poppy cultivation has been accompanied by a sharp increase in production and export of synthetic drugs, threatening to turn the Golden Triangle into an "Ice Triangle." Burma plays a leading role in the regional traffic of amphetamine-type stimulants (ATS). Drug gangs based in the Burma-China and Burma-Thailand border areas, many of whose members are ethnic Chinese, produce several hundred million methamphetamine tablets annually for markets in Thailand, China, and India as well as for onward distribution. There are also indications that groups in Burma increased production and trafficking of crystal methamphetamine or "Ice" — a higher purity and more potent form of methamphetamine than the tablets.

In addition to information-sharing and regular cooperation with the U.S. Drug Enforcement Administration (DEA) and Australian Federal Police (AFP) on narcotics investigations, the Government of Burma (GOB) has increased its law enforcement cooperation with Thai, Chinese and Indian counternarcotics authorities, especially through renditions, deportations, and extraditions of suspected drug traffickers.

During the 2006 drug certification process, the U.S. determined that Burma was one of only two countries in the world (the other being Venezuela) that had "failed demonstrably" to meet international counternarcotics obligations. Major concerns include: unsatisfactory efforts by Burma to deal with the burgeoning ATS production and trafficking problem; failure to take action to bring members of the United Wa State Army (UWSA) to justice following the unsealing of a

U.S. indictment against them in January 2005; failure to investigate and prosecute senior military officials for drug-related corruption; and failure to expand demand-reduction, prevention and drug-treatment programs to reduce drug-use and control the spread of HIV/AIDS. Burma is a party to 1988 UN Drug Convention.

II. Status of Country

Burma is the world's second largest producer of illicit opium. Eradication efforts and enforcement of poppy-free zones combined to reduce cultivation levels between 1998-2006, especially in Wa territory. However, a small resurgence of cultivation occurred in 2006, particularly in eastern and southern Shan State, where improved weather conditions and new cultivation practices increased opium production levels, leading to a slight overall increase in cultivation and production in Burma.

According to the UNODC, opium prices in the Golden Triangle have increased over the past years. Burmese village-level opium prices or *farm-gate* prices have increased from \$153 per kg in 2004 to \$187 in 2005 and \$230 in 2006. In Burma, opium sales contribute about half of the annual household cash income of farmers who cultivate opium, which they use to cover food shortages. Forty-three percent of the average yearly income (\$437) of opium cultivating households was derived from opium sales in 2006. In 2006, the UNODC opium yield survey estimated there were approximately 21,000 hectares planted with opium poppies. In 2005 the U.S. estimated opium production in Burma at approximately 380 metric tons, a 14 percent increase over 2004. The UNODC's 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 2006 yield average of 9.2 kg per hectare, well below the peak level of 15.6 kg per hectare recorded in 1996. Both surveys also concluded that Burma experienced a significant downward trend over the past decade, with poppy cultivation and opium production declining by roughly 80 percent. The UNODC estimated opium production in Burma to be 315 metric tons in 2006 (somewhat less than in 2005), and the yield average to be 14.7 kg per hectare (significantly higher than in 2005).

Declining poppy cultivation has been accompanied by a sharp increase in the production and export of synthetic drugs. According to GOB figures for the first six months of 2006, ATS seizures totaled about 16.27 million tablets, an almost tenfold increase from 2005. Opium, heroin, and ATS are produced predominantly in the border regions of Shan State and in areas controlled by ethnic minority groups. Between 1989 and 1997, the Burmese government negotiated a series of cease-fire agreements with several armed ethnic minorities, offering limited autonomy and continued tolerance of narcotics production and trafficking activities in return for peace. In June 2005, the United Wa State Army (UWSA) announced implementation in Wa territory of a long-delayed ban on opium production and trafficking. While the cultivation of opium poppies decreased in the Wa territory during 2006, according to many reports Wa leadership replaced opium cultivation with the manufacture and trafficking of ATS pills and possibly "Ice" in their territory, predominantly by ethnic Chinese gangs.

Although the government has not succeeded in convincing the UWSA to stop its illicit drug production or trafficking, Burmese police Anti-narcotic Task Forces stepped up pressure against Wa traffickers in 2005 and 2006. In addition, the UWSA itself undertook limited enforcement actions. In May 2006, UWSA units found two clandestine laboratories operating in the Eastern Shan state (territory occupied and controlled by the UWSA–South). The UWSA units dismantled the two heroin refineries, which were operating in their area of control. When the UWSA units entered the lab sites, a firefight ensued, with eight people fatally wounded, four arrested, and 25 kg of heroin and 500,000 methamphetamine tablets seized by the raiding UWSA units. In June 2006, the UWSA passed custody of the contraband substances to Government of Burma (GOB) officials.

The prisoners remain in the custody of the UWSA. These UWSA actions likely were motivated more towards eliminating the competition in their area than by a desire to stop drug trafficking. In Burma, opium addiction remains high in places of historic or current opium production, ranging from 0.60 percent of the total adult population in Shan State to 0.72 percent in Kachin State and up to 0.83 percent in the Wa region, the main area of opium production through 2006.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Burma's official 15-year counternarcotics plan, launched in 1999, calls for the eradication of all narcotics production and trafficking by the year 2014, one year ahead of an ASEAN-wide plan of action that calls for the region to be drug-free by 2015. To meet this goal the GOB has initiated the plan in stages using eradication efforts combined with planned alternative development programs in individual townships, predominantly in Shan State. The government initiated its second five-year phase in 2004. Ground surveys by the Joint GOB-UNODC Illicit Crop Monitoring Program indicate a steady decline in poppy cultivation and opium production due to enforcement, some alternative livelihood measures, which include crop substitution, discovery and closure of clandestine refineries, interdiction of illicit traffic, and annual poppy eradication programs. The UNODC estimates that the GOB eradicated 3,970 hectares of opium poppy in 2006.

The most significant multilateral effort in support of Burma's counternarcotics efforts is the UNODC presence in northeastern Shan State. The UNODC's "Wa Project" was initially a five-year, \$12.1 million supply-reduction program designed to encourage alternative development in territory controlled by the UWSA. In order to meet basic human needs and ensure the sustainability of the UWSA opium ban announced in 2005, the UNODC extended the project until 2007, increased the total budget to \$16.8 million, and broadened the scope from 16 villages to the entire Wa Special Region No. 2. Major donors that have supported the Wa Project include the United States, (however, the USG halted funding after the Wa made death threats against DEA agents) Japan and Germany, while the UK and Australia recently made additional contributions.

As part of the 15-year counternarcotics plan, in 2002 the Burmese Central Committee for Drug Abuse Control (CCDAC) initiated the "New Destiny" project, which calls for the complete eradication of poppy cultivation and its replacement with substitute crops. The GOB has claimed that since the implementation in April 2002 of New Destiny in high-density areas of poppy cultivation (in Shan State, Kachin State, and Kayah State), poppy farmers have surrendered on their own volition over 163,720 kg of poppy seeds, which were then destroyed. This destruction prevented poppy from being cultivated on 40,573 hectares with a potential production of 40.01 metric tons of heroin. The GOB, under its 1993 Narcotics Drugs and Psychotropic Substances Law, has issued notifications in subsequent years controlling 124 narcotic drugs, 113 psychotropic substances, and 25 precursor chemicals. Burma enacted a "Mutual Assistance in Criminal Matters Law" in 2004.

Law Enforcement Measures. The CCDAC, which leads all drug-enforcement efforts in Burma, is comprised of personnel from the police, customs, military intelligence, and army. The CCDAC, effectively under the control of the Ministry of Home Affairs, 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. There are 25 Anti-Narcotics Units located around Burma under the command of the Burmese Police, the lead counternarcotics law enforcement agency. The Burmese Army and Customs Department support the Police in this role. In 2005, CCDAC established two new anti-narcotic task forces in Rangoon and Mandalay, supplementing existing task forces in both cities. The GOB also established a Financial Investigation Team (FIT), based in Mandalay, to serve as a

clearinghouse for northern Burma. This new team, established with assistance from DEA and the AFP, complements an existing FIT based in Rangoon.

Burma is actively engaged in drug-abuse control with its neighbors China, India, and Thailand. Since 1997, Burma and Thailand have had 11 cross-border law enforcement cooperation meetings. The most significant result of this cooperation has been the repatriation by Burmese police of drug suspects wanted by Thai authorities: two in 2004, one in 2005 and one in 2006. According to the GOB, Thailand has contributed over \$1.6 million to support an opium crop substitution and infrastructure project in southeastern Shan State. Burma-China cross border law enforcement cooperation has also increased, resulting in successful operations and the handover of several Chinese fugitives who had fled to Burma. A joint operation by Burmese and Chinese police resulted in the seizure of 496 kg of heroin in Eastern Shan State in September 2005. 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, rubber plantations, and pig farms and has assisted in marketing those products in China through relaxation of duties and taxes.

The last formal Burma/China meeting was held at Pyin-Oo Lwin, Burma, on December 12, 2005. After Burma and India signed an agreement on drug control cooperation in 1993, the two countries have held cross border Law Enforcement meetings on a biannual basis, the last being held September 11, 2004, in Calcutta.

Since the 2005 U.S. federal indictments against the seven UWSA leaders, the GOB has to date taken no direct action against any of the seven indicted UWSA leaders, although authorities have taken action against other, lower ranking members of the UWSA syndicate.

Narcotics Seizures. Heroin, opium, and methamphetamine seizures have all increased since 2005. Summary statistics provided by Burmese drug officials indicate that during the first six months of 2006, Burmese police, army, and the Customs Service together seized 1,406.69 kg of raw opium, 154 kg of heroin, 22.03 kg of marijuana, and just over 16.27 million methamphetamine tablets. In January 2006, Chinese police located a wanted Burmese national and major heroin financier, Yang Ah Hong, in Shanghai and handed him over to Burmese Police. In February 2006, Burmese Police Officers from the Anti-Narcotic Task Force (ANTF) in Tachilek arrested two Burmese nationals after a search of a truck belonging to one of the suspects revealed 100,000 methamphetamine tablets and 1,100 Ecstasy tablets. In March 2006, acting on information received from sources, officers from ANTF Tachilek stopped a Toyota pick-up truck at the entrance of the city limits of Lashio, Burma, and found approximately 48 kg of heroin concealed in a false compartment under the bed of the truck. The driver was arrested. In May 2006, a joint DEA Rangoon, Thai Office of Narcotics Control Board (ONCB) and Burmese CCDAC ANTF operation resulted in the arrest of 16 subjects in Eastern Shan State, and the seizure of approximately 340 kg of heroin, 65.2 kg of opium, 1.08 kg of opium gum and 140 gallons of opium in solution. This operation also resulted in the seizure of two active heroin refineries. The ANTF also discovered and destroyed seven heroin refineries in 2006. In May 2006, ANTF officers arrested two Burmese citizens, a husband and wife, at Switlwe Port, Eastern Shan State, in possession of 48 blocks of heroin (approximately 16 kg). Also in May 2006, the CCDAC conducted an operation at Rangoon international airport, which resulted in the seizure of approximately 3.65 kg of heroin and the arrest of two subjects. On May 28, 2006, police in Eastern Shan state seized 688,000 tablets of methamphetamine and arrested two suspects. In June 2006, police in Mandalay arrested four Burmese nationals and seized 15 kg of ketamine. In October 2006, Police in the Taunggyi ANTF seized 385 vials of ketamine. Each vial was marked as containing 500 milligrams of ketamine hydrochloride.

However, Burma's efforts to combat the production and trafficking of ATS have been unsatisfactory. While seizures are made, they are not at levels commensurate with the burgeoning ATS problem.

Corruption. Burma signed but has not ratified the UN Corruption Convention. Burma does not yet have a legislature or effective constitution; and has no laws on record specifically related to corruption. There is little reliable evidence that senior officials in the Burmese Government are directly involved in the drug trade. However, lower level government officials, particularly army and police personnel posted in border areas, are widely believed to be involved in facilitating the drug trade. Some officials have been prosecuted for drug abuse and/or narcotics-related corruption. In 2006, long prison terms were handed down for several officials of Customs and the Border Trade Committee. The Director General of Burmese Customs was sentenced to 66 years imprisonment and his personal assistant was sentenced to seven years in jail. In 2006, several directors and assistant managers of the Ministry of Trade assigned to the Border Trade Committee in Muse Township, Kutkhaing, were also sentenced to prison terms ranging from seven to forty years based on charges of involvement in illegal trading. However, Burma has failed to indict any military official above the rank of colonel for drug-related corruption.

Agreements and Treaties. Burma is a party to the 1961 UN Single Convention on Narcotic Drugs (and became a member of the 1972 Protocol to the Single Convention in 2003), the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention.

Cultivation and Production. According to the UNODC opium yield estimate, in 2006 the total land area under poppy cultivation was 21,500 hectares, a 34 percent decrease from the previous year. The UNODC also estimated that the potential production of opium increased by one percent, from 312 metric tons in 2005 to 315 metric tons in 2006. Despite the decrease in total land under poppy cultivation, the slight increase in potential opium production indicated in the UNODC estimate may reflect improved agricultural methods and more favorable weather conditions in opium poppy growing areas, such as Shan State.

Burma as yet has failed to establish a reliable mechanism for the measurement of ATS production. Moreover, while the U.S. and UNODC undertake estimates of poppy cultivation and production, Burma once again declined to participate in a joint crop survey with the U.S.

Drug Flow/Transit. Most ATS and heroin in Burma is produced in small, mobile labs located near Burma's borders with China and Thailand, primarily in territories controlled by active or former insurgent groups. A growing amount of methamphetamine is reportedly produced in labs co-located with heroin refineries in areas controlled by the United Wa State Army (UWSA), the Shan State Army-South (SSA-S), and groups in the ethnic Chinese Kokang autonomous region. Ethnic Chinese criminal gangs dominate the drug syndicates operating in these three 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 within Burma. Heroin seizures in 2005 and 2006 and subsequent investigations revealed the increased use by international syndicates of the Rangoon International Airport and Rangoon 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 most Burmese are too poor to afford a drug habit. Traditionally, some farmers use opium as a painkiller and an anti-depressant, in part because they lack access to other medicine or adequate healthcare facilities. There has been a growing shift in Burma away from opium smoking toward injecting heroin, a habit that creates more addicts and poses greater public health risks. Deteriorating economic conditions will likely stifle substantial growth in overall drug consumption, but the trend toward injecting narcotics is of significant concern. The GOB maintains that there are only about 65,000 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 by workers in mining communities in ethnic minority regions. The UNODC estimated that in 2004 there were at least 15,000 regular ATS users in Burma, and a joint UNODC/UNAIDS/WHO study estimated that there are between 30,000 and 130,000 injecting drug users.

There is also a growing HIV/AIDS epidemic tied to intravenous drug use. According to a UNODC regional center, an estimated 26 to 30 percent of officially reported HIV cases are attributable 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 more readily available.

Burmese demand reduction programs are in part coercive and in part voluntary. Addicts are required to register with the GOB and can be prosecuted if they fail to register and accept treatment. Altogether, more than 21,000 addicts were prosecuted between 1994 and 2002 for failing to register. (The GOB has not provided data since 2002.) Demand reduction programs and facilities are limited, however. There are six major drug treatment centers under the Ministry of Health, 49 other smaller detoxification centers, and eight rehabilitation centers, which, together, have provided treatment to about 60,000 addicts over the past decade. As a pilot model, in 2003 UNODC established community-based treatment programs in Northern Shan State as an alternative to official GOB treatment centers. About 1,700 addicts have participated in this treatment over the past three years. Since 2006, an additional 8,028 addicts have sought medical treatment and support from UNODC-sponsored drop-in centers and outreach workers who are active throughout northeastern Shan State. The GOB also conducts a variety of narcotics awareness programs through the public school system. In addition, the government has established several demand reduction programs in cooperation with NGOs. These include programs coordinated with CARE Myanmar, World Concern, and Population Services International (PSI), all of which focus on addressing injected drug use as a key factor in halting the spread of HIV/AIDS.

However, while maintaining these programs at pre-existing levels, Burma has failed to expand demand-reduction, prevention, and drug-treatment programs to reduce drug use and control the spread of HIV/AIDS. The Global Fund for AIDS, TB, and Malaria had approved grants totaling \$98.5 million for Burma but withdrew in late 2005 due to the government's onerous restrictions and lack of full cooperation.

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 only engages the Burmese government in regard to narcotics control 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 2006, these joint investigations led to significant seizures, arrests, and convictions of drug traffickers and producers. The U.S. conducted opium yield surveys in the mountainous regions of Shan State from 1993 until 2004, with assistance provided by Burmese counterparts. These surveys gave both governments a more accurate understanding of the scope, magnitude, and changing geographic distribution of Burma's opium crop. As in 2005, the GOB refused in 2006 to allow another joint opium yield survey. A USG remote sensing estimate indicated that opium cultivation in Burma continues its long-term decline. Bilateral counternarcotics projects are limited to one small U.S.-supported crop substitution project in Shan State. No U.S. counternarcotics funding directly benefits or passes through the GOB.

The Road Ahead. The Burmese government has made significant gains in recent years in reducing opium poppy cultivation and opium production, and has cooperated with UNODC and major

regional partners (particularly China and Thailand) in this struggle. Although large-scale and long-term international aid — including development assistance and law-enforcement aid — could play a vital role in further curbing drug production and trafficking in Burma, the ruling military regime's ongoing political repression and barriers to outside assistance have limited international support of all kinds, including support for Burma's law enforcement efforts. Furthermore, in order to be sustainable, a true opium replacement strategy must combine an extensive range of counternarcotics actions, including crop eradication, effective law enforcement, alternative development options, and support for former poppy farmers. The GOB must foster closer cooperation with the ethnic groups involved in drug production and trafficking, especially the Wa, tackle corruption effectively, and enforce counternarcotics laws to eliminate poppy cultivation and opium production.

The USG believes that the GOB must further eliminate poppy cultivation and opium production; prosecute drug-related corruption, especially by corrupt government and military officials who facilitate or condone drug trafficking and money laundering; take action against high-level drug traffickers and their organizations; strictly enforce its money-laundering legislation; and expand prevention and drug-treatment programs to reduce drug use and control the rapid spread of HIV/AIDS. The GOB must take effective new steps to address the explosion of ATS that has flooded the region by gaining closer support and cooperation from ethnic groups, especially the Wa, who facilitate the manufacture and distribution of ATS, primarily by ethnic Chinese gangs. The GOB must close production labs and prevent the illicit import of precursor chemicals needed to produce synthetic drugs. Finally, the GOB must 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 2006. 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) such as methamphetamines and Ecstasy (MDMA) 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 World Health Organization (WHO) estimates that as many as 150,000 methamphetamine tablets enter Cambodia each day. Many of these are consumed domestically (as many as 50,000 per day in Phnom Penh alone), though some are also thought to be re-exported to Thailand and Vietnam. In addition, Cambodian drug control authorities and foreign experts have reported the existence of ATS laboratories in northwestern and southeastern Cambodia. There have also been reports of mobile groups harvesting cinnamomum trees in Cambodia's Cardamom Mountains and extracting chemicals, which can be used as precursors for ATS production. Cocaine use by wealthy Cambodians and foreigners in Cambodia is a relatively small but worrisome new phenomenon. Cocaine consumed in Southeast Asia originates in South America, particularly Peru and Colombia, and transits via human couriers ("swallowers") on commercial air flights to regional narcotics distribution hubs in Bangkok, Hong Kong, Beijing, and Guangzhou. Recent reports indicate that Cambodia may be taking on a small but increasing role as a new trafficking route, with cocaine coming by air from Kuala Lumpur or Singapore, transiting via Phnom Penh, and arriving in Bangkok. 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, Hong Kong, and Australia. Heroin and methamphetamine enter Cambodia primarily through the northern provinces of Stung Treng and Preah Vihear, an area bordering Laos and Thailand. 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 eradication campaign, and there have been reports of continued military and/or police involvement in large-scale cultivations in remote areas. Only small amounts of Cambodian cannabis reach the United States.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Cambodian law enforcement agencies suffer from limited resources, lack of training, and poor coordination. The NACD, which was reorganized in 1999 and again in June 2006, has the potential to become an effective policy and coordination unit. With the backing of the Cambodian government, the UNODC launched in April 2001 a four-year project entitled "Strengthening the Secretariat of the National Authority for Combating Drugs (NACD) and the National Drug Control Program for Cambodia". This project seeks, inter alia, to establish the NACD as a functional government body able to undertake drug control planning, coordination, and

operations. The project expired at the end of 2006 and is to be replaced by a similar, but less ambitious, capacity building project of one-year duration in 2007.

Accomplishments. The NACD is implementing Cambodia's first 5-year national plan on narcotics control (2005-2010), which focuses on demand reduction, supply reduction, drug law enforcement, and expansion of international cooperation. In 2006, the NACD trained 205 police officers, 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. The Cambodian government continued its work 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. According to NACD reports, (exclusive of synthetic drugs) 439 people (mostly Cambodians) were arrested for various drug-related offenses in the first nine months of 2006, compared to 705 in the first eleven months of 2005. The number of arrests and amount of heroin seized during the first nine months of 2006 exceed the total number of heroin-related arrests and quantity seized during all of 2005. Total seizures of heroin from January through September 2006 were 13.4 kg, compared to 11.06 kg in 2005. Police arrested 18 people in heroin-related cases in January to September 2006 (compared to 10 arrests in 2005), including six Taiwanese individuals apprehended at Phnom Penh airport with more than 10 kg of heroin hidden in their bodies and bags. While methamphetamine trafficking is believed to be on the rise, the number of methamphetamine pills confiscated in 2005 and the first nine months of 2006 remain far below 2004 levels. Police arrested 465 people in methamphetamine-related cases in January to September 2006 and seized 322,761 methamphetamine pills, and 3,722 grams of methamphetamine, and 485 small dose packets.

Corruption. The Cambodian government 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. Nonetheless, corruption remains pervasive in Cambodia, making Cambodia highly vulnerable to penetration by drug traffickers and foreign crime syndicates. Senior Cambodian government officials assert that they want to combat trafficking and production; however, corruption, abysmally low salaries for civil servants, and an acute shortage of trained personnel severely limit sustained advances in effective law enforcement. The judicial system is weak, and there have been numerous cases of defendants in important criminal cases having charges against them dropped after paying relatively small fines. In July 2006, Heng Pov, the former chief of the Anti-Drug Police, fled Cambodia and alleged that high-ranking government officials and well-connected businessmen were involved in drug trafficking but were not prosecuted due to government pressure. It is difficult to assess the credibility of these claims. At the Consultative Group (CG) meeting in December 2004, a group of donor countries jointly proposed a new benchmark for Cambodian government reform: forwarding an anticorruption law, which meets international best practices to the National Assembly. The government agreed to meet this benchmark by the next CG meeting, which was held in March 2006. Unfortunately, the government failed to meet this deadline and, as of October 2006, has still not completed the law. An informal donor working group, including the U.S., has worked closely with the government to produce a draft that meets international best practices. In addition, at each quarterly meeting of the Government-Donor Coordinating Committee, the international community has highlighted the government's still un-met commitment and outlined the international best practices to be included

in the Cambodian draft corruption law. Cambodia has not signed the UN Convention against Corruption.

Agreements and Treaties. Cambodia 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. 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. Cannabis cultivation continues despite a government eradication campaign. During the first nine months of 2006, 144 square meters of cannabis plantations were destroyed and eight people linked to these plantations were arrested. This eradication campaign has either reached a plateau of success or is being pursued less vigorously than in past years (for example, while 218 square meters were reported destroyed during 2005, 14,000 square meters were reported destroyed during 2004, and 6,000 square meters were reported destroyed in during 2003).

Drug Flow/Transit. Cambodia shares porous borders with Thailand, Laos, and Vietnam and lies near the major trafficking routes for Southeast Asian heroin. Drugs enter Cambodia by both primary and secondary roads and rivers across the northern border. Many narcotics transit through Cambodia via road or river networks and enter Thailand and Vietnam. 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. At the same time, recent improvement in National Road 7 and other roads is increasing the ease with which traffickers can use Cambodia's rapidly developing road network--a trend likely to continue as further road and bridge projects are implemented. Large quantities of heroin and cannabis, along with small amounts of ATS, are believed to 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 transit these airports en route to foreign destinations. In May 2006, police and customs officials arrested three Taiwanese nationals, two of whom were carrying a total of more than 7 kg of heroin, which they intended to smuggle to Taiwan on commercial flights. In September 2006, the Anti-Drug Police arrested four South Americans who had swallowed a total of more than 4 kg of cocaine and smuggled it into Cambodia on commercial flights.

Domestic Programs (Demand Reduction). A nine-month report of the NACD, covering the period from January to September 2006, states the total number of drug users and addicts was 6,500, a figure provided by the Royal Government of Cambodia's (RGC) Anti-Drug Department. NGOs and other specialists working on this issue argue that the number of drug users in Cambodia is probably far higher and is growing each year. A study conducted by the Joint United Nations Program on HIV/AIDS (UNAIDS) in 2005 estimated that at the end of 2004, there were 20,000 amphetamine users, 2,500 heroin users, and 1,750 intravenous drug users in Cambodia. With the assistance of the UNODC, UNICEF, 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, funded by Japan and initiated in October 2006, provides services to addicts and works to increase the capacity of health and human services to deal effectively with drug treatment issues. This project will work at four sites in three provinces, most likely in Phnom Penh, Battambang, and Banteay Meanchey. Several local NGOs, including Mith Samlanh, 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 over three decades, there is relative political stability in Cambodia. However, Cambodia is plagued by many of the institutional weaknesses common to the world's most vulnerable developing countries. The challenges for Cambodia include: nurturing the growth of democratic institutions and the protection of human rights; providing humanitarian assistance and promoting sound economic growth policies to alleviate the debilitating poverty that engenders corruption; and building human and institutional capacity in law enforcement sectors to enable the government to deal more effectively with narcotics traffickers. One unique challenge, which Cambodia faces, is the loss of many of its best trained professionals in the Khmer Rouge period (1975-1979), as well as during the subsequent Vietnamese occupation. 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. restrictions on assistance to the central government of Cambodia, in place from the political disturbances of 1997 until the present reporting period, hampered U.S.-Cambodia bilateral counternarcotics cooperation. However, U.S.-Cambodia bilateral counternarcotics cooperation should improve in FY07 as a result of the lifting of certain restrictions on military assistance to Cambodia. Cambodia regularly hosts visits from Bangkok-based DEA personnel, and Cambodian authorities cooperate actively with DEA, including in the areas of joint operations and operational intelligence sharing. In January and March 2006, immigration, customs, and police officials attended Basic Counternarcotics and Airport Interdiction courses funded by the State Department and taught by DEA Special Agents. DOD conducted Joint Interagency Task Force-West (JIATF-West) training missions in Koh Kong in February 2006, and in Stung Treng province in June 2006. The three-week programs increased the ability of Cambodian police, military, and immigration officials to interdict transnational threats, including narcotics. In 2006, JIATF-West and DEA partnered to incorporate DEA trainers into the JIATF-West training missions, bringing together military interdiction and law enforcement skills into a coherent package. Through a USAID cooperative agreement, Khmer HIV/AIDS NGO Alliance (KHANA) is supporting more than 80 local organizations engaged in HIV/AIDS prevention throughout the country. In 2006, some of these organizations included drug-related HIV/AIDS transmission issues in their programs. Outreach efforts targeted at intravenous drug users will continue, as such drug use is the quickest and most efficient means of HIV transmission.

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. As noted above ("Bilateral Cooperation"), the USG in FY07 lifted certain restrictions on military assistance to Cambodia. The RGC is establishing a foreign military sales case for \$670,000 of excess defense articles. The acquisition of basic soldier and unit equipment (such as uniforms, boots, first aid pouches, compasses, cots, and tents) for the Army border battalions will facilitate an increased ability to conduct patrols along the borders. The JIATF-West training events in FY07 will consist of two events in Stung Treng province and one event in the Battambang/Banteay Meanchey area, and will again include DEA trainers in addition to military personnel. JIATF-West has also embarked on a training infrastructure renovation project, which will renovate several law enforcement and military

facilities in Sisophon town and the provinces of Preah Vihear and Stung Treng. Renovation will serve both to facilitate future JIATF-West training and also to build the capacity of Cambodian law enforcement and military authorities. In addition, the U.S.-based drug treatment organization Daytop International will conduct three training sessions for Cambodian government, non-government, and private sector drug prevention and treatment professionals. These training sessions, which will be funded by the State Department and will last approximately two weeks each, are scheduled to start in December 2006. USAID is collaborating with WHO and NGO partners to collect data on numbers and behaviors of intravenous drug users and is supporting intravenous drug use and HIV outreach services in Phnom Penh and Siem Reap as a first step in addressing the growing problem of illicit drug use. The U.S. will also encourage the Cambodian Government to sign and ratify the UN Convention against Corruption and begin to implement its commitments.

China

I. Summary

The People's Republic of China is a major factor in the regional drug market, serving as a transit country and an important producer/exporter of Amphetamine Type Stimulants (ATS). China continues to have a domestic heroin problem along with an upsurge in the consumption of synthetic drugs such as Ecstasy and crystal methamphetamine, known locally as "ice." Chinese authorities view drug trafficking and abuse as a major threat to its national security, its economy, and its national and regional stability, but corruption in far-flung drug producing and drug transit regions of China limits what dedicated enforcement officials can accomplish. Authorities continue to take steps to integrate China into regional and global counternarcotics efforts. Cooperation with U.S. counternarcotics officials has steadily improved over the past year. A successful joint operation in 2005/2006 dismantled a Colombian drug organization operating in Southern China. China is a party to the 1988 UN Drug Convention.

II. Status of Country

Mainland China is situated adjacent to both the major narcotics producing areas in Asia, Southeast Asia's "Golden Triangle" and Southwest Asia's "Golden Crescent." While the "Golden Triangle" area poses a longstanding problem, Chinese officials note that the "Golden Crescent" is the source of increasing amounts of illicit drugs trafficked into Western China, particularly Xinjiang Province. China's 97-kilometer border with Afghanistan is remote, but Chinese authorities are increasingly concerned that opium from Afghanistan can find its way into China through other countries. Beijing claims that there are no heroin refineries in China. China is a major producer of licit ephedrine and pseudoephedrine used in the manufacture of methamphetamine. There is a widespread belief among Asian law enforcement agencies that large-scale methamphetamine producers in other Asian countries are using China-produced ephedrine and pseudoephedrine, and there are numerous examples from criminal investigations to confirm this suspicion. Diverted Chinese precursor chemicals may sustain synthetic drug production in other countries as far away as Mexico, Belgium and the Netherlands. Although China recently enacted enhanced precursor chemical control laws and is fully engaged in multilateral and bilateral efforts to stop diversion from its chemical production sector, it has not matched the size of its large chemical industry with sufficient resources to effectively ensure against diversion.

As for drug abuse within China, according to the Chinese Government, drug abuse continues to rise. There were, by the end of 2005 (the most current statistics available), 1,160,000 registered drug users, down 440,000 from 2004, but officials acknowledge the actual number of addicts is higher, and there have been published reports that China might have as many as 15 million drug abusers. The majority of registered drug addicts, 78.3 percent (700,000 people), are heroin users. Youth between the ages of 17-35 comprise the largest percentage of addicts.

As China's economy has grown and its society has opened up over the last decade, the country's youth have come to enjoy increasing levels of disposable income and freedom. This has been associated with a dramatic increase in drug abuse among the country's youth in large and mid-sized cities. The number of abusers of new drugs is increasing and drugs such as crystal methamphetamine, Ecstasy, ketamine, and triazolam have become more popular. Synthetic drug use has surpassed that of traditional drugs in Northeast China's three provinces of Heilongjiang, Jilin, and Liaoning. Nightclubs and karaoke bars have become hotbeds for such recreational drugs.

With a large and developed chemical industry, China is one of the world's largest producers of precursor chemicals, including acetic anhydride, potassium permanganate, piperonylmethylketone (Ecstasy), pseudoephedrine, ephedrine, and ephedra. China monitors all 22 of the chemicals on the

tables included in the 1988 UN Drug Convention. 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. According to the PRC's National Narcotics Control Commission (NNCC), China seized over 157 metric tons of precursor chemicals in 2005, prevented 3,250 metric tons of precursor chemicals from being exported abroad, and dismantled 34 labs. Nevertheless, diverted Chinese-source precursor chemicals are regularly encountered abroad during the course of criminal investigations.

III. Country Actions Against Drugs in 2006

Policy Initiatives. China takes active measures to combat the use and trafficking of narcotics and dangerous drugs. China's Ministry of Public Security (MPS) is in the midst of its National People's War on Illicit Drugs, begun in 2005 at the initiative of Chinese President Hu Jintao. MPS has designated five campaigns as part of this effort: drug prevention and education; drug treatment and rehabilitation; drug source blocking and interdiction; "strike hard" drug law enforcement; and strict control and administration, designed to inhibit the diversion of precursor chemicals and other drugs. In November 2005, China passed an Administrative Law on Precursor Chemicals as well as an Administrative Regulation on Narcotic Drugs and Psychotropic Substances. In the same month, China issued Provisional Administrative Regulations on the Export of Precursor Chemicals to Special Countries, strengthening the regulation of exports of 58 types of precursor chemicals to countries in the "Golden Triangle." In June 2004, MPS Bureau of Narcotics Control implemented a nationwide drug-related information gathering, sharing and storing network allowing data comparison alerts, and improved overall coordination in counternarcotics operations.

China continues to participate in UNODC demand reduction and crop substitution efforts in areas along China's southern borders and worked closely with Burma to implement an alternative crops program. With UNODC support, NNCC conducted training in cross-border drug enforcement cooperation, ATS data collection, and combating ATS crimes in Southern China. China routinely participates in counternarcotics education programs sponsored by the International Law Enforcement Academy (ILEA), located in Bangkok, Thailand.

Accomplishments. China's biggest success in 2005/2006 was the dismantlement of a Colombian drug trafficking organization in Southern China in cooperation with U.S. DEA. DEA, Hong Kong, and mainland Chinese agencies jointly tracked a drug trafficking organization as it moved cocaine from Colombia to China. In March 2006, China's Customs Anti-Smuggling Bureau made several arrests and seized 136 kg of cocaine in Zhongshan City in Guangdong Province. China continues to cooperate with regional and international partners to stem drug trafficking. China has eradicated opium poppy cultivation in China and Chinese authorities continue efforts to destroy illicit drug laboratories within China's borders.

Law Enforcement Efforts. The Chinese Government has continued its aggressive counternarcotics campaign. The coordination between China's Beijing-based counternarcotics efforts and those at the provincial level has grown substantially with increased training and exchange programs. Special interagency organizations were set up in 18 key provinces and cities to actively oversee and carry out the National People's War on Illicit Drugs.

According to the NNCC 2006 Report, Yunnan Province (bordering Burma and Laos) and Guangxi Autonomous Region (bordering Vietnam) conducted stepped up counternarcotics efforts in 2005. Yunnan authorities solved more than 10,000 criminal narcotics cases and seized 5.19 tons of heroin, 124 kg of morphine, 2.62 tons of methamphetamine and 2.05 tons of opium and arrested 13,500 suspects. Solved cases and seizures increased by 8.7 percent and 1.3 percent respectively. Yunnan forestry authorities seized 2.97 tons of poppy shells and the State Postal Administration in Yunnan helped solve more than 30 drug-related cases. Guangxi Autonomous Region solved 159 cases involving heroin from Vietnam, an increase of 115 cases over 2004, and seized 66.8 kg of

heroin, up 124 percent over 2004. Both regions mounted special operations to combat drug-related money laundering. In 2005, Xinjiang Autonomous Region uncovered nine cases involving drugs coming from the “Golden Crescent” by air, with 14 foreign couriers arrested and 14.5 kg of heroin seized, a dramatic increase over 2004.

Altogether in 2005, Chinese law enforcement agencies arrested 46,359 drug suspects, prosecuted 33,750 drug cases involving 46,013 persons, and solved 45,400 drug criminal cases, including 1,794 cases involving seizures from one to ten kg and 342 cases with seizures of more than ten kg. China also dismantled 1,550 drug trafficking gangs, arrested 58,000 suspects, and seized 6.9 tons of heroin, 5.5 tons of methamphetamine, 2.3 tons of opium, 2.34 million “Ecstasy” tablets, 2.6 tons of ketamine, and 941 kg of cannabis. Authorities solved 34 precursor cases, arrested 44 suspects, and seized 50.4 tons of precursor chemicals. Chinese authorities seized drug-related funds amounting to 47.92 million RMB, 140 thousand U.S. dollars, and 410,000 Hong Kong dollars.

Prior to 2003, narcotics enforcement was handled by one organization and focused primarily on heroin. The NNCC reorganized its enforcement operations in 2003 and established separate heroin and ATS enforcement groups at both the ministerial and provincial levels in order to better focus on ATS enforcement.

In 2005, China continued to strengthen its cooperation with United States law enforcement agencies. This included major DEA successes, such as the joint efforts against the Colombian drug organization. MPS continues to provide strategic and concrete information to its DEA counterparts to actively target drug rings. MPS has allowed DEA to interview witnesses in carrying out case investigations and has allowed DEA to jointly conduct other investigative activity to help identify drug rings. In addition, MPS routinely facilitates the travel of U.S. law enforcement personnel based at the U.S. Embassy in Beijing.

China has actively participated in an international cooperative effort with its neighbors in the Golden Triangle to reduce poppy cultivation in Laos and Burma in recent years, resulting in a 27 percent decrease in the total area of production since 1995. Nevertheless, according to the NNCC’s 2006 report, Burma remains the major source of opium entering China.

The Chinese Government successfully conducted joint counternarcotics operations with neighboring countries. NNCC reports that after an 11-month investigation, police forces from five countries arrested 70 suspects in September 2005 and finally dismantled an international drug trafficking group headed by Han Hongwan and covering China, Burma, and Thailand.

Corruption. China has a very serious corruption problem. Anticorruption campaigns have led to arrests of many lower-level government personnel and some more senior-level officials. Most corruption activities in China involve abuse of power, embezzlement, and misappropriation of government funds, but payoffs to “look the other way” when questionable commercial activities occur are another major source of official corruption in China. While narcotics-related official corruption exists in China, it is seldom reported in the press.

MPS takes allegations of drug-related corruption seriously, launching investigations as appropriate. Most cases appear to have involved lower-level district and county officials. There is no specific evidence indicating senior-level corruption in drug trafficking. Nevertheless, the quantity of drugs trafficked within China raise suspicions that official corruption is a factor in trafficking in certain provinces bordering drug producing regions, such as Yunnan, and in Guangdong and Fujian, where narcotics trafficking and other forms of transnational crimes are prevalent. Official corruption cannot be discounted among the factors enabling organized criminal networks to operate in certain regions of China, despite the best efforts of authorities at the central government level. China is engaged in an anticorruption dialogue with the United States through the U.S.-China Joint Liaison Group on Law Enforcement Cooperation (JLG). As a matter of government policy or practice,

China does not encourage or facilitate the laundering of proceeds from official drug transactions, nor are there any indications that senior Chinese officials engage in laundering the proceeds from illegal drug transactions. Narcotics-related corruption does not appear to have adversely affected ongoing law enforcement cases in which United States agencies have been involved.

As part of its efforts to stem the flow of corrupt Chinese officials who embezzle public funds and flee abroad to evade punishment, China ratified the United Nations Convention Against Corruption in January 2006, shortly after the Convention entered into force in December 2005.

Agreements and Treaties. China actively cooperates with other countries to fight against drug trafficking and has signed over 30 mutual legal assistance agreements with 24 countries. China has signed 58 bilateral treaties on legal assistance and extradition with 40 countries. China is a party to the 1988 UN Drug Convention, as well as to the 1961 UN Single Convention and its 1972 Protocol and the 1971 Convention on Psychotropic Substances. The United States and China cooperate in law enforcement efforts under a mutual legal assistance agreement signed in 2000. There is no extradition treaty between the United States and China. In January 2003, the United States and China reached agreement on the Customs Mutual Assistance Agreement (CMAA.). In February 2005, NNCC and DEA signed a memorandum of intent to establish a bilateral drug intelligence working group to enhance cooperation and the exchange of information. They jointly sponsored a drug-related money laundering workshop in August 2006. China continues to cooperate with international chemical control initiatives, “Operation Purple” and “Operation Topaz,” and strictly regulates the import and export of precursor chemicals. China continued its participation in the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD).

Cultivation/Production. The PRC has effectively eradicated the cultivation of drug-related crops within China. China's mountainous and forested regions where illegal cultivation can occur are subject to aerial surveillance, field surveys, and drug eradication. Chinese officials state that there are no heroin refineries in China.

China is a main source for natural ephedra, which is used in the production of ephedrine. China is also one of the world's largest producers of licit synthetic pseudoephedrine. China has a large pharmaceutical industry and ephedra is used for legitimate medicinal purposes. The Chinese central government, supplemented by stricter controls in critical provinces such as Yunnan and Zhejiang, makes efforts to control exports of this key precursor. Despite these efforts, there is a widespread belief among law enforcement authorities in Asia that large-scale production of methamphetamines, most notably in super and mega-labs, in the Asia Pacific Rim, use China-produced ephedrine and pseudoephedrine. Large-scale seizure of chemicals diverted from China is almost commonplace in law enforcement investigations around the world.

The Chinese Government continues to make shutting down illicit drug laboratories a top priority. China dismantled 34 labs in 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. China shares a 2000-kilometer border with Burma, much of which lies in remote and mountainous areas, providing smugglers unrestricted crossing into China. In addition, there are many official crossings on the Burma/China border that also provide access. Transit of drugs through Yunnan and Guangxi to Guangdong for storage, distribution, or repackaging has been especially widespread. Traffickers continue to use Guangzhou, Shenzhen, and Zhuhai in Guangdong Province as transit/transshipment points for heroin and crystal methamphetamine leaving China. Chinese authorities report that much of Burma's heroin travels through China en route to the international market. It is estimated 78 percent (8,468 kg) of the total amount of heroin (10,837 kg) seized in China during 2004 was produced in the Golden Triangle

area and entered China from the Muse and Kohkang areas of Northern Burma. In 2005, Chinese authorities seized a total of 6.9 tons of heroin nationwide.

Chinese authorities acknowledge that Western China is experiencing significant problems as well. Chinese officials are becoming increasingly concerned about the growing source of opium from the Golden Crescent and have seen a steady increase in the flow of heroin from that region. They report that drugs such as opium and heroin are being smuggled into Xinjiang Province for distribution throughout China. MPS and DEA report that Pakistan serves as a key trafficking route for heroin from Afghanistan into China. In 2005, Pakistan reportedly solved 22 cases involving drugs intended for China. China itself reported nine cases of drugs smuggled by air into China from Pakistan.

Domestic Programs (Demand Reduction). MPS figures indicate there were 1,160,000 registered drug addicts in China in 2005, down 440,000 from 2004. Officials acknowledge that the actual number of addicts is higher, with some published reports speaking of 15 million drug abusers. An estimated 700,000 people, or 78.3 percent, of registered drug abusers are addicted to heroin.

As part of its National People's War on Illicit Drugs, China takes a multi-agency approach to educating people about drug prevention. This effort involved producing a film, "Memory of Black and White," on drug prevention and education; creating a drug enforcement hero character, Wu Guanlin, and promoting him and his deeds in five provinces; disseminating thousands of drug control fliers and pictures for prominent display on TV, buses, and in public spaces; designating five well-known public figures as "image ambassadors"; setting up training courses in schools in key provinces that reach millions of students; mobilizing 1,000 college students to go to villages during holidays to publicize drug control; antidrug training in discos and pubs, targeting high-risk groups and promoting drug awareness; special courses in re-education-through-labor camps; periodic placement of pieces in newspapers, magazines, and TV news programs including Focus Talk, Face to Face, Dialogue, etc. China continued to give high priority to controlling the spread of HIV/AIDS in 2005. MPS also stepped up campaigns targeting young people in its fight against banned narcotics and created more drug-free residence communities and villages for rehabilitating addicts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Counternarcotics cooperation between China and the United States continues to develop in a positive way. 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 and other international markets, 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. Drug trafficking groups operating in Hong Kong are primarily transnational in nature.

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 continued to experience an overall decrease in drug abuse in 2006. According to the Hong Kong Central Registry of Drug Abuse (CRDA), in the first six months of 2006 the total number of drug abusers continued to fall to 7941, a drop of 11.5 percent from 8969 during the same period in 2005. Ketamine (an livestock anesthetic abused by youth as a hallucinogen) was the most commonly abused psychotropic substance and the number of its abusers rose by 20.9 percent in the first half of 2006. (Hong Kong is one of the centers of abuse of Ketamine in Asia.) There was also a slight increase in the number of young drug abusers under age 21, rising from 1,396 to 1,451. Heroin remains the most popular drug of adult drug users and the number of overall heroin users slightly decreased in the first six months of 2006 when compared to the same period in 2005.

In 2006, 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 2006

Policy Initiatives. Although there were no major policy changes in 2005 and 2006, the Hong Kong Government continued to work with existing counternarcotics policies and strategies in drug-prevention efforts. Minor policy changes included the replacement of the Action Committee Against Narcotics on Research by the Research Advisory Group (RAG). Apart from monitoring

research, the RAG provides advice on interpreting drug abuse statistical trends and drawing together the latest research findings from both local and overseas narcotics-related studies.

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. In 2006 Hong Kong Police stepped up license checking on entertainment premises in order to deter youngsters from visiting venues where drugs are more easily available. 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 2006 and carried out numerous significant drug seizures, including the collective seizure with the U.S. DEA and Chinese Customs authorities of 142 kg of cocaine. Concurrent with the cocaine seizure, HKCED arrested eight defendants, three of whom are Colombian nationals. Results from this investigation corroborate increasing intelligence information that Colombian trafficking organizations are establishing closer working ties with Chinese traffickers and becoming actively involved in joint smuggling ventures of cocaine to the Asia region. Hong Kong police also made large narcotics seizures in the first nine months of 2006 to include record seizures of 151,200 and 550 kg of ketamine in January, February and September respectively.

Corruption. As a matter of government policy, the HKSAR 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. 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.

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 signed surrender of fugitive offenders' agreements with Finland, Germany and Korea in 2006 to bring the total number of countries with which Hong Kong has such agreements or treaties to 16, including the U.S. Hong Kong has also signed transfer of sentenced persons' agreements with eight countries, including the U.S. Hong Kong law enforcement agencies enjoy a close and cooperative working relationship with their mainland counterparts and counterparts in many countries. Last year Hong Kong's Joint Financial Intelligence Unit (JFIU) entered into a Memoranda of Understanding in respect to intelligence sharing with the financial intelligence units of Australia, Korea, Japan, Singapore and Canada. 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 involving mainland China has been increasing, foreign law enforcement agencies in Hong Kong such as the U.S. DEA have also benefited from the increased level of PRC-Hong Kong cooperation. One

example has been a strong emphasis on cooperative training seminars. In June 2006, an innovative cross-boundary intelligence sharing workshop hosted by the U.S. DEA and HKCED included officials from Mainland Chinese Customs and highlighted the open exchange of intelligence and the increasing level of cooperation among the participating agencies. 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.

Cultivation and Production. Although Hong Kong police detected and destroyed several minor drug production and cultivation enterprises in 2006 including four small-scale crack cocaine production labs and three cannabis cultivation sites, Hong Kong is generally not considered a producer of illicit drugs.

Drug Flow/Transit. Some drugs continue to flow through Hong Kong for the overseas market, to destinations including Australia, Japan, Taiwan, and 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 curb 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 local Chinese population primarily dominates the Hong Kong drug trade. Contrary to common belief, there is not a significant and direct connection between Hong Kong narcotics activity and Hong Kong triads at the wholesale and manufacturing level. Therefore, drug investigations are not focused on known triad societies, but rather on the particular trafficking syndicates or individuals involved. In 2005 and 2006, the trafficking destined for mainland China by Southeast Asians became more prominent. As a result, seizures of ketamine have continued to spiral upwards and shipments of multi-kilo loads of ketamine have been intercepted. For example, a recent joint investigation between the U.S. DEA and Taiwanese authorities netted the seizure of 240 kg of ketamine believed to have originated from India and bound for Taiwan.

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 2006, 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. In 2006 the Hong Kong Police Narcotics Division stepped up publicity efforts to teach Hong Kong adolescents about the detrimental effects of commonly abused drugs like ketamine by using Announcements in the Public Interest through TV and radio broadcasts. 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 an anti-counternarcotics message to youths. In June 2004, the Hong Kong Government formally opened the Drug Information 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 73,000 visitors for various drug-prevention education activities. The Government also continued to commission nongovernmental organizations to assist in educating primary and secondary school children by sponsoring antidrug education programs in local schools and conducting antidrug seminars with parents, teachers, social workers and persons from various uniform groups. In July 2005, the Advisory Group on Professional Training for Anti-drug Workers was formed to educate social workers and peer counselors and provide them with certified antidrug training on treatment and rehabilitation.

The Hong Kong Government also continued to implement a comprehensive drug treatment and rehabilitation program in 2006. The fourth Three-year Plan on Drug Treatment and Rehabilitation Services was released in March 2006. The plan sets out the overall direction for enhancing Hong Kong's treatment and rehabilitation services and increases focus on early intervention efforts and focus programs that reach out to substance abusers. 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.

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 U.S. DEA launched a joint operation codenamed "Cold Remedy" to monitor the movement of precursor chemicals that 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 amphetamine and other amphetamine-type stimulants (ATS) drugs, 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. Another cooperative chemical initiative was implemented in February 2006 and codenamed Amethyst Asia. This new program is designed much like Cold Remedy in which the U.S. DEA and Hong Kong Government monitor and track potassium permanganate shipments sourced from countries or territories in Asia, which transit through Hong Kong, and are destined to high risk countries. Potassium permanganate is a precursor chemical used in the manufacture of cocaine.

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 transit country, Indonesia continues to have a rapidly growing problem in all three areas. 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 both specialized investigative training and equipment, including vehicles, software, safety and tactical equipment, to support its efforts against crime and drugs. INP efforts are firmly based on counternarcotics legislation and international agreements. The INP relies heavily on assistance from major international donors, including the U.S. Indonesia is a party to the 1988 UN Drug Convention.

II. Status of Country

According to Government of Indonesia (GOI) statistics, Indonesia is facing an increase in drug abuse among its citizenry. Specifically, according to the Indonesian National Narcotics Board (BNN) approximately 3.2 million people (1.5 percent of Indonesia's total population) are drug abusers. Furthermore, according to GOI statistics, on average 15,000 people, die from drug abuse every year. Of the drug users in Indonesia, 56 percent are drug addicts using hypodermic needles. A statistical comparison of the number of drug trafficking and abuse cases indicates that between 2001 and 2005, there was a 76 percent increase. Similarly, the BNN reports that during the same period the number of suspects in drug trafficking and abuse cases has increased 75 percent. In an effort to curb the rising drug abuse problem the Indonesian government has imposed tougher punishments. Nevertheless, all major groups of illegal drugs are readily available in Indonesia, including, methamphetamine, in its crystalline or tablet forms, Ecstasy (MDMA), heroin, cocaine, and marijuana.

Historically, MDMA Ecstasy has been smuggled into Indonesia from sources of supply in the Netherlands. However, in recent years Indonesia has been experiencing an increase in large scale, domestic MDMA and methamphetamine production, which is one of the most significant drug trafficking threats to Indonesia. Since 2002, Indonesian/Chinese MDMA and methamphetamine production syndicates have established numerous large-scale clandestine MDMA and methamphetamine laboratories capable of producing multi-hundred pound quantities utilizing precursor chemicals from the Peoples Republic of China (PRC). In addition, MDMA and methamphetamine produced in the PRC is smuggled to Indonesia in multi-hundred kg quantities, via maritime cargo and fishing vessels, by Chinese organized crime syndicates based in Hong Kong, Taiwan and in mainland China. Specifically, Indonesian authorities cite two of the largest methamphetamine seizures of 2006, 200 kg (February 2006) and 956 kg (August 2006), as originating from the PRC and say they were smuggled via maritime cargo and fishing vessels to Indonesia.

Marijuana is cultivated and trafficked throughout Indonesia; INP also reports that Indonesian trafficking syndicates based out of Jakarta control marijuana trafficking in Indonesia.

Although cocaine seizures continue to occur in major Indonesian airports, the market for cocaine in Indonesia is believed to be very small.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The 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 Counter Drug Operations Center (JIACDOC) 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.

Law Enforcement Efforts. 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 the antidrug efforts. According to the BNN, prosecutions for drug possession, trafficking and manufacturing have increased more than 400 percent during recent years. Specifically, based on GOI figures, the number of prosecutions for drug possession had quadrupled to 14,515 in 2005 from 3,617 in 2001. Furthermore, the number of recorded drug crimes, including trafficking has also increased from 4,924 suspects in 2001, to 20,023 in 2005.

The INP Narcotics and Organized Crime Directorate continues to improve in its ability to investigate and dismantle international drug trafficking syndicates, as well as cooperate with other international law enforcement agencies. In addition, the Narcotics Directorate has become increasingly active in the regional targeting conferences designed to coordinate efforts against transnational drug and crime organizations. In 2006, the INP attended the International Drug Enforcement Conference (IDEC) held in Montreal, Canada. INP's Director for Narcotics and Organized Crime was subsequently appointed as the Chairman of the East Asia Regional IDEC Working Group.

The maritime counterdrug effort depends on a myriad of Indonesian law enforcement agencies. Efforts to define the roles of these agencies, including the Navy and the INP Air and Sea Police continue in an effort to avoid duplicative enforcement initiatives.

Corruption. Indonesia has laws against official corruption. Despite these laws, corruption in Indonesia is endemic, and seriously limits the effectiveness of all law enforcement, including narcotics law enforcement. As a matter of government policy and practice, the GOI does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal transactions. The recently elected administration has made anticorruption efforts one of its top three major policy initiatives along with counterterrorism and counterdrug efforts.

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 ratified the UN Corruption Convention in September 2006.

Cultivation/Production. Opium is not cultivated or processed in Indonesia. INP reports that the domestic production of MDMA and methamphetamine is the most significant drug production threat in Indonesia. MDMA and methamphetamine are produced in Indonesia, as well as neighboring Malaysia. Specifically, Indonesian/Chinese trafficking syndicates based in both Jakarta and Malaysia (Penang) utilize chemists trained in the Netherlands. Local syndicates rely upon precursor chemical sources of supply in the Peoples Republic of China (PRC). The lax law enforcement, and corruption that is endemic to Indonesia enables regional narcotics production and trafficking syndicates to operate relatively unimpeded by law enforcement

Marijuana is cultivated throughout Indonesia. However due to the equatorial climate of Sumatra, and year round growing conditions, marijuana is most intensively cultivated throughout northern Sumatra. Specifically, large scale (greater than 20 hectares) marijuana cultivation occurs in the remote and sparsely populated regions of the province, often in mountainous topography. Regional marijuana cultivation syndicates are believed to be exploiting INP's equipment limitations by locating cultivation sites in remote and high elevation areas.

Drug Flow/Transit. Indonesia's numerous islands present a ready opportunity to traffickers of synthetic drugs and precursor chemicals to manufacture them. The GOI is not adequately equipped

to police and inspect the numerous entirely licit flows of waterborne commerce, and finds it very difficult indeed to distinguish systematically which vessels might be carrying contraband. Most synthetics and precursors for them seem to arrive in Indonesia by boat from their starting point in China.

The INP reports that the majority of heroin seized in Indonesia originates in Southwest Asia. Indonesian authorities report that much of the heroin trade in Indonesia is controlled and directed by West Africans-- Nigerians in particular. Heroin is smuggled by West African and Nepalese trafficking organizations utilizing sources of supply in Karachi, Pakistan and Kabul, Afghanistan via commercial air carriers transiting Bangkok, Thailand, and India en route to Jakarta. In addition to heroin being trafficked to Indonesia, heroin is also transshipped from Indonesia, by couriers traveling via commercial air carrier to Europe, Japan and Australia.

Domestic Programs/Demand Reduction. Indonesia has only a basic drug education program, which is significantly constrained by inadequate resources. Sophisticated treatment availability is also a problem. Sophisticated treatment is really only available, to a limited extent, in the largest Indonesian cities. If the family of a drug abuser has adequate resources, they might seek treatment elsewhere, perhaps in Malaysia or Singapore. General treatment availability in smaller cities and in areas other than Java would probably be at government-operated treatment clinics, and providers would have little experience in delivering either appropriate pharmaceuticals or counseling. With U.S. assistance and collaboration, the GOI National Narcotics Board and the Ulama Council of Indonesia has established demand reduction outreach centers within their madrassahs (religious schools called Pesantrens) throughout Indonesia, permitting a culturally appropriate response to drug abuse.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Indonesia and the United States maintain excellent law enforcement cooperation on narcotics issues. During 2006, the United States Coast Guard (USCG) conducted basic and advanced boarding officer courses in Indonesia. ICE (Immigration and Customs Enforcement) has also provided Indonesian authorities with advanced money laundering training in 2005 and training in combating cash couriers and trade based money laundering in 2006.

The Road Ahead. In 2007 the U.S. will continue to assist the BNN and its member agencies in realizing the full potential of the Counter Drug Operations Center and Network 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. This will permit Indonesian law enforcement to contribute to and access the database for investigations. The U.S. and Indonesia will continue to cooperate closely on narcotics control.

Japan

I. Summary

Japan's efforts to fight drug trafficking comply with international standards. Japan cooperates with other countries in intelligence sharing and law enforcement. Methamphetamine abuse remains the biggest challenge to Japanese antinarcotics efforts, but MDMA (Ecstasy) trafficking has also become a persistent problem. Cocaine and marijuana use is relatively smaller in scale but still significant. According to Japanese authorities, all illegal drugs consumed in Japan are imported from overseas, usually by organized crime syndicates and foreign drug trafficking organizations. In spite of bureaucratic obstacles, Japanese law enforcement officials are proactively addressing the problem, and have conducted precedent-setting operations in cooperation with the U.S. Drug Enforcement Administration (DEA) Tokyo. Although drug seizures are down from 2005 levels, continuing short-supply-driven high street prices indicate that law enforcement has been effective. Japan is a party to the 1988 UN Drug Convention.

II. Status of Country

Japan is one of the largest markets for methamphetamine in Asia. A significant source of income for Japanese organized crime syndicates, over 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. Authorities unofficially estimate that between four and seven metric tons is trafficked annually into Japan. MDMA has also become a significant problem in Japan; over 50,000 Ecstasy tablets had been seized by police as of September 2006, and officials say that they expect MDMA abuse to increase. Marijuana use has also grown steadily in Japan since 2000. Japan is not a significant producer of narcotics. The Ministry of Health, Labor and Welfare strictly controls some licit cultivation of opium poppies, coca plants, and cannabis for research. According to DEA and the National Police Agency, there is no evidence that methamphetamine or any other synthetic drug is manufactured domestically.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The Headquarters for the Promotion of Measures to Prevent Drug Abuse, which is part of the Prime Minister's Office (Kantei), announced the Five-Year Drug Abuse Prevention Strategy in July 2003. This strategy includes measures to increase cooperation and information-sharing among Japanese agencies as well as with foreign countries, utilize more advanced investigation techniques against organized crime syndicates, and raise awareness about the dangers of drug abuse. The Ministry of Health, Labor and Welfare added 30 more drugs to its list of controlled substances in 2006.

Law Enforcement Efforts. Japanese police are effective at gathering intelligence and making arrests, in spite of operating under a number of legal and operational constraints. Prosecutors do not have the option of plea-bargaining in Japan, which severely limits the amount of information police can extract from the people they arrest. Japan also has laws restricting the use of informants, undercover operations, and telephone intercepts. Officials nevertheless maintain detailed records of Japan-based drug trafficking, organized crime, and international drug trafficking organizations. Japan regularly shares intelligence with foreign counterparts and engages in international drug trafficking investigations. The National Police Agency and Tokyo Metropolitan Police conducted two groundbreaking operations in 2006 with DEA's assistance. Using technically sophisticated methods to attack organized crime drug traffickers, officers seized 30 kg of Nepalese cannabis resin in July and two kg of Peruvian cocaine in September. The decrease in drug seizures in 2006

could be a sign of reduced supply. The closure of several methamphetamine mega-labs in Indonesia, Malaysia, and the Philippines, as well as Japan's increased international cooperation, may be limiting the flow of drugs into the country. The fact that drug prices have risen in the last year strongly suggests that supply on the street is tight. As of September 2006, police had seized 45 kg of methamphetamine, a significant decrease from the 126 kg confiscated during the same period in 2005. Marijuana and cannabis resin seizures as of September 2006 were 154 kg and 57 kg respectively, over a third less than the same period of the previous year. MDMA seizures during January-September fell from 350,000 tablets in 2005 to only 50,000 in 2006. Cocaine, heroin, and opium seizures remained roughly at their 2005 levels.

Corruption. There were no reported cases of Japanese officials being involved in drug-related corruption in Japan in 2006. The government 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 abandoned efforts to pass an anticonspiracy bill this year, a major step backward for a country otherwise very progressive on fighting illegal narcotics trafficking. As a result, Japan cannot ratify the UN Convention on Transnational Organized Crime. Japan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances.

An extradition treaty is in force between the U.S. and Japan, and a Mutual Legal Assistance Treaty (MLAT) went into effect in August 2006, Japan's first MLAT with any country. The MLAT allows Japan's Ministry of Justice to share information and cooperate directly with the Department of Justice in connection with investigations, prosecutions and other proceedings in criminal matters.

Cultivation/Production. Japan is not a significant cultivator or producer of controlled substances. The Ministry of Health, Labor, and Welfare's research cultivation program produces a negligible amount of narcotic substances purely for research purposes.

Drug Flow/Transit. Authorities believe that methamphetamine smuggled into Japan originates in the People's Republic of China (PRC), Taiwan, North Korea, Burma, Malaysia, Indonesia and the Philippines. Drugs other than methamphetamine often come from these same source countries, however airport customs officials have made several recent seizures of cocaine transiting from the United States, and authorities confirm that methamphetamine and marijuana are being imported from Canada as well. Most of the MDMA in Japan originates in either the Netherlands or China.

Domestic Programs/Demand Reduction. Most drug treatment programs are small and are run by private organizations, but the government also supports the rehabilitation of addicts at prefectural (regional) centers. There are a number of government-funded drug awareness campaigns designed to inform the public about the dangers of stimulant use, especially among junior and senior high school students. The Ministry of Health, Labor, and Welfare, along with prefectural governments and private organizations, continues to administer 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 building on the successes of the last year by strengthening law enforcement cooperation related to controlled deliveries and drug-related money-laundering investigations; encouraging more demand reduction programs; supporting increased use of existing anticrime legislation and advanced investigative tools against drug traffickers; and promoting greater involvement from 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

Laos has made tremendous progress in reducing opium cultivation during the last several years, but there is growing evidence that the momentum of this effort is slowing, and may even have reversed. The large number of former poppy growers who have yet to receive assistance has created a substantial potential for renewed production. At the same time, both the transit and abuse of Amphetamine Type Stimulants (ATS) appear to be growing unabated throughout the country. While both treatment capacity and awareness programs targeting methamphetamine expanded in 2006, they remain insufficient to meet the challenges facing Laos. Law enforcement capacity is woefully inadequate, and the inability to offer an effective deterrent to regional traffickers is making Laos the transit route of choice for Southeast Asian heroin, ATS, and precursor chemicals bound for other nations in the region. The combination of weak enforcement and new Lao highways connecting China, Thailand, and Vietnam will likely exacerbate the already worrisome transit situation. Laos is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2006, Laos moved into what seemed a final stage in its battle against opium, in no small part due to U.S. counter narcotics funding and assistance from other donors working to alleviate rural poverty and drug cultivation. From a high of more than 42,000 ha under cultivation in 1989, current estimates show less than 3,000 remaining, a reduction of more than 90 percent. However, high opium prices driven by this reduction in supply and a remaining addict population of 8-10,000 may stall the effort to end poppy cultivation. Indeed one recent estimate sees a sharp increase in opium production, and the increasingly desperate circumstances of many villages in growing regions are highly favorable to a dramatic reversal of years of progress. Many former poppy cultivators, finding themselves without the assistance they expected, are facing severe food security problems. Robust alternative development assistance over the long term is necessary to assure that Laos eliminates poppy cultivation completely. If aid is not soon forthcoming, many former opium farmers could be forced back into poppy production.

Just as Laos is attempting to eliminate the last of its opium, a new threat has appeared in the form of ATS. The scourge of methamphetamine, locally known as “yaa baa” (crazy medicine), is exploding among the nation's youth, truck drivers, and commercial sex workers. Though previously consumed primarily in tablet form, the United Nations Office for Drugs and Crime (UNODC) reports that injectable types of ATS have begun to appear, raising concerns about HIV transmission. Continued emphasis on drug awareness and addict treatment will be essential to stop the growth in domestic demand.

Laos occupies a strategic position in the center of mainland Southeast Asia, a critical route for traffickers. It must contend with long and remote borders that are very difficult to control. Illicit drugs produced in Burma and diverted precursor chemicals from China flow through landlocked Laos to Thailand and Vietnam. From major ports in these countries, cargoes are smuggled to other nations in the region. The opening of the Kunming-Bangkok Highway in northwest Laos linking China and Thailand and the new bridge at Savannakhet linking Thailand to Vietnam will further aggravate Laos' drug transit problem. The country is challenged to interdict the current flow of illegal goods, and these new high-speed truck routes will likely overwhelm existing border control capacity. More robust law enforcement and better regional cooperation could help, but this will require a substantial investment in both, and Laos may already be a major transit country.

III. Country Actions Against Drugs in 2006

Policy Initiatives. While the Government of Laos (GOL) declared in February 2006 that the nation had “eliminated opium,” a more apt description is that the country no longer produces significant quantities for commercial export. Despite great progress, Laos still has an addict population in excess of 8 thousand, and opium now is produced almost exclusively to meet domestic demand. On October 12, 2006, Prime Minister Bouasone Bouphavanh, in a televised address to the nation, called upon the GOL and the Lao people to undertake immediate and effective action against illicit drugs. He then outlined a new strategy to address the remaining vestiges of opium cultivation and the growing challenge of methamphetamine abuse. His approach appears realistic, and the new policy emphasizes taking action now rather than waiting for donor assistance.

The Prime Minister noted the success Laos had achieved against opium, but cautioned that renewed poppy cultivation remains a threat if the country does not assist former growers to find sustainable livelihoods. He also warned that, if Laos does not act quickly to counter growing methamphetamine abuse, it could become “a chronic problem...too difficult to solve.” Minister Soubanh Srithirath, Chairman of the Lao National Commission for Drug Control and Supervision (LCDC), stated that Laos has reached a critical tipping point, and that the assistance of international donors is needed to insure that the balance moves in the right direction.

The Prime Minister announced that the GOL would move forward with its “Post Opium Scenario Strategy” as a counterdrug policy roadmap through 2020 and outlined ten key points for its implementation:

- 1) Local government agencies in former opium growing areas must monitor and assist poor villages to assure that poppy is not replanted and that sufficient help is provided to aid the villagers as they transition to licit economic activities;
- 2) The remaining opium addicts should be detoxified during 2006-2007;
- 3) Provincial authorities must act promptly to bring cannabis production under control;
- 4) The GOL must launch a public awareness campaign against methamphetamine utilizing TV, radio, print media, community meetings, and workshops;
- 5) Educators must take responsibility for identifying drug-related problems among their students, and integrate drug education into the curriculum;
- 6) LCDC should encourage all organizations--government, Party, and private--including businesses, to focus on preventing drug abuse, particularly among youth;
- 7) LCDC, in coordination with the Ministry of Justice (MOJ), should develop new drug legislation and detailed guidelines for the implementation of all drug-related statutes. In addition, LCDC must coordinate and support the activities of law enforcement agencies, and assure that information is collected, suspect records are maintained, and punishment is imposed in accordance with the law and relevant regulations;
- 8) In coordination with neighboring nations, the GOL must protect Laos' borders against drug smuggling;
- 9) The GOL must establish a trust fund, from both domestic and external sources, to support counterdrug activities; and
- 10) The GOL must increase effective collaboration and coordination among international organizations, donor nations, and neighboring countries to maximize the efficiency of counterdrug programs.

In August 2006, the GOL put forward a draft action plan for development assistance to 1000 former opium growing villages, the poorest in Laos. In response to this plan, members of the Mini-Dublin Group, the World Food Program (WFP), and other international donors met at a roundtable organized by LCDC and UNODC in Vientiane during October 2006. Representatives at the meeting agreed to work together and pledged significant support to the GOL's proposal. The WFP will play a critical role in this initiative, providing short-term emergency assistance in villages with food shortages. Other programs will focus on long-term integrated rural development to address the poverty that is at the root of the opium problem in Laos.

Law Enforcement Efforts. Laos' law enforcement resources remain inadequate to meet the full range of challenges posed by illicit drugs. Laos does not currently possess the means to assess accurately the production, transit, and distribution of ATS and its precursors. The increase in seizures of ATS that transited Laos to neighboring countries and the rapid growth in addiction and methamphetamine-related crime provide what little insight there is into the ATS problem in Laos.

Counter Narcotics Units (CNU), Laos' principle antitrafficking law enforcement assets; remain understaffed, insufficiently trained and poorly equipped to deal with the growing ATS challenge. USG, UNODC, and Chinese Government programs have mitigated training and equipment problems to some extent, but prosecutions are almost entirely of street-level pushers. As with many other developing countries, Laos has demonstrated a serious inability to investigate or develop cases against major traffickers without external assistance and has pursued kingpins only under significant international pressure.

Laos did not make significant progress interdicting illicit drug distribution in 2006. There is no national estimate for illegal drug sales, but secondary evidence, at least in terms of ATS -- such as escalating property crime, the emergence of urban youth gangs, and growing ATS addiction -- indicate that trafficking for internal use is growing. Individuals or small-scale merchants perform the majority of street-level ATS distribution rather than large organized criminal syndicates. There have been reports of some teachers distributing ATS.

Opium distribution is limited, as the majority of addicts are within a producing household or village. There is some opium distribution among villages; especially as remaining opium plots move into more remote and distant locations less accessible to law enforcement agencies. Despite the progress that Laos has made in reducing its addict population, it continues to suffer from one of the highest opium addiction rates in the world. Laos is drafting new statutes to provide a legal basis for asset seizure. Currently prosecutors have no legal means to pursue the assets of convicted traffickers. Extrajudicial asset seizures may occur in some cases. Laos acceded to the United Nations Convention against Transnational Organized Crime (TOC, "the Palermo Convention") in 2003.

Corruption. Corruption in the Lao People's Democratic Republic (PDR), long present in a range of forms, may be rising as the flow of illicit drugs and precursors grows. Civil servants receive very little pay, and those able to use their positions to advantage, particularly police and customs officials, can augment their salaries through corruption. This is especially true in areas distant from central government oversight. Lao law explicitly prohibits corruption, and some officials have been removed and/or prosecuted for corrupt acts. The GOL has made fighting corruption a priority. As a matter of government policy, Laos strongly opposes the illicit production or distribution of narcotics, psychotropic drugs, other controlled substances, and the laundering of money from illegal drug transactions.

Agreements and Treaties. The USG supports crop control, demand reduction, and law enforcement programs under three annual narcotics assistance 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 has achieved less with regard to the goals enumerated in the law enforcement LOA.

Laos has been a party to the UN Drug Convention since December 2004. While Laos moved forward in the control of opium cultivation, production, and addiction, it has yet to achieve all of the objectives of the 1988 UN Drug Convention.

Laos has legal assistance agreements with China, Thailand, Vietnam, Cambodia, Burma, and Indonesia. Membership in ASEAN and APEC has increased the number of bilateral and multilateral legal exchanges for Laos since 2000, and international donor supported training programs are developing the capacity of the Ministry of Justice (MOJ), police, customs, and immigration officials to cooperate with counterparts in other nations. Laos has extradition treaties with China, Thailand, Vietnam, and Cambodia. The GOL has assisted in the arrest and extradition of individuals to some of those nations but does not use formal extradition procedures in all cases. According to the DEA, there were no extraditions from Laos to the United States for narcotics-related offences in 2006. Laos is a party to the UN Convention against Transnational Organized Crime, and its three protocols.

Cultivation/Production. There is conflicting data about poppy cultivation in Laos from 2005 to 2006, and it remains uncertain if Laos can preserve the gains made so far. According to USG figures, the area under cultivation declined from 5600 ha in 2005 to 1700 ha in 2006. This represents a 70 percent reduction in cultivation in just one year. The greatest concentration remained in Phongsaly, the northernmost province in Laos, with lesser amounts in seven other northern provinces.

In strong contrast, the 2006 UNODC survey indicated an increase, from 1,800 ha in 2005 to approximately 2,500 in 2006, a 38 percent gain. Either way, Laos' overall progress in opium elimination over the past 18 years has been commendable. From a high of 42,130 ha when U.S. funded crop control programs began in 1989, the current USG estimate is a 96 percent reduction, and even this year's higher UNODC survey is a 91 percent reduction from the 26,800 ha the UN estimated in 1998. This is an outstanding accomplishment for the country. The current challenge is to ensure this momentum is sustained.

A decline in opium production paralleled that of opium cultivation. The 2006 USG survey projected production of approximately 8.5 metric tons of raw opium gum, a 70 percent decline from the 28 tons in the 2005 estimate. Again, in dramatic contrast, the UNODC survey showed a significant gain, from 14 tons in 2005 to 20 tons in 2006, a 39 percent increase. Still, USG estimates for production represent a 97 percent reduction from the estimated 380 tons produced in 1989. According to USG figures, yields ranged from 3 to 9.5 kg per hectare, with an average yield of 5 kg. The decline from previous years was primarily due to unusually dry weather in opium growing areas. The GOL has reported that because of continuing drought, yields for the 2006-2007 growing season may be as low as 2-3 kg per hectare. Even so, the danger remains that continued demand, coupled with difficult living conditions, will attract farmers to return to poppy cultivation.

Most of the opium produced in Laos is for domestic consumption in areas near its borders, where raw and cooked opium is smoked and eaten, and the percentage of the crop being refined into heroin is small. Sustained high farm gate prices in these areas of \$500 per kg for raw opium reported by UNODC demonstrate that supply is decreasing more rapidly than demand. The GOL has even reported retail prices as high as \$1000 per kg in some areas. Increasing prices may be discouraging some opium use even as it serves as a stimulus to production. According to the UNODC, the result of these higher prices was that overall opium production revenues increased by 49 percent from 2005 to 2006, up to an estimated \$11 million.

USG-supported crop control programs do not employ herbicides or any other form of forced eradication. In the past, when crops were cut, the cultivators themselves or village officials conducted the eradication as a condition of a written agreement between villages and the GOL not to produce opium. However, in 2006 the GOL has said that it may employ forced eradication in some areas where alternative development is not available or has not so far solved the problem.

The USG did not receive any verifiable reports during 2006 of the production of ATS in Laos, but the paucity of law enforcement resources in remote regions makes Laos highly vulnerable to regional traffickers seeking new locations for clandestine labs. Provincial Counter Narcotics Units (CNU) generally number fewer than 20 officers and are responsible to patrol thousands of square kilometers of rugged terrain, a daunting task at best. There may be significant “contract” cannabis production, possibly financed by foreign traffickers in southern Laos, aimed at markets in Cambodia and Thailand. The continuing use of cannabis as a traditional food seasoning in some locations complicates attempts to eradicate the crop.

Drug Flow/Transit. Laos' 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 UNODC, the growth in seizures of drugs, which transited Laos to 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. Illicit transit to the U.S. includes very limited quantities of unrefined opium and local formulations of ATS.

The problem is likely to worsen as the transportation infrastructure in Laos improves, especially with the January 2007 opening of the Savannakhet-Mukdahan Bridge and the anticipated opening of the Kunming-Bangkok highway in 2008. The first will speed the passage from Da Nang in central Vietnam to northeast Thailand and its capitol, Bangkok, while the latter will provide a fast route from China to Thailand through Bokeo and Luang Nam Tha Provinces in the northwest. Laos is not a principal destination on either of these routes, but the volume of traffic passing through its territory will be unprecedented, potentially overwhelming Laos' limited law enforcement capacity for border control. Currently, there is no reliable data on the transport or financing of illicit drugs in Laos. Transit costs are low, and 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 some former traffickers are moving into legitimate businesses as well as money laundering.

Domestic Programs. Laos made limited advances in 2006 in demand reduction. Most significant was the opening of new 100-bed addiction treatment facilities in Pakse and Savannakhet, the latter constructed entirely with U.S. funding. In addition, Brunei is constructing two smaller treatment facilities in Sayabouri, scheduled for completion in January 2007. Despite this augmentation in Laos' national treatment capacity, existing facilities still fall far short of need and are notably deficient in effective vocational training. Anecdotal evidence suggests that many addicts are turning to crime as a means of supporting their addiction. Without marketable job skills, former addicts become vulnerable to recidivism. The GOL continues to undertake significant nationwide drug awareness programs and media campaigns with U.S. support. The GOL has continued to build its opium treatment and counseling capacity, albeit with very limited resources.

Opium education and detoxification are integral parts of the overall opium elimination campaign and, despite resource constraints, appear appropriately sized if austere for the addict population. GOL figures indicated a general decline to approximately 8,000 opium addicts, though many may remain unreported, either because they reside in extremely remote areas or because they wish to conceal their addictions. Significant impediments to full treatment of all opium addicts include the ill health of many elderly users, the isolated 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. Detoxification of opium addicts will likely become increasingly difficult as their numbers diminish, for those remaining are likely to be the most resistant to treatment. There are currently no verifiable statistics on post-detoxification recidivism. The GOL hopes to treat all opium addicts before the end of 2007, as ending opium addiction is critical to full elimination of cultivation.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The U.S. has been Laos' strategic partner in the battle against illegal drugs. Since 1989, the USG has provided more than \$42 million to support GOL crop control, demand reduction, and law enforcement programs. Crop control funds have supported opium awareness campaigns, opium detoxification clinics, and the Lao-American Projects (LAP) in Houaphan, Phongsaly and Luang Prahbang Provinces. Only the latter two are still active, and they serve as platforms for long-term integrated rural development that strikes at the primary cause for opium cultivation in Laos: poverty. The U.S.-Lao PDR Crop Control LOA specifically prohibits the use of USG funds to support involuntary resettlement.

Demand reduction funds provide support for enhancements to ATS treatment centers, including vocational training, and a variety of national drug awareness programs. Law enforcement funds support limited operational costs, training, and equipment for Counter Narcotics Units (CNU) and the Customs Department. Historically, the USG has been a major supporter of UNODC programs in Laos, providing up to 70 percent of the funding for several complementary alternative development programs through targeted contributions that played a key role in reducing poppy cultivation. These programs covered a number of districts adjacent to or near the LAPs, where opium was a major threat. However, U.S. assistance to these programs ended in 2005, and their absence or diminished capacity will complicate efforts to prevent a resurgence of opium cultivation.

Bilateral Cooperation. Cooperation on opium crop control was excellent in 2006, and accounted for much of the outstanding progress achieved in eliminating poppy cultivation. The Programme Facilitation Unit (PFU), the GOL entity primarily responsible for alternative development and opium addict detoxification in Laos, demonstrated notable effectiveness in these areas during 2006.

GOL cooperation with the USG on demand reduction was outstanding in 2006. The opening of the new ATS treatment Center in Savannakhet, built with \$600,000 of U.S. funds and the model for future facilities, stands as an example of what this cooperation can achieve. One area in which this relationship might be improved would be a greater commitment by municipal and provincial authorities to provide continuing support for treatment facilities after they are completed, especially for vocational training.

In contrast, while Lao law enforcement was generally cooperative with neighboring countries in 2006, the USG found that the overall level of bilateral cooperation had declined over previous years. The GOL failed to make use of the opportunities for cooperation afforded by the DEA, which continued to provide law enforcement assistance to Lao agencies but received little in return, for example, not a single drug sample in 2006, in contrast to 2005 when DEA received twelve. In addition, the GOL repeatedly failed to take advantage of fully-funded local and regional training opportunities offered by the USG.

Exceptions to this generally bleak picture were cooperation with select CNU and the Customs Department, which remained strong and information provided to DEA on two cases involving attempts to smuggle opium into the U.S. The UNODC, through the PFU, enjoys a close working relationship on counter narcotics with the GOL. GOL officials consult frequently with the UNODC on narcotics control issues and strategy, and UNODC continues to support an array of crop control,

demand reduction, and law enforcement programs throughout the country. Laos participated in a bilateral counternarcotics conference with Thailand and a trilateral conference with Vietnam and Cambodia.

The Road Ahead. Laos' struggle against opium is in its later stages but is not over yet, as the GOL has stated publicly. To secure the victory over opium, robust alternative development must be sustained for the next 2 to 4 years. In many districts, villages have stopped cultivation or self-eradicated because of an implied promise of government support. UNODC reported that many villagers survived the loss of opium income by consuming their savings, generally in the form of livestock, and these savings are now depleted. Severe food shortages are occurring in some villages. If assistance is not soon forthcoming, former growers may revert to opium cultivation, and it will be much more difficult to persuade them to stop a second time.

Fortunately, at the October 2006 Mini-Dublin Group Roundtable in Vientiane, donors pledged to refocus millions of dollars in development aid on the poorest villages in Laos, which include almost all of those still producing opium. The World Food Program also stated that it would make every effort to provide emergency assistance to these same villages.

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 “yaa baa” sweeping the country for the foreseeable future. Existing programs to educate youth on the dangers of addiction must be enlarged. Treatment needs to be more available. More robust 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, better secure its borders, interdict the flow of illicit drugs transiting the nation, and cooperate more effectively with international partners. Without a substantial investment in law enforcement capacity, Laos will be unable to provide an effective deterrent to regional drug traffickers.

V. Statistical Tables

2006 GOL figures for seizures include only January-June.

- Heroin	8.122 kg
- Opium	0 kg
- ATS	1,433,467 tablets
- Total drug cases	135 cases

Opium cultivation in 2006

- Cultivation	2,500 ha
- Eradicated	1,518 ha
- Harvestable after eradication	982 ha
- Potential opium gum	7.856 tons
- Potential cannabis yield	<8 kg/ha

Drug crop cultivation	<u>2006</u>	<u>2005</u>	<u>2004</u>
- Cultivation(ha)	982	5,600	10,000

- Eradication (ha)	1,518	4,400	2,000
- Potential opium gum (metric tons)	7.856	28	49
Seizures			
- Heroin (kg)	8.122	22.76	55
- Opium (kg)	0	31.20	43
- Cannabis (kg)	209.5	1.6	1.806
- Methamphetamine (tablets)	1,433,467	1,870,305	3,020,000
Arrests			
	284	N/A	227
Drug cases			
	135	130	79

Malaysia

I. Summary

Malaysia is not a significant source country or transit point for U.S.-bound illegal drugs, though domestic abuse in Malaysia itself is on the rise and Malaysian labs are increasing methamphetamine production. The government has established a “drug-free by 2015” policy. Malaysia's competent counter narcotics officials and police officers have the full support of senior government officials. Cooperation with the U.S. on combating drug trafficking is good. The U.S. maintains active and successful programs for training Malaysian counter narcotics officials and police. 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 country, Malaysia is not a significant source country or transit point for U.S.-bound illegal drugs. Narcotics imported to Malaysia include heroin and marijuana from the nearby Golden Triangle area, and other drugs, such as amphetamine type stimulants (ATS), including crystal methamphetamine, Ecstasy and Ketamine from India. These imports either transit Malaysia bound for other markets such as Thailand, Singapore, China and Australia, or are consumed domestically. The drugs of choice for Malaysian users are heroin, 36.4 percent, morphine, 25.1 percent, marijuana, 22.8 percent and methamphetamines, 10.5 percent, according to government statistics.

The Malaysian government identified 19,369 drug addicts during the first ten months of 2006 through reporting from police, community organizations, and treatment centers, over 20 percent less than last year's total for the same period. Of these, 10,741 were repeat drug offenders. Seventy-nine percent were between 19 and 39 years of age and 68 percent had not completed secondary education.

III. Country Actions Against Drugs in 2006

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 counter narcotics 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. In practice however, many minor offenders are placed into treatment programs instead of prison.

Accomplishments. Malaysian authorities, with support from U.S. and Australian law enforcement, seized a major methamphetamine manufacturing facility. Malaysia and the United States signed a mutual legal assistance treaty (MLAT) in July 2006 that should enhance and facilitate law enforcement cooperation in the future.

Law Enforcement Efforts. Police arrested 37,631 people for drug-related offenses between January and October 2006, a 4.55 percent decrease from the same period in 2005. Enforcement officials seized substantially larger amounts of ATS and marijuana, but there was a modest decrease in the amount of heroin confiscated. There was also a decrease in the amount (-12.2 percent) and value (-84.1 percent) of confiscated property derived from drug related cases.

Malaysian police and prosecutors are effective in arresting small-time drug offenders, and are examining ways to prosecute larger crime rings. Suspected traffickers continue to be detained under Malaysia's "special preventive measures," which allow for detention without trial of suspects who pose a threat to national security. Local officials report that customs officials are being provided with test kits that will allow them to identify and interdict some illicit precursor chemicals during importation.

Corruption. 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 2006.

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 has an MLAT with Australia, and signed an MLAT with the U.S. In 2006, which has not yet entered into force because it is now before the Senate for ratification. Malaysia also has a multilateral MLAT with seven Southeast Asian nations. Malaysia is a party to the ASEAN MLAT. The U.S.-Malaysia Extradition Treaty has been in effect since 1997, though no extradition has yet occurred under that treaty. The United States submitted its first request for extradition for Wong Wok Wing in April 2006. Wong is wanted to stand trial in the Eastern District of New York for heroin trafficking. He was arrested in December 2006 and his committal hearing is scheduled to begin on February 12, 2007.

Cultivation/Production. While there is no notable cultivation of drugs in Malaysia, ATS production is believed to be on the rise.

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 (KLIA) for domestic use and distribution to Thailand, Singapore, and Australia. Ketamine comes from India and is exported to several countries in the region. There is evidence of increased transit of cocaine though police are only beginning to develop information on this trend. Production of ATS in Malaysia is on the rise, as evidenced by the elimination of another large methamphetamine lab in 2006 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. Government statistics indicate that 4,645 persons were undergoing treatment at Malaysia's 29 public rehabilitation facilities as of October 2006; the second consecutive year there has been a substantial decrease.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. counternarcotics training continued in 2006 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 counter narcotics law enforcement officers. In September 2006, U.S. officials from the Department of Justice, DEA, and FBI presented a training workshop for Malaysian prosecutors on conspiracy prosecutions in an effort to enhance Malaysia's utilization of existing laws as a deterrent to organized crime. In addition, USCG conducted basic and advanced boarding officer training for Malaysian maritime law enforcement officers.

Road Ahead. United States goals and objectives for the year 2007 are to improve coordination and communication with U.S. law enforcement authorities in counternarcotics efforts. United States

law enforcement agencies will utilize better coordination with Malaysian authorities to interdict drugs transiting Malaysia, and to follow regional and global leads. U.S.-funded counter narcotics training for Malaysian law enforcement officers will continue and U.S. agencies will continue working with Malaysian authorities to improve Malaysia's investigative and prosecutorial processes.

V. Statistical Tables (data for period from January to October 16.)

Total Arrest for Drug Related Offenses:

 2005: 39,425
 2006: 37,631 -4.55 percent

Drug Abusers (total and new) Arrested:

 2005: Total = 25,243 New = 11,579
 2006: Total = 19,369 -23.27% New = 8,628 -25.49%

Drug Abusers by Age (change from 2005):

 <13: 0
 13-17: 264 1.18% (- 2.58%)
 18-24: 3,693 19.50% (-19.31%)
 25-39: 10,073 53.17% (-25.56%)
 >39: 4,916 25.94% (-21.49%)

Drug Abusers by Highest Education Level Attained (change from 2005):

 No school: 453 2.86% (-17.18%)
 Primary School: 3,014 19.03% (-22.28%)
 Some High School: 7,331 46.28% (-25.73%)
 HS graduate: 4,626 29.20% (-23.88%)
 A Level graduate: 133 0.84% (-43.64%)
 Diploma holder: 200 1.26% (- 5.21%)
 Degree holder: 37 0.23% (- 5.13%)

Drug Abusers by Drug Type (change from 2005):

Heroin:	7,042	36.36%	(-35.60%)
Morphine/opium:	4,862	25.10%	(-23.20%)
Marijuana:	4,414	22.79%	(14.00%)
Methamphetamine:	2,040	10.53%	(-21.87%)
Amphetamine:	187	0.97%	(- 3.61%)
Ecstasy (MDMA):	130	0.67%	(-60.00%)
Psychotropic pills:	528	2.73%	(-16.98%)
Codeine:	157	0.81%	(-52.57%)

Confiscated Drugs (change from 2005):

Heroin No. 3 (kg):	193.34	(- 9.31%)
Heroin No. 4 (kg):	0	(1.74 kg in 2005)
Opium (kg):	0.29	(- 92.66%)
Marijuana (kg):	2,238.76	(124.22%)
Methamphetamine (kg):	38.47	(290.28%)
Yaba (pills):	226,964	(147.44%)
Ecstasy (pills):	1,257,804	(1,048.30%)
Psychotropic pills:	52,454	(-84.85%)
Eramine 5 (pills):	63,129	(-85.84%)
Codeine (liters):	10,443	(-19.61%)
Ketamine (kg):	188.34	(-98.80%)
Cocaine (kg):	2.13	(-58.24%)

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 2006

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 (APG) 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. The APG conducted an initial peer review of Mongolia late in 2006. Mongolia passed an anti-money laundering law in July, and began to work toward implementation.

Corruption. Mongolian internal corruption and related criminal activity appear unrelated to narcotics activities. An anticorruption law was passed in July and entered into force on November 1, but a new anticorruption agency had not yet begun operations by the end of the year. The weakness of the legal system and financial structures 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.

Drug Flow/Transit. Marijuana is the most widely used illegal drug. A small amount of marijuana is grown in Mongolia, and appears to be consumed locally. Reports indicate that the availability and use of marijuana, heroin, cocaine, amphetamines, and abused 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.

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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. 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.

The Road Ahead. The United States will continue to cooperate closely with Mongolia to assist Mongolia with the implementation of its counternarcotics policies.

North Korea

I. Summary

For decades, North Koreans have been arrested for trafficking in narcotics and engaging in other criminal behavior and illicit activity, including passing counterfeit U.S. currency and trading in copyrighted products. There were no confirmed instances of drug trafficking involving North Korea or its nationals during 2006. Anecdotal evidence suggests that trafficking and drug abuse in the DPRK and along its border with China continues. There also continued to be press, industry and law enforcement reporting of DPRK links to counterfeit cigarette trafficking and counterfeit U.S. currency. In May 2006, Japanese authorities charged several individuals with a 2002 narcotics trafficking incident, based, in part, on evidence found on a sunken DPRK patrol boat. In August 2006, a defendant in a California criminal case told the court that he had promised to provide \$2 million in counterfeit “supernotes” originating in the DPRK to undercover U.S. agents, and investigators seized that amount. The Department is of the view that it is likely, but not certain, that the North Korean government has sponsored criminal activities in the past, including narcotics production and trafficking, but notes that there is no evidence for several years that it continues to traffic in narcotics. The DPRK is not a party to the 1988 UN Drug Convention.

II. Status of Country

During 2006, there were numerous reports in the Japanese media of drug trafficking along the DPRK/Chinese border. According to these reports, Japanese criminal figures were traveling to the DPRK-PRC border area to purchase methamphetamine for smuggling back to Japan. The Department is unable to confirm the accuracy of these reports, and if true, the reports seem to involve small-scale trafficking by individuals, not large-scale organized trafficking managed by the state. Another indication that narcotics abuse and trafficking in the DPRK and along its border with China may be on the rise is a new decree published in the DPRK in March 2006, which warns citizens, state factories and groups in the DPRK to “...not sell, buy, or use drugs illegally.” According to the decree, “Organizations, factories and groups should not illegally produce or export drugs.” Punishment is severe, up to death, and the family members and shop mates of offenders face collective responsibility and punishment with the perpetrator. The DPRK also has an existing antinarcotics law. The appearance of this new decree, its draconian penalties, and the fact that it is signed by the DPRK’s National Security Council suggest that drug use and trafficking within the DPRK itself has come to the attention of authorities, and is viewed as a problem requiring a serious response.

The “Pong-Su” incident in Australia in April 2003 renewed worldwide attention to the possibility of DPRK state-sponsorship of drug trafficking. The “Pong Su”, a sea-going cargo vessel owned by a North Korean state enterprise, was seized after 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 Korean Workers’ Party Political Secretary, concluded in March 2006 with the captain and the others found not guilty by an Australian jury. Four other defendants associated with the incident pled guilty, and are serving long prison sentences in Australia. These defendants included three individuals who were apprehended in possession of heroin brought to Australia aboard the “Pong Su”, and another individual who came to Australia aboard the “Pong Su”, and was apprehended on the same beach where some of the heroin was found. The “Pong Su” itself was destroyed by Australian military aircraft, as property forfeited to Australia because of its involvement in narcotics trafficking.

In May 2006, Japanese prosecutors charged Woo Sii Yun, an ethnic Korean and long-term resident of Japan, and Katsuhiko Miyata, reputedly a Japanese gang member, with involvement in several

2002 methamphetamine drug smuggling incidents. The 2002 smuggling incidents involved several instances of DPRK vessels leaving hundreds of kg of methamphetamine drugs to float offshore for pick-up by criminals in Japan. The police were led to Yun by the discovery of his phone number stored in the memory of a cell phone found aboard a DPRK patrol boat that sunk after a gun battle with the Japanese Coast Guard in late 2001. Alerted to Yun's possible involvement in narcotics trafficking with DPRK accomplices, Japanese police investigated his financial records and found several large payments from criminal elements in Japan. Japanese officials suspect these payments were for drugs from North Korea. Japanese authorities also suspect the sunken DPRK patrol boat of involvement in earlier instances of methamphetamine trafficking to Japan. The charges against Yun connect the DPRK more closely to methamphetamine smuggling to Japan, as key lead information - Yun's phone number - was found aboard a North Korean patrol vessel.

Cigarette smuggling linked to the DPRK continued on a worldwide scale. For example, Greece uncovered four million cartons of contraband cigarettes through the fall of 2006, of which three million were aboard North Korean flagged vessels.

A California man pled guilty in a federal district court in California in August of 2006 to conspiring to smuggle counterfeit currency into the United States. He agreed to a statement read in court, which stated that during the investigation leading to his arrest, he had promised to provide an undercover agent \$2 million in high-quality counterfeit U.S. \$100 bills or "supernotes, manufactured in the DPRK. Investigators seized precisely that amount of counterfeit currency in the port of Los Angeles.

These examples of non-narcotics-related acts of criminality suggest that there is recent evidence of significant DPRK involvement in criminal behavior, even if no large-scale narcotics trafficking incidents have come to light. Department has no evidence to support a finding that drug trafficking has stopped. It is also certainly possible that DPRK entities previously involved in narcotics trafficking recently have adopted a lower profile or better operational security.

III. Country Actions Against Drugs in 2006

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, and the DPRK government in 2006 re-affirmed its intent to punish drug traffickers severely, including with the death penalty, by issuing a new special decree in March 2006, signed by the DPRK's National Security Council. There is no information available to the Department concerning enforcement of these laws or other legal actions taken against North Korean officials and citizens involved in drug trafficking in DPRK, or upon the return of North Korea citizens to the DPRK.

IV. U.S. Policy Initiatives and Programs

The United States has made it clear to the DPRK that it has concerns about the DPRK's involvement in a range of criminal and illicit activities, including narcotics trafficking, and that these activities 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 authorities continued to focus efforts on disrupting major trafficking organizations and dismantling large clandestine drug labs. The Government of the Philippines (GRP) reports that arrests and seizures declined in 2006, attributable to its strategy of focusing on key traffickers and producers rather than a larger number of less important targets. The Philippine government continues to build the capacity of the Philippine Drug Enforcement Agency (PDEA), established by the GRP in 2002, and its first 55 agents are scheduled to graduate in early 2007 from the PDEA Academy. Based on evidence developed during police operations in which drugs were seized during 2006, the Philippines continues to be a producer of crystal methamphetamine. There is some evidence that terrorist organizations may use drug trafficking to fund their illicit activities. Philippine National Police (PNP) and Philippine Air Force officials express a desire to eradicate marijuana cultivation but lack fuel for helicopters necessary to access remote sites in the mountains of Luzon and Mindanao. The Philippines is a party to the 1988 UN Drug Convention.

II. Status of Country

Because of continued aggressive efforts to seize clandestine drug labs in Metro Manila, the supply of crystal methamphetamine, locally known as “shabu,” has decreased. The Philippine Dangerous Drug Board reports that the current price of “shabu” has more than doubled since 2005. However, drug agents directly involved in narcotics investigations believe that methamphetamine production has moved to the provinces. They report methamphetamine can still be obtained at near-2005 prices in many areas; and at prices even less than last year, in areas where labs are located, such as central Mindanao.

Most of the precursor chemicals for meth production are smuggled into the Philippines (or illegally diverted after legal importation), from the People's Republic of China (PRC) and Hong Kong. However, ephedrine is also smuggled from India. There are seven identified transnational drug syndicates in the country. At least five foreign major drug lords from the PRC and Taiwan are in each group. The Philippines is a transshipment point for further export of methamphetamine of foreign manufacture to Australia, Canada, Japan, Korea, and the U.S. (including Guam and Saipan). According to law enforcement officials, intelligence exists indicating that other transnational drug groups may be planning to establish methamphetamine producing laboratories in the country.

Dealers sell methamphetamine in crystal form for smoking (“shabu”). No production or distribution of methamphetamine in tablet form (“yaba”) has been reported in the Philippines. Producers typically make methamphetamine in clandestine labs through a hydrogenation process that uses palladium and hydrogen gas to refine the liquid chlorephedrine mixture into crystal form. However, an August 2006 clandestine lab seizure in Quezon Province, east of Metro Manila, showed that clandestine laboratory operators are also using another production variation using red phosphorous.

The Philippines produces, consumes, and exports marijuana. According to law enforcement sources, the shortage of shabu has increased the demand for marijuana, resulting in higher market prices. Marijuana grows naturally in mountainous areas inaccessible to vehicles. Philippine authorities continue to encounter difficulties eliminating production. Although Philippine National Police and Philippine Air Force officials express a desire to eradicate marijuana cultivation, they lack fuel for helicopters necessary to access remote sites in the mountains of Luzon and Mindanao. Generally, insurgent groups, such as the New People's Army (NPA), control and protect many

marijuana plantation sites in their areas of operations. Most of the marijuana produced in the Philippines is for local consumption, with the remainder smuggled to Australia, Japan, Malaysia, and Taiwan.

Methyl-dioxy-methamphetamine (MDMA), commonly known as Ecstasy, is slowly gaining popularity among affluent members of the Philippine society, mainly in exclusive bars and clubs. There appeared to be no significant change in availability in 2006 and enforcement efforts remained constant. Since 2001, a total of 10,275 Ecstasy tablets have been seized.

The Philippine Dangerous Drug Board classified Ketamine as a “dangerous drug” on October 1, 2005. Ketamine, legally imported for use as a veterinary anesthetic, is converted to the illicit crystal form from its legal liquid form in the Philippines and exported to other countries in the region. There is little or no market for Ketamine as a drug of abuse in the Philippines. Since 2003, five Ketamine processing facilities have been seized in Metro Manila. This year, Philippine authorities seized approximately 10 kg of Ketamine destined for Taiwan at Manila International Airport, validating reports of drug traffickers using the Philippines for Ketamine conversion. A total of 28 kg of Ketamine were seized in 2006.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The administration of President Gloria Macapagal Arroyo continues to concentrate on the full and sustained implementation of counternarcotics legislation and the development of the Philippine Drug Enforcement Administration (PDEA) as the lead counternarcotics agency.

In 2002, President Arroyo created by executive order the Philippine National Police's (PNP) Anti-Illegal Drugs Special Operations Task Force (AIDSOTF). The AIDSOTF mission is to maintain law enforcement pressure on narcotics trafficking while PDEA becomes fully functional by 2007. In 2006, PDEA began training its first academy class, which will provide approximately 55 new newly-trained recruits as PDEA agents.

The GRP has developed and is implementing a counternarcotics master plan known as the National Anti-Drug Strategy (NADS). The NADS is executed by the National Anti-Drug Program of Action (NADPA) and contains provisions for counternarcotics law enforcement, drug treatment and prevention, and internal cooperation in counternarcotics, all of which are objectives of the 1988 UN Drug Convention. In 2006, cities, towns, and barangays (neighborhoods) continued to utilize antidrug law enforcement councils, as mandated by NADPA, to heighten community awareness.

Law Enforcement Efforts. Counternarcotics law enforcement remains a high priority of the GRP, but lack of resources continues to hinder operations. However, law enforcement efforts are relatively effective given the limited funding. PDEA officials believe ILEA and JIATF-West training for law enforcement and military personnel have helped make interdiction operations more efficient and effective. GRP law enforcement agencies continued to target major traffickers and clandestine drug labs in 2006, instead of going after a larger number of less important street pusher targets, as was the practice before 2005. Significant successes included the disruption by PNP's AIDSOTF of a flourishing drug market in a predominantly Muslim neighborhood in Pasig City (which operated within yards of the city hall and police station), and the seizure by the National Bureau of Investigation of a “shabu” laboratory being serviced by fishing vessels in the area of Dingalang, in Aurora Province.

Current Philippine laws regarding electronic surveillance and bank secrecy restrict Philippine enforcement agencies from using electronic surveillance and obtaining bank information on suspected drug lords. The 1965 Anti-Wiretapping Act prohibits the use of wiretapping as well as consensual monitoring of conversations and interrogations as evidence in court. Additionally, there are no provisions to seal court records to protect confidential sources and methods. Most drug busts

are the results of information from disgruntled insiders who voluntarily give leads to the Philippine authorities.

The most crippling operational weakness of PDEA is the lack of a functioning laboratory. Dismissals, arrests, and resignations have robbed the laboratory of experienced staff. In addition, lab equipment is outdated and inadequate. Lab chemists can only perform field tests, normally conducted by arresting officers at a crime scene in the U.S. The Japanese International Cooperation Agency has donated a sophisticated gas chromatograph mass spectrometer scanner to PDEA, but PDEA uses the device for training and research, rather than evidence analysis. In addition, the lack of a functioning lab means there is no adequate storage facility for evidence.

Pervasive problems in the law enforcement and criminal justice system such as corruption, low morale, inadequate salaries, and lack of cooperation between police and prosecutors also hamper narcotic prosecutions. The slow process of prosecuting narcotics cases not only demoralizes law enforcement personnel, but also permits drug dealers to continue their drug business while awaiting court dates. By the time a case gets to trial, witnesses often have disappeared or been persuaded through extortion or bribery to change their testimony. The Comprehensive Dangerous Drug Act prohibits plea-bargaining in exchange for testimony, once a suspect has been charged. There is therefore no incentive for a defendant to plead guilty and offer testimony against superiors in the drug trafficking organization. This makes pursuing conspiracy investigations to the upper levels of the conspiracy very difficult. A severe lack of experienced investigators in PDEA further inhibits investigations.

The Philippines has a long history of insurgent/terrorist involvement in drug trafficking activity. The communist New People's Army (NPA) has reportedly been involved in large-scale marijuana cultivation in the Cordilleras Region of Northern Luzon since the mid-1980's. The NPA has generated funding from the drug trade from a variety of means, including extortion of traffickers in the form of a "revolutionary" tax for providing security to marijuana plantation, and direct participation in marijuana cultivation, processing, and operations. Current information from PNP and AFP sources indicates that NPA involvement in the marijuana trade continues in North Luzon and Southern Mindanao.

The terrorist Abu Sayyaf Group (ASG) is linked to drug trafficking activity. PNP officials believe elements of the ASG are engaged in providing security for marijuana cultivation, protection for drug trafficking organization (DTO) operations, and local drug distribution operations, particularly in Jolo and Tawi-Tawi. Recent information from Philippine police and military officials suggests that the ASG continues to provide protection for major drug trafficking groups operating in the Sulu Archipelago as well as local drug trafficking activity, in exchange for cash payments that help fund their own operations.

In July 2005, the DEA Manila Country Office and Joint Inter-Agency Task Force-West (JIATF-W) developed a network of information fusion centers in the Philippines. The primary facility, the Maritime Drug Enforcement Coordination Center (MDECC) is located at PDEA Headquarters in Metro Manila. There are two satellite centers, called Maritime Information Coordination Centers (MICCs): one is located at the headquarters of the Naval Forces Western Mindanao, Zamboanga Del Sur (Southern Mindanao) and another at Poro Point, San Fernando, La Union (Northern Luzon). These centers gather information about maritime drug trafficking and other forms of smuggling, and provide actionable target information that law enforcement agencies can use to investigate and prosecute drug trafficking organizations. Officers from the Philippine Navy, Coast Guard, PNP-Maritime Group, and PDEA staff these facilities.

The Philippine authorities dismantled three clandestine methamphetamine mega-laboratories and one warehouse in 2006, compared to seven smaller laboratories in 2005. A mega-lab is defined as a

clandestine laboratory capable of producing 1,000 kg or more in one production cycle. GRP law enforcement officials cite three factors behind the existence of domestic labs:

- a. The simplicity of the process in which ephedrine can be converted into methamphetamine on a near one-to-one conversion ratio;
- b. The crackdown on drug production facilities in other methamphetamine-producing countries in the region;
- c. The relative ease, increased profit, and lesser danger of importing precursor chemicals for methamphetamine production (ephedrine/pseudoephedrine), compared to importing the finished product.

PDEA reports that in 2006, authorities seized 1,436 kg of methamphetamine, which they valued at \$143,518,183 (at \$100 per gram), 27.89 kg of Ketamine, which they valued at \$2,789,328 (at \$100 per gram), and 11,675 kg of marijuana leaves, which they valued at \$5,837,684 (at US\$0.50 per gram). Philippine authorities claimed to have seized total narcotics worth approximately \$158,092,142, arrested 8,616 people for drug related offenses, and filed 3,834 criminal cases for drug crimes in 2006. By comparison, 15,268 individuals were arrested in 2005, but most of these were lower level offenders. Data on convictions was not available. PRC- and Taiwan-based traffickers remain the most influential foreign groups operating in the Philippines. Philippine authorities had previously reduced transnational drug syndicates in the country from 181 to 156; in 2006, they disrupted the operations of two additional drug 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 narcotic law enforcement through its Dangerous Drug Act (DDA), which clearly prohibits GRP officials from laundering proceeds of illegal drug actions. Four PDEA employees were arrested in 2006 for the theft of seven kg of seized methamphetamine from PDEA headquarters. These personnel have been detained and charges have been filed against them. Ten PDEA and PNP AIDSOTF officers were arrested in October 2006 for conducting illegal (warrantless) drug raids, and for kidnapping the subjects of those raids. Both the PNP and PDEA have begun internal policing (Internal Affairs Sections) for corruption. There are also indications that drug money may be funding illicit aspects of provincial and local political campaigns, such as vote buying, bribery of election officials, ballot theft, and voter intimidation.

As a matter of government policy, the Philippines does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drug or other controlled substances, or the laundering of proceeds from illegal drug transactions.

No known senior official of the GRP engages in, encourages, or facilitates the illicit production or distribution of narcotic or psychotropic drug or other controlled substances, or 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 migrants smuggling. The U.S. and the GRP continue to cooperate in law enforcement matters through a bilateral extradition treaty and mutual legal assistance treaty. The Philippines ratified the UN Convention Against Corruption in November 2006.

Cultivation/Production. There are at least 120 marijuana cultivation sites spread throughout the mountainous areas of nine regions of the Philippines. In 2006, Philippine law enforcement performed 36 marijuana eradication operations. Using manual techniques to eradicate marijuana,

government entities claim to have successfully uprooted and destroyed 564,562 plants and seedlings in 2006, compared to 9,677,852 plants and seedlings in 2005. They also confiscated 103 kg of seeds in 2006 compared to 264 kg of seeds in 2005.

Drug Flow/Transit. The Philippines is a narcotics source and transshipment country. Illegal drugs enter the country through seaports, economic zones, and airports. The Philippines has over 36,200 kilometers of coastlines and 7,000 islands. 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 kg 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 carriers 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 kg. There has been no notable increase or decrease in transshipment activities in 2006.

Domestic Programs/Demand Reduction. The Comprehensive Dangerous Drug 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 classes. Abusers who voluntarily enroll in treatment and rehabilitation centers are exempt from prosecution for illegal drug use. Statistics from rehabilitation centers will be submitted later.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG's main counternarcotics policy goals in the Philippines are to:

- a. Work with local counterparts to provide an effective response to counter the burgeoning clandestine production of methamphetamine;
- b. Cooperate with local authorities to prevent the Philippines from being used as a transit point by trafficking organizations affecting U.S.;
- c. Promote the development of PDEA as the focus for effective counternarcotics enforcement effort in the Philippines;
- d. Provide ILEA, JIATF-West, and other drug-related training for law enforcement and military personnel;
- e. Develop an improved statutory framework for control of drug and precursor chemicals.

Bilateral Cooperation. The U.S. assists the Philippine counternarcotics efforts with training, intelligence gathering and fusion (i.e., coordination centers), and infrastructure development.

Road Ahead. The USG plans to continue work with the GRP to promote law-enforcement institution building and encourage anticorruption mechanism via JIATF-West presence as well as ongoing programs funded by the Department of State (narcotics and counterterrorism assistance, and USAID). Strengthening the bilateral counternarcotics relationship serves the national interest of both the U.S. and the Philippines.

Singapore

I. Summary

The Government of Singapore (GOS) enforces stringent counter narcotics policies through strict laws, vigorous law enforcement, and active prevention programs. Singapore is not a producer of precursor chemicals or narcotics, but as a major regional financial and transportation center, it is an attractive target for money launderers and drug transshipment. Corruption cases involving Singapore's counter narcotics and law enforcement agencies are rare, and their officers regularly attend U.S.-sponsored training programs as well as regional forums on drug control.

Narcotics trafficking and abuse are decreasing in Singapore. According to GOS statistics, the number of drug abusers arrested decreased by 17 percent to 793 in 2005, down from 955 in 2004. That was the lowest number recorded in 20 years. The number of new abusers arrested also decreased, by 25 percent to 453 in 2005. One notable exception, however, is the increase in synthetic drug abuse (to include methamphetamine, MDMA (Ecstasy), Erimin-5 and Nimetazepam). In 2005, 79 percent of the total offenders arrested were involved with synthetic drugs, as compared with 56 percent in 2004. Singapore is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2006, 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. The sheer volume of cargo passing through makes it likely that some illicit shipments of drugs and chemicals pass through undetected. With few exceptions, Singapore does not screen containerized shipments unless they enter its customs territory.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Singapore has continued to pursue a strategy of demand and supply reduction for drugs. Singapore has worked closely with numerous international groups dedicated to drug education, including the Partnership for a Drug-Free America. In addition to arresting drug traffickers, Singapore focuses on arresting and detaining drug abusers for treatment and rehabilitation, providing drug detoxification and rehabilitation, and offering vigorous drug education in its schools. Singaporeans and permanent residents are subject to random drug tests. The Misuse of Drugs Act (MDA) gives the Singapore Central Narcotics Bureau (CNB) the authority to commit all drug abusers to rehabilitation centers for mandatory treatment and rehabilitation. Since 1999, individuals testing positive for consumption of narcotics have been held accountable for narcotics consumed abroad as well as in Singapore.

In an effort to curb rising synthetic drug abuse, Singapore enacted stricter penalties in 2005 for first-time and repeat synthetic drug offenders, including up to 10 years imprisonment and caning. The penalties for trafficking in synthetic drugs are less severe than for trafficking of cocaine, heroin, and marijuana, for which offenders can be subject to the death penalty.

On August 14, 2006, the GOS classified Buprenorphine, the active ingredient in Subutex, as a Class A Controlled Drug under the First Schedule of the Misuse of Drugs Act. This means that, unless dispensed by a licensed physician or practitioner, the importation, distribution, possession and consumption of Subutex is a felony offense. Subutex is a heroin substitute clinically used in the detoxification/rehabilitation of heroin addicts.

Law Enforcement Efforts. Singapore narcotics officials consider declines in arrests and seizures as signs of successful law enforcement efforts. As noted above, arrests for drug-related offenses declined 17 percent from 955 in 2004 to 793 in 2005. These statistics include persons arrested for

trafficking offenses, possession, and consumption. Despite the overall downward trend, arrests for methamphetamine offenses increased 14 percent. Seventy-nine percent of drug arrests in 2005 involved synthetic drugs, including Nimetazepam (26 percent of total arrests); Ketamine (24 percent); Methamphetamine (18 percent); and MDMA or Ecstasy (11 percent). This is the first time that arrests for Nimetazepam exceeded those for Ketamine. Non-synthetic drug-related arrests included marijuana (13 percent), heroin (8 percent), and cocaine (0.4 percent).

In 2005, authorities executed 48 major operations, during which they dismantled 27 drug syndicates. A majority of these arrests were conducted during sweeps of synthetic drug distribution groups, which were infiltrated by undercover Singapore narcotics officers. Singapore narcotics officers frequently perform undercover work, purchasing small, personal use amounts of narcotics from distributors. These sweeps often produce additional arrests when subjects present at arrest scenes test positive for the presence of narcotics in their system.

Corruption. 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. The CNB is charged with the enforcement of Singapore's counter narcotics laws. The CNB and other elements of the government are well-trained professional investigators.

Agreements and Treaties. Singapore is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Singapore and the United States continue to cooperate in extradition matters under the 1931 U.S.-UK Extradition Treaty. Singapore and the United States signed a Drug Designation Agreement (DDA) in November 2000, a mutual assistance agreement limited to drug cases. Singapore has signed mutual legal assistance agreements with Hong Kong and ASEAN. The United States and Singapore have held discussions on a possible bilateral MLAT, most recently in December 2005, although there have been no formal negotiations since 2004. Singapore has signed but has not yet ratified the UN Convention against Transnational Organized Crime and the UN Corruption Convention. In April 2006, Singapore amended domestic legislation to allow for mutual legal assistance cooperation with countries for which they do not have a bilateral treaty.

Cultivation/Production. There was no known cultivation or production of narcotics in Singapore in 2004 or 2005.

Drug Flow/Transit. Singapore is one of the busiest seaports in the world. Approximately 80 percent of the goods flowing through its port are in transit or are 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 it contains illicit materials. Singapore does not require shipping lines to submit data on the declared contents of 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. GOS officials have been reluctant to impose tighter reporting or inspection requirements at the port from concern that inspections could interfere with the free flow of goods, thus jeopardizing Singapore's position as the region's primary transshipment port. However, Singapore has increased its scrutiny of goods. In January 2003, Singapore's new export control law went into effect. The GOS plans to expand its strategic goods control list in January 2008. While both the law and the control list seek to prevent the flow of WMD-related goods, they introduce additional monitoring of some transshipped cargo. In March 2003, Singapore became the first Asian port to commence U.S. Container Security Initiative (CSI) operations, 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 scrutiny and information it generates could also aid drug interdiction efforts.

The Government of Singapore participates in the precursor chemical control programs, including Operation Purple, Operation Topaz, and Operation Prism. The CNB works closely with DEA to track the import of modest amounts of precursor chemicals for legitimate processing and use in Singapore. CNB's precursor unit monitors and investigates any suspected domestic 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 for 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 had 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 anti recidivist laws. Three-time offenders face long mandatory sentences and caning. Depending on the quantity of drugs involved, convicted drug traffickers may be subject to the death penalty, regardless of nationality.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Singapore and the United States continue to enjoy good law enforcement cooperation. In fiscal year 2005, approximately 25 GOS law enforcement officials (including 14 from the CNB) attended training courses at the International Law Enforcement Academy (ILEA) in Bangkok on a variety of transnational crime topics. In addition, CNB officers attended a Drug Unit Commanders course in Quantico, Virginia and an International Narcotics Enforcement Managers course in Honolulu, Hawaii. The GOS has cooperated extensively with the United States and other countries in drug money laundering cases, including some sharing of seized drug-related funds discovered in Singapore banks.

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 CSI and other initiatives will help further strengthen law enforcement cooperation.

South Korea

I. Summary

Narcotics production or abuse is not a major problem in the Republic of Korea (ROK). However, reports continue to 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 South Korea an attractive location for illegal shipments coming from countries which are more likely to 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, followed in popularity by marijuana. Heroin and cocaine are only sporadically seen in the ROK. Club drugs such as Ecstasy and LSD continue to be popular among college students. No clandestine labs have been found in the ROK since 2004 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 2006

Policy Initiatives. In 2006, the Korean Food and Drug Administration (KFDA) continued to implement stronger precursor chemical controls under amended legislation approved in 2005. The KFDA focused its efforts on educating companies and training its regulatory investigators on the enhanced regulations and procedures for monitoring the precursor chemical program.

Law Enforcement Efforts. The number of persons arrested in South Korea in the first nine months of 2006 for narcotics use was 768, for psychotropic substance use 4,501, and for marijuana use 640. ROK authorities seized 18.2 kg of methamphetamine. Ecstasy seizures continued to decline drastically, from 20,385 tablets in 2004, to 9,795 tablets in 2005, to 319 tablets in 2006. Marijuana seizures declined slightly, from approximately 10 kg in 2005 to 8.7 kg in 2006. (Figures provided are from the first nine months of the year. Total figures for 2006 are not available.) South Koreans do generally not use heroin and cocaine is used only sporadically, with no indication of its use increasing.

Corruption. There were no reports of corruption involving narcotics law enforcement in the ROK in 2006. As a matter of government policy, the ROK does not encourage or facilitate illicit production or distribution of narcotic or psychotropic or other controlled substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. South Korea has extradition treaties with 23 countries and mutual legal assistance treaties in force with 18 countries, including the United States. 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 the United Nations Office on Drugs and Crime (UNODC) and the International Criminal Police Organization (INTERPOL), and have placed Korean National Police and/or Korea Customs Service 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 the first nine months of 2006, local authorities seized 3,783 marijuana plants, up slightly from 3,464 in 2005. Opium poppy production is illegal in South Korea, although poppy continues to be grown in Kyonggi Province where farmers have traditionally used the harvested plants as a folk medicine to treat sick pigs and cows. Opium is not normally processed from these plants for human consumption. Korean authorities continue surveillance of opium poppy-growing areas and seized 29,162 poppy plants in the first nine months of 2006.

Drug Flow/Transit. Few narcotic drugs originate in South Korea, and none are known to be exported. However, the ROK does produce and export the precursor chemicals acetone, toluene, and sulfuric acid. Most Koreans who attempt to smuggle methamphetamine into South Korea travel from China, and on a few occasions, the smugglers have indicated that the methamphetamine originated in North Korea and was 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 are known to use marijuana originating in South Africa and Nigeria, whereas those living in rural areas appear to obtain their marijuana from locally produced crops. There have been instances in past years of transshipment through South Korea of some chemical precursors, including potassium permanganate and acetic anhydride from China to Mexico and Turkey, but there were no reports of such activities in 2006.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives and Programs. The U.S. Embassy's Drug Enforcement Administration (DEA) Seoul Country Office and U.S. Immigration and Customs Enforcement (ICE) officials work closely with ROK narcotics law enforcement authorities, and the DEA considers this working relationship to be excellent.

Bilateral Cooperation. The DEA Seoul Country Office has focused its 2006 efforts on international drug interdiction, seizures of funds and assets related to illicit narcotics trafficking, and the diversion of precursor chemicals in South Korea and in the Far East region. The DEA Seoul Country Office organized, coordinated, and hosted a one-week training seminar on International Asset Forfeiture and Money Laundering Investigations. This training was co-hosted by the Korean Supreme Prosecutors Office (KSPO) with 50 prosecutors, investigators, and analysts from the Korea Financial Intelligence Unit, KSPO, Korean Customs Service (KCS), Korean National Intelligence Service (KNIS), and the Korean National Police Agency (KNPA) in attendance. The DEA Seoul Country Office also held two, one-week training seminars on Chemical Control and Precursor Chemical Diversion, co-hosted respectively by the KCS and the KFDA. Approximately 100 agency directors, scientists, supervisors, section chiefs, analysts, senior investigators, and regulatory investigators attended.

The DEA in Seoul recently completed a modified controlled delivery of crystal methamphetamine originally intended for transshipment through South Korea from China to Guam. Working with the KSPO, KNIS, and KCS, the investigation resulted in the dismantling of an international crystal methamphetamine organization in South Korea and in the United States. The DEA Seoul Country Office continues to share intelligence regarding the importation of precursor chemicals into South Korea from the United States and other Asian countries with the KFDA, KCS, KSPO, and KNIS. DEA also works closely with the KSPO and KCS in their activities to monitor airport and drug transshipment methods and trends, including the use of international mail by drug traffickers.

The Road Ahead. ROK authorities have expressed concern that the popularity of South Korea as a transshipment nexus may lead to greater volume of drugs entering Korean markets. Korean authorities fear increased accessibility and lower prices could stimulate domestic drug use in the future. The DEA Seoul Country Office will continue its extensive training, mentoring, and operational cooperation with the ROK authorities.

Taiwan

I. Summary

There is no evidence to suggest that Taiwan is reverting to a transit/trans-shipment point for drugs bound for the U.S. However, domestic usage and seizures of psychotropic drugs like ketamine and MDMA increased in 2006. Taiwan Customs and counternarcotics agencies work closely with their DEA counterparts, 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 U.S. As part of the Drug Signature program, DEA received several samples of heroin, MDMA and methamphetamine in 2006, demonstrating Taiwan's commitment to fully implement a 2004 provision that permits samples of narcotics seized in Taiwan to be provided to other law enforcement agencies for testing and analysis. Although no controlled deliveries were conducted this year, other significant investigations resulting in narcotics seizures and drug intelligence collection were reported. Taiwan is not a member of the UN and therefore cannot be a party to the 1988 UN Drug Convention. Nevertheless, the Taiwan authorities have amended existing legislation, and passed new legislation consistent with the goals and objectives of this Convention.

II. Status of Taiwan

Taiwan's role as a major transit/transshipment point for narcotics has diminished due to law enforcement efforts and the availability of alternate routes within southern China. Taiwan authorities continue to strengthen antinarcotics efforts with enhanced airport interdiction, coast guard and customs inspections, surveillance and other investigative methods. Some drugs, however, continue to transit Taiwan enroute to Japan and the international market. The People's Republic of China (PRC), the Philippines, North Korea, Thailand and Burma remain the primary sources of drugs smuggled into Taiwan. In 2006, Taiwan law enforcement and customs agencies continued to seize drug shipments originating from Thailand and Burma as well as identifying heroin shipments seized in Thailand destined for the Taiwan market.

III. Actions Against Drugs In 2006

Policy Initiatives. Taiwan's Legislative Yuan (LY) again failed to enact any new counternarcotics legislation in 2006 due to protracted infighting between the two major political blocs in the LY. Legislation that would permit the use of confidential sources of information and enable undercover operations is no longer being considered, and a proposal aimed at establishing a unified drug enforcement agency modeled after the U.S. DEA remains stalled by the infighting. However, within the Executive Yuan (EY), an Anti-Drug Council was established to coordinate and approve an island-wide antidrug strategy. The council held its first meeting in June 2006 and developed an antidrug policy focusing on four major areas: drug enforcement; drug abuse rehabilitation; an antidrug awareness campaign; and international counternarcotics cooperation and chemical control. The EY Anti-Drug Council is tentatively scheduled to hold meetings at least twice a year to discuss and review progress on these four antidrug initiatives.

Law Enforcement Efforts. In the absence of a single drug enforcement agency, the Ministry of Justice continues to lead Taiwan's counternarcotics efforts with respect to manpower, budgetary and legislative responsibilities. The Ministry of Justice Investigation Bureau (MJIB), the National Police Administration Criminal Investigation Bureau (NPA/CIB), Foreign Affairs Police Bureau, Aviation Police Bureau, Coast Guard Administration and Customs, however, all contributed to counternarcotics efforts in 2006. MJIB and NPA/CIB continue to cooperate on joint investigations and openly share information with their DEA counterparts. In October 2006, a joint investigation

involving MJIB, the Taiwan Coast Guard and DEA culminated with the seizure of 240 kg of ketamine from a Taiwan fishing vessel. The timely exchange of intelligence allowed the Taiwan authorities to track the shipment of ketamine from India and seize it before it reached the port of Kaohsiung in southern Taiwan. From January through September 2006, Taiwan authorities seized 160.69 kg of methamphetamine, 258.45 kg of semi-processed amphetamine, 120.48 kg of heroin, 3.21 kg of MDMA, 159.42 kg of ketamine, and 3.36 kg of marijuana.

Corruption. There is no indication that the Taiwan authorities, as a matter of policy, either encourage or facilitate the illicit production or distribution of narcotics, psychotropic drugs or other controlled substances, nor launder proceeds from illegal drug transactions. No cases of official involvement in narcotics trafficking or the laundering of proceeds from illicit drug transactions were reported in 2006.

Agreements. In 1992, AIT and its counterpart, TECRO, signed a Memorandum of Understanding on Counternarcotics Cooperation in Criminal Prosecutions. The AIT and TECRO Customs Mutual Legal Assistance Agreement signed in 2001 entered into force in March 2002.

Drug Flow/Transit. Thailand, Burma, and North Korea remain the principal sources for heroin, but there is increasing evidence that heroin is also being smuggled into Taiwan from Cambodia and Vietnam. The PRC, Philippines, and Malaysia are seen as intermediary smuggling points for methamphetamine and psychotropic drugs, such as ketamine and MDMA, destined for Taiwan. India is also emerging as a primary source for diverted pharmaceutical-grade liquid ketamine, which is typically converted to a powdered form in the Philippines and Malaysia and then smuggled into Taiwan or other international markets. Fishing boats, cargo containers and couriers remain the primary means of smuggling these types of drugs into Taiwan, but there has also been a marked increase in the number of drug seizures at Taiwan's international airports. Most of the drugs smuggled into Taiwan appear to be for local consumption; the remainder is intended for further distribution to international markets, especially Japan. Figures issued by Taiwan's Department of Health indicate that heroin and methamphetamine use has remained relatively unchanged in 2006, but the use of psychotropic drugs like ketamine and MDMA has increased. Similarly, heroin and methamphetamine seizures decreased in 2006, while seizures of ketamine increased. Seizures of both domestically produced methamphetamine and methamphetamine that was imported from mainland China remained at the same levels in 2006.

Domestic Programs. The Ministry of Education and the Taiwan National Health Administration continue to forge 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. One of Taiwan's main antidrug strategies in 2006 focused on the establishment of Drug Abuse Prevention Centers in each city or county government as a means to raise awareness and coordinate the antidrug efforts at the local level.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. Working with the local authorities to prevent Taiwan from reverting to its earlier status as major transit / transshipment point for U.S.-bound narcotics remains the primary goal of U.S. counternarcotics policy. Counternarcotics training and institution building have proven to be the cornerstones of this policy. In September 2006, the DEA provided advanced narcotics in-service training to over one hundred officers from various Taiwan law enforcement and customs agencies. The training highlighted regional drug trends and provided new insights on money laundering investigations, intelligence collection techniques, and precursor chemical control matters. The DEA also sponsored two Coast Guard Administration agents and one NPA/CIB agent to attend drug intelligence training at the Justice Training Center in Quantico, Virginia in 2006. Taiwan law enforcement and customs agencies enjoy a close working relationship with the DEA and AIT's Regional Security Office. Agents from MJIB, NPA/CIB and the Coast Guard

Administration all participated in joint investigations and shared intelligence with their DEA counterparts in 2006, resulting in several significant drug seizures and arrests in Taiwan and throughout the EAP region.

Road Ahead. AIT and DEA anticipate building upon and enhancing what is already an excellent working relationship with Taiwan's counternarcotics agencies. Besides an advanced narcotics in-service seminar, the DEA has also provided clandestine lab safety training and precursor chemical training to Taiwan counterparts with the intent of creating an island-wide clandestine lab response capability. In the coming year, the DEA fully expects to conduct additional training in the areas of drug intelligence analysis, smuggling methods, tactical raid planning, as well as training for financial and money laundering investigations. This training will strengthen the investigative abilities of Taiwan's law enforcement agencies while, at the same time, promoting continued cooperation and information exchange in the counternarcotics effort. More intelligence exchange and jointly conducted investigations are anticipated in 2007. DEA will also continue to promote the Drug Signature Program to receive 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. 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). Thai authorities cooperate with all major international narcotics control efforts. For its part, the United States contributes significantly to Thai counternarcotics efforts by providing funding, equipment, training, professional expertise, drug intelligence and personnel resources. This partnership between the two countries has over the decades led to remarkable degrees of cooperation that continue to evolve, broaden, and mature.

The United States government removed Thailand from the U.S. list of major drug producing countries in the late 1990s because of the country's success in limiting opium cultivation to its current low levels, and from the list of major drug transit countries in 2004 when it was apparent that local trafficking in and through Thailand had no significant impact on the United States. There is, effectively, no cultivation or production of heroin, methamphetamine or other drugs in Thailand today although Burma-based trafficking organizations still use Thailand as a transit nation and a market for sale of drugs produced in Burma. The primary drugs of concern today in Thailand are amphetamine type stimulants (ATS), which although less widespread than a few years ago are still readily available across the country. "Club drugs" such as Ecstasy and ketamine are of continuing concern, and mainly used by some affluent Thai and foreign visitors.

Narcotics traffickers transiting drugs through the Kingdom pose a continuing challenge to efficient Thai enforcement agencies. As the Thai agencies succeed with suppression in targeted areas, the smuggling routes change in response. Heroin continues to move across southern China destined for Thailand and beyond, while methamphetamine, and to a lesser degree, heroin moves from Burma into Laos via the Mekong River and Lao highways, and into Cambodia or Thailand. Some opium also enters Thailand from Laos, and marijuana is trafficked into/through Thailand from both Cambodia and Laos. This modification of smuggling routes over the past three years is a testament to the effectiveness of Thai authorities at investigating and interdicting cross-border drug shipments.

The September 19 bloodless military coup that removed Prime Minister Thaksin Shinawatra from power had little apparent effect on Thai efforts to combat illicit narcotics. U.S. counternarcotics assistance was suspended immediately after the coup in order to review the applicability of U.S. law. After an interagency review in Washington, a decision was made to resume most counternarcotics assistance after a short hiatus. However, the United States and other countries have criticized a system adopted by Thai law enforcement authorities since 2004 that pays officials personal reward payments for making seizures of drug and other money laundering proceeds. The United States has, in addition, suspended technical assistance to Thailand's AntiMoney-Laundering Office (AMLO), as well as forfeited asset sharing based on cooperation by the AMLO, until the reward system is suspended. Thailand is a party to the 1988 UN Drug Convention.

II. Status of Country

Use of low-dosage methamphetamine pills made of caffeine, filler, and methamphetamine known locally as "ya ba" or "crazy medicine," remains steady at last year's level, and fairly widespread in Thailand. In contrast, there is some indication of reduced levels of heroin trafficking.

The region's largest drug producer, the Burma-based United Wa State Army (UWSA), publicly pledged to eliminate opium poppy cultivation by the end of 2005, and in fact appeared to reduce poppy cultivation, although it was not eliminated by their self-proclaimed target date. Despite a substantial decrease in opium production, there appeared to be a push to move more heroin through Thailand and into Malaysia beginning in 2005, and to a lesser degree 2006. It appeared to some that Burma-based trafficking organizations were trying to make last-minute profits from the heroin trade while diversifying their production capacity to more profitable synthetic drugs that are not subject to the vagaries of cultivation.

The shift in drug production in the region has had an impact on drug abuse and transit patterns in Thailand. “Ya ba” methamphetamine tablets are quite widely used in Thailand and likely remain the most used illicit substance in the country. However, the consumption rates and volumes have declined since former Prime Minister Thaksin's controversial drug war of 2003. Prices today remain three times what they were prior to Thaksin's “drug war” and demand is down across much of the country. There are, however, some exceptions to this trend. DEA reporting in May 2006 suggested that in some provinces methamphetamine tablets were making a comeback and a poll carried out by Bangkok's Assumption University indicated that use, mostly by young people, of “ya baa” methamphetamine tablets in Bangkok and three adjoining provinces might have risen as much as 700 percent in the past three years. The poll suggested that the increase was due to a lull in police attention in the wake of the apparently successful “Drug War.”

At the same time, there has been an increase in crystal methamphetamine “ice” seizures, though Thai officials believe most of the “ice” seized was destined for markets outside the country. “Ice” abuse in Thailand is still restricted primarily to entertainment districts in the larger cities. “Ice” is smoked in a fashion similar to crack cocaine and costs \$50 to \$107 per gram on the street or \$6970 - \$10,720 per kg, wholesale. The “ice” that transits Thailand for regional markets usually goes to established markets in Malaysia, Indonesia, Singapore, the Philippines, Taiwan and Japan.

Methamphetamine in its pill form is still the drug of choice in Thailand, although there is some demand for Ecstasy and a small market for cocaine. Ecstasy arrives in Thailand from a variety of sources including Cambodia, Malaysia, Burma, Europe and Canada. The cocaine market in Thailand, like that of Ecstasy, is still primarily restricted to some wealthy Thai and foreigners. A large percentage of the cocaine arriving in Thailand is actually in transit for other regional countries such as Japan, Korea and China. Although the cocaine market is still largely controlled by West African criminal organizations, South Americans (Peruvians, Bolivians and Colombians) have become much more engaged in Thailand and the region than ever before. There has also been a noticeable rise in money laundering efforts by Colombians and other South Americans in Thailand.

Marijuana is still a staple of use in Thailand. Sold and consumed quietly without much attention, a steady market remains across most of Thailand. It is still used by some as a flavoring ingredient in curries and noodle soup.

Drug users in Thailand, similar to those in other Asian countries, also look for alternatives to more commonly used drugs that might be less expensive or more easily available locally. In Thailand, two alternatives are routinely used to varying degrees. In southern Thailand, kratom leaves from a local plant are chewed much like coca leaves in the Andean region of South America to create a mild “high.” Kratom enjoys regional popularity in the south, but is not widely used in other parts of Thailand. Another alternative more commonly used throughout the country is ketamine, which is used by veterinarians as an anesthesia. Ketamine has become widely used throughout Asia by those seeking an alternative “high” without the same criminal liabilities as other controlled substances. It is found in both liquid and powder forms, and most of the ketamine used in Thailand is produced in India. Besides being a tranquilizer, it has hallucinogenic side effects and is often used by those

engaged in the party scene because it is cheaper and considered less dangerous than Ecstasy. Ketamine causes distorted perceptions of sight and sound and makes the user feel disconnected and out of control. The coordination and senses of ketamine users are impaired for up to 24 hours while the hallucinogenic effects can last 90 minutes. Finally, although they are not always listed as a controlled substance, there is significant abuse of inhalants such as glue that impoverished users turn to, as it is readily available.

The degrees of availability of the drugs mentioned above are a reflection of the dynamic interplay of drug supply, interdiction efforts and demand factors. Thai government analysis concluded that as of June 2006 as many as 38 sites in northern Thailand were being used to store an assortment of drugs, awaiting orders or distribution. There were also unconfirmed Thai reports of nearly 80 million methamphetamine tablets, 450 kg of “ice” and nearly 2,000 kg of heroin available in storage that could readily be transported to international markets or distributed for internal Thai consumption as opportunities arise. Even if these estimates are unconfirmed, Thailand appears to remain an important regional transit country for illicit drugs.

III. Country Actions Against Drugs in 2006

Policy Initiatives. There were initiatives in alternative development, treatment and policing. Thailand is a recognized regional leader for its development and implementation of counterdrug programs including alternative crop development, treatment, demand reduction, interdiction and enforcement, and its commitment to cooperation with neighboring nations.

Thailand hosted three important events in 2006: the 27th ASEAN Senior Officials on Drug Matters, the 5th Asian Youth Congress, and the 16th International Federation of Non-Governmental Organizations (IFNGO) ASEAN NGO Workshop - the later two in cooperation with the U.S. Department of State and the U.S.-funded Colombo Plan. These meetings convened over a thousand participants from a dozen nations and helped strengthen regional cooperation, demand reduction strategies, and operational techniques. The ASEAN Senior Officials meeting highlighted alternative development — an area in which Thailand has demonstrated remarkable success over the years.

Two royally-supported development projects in north Thailand continued to develop and provide sustainable agricultural programs to highland populations that were once dependent on opium poppy cultivation as a source of income as well as a source of drugs for their own consumption. The royal projects and Mae Fa Luang Foundations have for several decades carried out programs of education, skills training, environmental conservation, cultural preservation, tourism and humanitarian activities in order to ensure that ethnic hill-tribe farmers continue to have viable alternatives to poppy cultivation as well as a steadily increasing standard of living. Coffee, fruits, vegetables, flowers, and handicrafts provide realistic and sustainable alternatives to drug trafficking.

Another royal initiative, The Mae Fa Luang Foundation has developed successful dynamic market-driven projects in the Golden Triangle area since 1988, and extended crop-substitution programs on a limited scale to Burma’s Shan State with the cooperation of local leaders beginning two years ago, and claims to show positive results. The foundation also began to explore possible development models based on animal husbandry to a province in Afghanistan with the hope of countering opium growing there, as well. Similarly, the Royal Projects Foundation also began conducting its own crop-substitution project in Afghanistan financed by a modest U.S. Department of State grant. The program, still at the data research stage, is aimed at offering to local farmers viable alternatives to growing opium. Both projects have carried out thoughtful initial steps toward their goals, but are currently constrained in what they can accomplish by the terrorist violence in Afghanistan.

Thailand also leads the way in establishment of alternatives to incarceration for drug offenders. While traffickers are dealt with strictly, drug abusers and addicts are now by policy given alternative to incarceration by the courts. Thailand employs community and family-based outpatient treatment, boot camp rehabilitation and traditional drug treatment centers. Thai abuse-treatment professionals employ a realistic approach, recognizing that regional differences in education, religion, traditions and family mores argue against a “one size fits all” approach to drug education and rehabilitation.

The Royal Thai police and Ministry of Justice are engaged in a new initiative to upgrade and improve capacity and management of their respective forensic crime laboratories’ with expertise and financial assistance from the U.S. Government. This effort is aimed at improving the accuracy of evidence collection and analysis. Better case preparation and presentation will facilitate the successful prosecution of drug cases as well as other complicated criminal cases.

Law Enforcement Efforts. Thailand’s regional efforts at border interdiction and law enforcement coordination include improved policing of the Thai-Lao borders in the north and northeast regions of the country. Markedly improved cross-border operational communications along the Mekong River has developed within the past year, fostered in part by the inauguration of scheduled joint Lao-Thai river patrols using U.S. Government-purchased boats and other non-lethal equipment. Lao and Thai border law enforcement authorities now benefit from improved contacts and better communications tools, including cellular telephones and handheld radios that facilitate cross-border operational communications.

Drugs are commonly transported into northern Thailand via couriers and caravans utilizing the vast mountainous jungle trail networks, and are increasingly transshipped through Laos and Cambodia from where they are introduced into northeastern and eastern Thai towns. Once inside Thailand, the drugs are transported to Bangkok and other distribution areas by vehicle. Use of the mail system also continues to be a common means for moving drugs within and out of the country.

Thai law enforcement authorities have employed extensive training and modern equipment to respond to this threat. A wide assortment of counter narcotics tools, including confidential sources, undercover operations, controlled deliveries and court-authorized wiretaps, are available and are used in drug suppression and interdiction. Thai agencies also adjust their strategy and tactics to meet the changing threat from modern-day drug trafficking groups as the traffickers adapt and alter their own operations. When traffickers shifted their smuggling routes to Laos and Northeast Thailand, Thai authorities quickly moved enforcement capacity to those areas. A new USG-outfitted drug intelligence center in northeastern Thailand will further bolster counter narcotics coordinating and operational capabilities.

Several investigations during 2006 reflect the effectiveness of Thai authorities in conducting counter narcotics operations.

- In January, agents from the Department of Special Investigation, Office of the Narcotics Control Board (ONCB) and Anti-Money Laundering Office (AMLO) arrested five Thai businessmen in Songkhla province, seizing assets worth over \$20,500,000. The group was allegedly involved in heroin, methamphetamine, and Ecstasy distribution and their assets were suspected to have been obtained with drug proceeds.
- In January, Thai immigration officers at Bangkok International Airport arrested a Ghanaian male with 2 kg of cocaine and 400 grams of marijuana after his arrival on an inbound flight.

- In April, police Narcotics Suppression Bureau (PNSB) agents, supported by a DEA-sponsored Sensitive Investigative Unit (SIU) in Bangkok arrested four individuals and seized 38 kg of crystal methamphetamine in the seaside resort town of Pattaya.
- In May, PNSB/SIU agents in Bangkok arrested two Thai nationals and seized 94,600 tablets of methamphetamine in Bangkok. Officers also seized the Thai equivalent of approximately \$36,484 and a vehicle.
- In July, SIU, DEA and other Thai counterparts seized 330,000 methamphetamine tablets (33 kg) and arrested six Thai nationals during two separate controlled deliveries.
- In August, Thai authorities seized eight kg of cocaine from four Peruvian males and two Peruvian females at the Bangkok International airport. This pattern of cocaine smuggling increased during 2006.
- Also in August, an investigation by SIU and DEA units in northern Thailand culminated in the seizure of 14 kg of heroin and two vehicles in Hat Yai, south Thailand. Five persons were arrested, including four Malaysian nationals and one Thai national.

Corruption. As a matter of government policy, Thailand does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of drug proceeds, either by individuals or government agencies. Additionally, no senior official of the Thai government is 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 drug transactions.

Corruption remains a problem in Thai society, nonetheless, and is frequently chronicled by press reports, high-profile court cases and anecdotal information although such reported incidents are rarely drug-related. Still, some drug-related corruption is likely, given the volume and value of drugs consumed in and moving through Thailand.

One example occurred in 2006: Thai provincial police arrested a Thai male with 1,800 tablets of methamphetamine, and subsequent investigation revealed the source of the drugs to be a provincial police officer. Police set up a sting operation, which led to the arrest of two Narcotics Suppression Bureau officers, who subsequently led officers to a stash of an additional 38,500 tablets. Also implicated in this case was a unit captain for whom an arrest warrant was issued. The captain is currently a fugitive, while the others remain in custody.

Of great concern to United States and other governments is a reward system adopted by the RTG Anti-Money Laundering Office (AMLO) in 2004. The system, under which law enforcement officers receive personal commissions as a portion of financial assets they seize that subsequently are forfeited in money laundering cases, is directly at odds with international standards. This reward system threatens the integrity of Thailand's anti-money laundering regime and undermines the rule of law by causing law enforcement priorities to be guided by personal rather than public interest. The system creates a conflict of interest by giving law enforcement officers a direct financial stake in the outcome of forfeiture cases. Since their inception, the United States and others nations have repeatedly called on the Thai government to rescind the reward program since its inception and the United States subsequently suspended technical assistance to the AMLO, as well as forfeited asset sharing based on cooperation by AMLO, until the system is eliminated.

Agreements and Treaties. Thailand is a party to the 1988 UN Drug Convention, is an active participant in the Colombo Plan, and a participant in the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD) Organization. Thailand signed the ASEAN Treaty on Mutual Legal Assistance. The Kingdom also maintains less formal agreements

such as the memorandum of intent with China that outlines an agreement to share information on seized drugs.

The United States and Thailand have an extradition treaty in force, and the Thai have always been among the top partners of the U.S. in this area. In the first three quarters of calendar year 2006, Thai authorities extradited two individuals on drug charges, plus others on non-drug charges. The United States and Thailand also have had a bi-lateral Mutual Legal Assistance Treaty in force since 1993.

Cultivation/Production. Thailand is not a significant cultivation or drug production nation, but is a net importer of drugs and also serves as a trans-shipment point.

Heroin: Thailand has for some time been a net importer of opium. The small quantities of opium that are actually produced cannot even support domestic needs in traditional opium smoking ethnic regions, much less sustain heroin production. Nevertheless, small pockets of local cultivation continue, usually by ethnic highlanders attempting to supplement their meager incomes or their own consumption needs. The Thai Office of Narcotics Control Board (ONCB) conducts year-round surveillance of upland areas of northern Thailand where new plantings are most likely to occur, usually on plots of half an acre or less. The office coordinates at least one opium eradication campaign per year that is carried out by Thai 3rd Army units that have become expert in this activity. These activities are carried out with some financial support from Embassy Bangkok's narcotics affairs section as well as with leads and intelligence developed by the DEA Bangkok Country Office.

Marijuana: Historically, marijuana has been cultivated in small fields across wide regions of northeast and south Thailand. It is still grown in rural north Thailand, largely for local consumption.

Methamphetamine: There have been no significant or unusual developments to report on methamphetamine tablet production in the region or importation into Thailand over the past year. However, the production of crystal methamphetamine or "ice" in the Shan State of Burma continues to be reported, from multiple sources.

Drug Flow/Transit. Thailand remains an important regional transit country for heroin and methamphetamine entering the international marketplace, including the United States, but in very modest quantities. Much of the heroin leaving Thailand is marketed in Taiwan, Australia or other countries. However, several crime organizations still ship small amounts of heroin to New York, New Jersey, Chicago (and other Midwestern locations), the Pacific Northwest, and California.

Burmese-based international drug trafficking organizations continue to produce hundreds of millions of kg of methamphetamine tablets (known locally as "ya ba") each year. A substantial portion of these end up in Thailand, as "ya ba" probably remains the number one drug of choice in the Kingdom.

The increase in cocaine importation and trafficking in Thailand continued in 2006, and the DEA Bangkok field office is conducting multiple investigations into organizations that are smuggling cocaine from South America (mostly Brazil, Peru and Bolivia) for distribution in Thailand or transshipment to Taiwan, Japan and elsewhere in Asia. A recent trend is of South American males arriving in Thailand, Cambodia and Malaysia with quantities of cocaine secreted inside their bowels. These "swallowers" can ingest anywhere from 50 to 150 capsules, using prophylactic containers.

A typical seizure of this nature generally ranges from 0.5 to 1.75 kg of cocaine. There was an unexplained flurry of Peruvians arriving in 2006 after having swallowed cocaine-filled capsules.

Ecstasy trafficking continues to become somewhat more common in Thailand, though higher prices still restrict the market. Sources have expanded beyond Europe and Canada, but earlier reports of Ecstasy production in Burma have not yet been confirmed.

Thailand-based enterprises continue to market steroids and other pharmaceuticals on a worldwide scale, much of which end up in markets where such products are illegal including the U.S. and Europe. One Thai organization under investigation produces steroids in three countries, distributes to multiple companies around the world and launders much of its proceeds through Thailand.

Domestic Programs/Demand Reduction. Thailand carries out a comprehensive range of demand reduction programs that encompass combinations of educational programs for the public and treatment for users. In the past three years the Thai government has taken positive steps to substitute treatment programs for prison terms in instances where the drug user was clearly caught in possession of quantities of drugs for personal use and lacked any intent to distribute. In 2005, a demand reduction national task force was formed to promote greater emphasis on treatment versus incarceration for users, and to launch a “drug free workplace” project among other initiatives.

In a highly visible drug awareness and demand reduction program, the Thai royal family enthusiastically endorsed a nationwide program known as “To Be Number One,” that aims to broadly educate Thai society on the dangers of drug use. HRH Princess Ubolratana Rajakanya is a highly respected figure in Thai society who serves as the spokesperson for this effort, using her position to elevate and highlight the importance of drug prevention. The program has developed an image of being both worthy of respect and “fun.” This high profile education and awareness campaign is conducted in close cooperation with private organizations, NGO's and public institutions and uses radio, television and printed media to reach its audiences.

In 2006 the U.S. mission began funding a project in northern Thailand to determine the effectiveness of treatment programs by interviewing former methamphetamine users. The program is being conducted by a regional treatment hospital in Chiang Mai city and collaborates with university of Southern California researchers who receive their funded by the U.S. National Institute for Health. The results gleaned from this research should help the Thai and U.S. demand reduction community better understand how to develop future treatment programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In September 2006 the U.S. and Thailand signed a Letter of Agreement (LOA) that provides \$1.65 million in narcotics cooperation assistance, including \$1.24 million for the 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. In addition to ILEA's regional training programs, ILEA also conducts a range of bilateral skills-building courses and seminars throughout the year that benefit Thai law enforcement and government agencies. These programs include training visits by U.S. law enforcement professionals and purchases of non-lethal equipment and other commodities to facilitate Thai government activities against illicit drug and organized crime.

Thailand is one of eleven countries worldwide in which the United States Drug Enforcement Administration (DEA) has established Sensitive Investigative Units (SIU). Thai SIU participants receive specialized training and undergo a rigorous vetting process in order to be selected for the program. This process assures a cadre of highly competent counterparts with whom DEA works closely to target major drug trafficking organizations. Five SIU teams currently operate in Thailand, all focused on the most important trafficking groups in the region. Information from SIU resources permitted the re-indictment of Burma-based trafficker in late 2004 along with members of his cohort. DEA considers the Thai SIU program to be very successful.

The Road Ahead. The United States will continue to work closely to support Thai government counternarcotics efforts to interdict illicit drugs moving towards the United States, as well as collaborate on a broad range of international crime control issues using material, legal and technical support approaches. The U.S. will continue supporting Thai/Lao maritime security by providing small river patrol boats and associated training/equipment. The U.S. will also pursue justice sector reform at the request of Thai counterpart agencies, and utilize seconded U.S. Department of Justice personnel as well as private sector organizations such as the American Bar Association to help achieve this goal. ILEA Bangkok will continue to aggressively promote regional law enforcement cooperation and the building of technical skills in order to enhance capacity to fight transnational crime and illicit drug trafficking.

The U.S. Government will continue to pressure Thailand to eliminate the reward systems in place at the Anti Money Laundering Office, and in fact the Royal Thai Government has indicated willingness to discard the program. The September 2006 coup d'état in Bangkok slowed down progress toward this goal as senior government positions changed hands, but renewed contacts with Ministry of Justice officials by the U.S. Mission now indicate strongly that Thai authorities will rescind the program in early 2007. The U.S. is therefore hopeful that technical assistance to AMLO can be resumed soon.

V. Statistical Tables

Seizure data below was gathered from the Asia and Pacific Amphetamine-Type Information Centre, a Bangkok-based United Nations Office of drugs and crime project on data and trends with which the Thai government cooperates, and from the Office of the Narcotics

Control Board of the Royal Thai Government.

Methamphetamine tablets (“ya ba”):

2004	31.1 million tablets
2005	17.4 million tablets
2006	6.6 million tablets (as of July)

Crystal methamphetamine (“ice”):

2004	47.3 kg
2005	322.2 kg
2006	114.8 kg (as of October)

Ketamine:

2004	163.9 kg
2005	47.3 kg
2006	15.1 kg (as of July)

Opium seized, includes raw, cooked, and poppy plants:

2004	1,594.6 kg
2005	5,765.7 kg
2006	629.3 kg (as of July)

Heroin:

2004	820.2 kg
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2005 951 kg
2006 38 kg (as of July)

Ecstasy:

2004 31.2 kg
2005 8.4 kg
2006 4.5 kg (as of July)

Cocaine:

2004 12.3 kg
2005 6.7 kg
2006 15.8 kg (as of July)

Vietnam

I. Summary

The Government of Vietnam (GVN) continued to make progress in its counternarcotics efforts during 2006. 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 United States and Vietnam continued to implement training and assistance projects under the counternarcotics Letter of Agreement (LOA), and signed an amendment to the LOA in April to provide additional training assistance to the GVN. Operational cooperation with the U.S. Drug Enforcement Administration's (DEA) Hanoi Country Office (HCO) continued to lag behind expectations. In November 2006, DEA and the GVN's Ministry of Public Security (MPS) concluded a memorandum of understanding intended to facilitate operational cooperation between the two agencies on transnational counternarcotics matters. 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. Vietnam is a party to the 1988 UN Drug Convention.

II. Status of Country

This year, the GVN claims that there are only about 170 ha of opium under cultivation nationwide and that official UNODC statistical tables no longer list Vietnam separately in drug production analyses. Cultivation in Vietnam probably accounts for only about one percent of the total cultivation in Southeast Asia, according to law enforcement estimates. 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.

In the past, Vietnam has not been confirmed as a source or transit country for precursors. However, one precursor of concern to DEA that has historically been produced in large quantities in Vietnam is sassafras oil. This precursor to MDMA production is no longer produced in Vietnam, but it continues to be imported into Vietnam for re-export to third countries. The potential for diversion of sassafras oil into clandestine MDMA production remains an area of concern for DEA.

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 2006 with the deployment of counternarcotics interagency task forces in six "hotspot" provinces. In 2006, the GVN continued to view the Golden Triangle as the source for most of the heroin supplied to Vietnam.

GVN authorities are particularly concerned about rising ATS use among urban youth. During 2006, the GVN increased the pace of enforcement and awareness programs that they hope will avoid a youth synthetic drug epidemic. Resource constraints in all aspects of narcotics programs are pervasive, and GVN counternarcotics officials note that, as a developing country, Vietnam will face such resource constraints for the foreseeable future. Drug laws remain very tough in Vietnam. For possession or trafficking of 600 grams (something more than one pound) or more of heroin, or 20 kg (44 pounds) 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 from 5 to 15 individuals (who are often related to each other) usually do most narcotics trafficking.

III. Country Actions Against Drugs in 2006

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 18 GVN ministries and people's organizations as members. In addition, MPS, as NCADP's standing member, has a specialized unit to combat and suppress drug crimes. During 2006, 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 vital tools and significant objectives in its fight against drugs, as well as integral parts 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 month in June 2006. Officially sponsored activities cover every aspect of society, from schools to unions to civic organizations and government offices. In 2006, the GVN extended its ongoing effort to de-stigmatize drug addicts in order to increase their odds of successful treatment, and to help control the spread of HIV/AIDS.

Law Enforcement Efforts. According to GVN statistics, during the first six months of 2006, there were 5,362 drug cases involving 8,259 traffickers. Total seizures include 104.2 kg of heroin, 47.55 kg of opium, 549.2 kg of cannabis, 35,068 ATS tablets, 1,185 ampoules of addictive pharmaceuticals, and 5,188 kg of precursor chemicals. The number of cases and traffickers represents increases of 3.7 and 6.5 percent, respectively, compared with the same period of 2005. Law enforcement authorities nationwide raided and closed-down 507 locations related to illegal drug transactions. During the first six months of 2006, courts throughout the country tried 6,205 traffickers in 4,595 cases, and handed down 46 death sentences, 73 life sentences and numerous other lengthy sentences. During the five years since the Anti-Drug Law took effect in June 2001, the country's law enforcement forces have investigated 64,660 cases involving 102,660 traffickers, representing 34 and 18 percent increases, respectively, compared with the preceding five-year period. Also during this five-year period, law enforcement officials seized 1,005.23 kg of heroin, 1,584.45 kg of opium, 6,411.35 kg of cannabis, and 737,731 ATS tablets, and raided 3,000 locations related to narcotics trafficking.

Foreign law enforcement representatives in Vietnam acknowledge that real operational cooperation on counternarcotics cases is minimal due to legal prohibitions and policy restrictions that preclude Vietnam's drug enforcement authorities from sharing information and supporting bilateral investigations with foreign police agencies. Without changes in Vietnamese law to allow the establishment of a legal and procedural basis for Vietnam's cooperation with foreign law enforcement agencies, operational "cooperation" will remain limited and largely determined on a case-by-case basis. USG law enforcement agencies hold out some hope that the development of agency-to-agency agreements will slightly improve the cooperation climate. During 2006, cooperation between GVN law enforcement authorities and DEA's HCO continued to improve marginally, although DEA agents have not been officially permitted 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. During 2006, DEA did receive cooperation on one money laundering operation in which MPS assisted in the receipt of 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.

Corruption. As a matter of GVN policy, Vietnam 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 information specifically links any senior GVN official 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 willingness in 2006 to prosecute officials, although the targets were relatively low-level. In late 2005, six Hanoi policemen were arrested for their alleged role in protecting a drug trafficking ring. The director of the police department issued a decision to expel the officers from the force. In February 2006, the chief police investigator in Hanoi's Hai Ba Trung District was arrested for allegedly taking a bribe in exchange for the release of a drug trafficker. The outcome of that case is pending. Vietnam has signed, but not yet ratified, the UN Convention against Corruption. High-ranking officials within Vietnam's Ministry of Transportation implicated General Cao Ngoc Oanh, Deputy Director, MPS General Department of Police and a primary point of contact for DEA and other foreign law enforcement agencies in Vietnam, in the ongoing corruption scandal involving the embezzlement of millions of dollars. While General Oanh has yet to be charged with criminal wrongdoing as the result of his involvement in the corruption scandal, in May 2006 his sponsorship for membership in the Communist Central Party Committee was cancelled, and his possible promotion to Vice Minister of Public Security has been derailed.

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 Corruption Convention and the UN Convention against Transnational Organized Crime.

Cultivation/Production. Despite eradication efforts, the GVN reported small amounts of opium were re-planted in areas where last year's crop had been destroyed, especially Son La (26.9 ha), Dien Bien (7,905 m²), Yen Bai (137.2 ha), Lao Cai (0.2 ha) and Nghe An (5.4 ha). There were also minimal, scattered amounts re-planted in the southern provinces of Binh Thuan, Binh Phuoc, Dak Lak, Khanh Hoa, Tay Ninh and Kien Giang. Total poppy cultivation in 2006 showed a significant increase over the previous year, 170.8 ha versus 19 ha, most likely due to more accurate reporting in 2006. The total number of hectares under opium poppy cultivation remains sharply reduced from an estimated 12,900 ha in 1993, when the GVN began opium poppy eradication. There have been recent confirmed reports that ATS and heroin have been 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 2006 to eradicate poppies when found and to implement crop substitution.

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 by land, sea and air, making their way to Hanoi or Ho Chi Minh City, either for local consumption or transshipment to other countries such as Australia, Japan, China, Taiwan and Malaysia. The ATS flow into the country during 2006 continued to be serious and not limited to border areas. ATS can now be found throughout the country, especially in places frequented by young people. ATS such as amphetamine, diazepam, Ecstasy, ketamine and especially "ice" methamphetamine (crystal methamphetamine) continue to worry the government. Such drugs are most popular in Hanoi, Ho Chi Minh City and other major cities. During 2006, numerous cases involving ATS trafficking and consumption were reported in the media.

Domestic Programs/Demand Reduction. According to MOLISA (Ministry of Labor and Social Affairs), the drug addiction recidivism rate after treatment is still high, between 70 and 80 percent. By the end of June, there were 159,305 officially registered drug users nationwide, with 84 provincial-level treatment centers providing treatment to between 55,000 and 60,000 drug addicts annually. The number of "unofficial" (i.e., not acknowledged officially) drug users is at least 1.5

times higher. Heroin accounts for 83 percent of drug use, followed by opium (13.9 percent), cannabis (one percent), ATS (1.5 percent) and other types of drugs (0.6 percent). MOLISA reports 80 percent of drug addicts are intravenous users.

Ministries distributed hundreds of thousands of antidrug leaflets and videos, and organized antidrug painting contests for children. 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. The UNODC assesses GVN drug awareness efforts favorably, but considers these efforts to have had minimal impact on the existing addict and HIV/AIDS population. Vietnam strives to integrate addiction treatment and vocational training to facilitate the rehabilitation of drug addicts. These efforts include tax and other economic incentives for businesses that hire recovered addicts. Despite these efforts, only a small percentage 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. At least 60 percent of known HIV cases are IDUs. 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 among IDUs. The Vietnamese National Strategy for HIV Prevention and Control, launched in March 2004, presents a comprehensive response to the HIV, including condom promotion, clean needle and syringe programs, voluntary counseling and testing and HIV/AIDS treatment and care. The GVN reported a total of 112,880 HIV cases in the country. Out of that number, 19,261 are AIDS patients. The actual figure is believed to be three times higher. In June 2004, Vietnam was designated the 15th focus country under the President's Emergency Plan for AIDS Relief (PEPFAR). USG FY06 funding, about \$34 million, is distributed through key PEPFAR agencies such as USAID, HHS/CDC, and the U.S. Department of Defense. Through PEPFAR, the USG supports the Vietnam National HIV/AIDS Strategy of Prevention, Care and Treatment for People Living with HIV/AIDS (PLWHA). The majority of USG support targets six current focus provinces (Hanoi, Hai Phong, Quang Ninh, Ho Chi Minh City, Can Tho and An Giang) where the epidemic is most severe; however, PEPFAR also supports HIV counseling and testing and community outreach for drug users and sex workers in nearly 40 provinces. In 2005 and 2006, USG-supported programs have trained nearly 30 substance abuse counselors who work in Hai Phong and Ho Chi Minh City (HCMC). In cooperation with the HCMC, the PEPFAR team is piloting a comprehensive program to assist former rehabilitation center residents prevent relapse, stabilize their lives and access appropriate care for HIV disease. As this program shows success, it will be expanded to assist drug users in provinces beyond HCMC.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In April 2006, an amendment to the Vietnam-U.S. Narcotics Assistance LOA was signed to provide \$500,000 in additional training assistance to Vietnam. In June, USG trainers presented counternarcotics training in Hanoi under the LOA, using prior year funding. In September, a GVN drug law enforcement delegation was sent to the U.S. for training under the amended LOA. This will be followed by additional training in Ho Chi Minh City in December. Between January and October 2006, using State Department law enforcement assistance, 51 Vietnamese law enforcement officers attended the International Law Enforcement Academy (ILEA) in Bangkok. The USG also contributed to counternarcotics efforts through the UNODC. An ongoing example of the USG's contribution through UNODC is the G55 project titled "Interdiction and Seizure Capacity Building with Special Emphasis on ATS and Precursors," which established six Vietnamese interagency task forces at key border "hotspots" around the country.

The Road Ahead. The GVN is acutely aware of the threat of drugs and Vietnam's increasing domestic drug problem. However, there is continued suspicion of foreign law enforcement

assistance and/or intervention, especially from the United States, in the counternarcotics arena. During 2006, 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 amendment to the counternarcotics LOA, the USG can look forward to continued 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 the joint investigation and development of drug cases. The November 2006 memorandum of understanding between DEA and the GVN's Ministry of Public Security (MPS) is a partial step in this direction, but is non-binding in character and directly addresses law enforcement cooperation only at the central government agency level, rather than the operational or investigative level.

EUROPE AND CENTRAL ASIA

Albania

I. Summary

Organized crime groups and drug traffickers use Albania as a transit country for heroin from Central Asia destined for Western Europe. Seizures of heroin by Albanian authorities increased significantly during 2006, due primarily to increased police targeting of the heroin trade. Cannabis also continues to be 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 government of Prime Minister Sali Berisha, which came to power in September 2005 on a platform to fight corruption, organized crime, and trafficking of persons, has made progress on these fronts. Despite this progress, however, Albania has a long road to travel. 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 2006

Policy Initiatives. The government took several steps against corruption: it passed the Law on the Prevention of Conflicts of Interest and issued a schedule for the law's implementation. Civil society monitoring has also increased expectations that corruption will decrease throughout society. The Berisha government decided to outlaw the circulation of speedboats and several other varieties of water vessels on all of Albania's territorial waters for a period of three years. The moratorium on the motorboats is aimed at stopping the trafficking of humans and drugs. 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). Albania signed the Stabilization and Association Agreement with the European Union in June 2006, which was ratified by the EU on 6 September 2006. The EU noted in their ratification that Albania "...is still facing serious challenges in tackling corruption and organized crime, achieving full implementation of adopted legislation, improving public administration and fighting trafficking in human beings and drugs."

Law Enforcement Efforts and Accomplishments. Albanian police continued to make progress in their counternarcotics operations through the increased use of technology and improved police techniques. Albanian authorities also targeted organized crime leaders that were involved in drug trafficking. Albanian authorities organized major police operations and drug seizure operations throughout the country, but primarily in Fier, Tirana, and the ports of Vlora and Durres. International cooperation also increased, including joint operations with Italian, Macedonian, Greek and Turkish authorities. Albanian authorities report that through 15 October 2006, police arrested 329 persons for drug trafficking, and an additional 24 are wanted. The police seized 104 kg of heroin, 5,517 kg marijuana, and 1.6 kg of cocaine. The police also destroyed 74,000 cannabis plants and 580 poppy plants, and confiscated one liter of hashish oil. The over two-fold increase in the amount of heroin seized compared to last year was attributed to the use of specific police

techniques to target the heroin trade due to its high profitability and organized crime connections. The decrease in the amount of destroyed plants from last year was attributed to the fact that eradication programs co-sponsored by the police and local governments in recent years had substantially reduced cultivation. In addition to drugs seized and destroyed, Albanian authorities seized five boats, 66 cars, four trucks, and a wide variety of weapons. Police also confiscated almost 250,000 Lek, 25,000 Euro and \$30,000 during counter narcotic operations.

Corruption. Corruption remains a deeply entrenched problem in Albania. 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 GoA does not, as a matter of policy, encourage or facilitate the illicit production or distribution of drugs or illegal substances, or the laundering of proceeds from illegal drug transactions. As part of the Berisha government's anticorruption pledge, in May 2006 Albania ratified the UN Convention Against Corruption. The Office of Internal Control brought about the arrests of several corrupt officers, and the police and judiciary are becoming more active in investigating government officials and law enforcement personnel for corruption. Investigations and arrests, however, sometimes depend on political affiliation. The office of the Prosecutor General reported that the number of criminal proceedings increased by 13% for the first six months of 2006 compared to the same time frame in 2005; a majority of the 13 percent increase in all cases dealt with corruption, illegal government activity and trafficking. Charges were brought up against 111 members of criminal organizations inside and outside Albania. Additionally, some 280 people were investigated for trafficking. The increased number of cases suggests that enforcement is overcoming a tendency to "look the other way" to curry favor with criminals. Although these numbers are a significant improvement over 2005, the government continues to lack the judicial independence for truly unbiased proceedings and many cases are never resolved. As an example, according to one report, of the 412 proceedings dealing with corruption and illegal activities of government and high-ranking officials, only one case was completed during this period.

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. 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. Although eradication programs co-sponsored by the police and local governments have been credited with substantially reducing cultivation of cannabis, cultivation persists despite these efforts. No labs for the production of synthetic drugs were discovered in 2006. 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 unreformed 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, but growing, amount of cocaine is smuggled from South America to Albania, via the United States, Italy, Spain, or the Netherlands, for internal and external

distribution. Albania is still a transit country for heroin, but drug traffickers are experimenting with other routes.

Domestic Programs (Demand Reduction). The Ministry of Health believes that drug use is on the rise, though no reliable data exists on this subject. Some indications point to an addict population as large as 30,000 users, though the reliability of the data is uncertain. 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 has treated more than 9,000 patients since 1995. Around 69 percent of those treated were intravenous drug users.

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. One of the problems seen in training, however, is that deep politicization of all levels of government has resulted in the absence of a strong civil service class and thus many trainees are subject to removal during times of political transition. This was seen again as the Berisha Government took power, and many of those training in law enforcement and counter narcotics were removed from their positions.

The DEA and the FBI conduct drug training and covert investigations training. The U.S. Department of Justice ICITAP and OPDAT programs continued their support to the Office of Internal Control at the Ministry of the Interior, the Serious Crimes Court and Serious Crimes Prosecution Office, all with the goal of professionalizing the administration of justice, combating corruption, and strengthening the GoA's ability to prosecute cases involving organized crime and illicit trafficking. OPDAT conducted six regional training programs to provide instruction to all prosecutors on new criminal laws and procedures enacted in 2004 and plans to extend similar training to judges in the upcoming years. OPDAT and the Department of the Treasury are working with the Albanian Ministries of Finance, Justice, and Interior to form an Economic Crime and Corruption Joint Investigative Unit to improve the investigation and prosecution of economic crime and corruption. To help combat the financial criminality attendant to drug trafficking, ICITAP, OPDAT and Treasury, along with several other law enforcement entities, presented a five-day seminar on Financial Crime, Terror Financing and Money Laundering to members of the Ministry of Finance and the National Intelligence Service. The Witness Protection Sector (witness protection division within the Office of Organized Crime) continues to work with the U.S. and other members of the international community to strengthen the existing witness protection legislation. The Witness Protection Sector has helped to secure a number of witnesses, and witness families, in trafficking and drug related homicide cases. Two high-ranking members of the Albanian Witness Protection Program traveled to Washington DC in July to attend the 1st International Symposium on Witness Protection. USG continues to provide assistance for integrated border management, a key part of improving the security of Albania's borders, providing specialized equipment, and the installation of the Total Information Management System (TIMS) 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 authorities have provided the Italian police with intelligence that has led to the arrest of drug dealers and organized crime members, as well as the confiscation of heroin in

Italy. Cooperation also continues with Italian law enforcement officials to carry out narcotics raids inside Albania.

The Road Ahead. The Berisha government has made a commitment to make the fight against organized crime and trafficking one of its highest priorities. Additionally, the police are taking an increasingly active role in counter narcotics operations. Albania's desire to enter into both the European Union and NATO continues to push the GoA to implement and enforce reforms, but the fractional nature of Albanian politics and the slow but continuing development of Albanian civil society has hampered progress. The U.S., together with the EU and other international partners, 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 domestic abuse of drugs is relatively small. While there has been a significant percentage increase in the number of drug related cases and interdictions since last year, the original base of cases was so small that the overall number of such incidents remains small. The Government of Armenia (GOAM) recognizes Armenia's potential as a transit route for international drug trafficking. In an attempt to improve its interdiction ability, the GOAM, together with Georgia and Azerbaijan, is engaged in an ongoing European Union-funded and UN-implemented Southern Caucasus Anti-Drug (SCAD) Program, launched in 2001. This program provides legislative assistance to promote use of European standards for drug prosecutions, collection of drug-related statistics, and rehabilitation services to addicts as well as drug-awareness education. Armenia is a party to the 1988 UN Drug Convention.

II. Status of Country

Sitting at the crossroads between Europe and Asia, Armenia has the potential to become a transit point for international drug trafficking. Its role in drug trafficking could be exacerbated by lenient criminal penalties, at least compared to other countries in the region. At present, limited transport traffic between Armenia and its neighboring states makes the country a secondary traffic route for drugs. (Armenia currently has closed borders with Turkey and Azerbaijan.) Armenian Police Service's Department to Combat Illegal Drug Trafficking has accumulated a significant database on drug trafficking sources, including routes and the people engaged in trafficking. Scarce financial and human resources, however, limit the Police Service's effectiveness. Drug abuse does not constitute a serious problem in Armenia, and the local market for narcotics, according to the police, is not large. The most widely abused drugs are opium and cannabis. Heroin and cocaine first appeared in the Armenian drug market in 1996. Since then, there has been a small upward trend in heroin sales, demonstrated by an increase in heroin seizures from 0.53 grams in the first six months of 2005 to 738.77 grams in the first six months of 2006, while cocaine seizures have remained flat. Despite some increase, the seizure amounts remain small and the overall market demand for heroin and cocaine remains fairly small. The Armenian Chief of Police heads an Interdepartmental Committee on Combating Drug Use and Drug Trafficking.

III. Country Actions Against Drugs in 2006

Policy Initiatives. There have been no new policy initiatives since the passage on May 10, 2003, of the Law of the Republic of Armenia on Narcotic Drugs and Psychotropic Substances and a 2004 amendment to the criminal code, which criminalized the illicit trafficking of drug manufacturing precursors (e.g. substances involved in the creation of heroin) and drug manufacturing equipment. According to police sources, Armenian law enforcement agencies have requested legislative changes to expand probable cause in search and seizures and lengthen criminal penalties for engaging in the drug trade.

Accomplishments. Preventive measures to identify and eradicate both wild and illicitly cultivated cannabis and poppy continued in 2006. Eradication efforts took place in October and November of 2006 in order to coincide with the hemp and poppy growing season. Armenian Police participate in "Channel," a joint operation that in 2006 involved Russia, Ukraine, Kazakhstan, Belarus, Kyrgyzstan, Tajikistan, Uzbekistan, Finland, China, Azerbaijan, Georgia, and Armenia. During this exercise, the Armenian authorities give special scrutiny to all vehicles crossing the border and all containers arriving at the airport for a one-month period. All Armenian law enforcement agencies

(Police, National Security Service, Customs, Border Guards, Internal Forces, Ministry of Defense, and Prosecutor's Office) participate in this activity. The GOAM hopes to carry out "Channel" operations two times in 2006.

Law Enforcement Efforts. In the first six months of 2006, the Armenian Police identified 477 violations of the criminal code dealing with illegal drug abuse and/or drug trafficking, compared to 208 such cases during a similar period in 2005, an increase of 129 percent. The GOAM claims that 254 individuals were involved in the 477 abuse and/or trafficking of illegal drugs violations, compared to only 147 individuals involved in the 208 cases in 2005, an increase of 72 percent. During the first six months of 2006, 7.31 kg of illegal drugs were seized, compared to 1.62 kg for the first six months of 2005, an increase of 351 percent. (Opium comprised about 45 percent of these seizures, cannabis accounted for 33 percent, and heroin 10 percent.) Police sources attribute these percentage increases to improved interdiction efforts, backed by recent legislative changes. (For example, in 2004 the National Assembly amended the criminal code to make trafficking in small amounts of illicit narcotics a crime. Previously, only larger seizures could result in prosecution.) But the possibility that the local demand for illicit drugs is growing cannot be completely discounted. Armenia has experienced double-digit economic growth for several years. Increased discretionary income among the population, particularly in Yerevan, could be raising the demand for illicit drugs. However, the overall numbers indicate the local market is still relatively small. The Armenian Interagency Unit of Drug Profiling (IUDP), which collects information on passengers at Zvartnots International Airport, has been operational since February 2005. Funded solely by SCAD, the IUDP also shares data with law enforcement agencies and attempts to identify drug traffickers.

Corruption. Corruption remains a problem in Armenia. Although the GOAM has taken steps to develop an anticorruption program, the political will and the available resources have not been adequate. Since April 2004, there has been an Anti-Corruption unit, overseen by the Prosecutor General and consisting of eight prosecutors, in the Office of the Armenian Prosecutor General. The government does not encourage or facilitate the illicit production or distribution of narcotic drugs and psychotropic substances. Nor does it encourage or facilitate the laundering of proceeds from the sale of illegal drugs. No government officials have been reported to have engaged in these activities. Armenia has signed, but has not yet 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. Armenia is also a party to the UN Convention against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in women and children.

Cultivation and Production. Hemp and opium poppy grow wild in Armenia. Hemp grows mostly in the Ararat Valley, the south-western part of Armenia; poppy grows in the northern part of Armenia, particularly in the Lake Sevan basin and some mountainous areas.

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). Armenia's borders with Turkey and Azerbaijan remain closed due to the Nagorno-Karabakh conflict, but small amounts of opiates and heroin are smuggled to Armenia from Turkey via Georgia. When all of Armenia's borders open once again, the police predict drug transit will increase significantly.

Demand Reduction. The majority of Armenian addicts are believed to be using hashish, followed by heroin. Armenia has adopted a policy of focusing on prevention of drug abuse through awareness campaigns and treatment of drug abusers. These awareness campaigns are being implemented and manuals are being published under the framework of the South Caucasus Anti-Drug (SCAD) Program. The Drug Detoxification Center, funded by the Armenian Ministry of Health and SCAD, provides drug treatment and counseling.

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 the development of an independent forensic laboratory, the improvement of the law enforcement training infrastructure and the establishment of a computer network that will enable Armenian law enforcement offices to access common databases. In 2006, the Department of State, through its Export Control and Related Border Security Assistance (EXBS) program, continued to assist the Armenian government. EXBS training and assistance efforts, while aimed at the nonproliferation of weapons of mass destruction and their delivery systems, directly enhance Armenia's ability to control its borders and to interdict all contraband, including narcotics.

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 drug trafficking issues.

Austria

I. Summary

Austria is a transit country for drug trafficking into Western Europe due to its position along the Balkan and other major trans-European routes. Foreign criminal groups from Turkey, the Western Balkans, Eastern Europe, West Africa (Nigeria), and Latin America dominate organized narcotics trafficking in Austria. Trafficking by Austrian citizens remains insignificant. Austria is not a drug-producing country. However Austrian authorities reported a slight increase in indoor cannabis cultivation for personal use; the amounts are low by international comparison.

Drug use in Austria increased slightly, but remains below the European Union average. Austrian health experts and government authorities do not consider it to be a severe problem. Studies indicate that the average age of Austrian drug users is decreasing. According to health and law enforcement officials, abuse of drug substitution medication (e.g. morphine, methadone, and buprenorphine) is increasing. Authorities estimate that there are between 15,000 to 20,000 drug users, or fewer than two addicts per 1,000 inhabitants. The lifetime prevalence of drug abuse by Austrian citizens, primarily of cannabis, also remained stable in 2006 at 20 to 25 percent.

International cooperation, particularly with U.S. law enforcement authorities, continued to be excellent during 2006 and resulted in several significant domestic and multinational seizures. From January through July 2006, Austria held the Presidency of the European Union and made the fight against organized crime a central theme. The Austrian Presidency hosted President Bush, U.S. Attorney General Alberto Gonzales, and other senior U.S. law enforcement officials for talks on fighting international organized crime and corruption. In May 2006, Austria convened a workshop of international experts to discuss policing along the Balkan drug route. In July, Austria, as President of the European Union, hosted biannual U.S.-EU discussions on drugs. Austria also continued efforts to intensify international police cooperation within the “Salzburg Forum,” a meeting of regional interior ministers, and within the European Union's Central Asian Border Security Initiative (CABS). Austria is a party to the 1988 UN Drug Convention.

II. Status of Country

The drug situation in Austria did not change significantly during 2006. As of October 2006, the number of drug-related deaths—which typically fluctuates between 100 and 150 deaths per year—totaled 191.

The number of drug deaths from mixed intoxication continues to rise. The most recent statistics show a 2.68 percent increase in the number of charges Austrian law enforcement authorities have filed for violation of the Austrian Narcotics Act, with a total of 25,892 offenses. This figure includes 25,041 criminal offenses involving narcotic drugs and 848 for psychotropic drugs, and three other offenses. The number of individuals charged under the Austrian Narcotics Act also rose 1.38 percent to 21,335 persons. The Austrian Ministry of Interior investigated 164 cases involving precursor chemicals in 2005, an increase of 36 cases compared to the same period in 2004.

Experts estimate that the number of conventional illicit drug users remained stable in 2006 at 15,000 to 20,000, or roughly 0.25 percent of the population. The number of users of MDMA (Ecstasy) remained largely stable in 2006. Usage of amphetamines rose during the same period as these substances became increasingly available in non-urban areas. According to a recent study, commissioned by the Health Ministry, approximately one fifth of respondents admitted to consumption of an illegal substance. The respondents most often cited use of 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 had experience with synthetic drugs. Austria, as a member of the European Monitoring Center for Drugs and Drug Addiction, undertook a study in 2006, which confirmed that problem drug use is increasing among 15 to 24 year-olds.

III. Country Actions Against Drugs in 2006

Domestic Policy Initiatives. Austria continues its “no tolerance” policy against drug traffickers, who face a minimum sentence of ten years to a maximum sentence of life in prison when convicted. It also continues its policy of “therapy before punishment” for non-dealing drug offenders. In mid-2006, Austria began drafting a series of amendments to introduce a more rigid system of fines for drug-related offenses in line with an EU framework decision to harmonize counter narcotics policies across the European Union. Following an EU Council decision on synthetic drugs in 2006, Austria also passed legislation to bring its laws into conformity with UN agreements on psychotropic substances.

A 2005 amendment expanded police powers to mount surveillance cameras in high-crime public areas. The amended law provides for the establishment of a “protection zone” around schools, pre-schools, and retirement communities, and entitles police to ban persons suspected of drug dealing within a protection zone from that area for up to 30 days. Austrian authorities say the new law has been effective in these areas. Critics argue that the law only shifted the drug scene to non-surveilled areas. In 2005, following intense public debate, the government improved quality controls and took a more restrictive approach in substitution treatment with retarding morphine therapy. A November 2006 decree by the Austrian Health Ministry is designed to further tighten controls on dispensing substitution medications and to improve training for general practitioners and pharmacists, who prescribe and dispense this treatment.

Regional and International Cooperation. During the first half of 2006, Austria held the Presidency of the European Union and hosted several high-profile events. In May, Austria hosted over 60 heads of state for the EU-Latin America Summit and led discussions on finding joint strategies to fight drug trafficking. Fighting organized crime in the Balkans and increasing regional police cooperation were also major themes of the EU Presidency. In May, over 50 nations and international organizations, including the U.S., met in Vienna to sign the “Vienna Declaration on Security Partnership,” which included a convention on police cooperation. In June, Austria convened a three-day workshop of experts from Europe, the Western Balkans, Russia, the United Nations Office of Drugs and Crime (UNODC), and the U.S., including DEA’s Regional Director for Europe and Africa. The participants discussed strategies for fighting drug trafficking from Afghanistan and for policing along the Balkan route. In October 2006, Austria hosted a long-running meeting of drug trafficking experts from the EU, Central and Eastern Europe, and the U.S. to discuss measures to increase law enforcement cooperation.

Law Enforcement Efforts. Comprehensive seizure statistics for 2006 are not yet available. Statistics for 2005 show a marked increase in the quantity of cocaine and heroin seized and a slight decrease in confiscations of Ecstasy pills and LSD dose units, or “hits.” Police made nearly the same number of confiscations of amphetamines and methamphetamines in 2005, but the cumulative quantities of both drugs seized was less than the previous year. According to government figures, Austrian authorities seized 820 kg of cannabis products (-26.39 percent decrease over 2004), 282 kg of heroin (+20.79 percent), 13 kg of raw opium, 245 kg of cocaine (+224.50 percent), 114,103 Ecstasy tablets (-6.98 percent), and 2,108 LSD dose units (-5.36 percent). Police seized 9 kg of amphetamines (-65.3 percent) and 0.7 kg of methamphetamines (-62.9 percent) and 27,104 pieces (+28.3 percent) of pharmaceutical, psychotropic substances.

As part of an international investigation in January 2005, police in Austria made a record seizure of 143 kg of cocaine, which originated in Peru and traveled via the U.S., France, and Germany before

transiting Austria. The seizure resulted in five arrests and disrupted a European drug trafficking ring. The authorities recorded two other large seizures of cocaine, one of 30 kg and another of 24 kg. Austrian police made three major heroin busts at customs checkpoints and weigh stations in the country in 2005: 70 kg in February, 97 kg in July, and 68 kg in August. Austrian authorities seized 30,571 Ecstasy pills in January, 15,000 in March, and 10,050 in December, which the police determined all originated from the Netherlands. In 2005, the Austrian Ministry of Interior investigated 164 criminal cases involving precursor chemicals, an increase of 36 cases over 2004, and seized 100 grams of Category I precursors.

In 2006, average retail or “street prices” of illicit drugs remained basically unchanged from 2005, and were as follows: cannabis resin/hashish for approximately \$9.50 per gram; herbal cannabis/marijuana for \$4.50 per gram; cocaine for \$82-114 per gram; brown heroin for \$57-89 per gram; white heroin for \$101-115 per gram; amphetamines for \$9.50 per gram or \$19-32 per tablet; Ecstasy (MDMA) for \$13-19 per tablet, and LSD for \$38-44 per dose unit or “hit.”

Corruption. Austria has several laws in place, which contain provisions on corruption. In 1999, Austria became a party to the OECD antibribery convention and also abolished the tax deductibility of bribes and gray market payments. A 2006 report on corruption by the OECD confirms this and recommends that Austria further clarify its definition of foreign bribery offenses to ease investigations by tax authorities. There are no corruption cases pending that involve bribery of foreign public officials. The government has not yet prosecuted any cases, which would test the degree of the current law’s enforcement. The U.S. government is not aware of the involvement of any high-level Austrian government officials in drug-related corruption. Austria is a party to the UN Corruption Convention.

Agreements and Treaties. An extradition treaty and a mutual legal assistance treaty are in force between Austria and the U.S. Austria is a party to the 1988 UN Drug Convention, the 1961 Single Convention on narcotic drugs and its 1972 protocol, and the 1971 UN Convention on Psychotropic Substances. Vienna is the seat of the 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 on trafficking in persons.

Cultivation. Production of illicit drugs in Austria was marginal in 2005 and 2006. Experts noted a minor rise in the private, indoor growth of cannabis, but the amounts are low by international comparison.

Drug Flow/Transit. Austria is not a source country for illicit drugs and illicit trafficking by Austrian nationals is negligible. Foreign criminal groups primarily from Turkey, the Western Balkans, Eastern Europe, West Africa (Nigeria), and Latin America (Colombia) carry out organized drug trafficking in Austria. Based on 2005 seizures, counternarcotics officials note that traffickers continued to rely on conventional means of transportation, such as trucking, for drug smuggling. Drug traffickers are increasingly using Central and East European airports, including those in Austria.

Domestic Programs/Demand Reduction. Austrian authorities and the public view drug addiction as a disease rather than a crime. This is reflected in liberal drug abuse legislation and in court decisions. Austrian society 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. According to health officials, 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 rates among drug-related deaths decreased to 6 percent in 2005, compared to 8 percent in 2004, while hepatitis prevalence rates increased. Policies to work toward greater diversification in substitution treatment for drug addiction (using, for example, methadone, prolonged-action morphine, and buprenorphine) continued. Although no official data is available, both drug policy and treatment experts in Austria note an increase in the abuse of substitution medications and an increase in the availability of these medications on the local black market. Public debate continues in Austria on methods to further tighten controls on this medication and to provide training to general practitioners and pharmacists, who prescribe or dispense this medication. Austrian health officials are also looking for new measures to increase secondary prevention awareness, especially concerning re-integration of recovering addicts into the labor market.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cooperation between Austrian and U.S. authorities continued to be excellent in 2006. Although Austria has no specific bilateral narcotics agreement in place with the U.S., several bilateral efforts exemplified this cooperation. These include continuing 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 continuing DEA support of BKA investigative efforts across Europe and in the Western Balkans to combat the flow of Afghan heroin. Austrian Interior Ministry officials continued to consult the FBI, DEA, and Department of Homeland Security to gain know-how on updating criminal investigation structures and techniques and to share investigative information. In June 2006, an FBI Special Agent supervisor shared his experiences on fighting drug trafficking along the Balkan route with Austrian and EU law enforcement officials during a workshop in Vienna. The U.S. Embassy also sponsors speaking tours of U.S. counternarcotics and drug treatment experts in Austria.

The Road Ahead. The U.S. will continue to support Austrian efforts, both bilaterally and within the UN and the OSCE, to create more effective tools for law enforcement. This includes working closely with Austrian authorities against drug trafficking rings in Austria and collaborating with Austria to improve border controls and security efforts in the Western Balkans and Central Asia. The U.S. will continue to facilitate workshops or other meetings between U.S. and Austrian police, drug policy and treatment experts, and senior government officials. The U.S. will work closely with Austria to implement U.S.-EU initiatives and to deepen the level of law enforcement cooperation gained during the Austria EU Presidency in the fight against drug trafficking and other organized crime. Promoting a better understanding of U.S. drug policy among Austrian officials and the public remains a top priority.

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 receives border control assistance through the Department of State's export control and related border security assistance (EXBS) program. 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 in the 1990s because of the disruption of the "Balkan Route" due to the wars 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-Azerbaijan-Armenia-Georgia-Western Europe; Afghanistan-Iran-Azerbaijan-Russia; or Afghanistan-Central Asia-the Caspian Sea-Azerbaijan-Georgia-western Europe. Azerbaijan shares a 380 mile (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, and hashish. Domestic consumption continues to grow with the official GOAJ estimate of drug addicts reaching 18,000 persons. Unofficial figures are estimated at approximately 180,000 to 200,000, the majority of which are heroin addicts. Students are thought to be a large share of total drug abusers at 30-35 percent. The majority of heroin users are concentrated in major cities and in the Ankara District (64.6 percent), which borders Iran. Drug use among young women has been rising.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The GOAJ refined its strategy to combat drug transit and usage in Azerbaijan. The GOAJ bolstered its ability to collect and analyze drug-related intelligence, resulting in more productive investigations against narcotics traffickers. The GOAJ also continues to work within the framework of GUAM (an international cooperation group consisting of: Georgia-Ukraine-Azerbaijan-Moldova) to share counternarcotics information and expertise. GUAM countries use the Virtual Law Enforcement Center (VLEC) in Baku, which was established with USG assistance, to coordinate their activities. The center provides an encrypted information system that allows member states' law-enforcement agencies to share information and coordinate their efforts against terrorism, narcotics trafficking, small arms, and trafficking in persons. The extent to which information is shared among GUAM member states through the VLEC appears limited.

Law Enforcement Efforts. According to Ministry of Internal Affairs (MIA) information as of September 2006, the MIA conducted 1,670 drug investigations, of which 565 involved the sale of narcotics. During this period, the MIA seized 16 kg of hashish; 59 kg of opium; and 20 kg of heroin. The MIA reports there are approximately 18,000 registered narcotic users in Azerbaijan. According to Ministry of National Security information (MNS) as of September 2006, the MNS seized 206 kg of narcotics, including 7 kg of heroin; 19 kg of opium; 20 kg of marijuana and 160 kg of hashish.

Corruption. Corruption remains a significant problem. Several Azerbaijani prosecutors have attended U.S. DOJ-sponsored training courses on investigating trans-border crimes, implementing the Azerbaijani criminal code, and developing courtroom skills such as preparing courtroom evidence and cross examining witnesses. These broad-based skills may aid in the prosecution of drug-related cases and limit the scope of corruption. As a matter of government policy, however, 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. Azerbaijan's problem with narcotics largely stems from being a transit state, rather than a significant drug cultivation site. Cannabis and poppy are cultivated illegally, mostly in southern Azerbaijan, but not in large quantities.

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 Georgia and 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 the summer of 2006, the GOAJ produced a series of public service announcements about the dangers of drug usage. The advertisements were aimed at a younger audience and were displayed in downtown Baku.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2006, the Department of State, through its Export Control and Related Border Security Assistance (EXBS) program, continued to assist the Azerbaijan State Border Service (SBS) and the State Customs Committee (SCC). EXBS training and assistance efforts, while aimed at the nonproliferation of weapons of mass destruction and their delivery systems, directly enhance Azerbaijan's ability to control its borders and to interdict all contraband, including narcotics. During 2006, EXBS sponsored numerous border control courses for the Border Guard and SCC officers. These courses provided participants with real-time, hands-on inspections and border control tactics at sea and in the field. Other courses improved the Border Guard's control of Azerbaijan's southern border, as well as the ability of SCC officers to detect contraband.

The U.S. donation of tool trucks equipped with generators, search tools, and related equipment improved the Customs Contraband Teams' detection capabilities. The U.S. Border Patrol did an in-depth assessment of Border Guard operations in a problematic section of the Iranian border. Study recommendations will be used to prioritize the future direction of U.S. assistance. The U.S.'s contribution of fencing and construction materials to rebuild watchtowers significantly enhanced the Border Guard's ability to hamper illegal penetrations of Azerbaijan's southern border. EUCOM supported a study of the Border Guard Air Wing's ability to detect border penetrations at night. As a result of the study, EUCOM will upgrade one aircraft's avionics. During 2006, the Department of Defense and EXBS helped equip a maritime base near Azerbaijan's southern border in Astara. The base will host two patrol boats and two fast response boats to be delivered in early 2007. The

facility will also be used for extended patrols by larger vessels from Baku. In May, EXBS replaced the shore-based short-range radar in Astara with a more reliable and capable model. The efforts in Astara have dramatically improved the Azerbaijani Coast Guard's ability to monitor and patrol the southern waters and maritime boundary of Azerbaijan.

In June 2006, the Department of Justice International Criminal Investigative Training Assistance Program (DOJ/ICITAP) provided a two-week training course for site surveillance, entry and arrest techniques. The program developed Azerbaijani police officers' skills in high-risk entries and tactical team concepts to aid in arresting narcotics offenders. The Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) and Drug Enforcement Administration (DEA) are planning training courses for the Ministry of Health, MIA, and Ministry of Justice (MOJ) in using gas chromatography/mass spectrometry to analyze narcotic substances. The three ministries will receive a gas chromatography/mass spectrometry unit as an analysis tool after the training.

The Road Ahead. The U.S. and Azerbaijan will continue to cooperate in law enforcement assistance programs in Azerbaijan. Such programs will include: helping the GOAJ 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 mass-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 joint UNDP-European Union program BUMAD (Belarus, Ukraine, Moldova Anti-Drug Program), which seeks to reduce trafficking of drugs into the European Union. The program, which just concluded phase two of its three-part project, seeks to develop systems of prevention and monitoring, improve the legal framework, and provide training and equipment. BUMAD 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 traffic 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, Kyrgyzstan Republic, Tajikistan, and Uzbekistan) 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 pharmaceutical 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.

III. Country Actions Against Drugs in 2006

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. Administered by the Ministry of the Interior, the program included ambitious plans for prevention and rehabilitation strategies but was never fully implemented and will not be renewed. This year, the Belarusian government incorporated drug abuse prevention and rehabilitation into its overall national 2006-2010 Anti-Crime Program, under which the Committee for State Security (BKGB), the State Customs Committee, and the Ministries of the Interior, Health, and Foreign Affairs will conduct their own programs. While inter-agency rivalry inhibits cooperation, Belarus has made some strides over the past year in restructuring government agencies to enhance information gathering on narcotics transit and distribution. For example, in February, the Ministry of Health established a BUMAD-supported National Observatory on Drugs in order to link 19 government agencies to assist in the collection and analysis of statistics on illicit drug abuse in an effort to combat drug trafficking on a regional level. The Collective Security Treaty Organization (CSTO) launched its international anticrime operation "Channel 2005," a cooperative effort coordinated by an office of the Commonwealth of Independent State (CIS) that resulted in the seizure of more than 80 kg of narcotics in Belarus in October 2005. In April, the CIS Council of Border Troops Commanders established a common database for coordinating border security. In June 2006, during the CSTO Heads of State summit in Minsk, Belarus and the other CSTO members signed commitments for future joint antidrug activities.

Accomplishments. While Belarus does not face large-scale illicit drug 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. In 2004, BUMAD presented the Belarusian government with a series of recommendations to bring the country's laws into full compliance with drug-related UN conventions. However, a 2006 BUMAD-commissioned study concluded that the Belarusian government had yet to implement most of those recommendations.

Law Enforcement Efforts. From January 1 to October 1, 2006, 2,118 people committed 3,720 drug-related crimes. Meanwhile, authorities seized 569 kg of drugs, a decrease from 720 kg during the same time period in 2005. However, experts, including government officials, agree that this official figure fails to reflect the real quantity of drugs transiting or used in Belarus and note that the low street prices of amphetamines and heroin, which fell from \$100 to \$40 per gram over the past year, attests to the overall increase in supply. Moreover, in a report presented to the BUMAD in September, the State Border Troops' Committee conceded that official seizure figures do not reflect the reality of the problem and that most drugs transit Belarus undetected from western Russia, which has a virtual open border with Belarus as part of the countries' customs union. Government officials publicly admit that enforcement efforts suffer from lack of communication and coordination and from inter-agency rivalries. According to BUMAD, this unprecedented and candid self-examination by Belarusian law enforcement translated into more interest in international cooperation in 2006. For example, the Belarusian police academy instituted a new BUMAD-supported curriculum with two new courses focusing on drug enforcement. Moreover, state Security Services reversed policy by allowing law enforcement agencies to use a BUMAD-sponsored software program to enhance information sharing between its law-enforcement agencies and with other BUMAD recipients who had previously adopted the program. Finally, Belarus hosted BUMAD's annual regional seminar on improving cooperation between Belarusian and foreign law enforcement agencies.

Despite these recent efforts, total drug seizures have declined significantly since last year. Drugs seized from January 1 to October 1 (in kg) are as follows: Poppy Straw and Marijuana (720); Raw Opium (74.8); Heroin (0.2); Amphetamine/Methamphetamine (4.3); Acetylated Opium (liquid heroin) (5.8); Hashish (9.1); Cocaine (0.5); LSD and other hallucinogens (1.2); Methadone (0.4). 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 2006. However, there is no evidence of large-scale production of poppies for export. Heroin seizures have dropped sharply from 26.7 kg last year to 0.2 kg in 2006. Credible sources report that use of synthetic drugs has increased by 136 times since 2000 and is gradually replacing demand for poppy straw and marijuana. Belarusian authorities believe that most synthetic drugs enter Belarus from Western Europe via the country's borders with Poland, Lithuania, and Latvia. In 2006, authorities seized 0.4 kg of methadone, down from 1.1 kg confiscated during the previous year.

Corruption. On July 20, President Lukashenko signed an anticorruption law to comply with the Council of Europe's 1999 Criminal Law Convention on Corruption, which Belarus ratified in 2004. Belarus also ratified the Council of Europe's 1999 Civil Law Convention on Corruption in December 2005 and is considering a series of corresponding amendments on corruption. Nevertheless, corruption remains a serious problem among border and customs officials and makes interdiction of narcotics difficult. In October, a retiring Customs Division head in the western Brest region publicly confessed that Belarusian law is still too weak to deter widespread bribery at Belarusian border checkpoints. As a matter of government policy, however, Belarus 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. 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 2005, a presidential edict greatly restricted all foreign technical assistance, making it extremely difficult 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, authorities delayed registration of the second part of BUMAD and consequently postponed the launch of BUMAD-sponsored programs for legal assistance, border control, drug intelligence, community policing, drug observatories, and NGO networking. During BUMAD's 2006 regional seminar in Minsk, Belarusian Foreign Minister Sergey Martynov acknowledged the need for more outside aid and advocated the removal of Belarus' legal obstacles to international counternarcotics cooperation. By September 2006, BUMAD reported that its second phase was nearly complete and that the authorities seemed much more responsive to foreign law-enforcement assistance programs.

Cultivation/Production. There is no confirmed widespread illicit drug cultivation or production in Belarus. Conviction for growing narcotic plants for the purpose of selling can result in a prison sentence of as much as 15 years. However, some cultivation and production have been detected. In June, authorities seized nearly 110 kg of hemp plants. In July, during a six-day joint over flight and seizure operation, border troops, BKB officers, and local police discovered 34 hectares of poppy and cannabis fields and destroyed more than 9.5 tons of narcotic plants. Earlier in the year, credible sources reported that authorities raided a small laboratory that illegally produced amphetamines and cultivated new types of Dutch marijuana.

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). Amphetamines and precursors transit Belarus to Poland and Russia. Marijuana, poppy straw, Rohypnol, and heroin transit to Russia and Western Europe.

In 2005, more than 22 million persons and 7 million vehicles crossed Belarusian borders. During that time, customs authorities seized 70 kg of illicit narcotics. In April 2006, customs officials reported that the total number of goods transiting through Belarus between January and April 2006 had risen more than 18 percent from the same period of the previous year. According to official sources, customs officers currently inspect only five percent of all inbound freight. Furthermore, Belarusian border guards often lack the training, and in many cases the equipment, to conduct effective searches. In an effort to address these problems, the BUMAD program continues several programs to improve Belarus' border checkpoints and training of law enforcement personnel.

Domestic Programs (Demand Reduction). Belarusian authorities are beginning to recognize the growing demand problem in Belarus, particularly among young people who have ready access to narcotics at dance clubs, university dormitories and educational facilities. In October, Belarus' Drug Control and Trafficking Department Chief Oleg Pekarskiy estimated the true number of drug addicts in the country to be nearly ten times the official number of 9,500, or about 127 registered drug users per 100,000 persons. According to official statistics, the number of drug-related offenses have doubled since 2000 and 70 percent of known drug addicts are between the ages of 14 and 25. In April, the Regional Juvenile Delinquency Prevention Commission based in the western city of Brest reported that the number of recorded juvenile drug-related offenses during the first three months of 2006 rose six percent over the same period in 2005.

Drug use is criminalized and highly stigmatized by government and in society. Drug addicts, especially those who are unregistered, are dissuaded from seeking treatment by fear of consequences at work, school, and in society if their addiction becomes known. Meanwhile, Belarus' counternarcotics education remains inchoate, 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 nationwide coordination of curriculum. In February 2005, BUMAD and the GOB launched a Minsk-based counternarcotics youth information campaign, "You and Me against Drugs," which included pamphlet distribution, lectures at organized sporting events and the production of an informational counternarcotics video with famous Belarusian athletes. However, the program ended in June 2005 and a similar follow up program is not scheduled to begin until summer 2007. Last year, BUMAD had also sponsored a Belarusian chapter of NGO Mothers Against Drugs (MAD), which won the 2005 UN Civil Society Award for its work in 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. However, the government subsequently withdrew its registration, and all MAD offices closed in 2006.

The government generally treats drug addicts in psychiatric hospitals, either as a result of court remand or self-enrollment, or in prisons. Moreover, the emphasis of most treatment programs is detoxification and stabilization. For example, in February, the Ministry of Health began methadone substitution program for HIV positive drug users in the southeastern Gomel region. Several NGOs run rehabilitation centers, which attempt to provide long-term care, including psychological assistance and job training. However, financial limitations constrain the breadth of these programs. Several BUMAD-supported drug counseling centers were forced to close when the government withdrew its support.

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 Belarusian 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 the second significant supplier of Ecstasy to the United States (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, while Ecstasy and amphetamine seizures have decreased, indicating a decline in the overall usage and trafficking of these drugs. Belgium is also a transit point for a variety of chemical precursors used to make illegal drugs. Within the past year, Belgium has become an important transshipment point for illegal ephedrine, used as a chemical precursor to methamphetamine, destined for the United States via Mexico.

Traffickers use Belgium's busy seaports, train stations, and the 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. Belgian authorities take a proactive approach in interdicting drug shipments and cooperate with the U.S. and other foreign countries to help uncover distribution rings at home and abroad. Belgian authorities also continue to fight the production of illicit drugs within their borders, using methods like canine and aerial surveillance to uncover traffickers and drug laboratories. Belgium is a party to the 1988 UN Drug Convention.

II. Status of Country

Belgium produces synthetic drugs, as well as cannabis, and remains a key transit point for illicit drugs bound for the United Kingdom, the Netherlands, and other points in Western Europe, as well as the United States and Canada. By most accounts, its position as an important transit point for cocaine is largely due to a shared border with the Netherlands. In virtually all cases of significant cocaine shipping, the end destination for the cocaine is the Netherlands, where Colombian groups continue to dominate drug trafficking. This border shared by Belgium and the Netherlands has also contributed to the surge in both size and number of clandestine amphetamine and Ecstasy laboratories in Belgium since 2000. Airline passenger couriers and containerized cargo remain the principal means of transporting small quantities of Ecstasy to the United States. Stricter controls have limited the sending of pills via both express and regular mail from Belgium. In the past, Israeli groups controlled most of the Ecstasy production and shipping to the United States. More recently however in Belgium, Israeli organized crime groups have been disrupted by enforcement measures and their influence has diminished. Belgian officials believe that sea freight is likely used for transporting larger amounts of Ecstasy from Belgium via third countries to the United States and Canada. However, Belgian authorities continue to make a concerted effort to stem the tide of Ecstasy headed for the United States. Turkish groups continue to control most of the heroin trafficked in Belgium. This heroin is principally shipped through Belgium and the Netherlands to the United Kingdom. Increased seizures of cocaine may be an indication of 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.

In 2006, Belgium has experienced a dramatic rise of illegal ephedrine shipping. The ephedrine market is mainly controlled by Mexicans who purchase both legal (i.e., cold medicine, dietary supplements) and illegal ephedrine, and ship it to Mexico, where it is used to produce methamphetamine for distribution in the United States. Since most forms of ephedrine are strictly regulated in the United States, Belgium and other Western European countries have become major

providers of these methamphetamine precursors. Furthermore, Belgium is also an important transshipment point for other chemical precursors, mainly 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 2006

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 is 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, which has become an increasingly common phenomenon in the nation's larger cities. The Federal Prosecutor's Office, established in 2002, works to centralize and facilitate mutual legal assistance requests on drug trafficking investigations and prosecutions. Federal authorities have also noted an extreme rise in the establishment of cannabis plantations in the past year. With the number of cannabis seizures increasing each year, new efforts will be set forth to shut down plantations.

Law Enforcement Efforts. Belgian law enforcement authorities actively investigate individuals and organizations involved in illegal narcotics trafficking. In keeping with Belgium's drug control strategy, efforts are focused on combating synthetic drugs, heroin and cocaine, and more recently, cannabis. Belgian authorities continued to cooperate closely and effectively with DEA officials stationed in Brussels. At Brussels' Zaventem International Airport, non-uniformed personnel trained by the Belgian Federal Police to help detect drug couriers have become increasingly proficient. Belgian authorities have 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. Additionally, the National Security Plan for 2004-2007 has outlined plans to use canine and aerial apprehension strategies on the local and federal levels to help fight illicit drug production and shipment in Belgium. The Canine Support Service (DSCH) has trained four dog teams to search for drugs, used mostly in airports and train stations, while the Aerial Support Service (DSAS) has made a concerted effort to increase the number of hours in the sky in an attempt to detect drug laboratories across the nation. In both proactive and reactive drug searches, the DSCH has exhibited positive results in the past year: 963 residences, 1,482 vehicles, and 2,335 persons that were searched tested positive for some illicit drug.

In the past year, Belgian authorities have discovered two clandestine laboratories, one producing Ecstasy and one producing both Ecstasy and amphetamines. As in past years, both production sites were located along the northern border with the Netherlands. These seizures bring the number of synthetic drug laboratories seized since 1999 to 56. In 2006 Belgian authorities seized approximately 2,928.92 kg of cocaine, 277.55 kg of heroin, 431,056 methylenedioxymethamphetamine (MDMA/Ecstasy) pills, 118.81 kg of amphetamines, 4,530.63 kg of cannabis/marijuana, 8,000.52 kg of hashish, and 1,923.99 kg of khat (cathinone/cathine).

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) (CTIF-CFI) 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 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. 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 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 (CSI), 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 and cocaine, is more significant than its own production of illegal drugs. Nevertheless, Belgian authorities believe domestic Ecstasy and cannabis production is on the rise. Only the Netherlands exports more Ecstasy for use in the United States than does Belgium. Cultivation of marijuana is increasingly done using elaborate, large-scale operations in Belgium. Within the past year, 188 cannabis plantations, all in Flanders, were shut down, leading to the arrest of over 20 people and the seizure of 101,464 cannabis plants. The police action plan for 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. Dutch traffickers are involved in 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.

Drug Flow/Transit. Belgium remains an important transit point for drug traffickers because of its port facilities (Antwerp is Europe's second-busiest port), two international airports, highway and rail links to cities throughout Europe, and proximity to the Netherlands, where drug trafficking is a major problem. It has been estimated that about 25 percent of drugs from South America moving through Europe eventually transit Belgium, especially cocaine. These drugs are ultimately shipped to the United Kingdom, the Netherlands, and to other points in Western Europe, to Canada and to the United States. Israeli drug traffickers continue to control most of the export of Ecstasy from Belgium and the Netherlands, as evidenced by the arrest in 2006 of 16 Israelis possessing a total of 350,000 tablets of Ecstasy. The Ecstasy is sent in bulk from Belgium to Chinese or Vietnamese gangs in Canada. Most Ecstasy production continues to be controlled by Dutch chemists on either side of the border between Belgium and the Netherlands. A growing trend involves Chinese traffickers shipping Ecstasy precursor chemicals from China to Belgium and the Netherlands. These groups are believed to have largely displaced traditional Ecstasy sources. The port of Antwerp continues to be the preferred destination for cocaine imported to Europe; although the oft-quoted estimate is 16 tons entering the port each year, this figure is probably too low; 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. In addition, over 100 seizures of cocaine were documented at Brussels' Zaventem Airport from January to August 2006. Most of the cocaine had originated in South America and transited through either West Africa or South America. The majority of the carriers were of Albanian,

Moroccan, or Dutch descent. The other predominant cocaine trafficking groups in Belgium are Colombian, Surinamese, Chilean, Ecuadorian, and Israeli. The Port of Antwerp is also an important transit point for cannabis and hashish. Authorities have noted that the principal shipping method of marijuana has been through DHL parcels destined for the United Kingdom via Belgium. The Netherlands remains a major supplier of both marijuana and hashish to Belgian traffickers. 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. These trucks are usually destined for Portugal. Turkish criminal organizations involved in heroin trafficking seem to have diversified their activities by starting to export Ecstasy from Belgium. Trucks with Ecstasy are sent to Turkey and return to Belgium with heroin.

Domestic Programs. Belgium has an active drug education program administered by the regional governments (Flanders, Wallonia, and Brussels) that targets the country's youth. These programs include education campaigns, drug hotlines, HIV and hepatitis prevention programs, detoxification programs, and a pilot program for “drug-free” prison sections. The Belgian system contrasts with the U.S.'s approach in that Belgium directs its programs at individuals who influence young people versus young people themselves. In general, Belgian society views teachers, coaches, clergy, and other adults as 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 drug-related information. Counternarcotics officials in the Belgian Federal Police, Federal Prosecutor's Office, and Ministry of Justice are fully engaged with their U.S. counterparts. With the rise in the trafficking of ephedrine in Belgium, the U.S. plans to focus on identifying and prosecuting both suppliers and shippers of illegal ephedrine before the drug reaches the U.S.

The Road Ahead. The United States looks forward to continued close cooperation with Belgium in combating illicit drug trafficking and drug-related crime, with a growing emphasis on systematic consultation and collaboration on operational efforts. The U.S. also welcomes Belgium's active participation in multilateral counternarcotics fora such as UNODC in order to help decrease drug trafficking and production both in Belgium and throughout Europe.

Bosnia and Herzegovina

I. Summary

Narcotics control capabilities in Bosnia and Herzegovina remain in a formative period and have not kept pace with developments in other areas of law enforcement. Bosnia 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. Although the political will to improve narcotics control performance exists among the Bosnian government, faced with ongoing post-war reconstruction issues, it has to date focused limited law enforcement resources on war crimes, terrorism and trafficking in persons and has not developed comprehensive antinarcotics intelligence and enforcement capabilities. 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 activities of foreign and domestic organized crime figures that 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 measures against narcotics trafficking and related crimes are often substandard.

In 2006, Bosnia did not create a state-level body to coordinate the fight against drugs or develop the national counternarcotics strategy mandated by legislation passed in late 2005. In 2006, the Bosnia government, in cooperation with the European Union Police Mission, conducted a public information campaign to raise awareness about the dangers and effects of drugs. Bosnia is attempting to forge ties with regional and international law enforcement agencies. Bosnia is party to the 1988 UN Drug Convention.

II. Status of Country

Bosnia is not a significant narcotics producer, consumer, or producer of precursor chemicals. Bosnia does occupy a strategic position along the historic Balkan smuggling route between drug production and processing centers in Southwest Asia and markets in Western Europe. Bosnian authorities at the state, entity, cantonal, and municipal levels have been unable to stem the transit of illegal migrants, 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. Bosnia is increasingly becoming a storehouse for drugs, mainly marijuana and heroin. Traffickers “warehouse” drugs in Bosnia, until they can be shipped out to destinations further along the Balkan Route. One of the main routes for drug trafficking starts in Albania, continues through Montenegro, passes through Bosnia to Croatia and Slovenia and then on to Central Europe. Cocaine for domestic consumption arrives mainly from the Netherlands through the postal system. Information on domestic consumption is not systematically gathered, but authorities estimate Bosnia has 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 2006

Policy Initiatives. On November 8, 2005, the Bosnia House of Representatives passed legislation designed to address the problem of narcotics trafficking and abuse. However, the state-level

counternarcotics coordination body and national counternarcotics strategy mandated by the legislation were not in place as of October 2006 due to staffing and resource constraints. It is hoped that the work of the counternarcotics coordination body will get under way upon the formation of a new government in the wake of October 2006 national elections. 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. Through June 2006 (latest available statistics), law enforcement agencies in Bosnia-Herzegovina (including the State Investigation and Protection Agency, the State Border Service, Federation Ministry of Interior, Republika Srpska (RS) Ministry of Interior and Brcko District Police) have filed 750 criminal reports against 916 persons for drug related offenses. The aforementioned law enforcement agencies also report having seized almost four kg (kg) of heroin, 650 grams of cocaine, 1.9 kg of amphetamines, 11.6 kg of marijuana, 4,327 cannabis plants, 1,825 cannabis seeds, 4,761 Ecstasy tablets, 242 grams of “speed”, 117 grams of hashish, and 70 LSD stamps. These official statistics only reflect illegal drugs seized between January-June 2006 and do not reflect several significant September drug interdictions that reportedly recovered over 90kg of marijuana. The State Border Service, founded in 2000, is now fully operational with 2,199 officers 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 Bosnia. However, there are still a large number of illegal crossing points, including dirt paths and river fords, that the SBS is unable to control. Moreover, many official checkpoints and many crossings remain understaffed. The SIPA, once fully operational, will be a conduit for information and evidence between local and international law enforcement agencies, and will have a leading role in counternarcotics efforts. As of November 2006, SIPA had hired 911 of its proposed 1,700 staff.

Cultivation/Production. Bosnia is not a major narcotics cultivator. Officials believe that domestic cultivation is limited to small-scale marijuana crops grown in southern and western Bosnia. Bosnia is also not a major synthetics narcotics producer and refinement and production are negligible.

Corruption. Bosnia 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, working with a few corrupt government officials, uses 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, Bosnia 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. Bosnia is a party to the UN Convention Against Corruption.

Agreements and Treaties. Bosnia 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 Bosnia as a successor state. Bosnia 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 entering Bosnia are being trafficked to destinations in third countries, 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 transit Bosnia by several well-established overland routes, often in commercial vehicles. Local officials believe that Western Europe is the primary destination for this traffic. 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 and conflict among, Bosnian criminal elements and organized crime operations in Russia, Albania, Serbia and Montenegro, Croatia, Austria, Germany, and Italy.

Domestic Programs. In Bosnia 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 is rising 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. During 2006, the police of Bosnia and Herzegovina in conjunction with the European Union Police Mission implemented an antidrug campaign “Choose Life, not Drugs”. This public awareness Campaign, targeting drug prevention messages to youth, provided promotional materials to students and delivered antidrug abuse messages from former drug addicts to help youth choose a drug-free lifestyle. In September, the campaign kicked off a “School without Drugs” program to be carried out in 65 elementary and 37 secondary schools in the Sarajevo region. The “Viktorija” Association raised funds and helped 25 drug addicts complete a rehabilitation and reintegration program. The PROI Association helped 10 former drug addicts reintegrate into society. An antidrug public awareness campaign in Mostar utilized the wall of a centrally located prison for antidrug messages painted by youth volunteers.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. USG policy objectives in Bosnia include reforming the criminal justice system, strengthening state-level law enforcement and judicial institutions, improving the rule of law, de-politicizing 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 Drug Enforcement Agency (DEA) Regional Office in Rome maintains liaison with its counterparts in Bosnian state and entity level law enforcement organizations. The DEA has also sponsored specific narcotics interdiction training in Bosnia.

The Road Ahead. Strengthening the rule of law, combating organized crime and terrorism, and reforming the judiciary and police in Bosnia 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 Bosnia with the full implementation of the planned national counternarcotics strategy and continue to support 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 through Bulgaria 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 maintained the rate of seizures and closed down one illegal drug-producing laboratory. 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 the 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 Drug 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 NGOs 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 2006. Among the problems hampering counternarcotics efforts are poor inter-agency cooperation, lack of financing, inadequate equipment to facilitate narcotics searches, widespread corruption, and an often ineffective judicial system.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The Bulgarian government has continued to implement the National Strategy for Drug 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 2006 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 under-funded.

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 900 suspected drug traffickers.

Law Enforcement Efforts. From January to November 2006, Bulgarian law enforcement agencies closed one illegal drug-producing laboratory and seized 8450 kg of drugs, including 460 kg of heroin, 7,460 kg of marijuana, 80 kg of cocaine, 348 kg of synthetic drugs and 50 vials and 93,576 tablets of other psychotropic substances. Also seized were 9.5 kg of dry and 0.5 liters of fluid precursor chemicals. Bulgarian services report that the 74 percent drop in seizures of synthetic drugs is due to the relocation of illegal laboratories to Eastern Turkey.

Corruption. Despite some progress, corruption in various forms in the government remains a serious problem. The European Commission's monitoring report commended the government's efforts but noted the need to do more to erase high-level corruption, in particular more indictments, trials, and convictions of the guilty. 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 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. While the extent of cultivation is not known, there has been a drastic increase in the seizures of marijuana. Experts ascribe this to ready availability of uncultivated land and Bulgaria's receptive climate. Cannabis is not trafficked significantly 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, heroin, and cocaine are the main drugs transported through Bulgaria. Heroin from the Golden Crescent and Southwest Asia has traditionally been trafficked to Western Europe on the Balkan route from Turkey through Bulgaria to consumers in Western Europe. However, Bulgarian authorities say the trend of heroin traffic moving by the more circuitous routes through the Caucasus and Russia to the north and through the Mediterranean to the south is strengthening. 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 increasing amounts of 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. 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 operates prevention and education centers in each of Bulgaria's 28 administrative districts. 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 1000 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. The U.S. encourages the Bulgarian government over the next year to maintain sufficient rates of narcotics seizures, while implementing steps to reduce domestic drug production. It also encourages the Bulgarian government to increase interagency cooperation and take steps to prosecute cases of high-level corruption.

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 to Croatian authorities. 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, Montenegro, 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 large European market. The steady increase of narcotics smuggling from the east continued in 2006. Croatian police estimate that 70 to 80 percent of heroin destined for European markets is smuggled through the notorious "Balkan Route."

III. Country Actions Against Drugs in 2006

Policy Initiatives. In December 2005, Croatia adopted a National Strategy for Narcotics Abuse Prevention for 2006-2012, 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 in order to facilitate data sharing with the EU's EMCDDA programs. In February 2006, the Government of Croatia (GOC) adopted the Action Plan on Drug Abuse Control for 2006-2009. Its goal is to achieve equal availability of programs throughout the country targeting primarily children, youth and families. By the end of 2005, the GOC completed establishment of the network of addiction prevention centers, which are now available in all of Croatia's 22 counties. In June 2006, Parliament adopted changes to the Criminal Code, which increased sentences for possession and dealing of illicit drugs. Croatia also instituted changes to the criminal code, increasing penalties for several other narcotics-related offenses. The minimum penalty for narcotics production and dealing was increased from one to three years. The minimum penalty for selling narcotics by organized groups was increased from three to five years. The minimum penalty for incitement or facilitating the use of illegal narcotics was increased to one year. In addition, punishment for possession of related equipment or precursor chemicals was increased from three months to a mandatory sentence of no less than one year. Other changes to the criminal code permit the police to use such tactics as controlled deliveries, a method that was used frequently this year with international cooperation. Another amendment to the criminal code eases measures to confiscate assets of organized crime groups by placing the burden of providing evidence about the origins of assets on the defendant rather than the prosecutor, and allowing confiscation of assets acquired during the period of incriminating activity. Croatia continues to cooperate well with other European states to improve the control and management of its porous borders. Authorities describe cooperation on narcotics enforcement issues with neighboring states as excellent.

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 neighboring states, and cooperates through the South-Eastern Cooperation Initiative (SECI).

Croatian police and Customs authorities continued to coordinate counternarcotics efforts on targeted border-crossing points, although with 189 legal border crossing points, there is insufficient staffing and coordination. Heroin (25 kg in 2005 vs. 80 kg in the first nine months of 2006) and hashish (6 kg in 2005 vs. 12 kg in the first nine months of 2006) seizures increased this year. Border police attributed the rise in heroin seizures to a single large seizure. Marijuana (428 kg in 2005 vs. 144 kg in the first nine months of 2006) and cocaine seizures (17.6 kg in 2005 vs. 5 kg in 2006) declined, as have amphetamine and Ecstasy seizures. Police reported 4.7 percent more arrests this year in connection with narcotics charges than in 2005. Authorities have increased efforts to detect drug money laundering.

Corruption. 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 2006, police increased efforts to fight corruption internally, resulting in the removal of 630 law enforcement officers. Croatia is a party to the UN Corruption Convention.

Agreements and Treaties. Croatia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1972 UN Convention Against 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. Croatia has signed bilateral agreements with 29 countries permitting cooperation on combating terrorism, organized crime, smuggling and narcotics abuse.

Cultivation/Production. Small-scale cannabis production for domestic use is the only narcotics production within Croatia. In 2006, authorities, giving some sense of the minor scale of this cultivation, seized 2,960 cannabis plants. Poppy seeds are cultivated on a small scale for culinary use. Because of Croatia's small drug 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 "Balkan heroin smuggling Route." Authorities believe that much of the heroin from Asian sources transverses this route to reach European markets. Although Croatia is not considered a primary gateway, police seizure data indicate smugglers continue to attempt to use Croatia as a transit point for non-opiate drugs, including cocaine and cannabis-based drugs. A general increase in narcotics abuse and smuggling has been attributed to liberalization of border traffic and increased tourism and maritime activities. Police noted that cocaine seizures primarily occurred at Croatia's seaports. Cannabis-based drugs have increasingly been identified at road border crossings. Ecstasy and other synthetics are smuggled into Croatia from the Netherlands and Belgium.

Domestic Programs/Demand Reduction. The Office for Combating Drug Abuse, develops the National Strategy for Narcotics Abuse Prevention, and is the focal point for agency coordination activities to reduce demand for narcotics. According to the Office, Istria County continued to have the highest rate of treated addicts, followed by the Zadar and Varazdin 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 2005, 6,688 persons underwent drug addiction treatment--a 15.6 percent increase from the previous year. The majority of those treated were opiate addicts. The number of the first-time seekers of addiction treatment, which had been sliding since 2001, rose by 9.3 percent in 2005

and the number of new opiate addicts increased 7.2 percent compared to 2004. Government sources ascribe the increase to a wider and more efficient network of addiction prevention/treatment centers opening up treatment options for those abusing drugs. Approximately 72 percent of all addicts were addicted to heroin.

The GOC stated that the number of addicts infected with hepatitis C and HIV, stood at 47 percent and 0.5 percent respectively, and has not changed significantly in 2005. The number of deaths caused by overdose was slightly lower in 2005 (104 drug-related deaths in 2005 compared to 108 in 2004).

The Ministry of Education requires drug education in primary and secondary schools. Other ministries and government organizations also run outreach programs to reach specific populations, including pregnant women. The state-run medical system offers treatment for addicts, but slots are insufficient to accommodate all needing treatment. Methadone is used in the treatment of 67 percent of patients. The Ministry of Health operates in-patient detoxification programs, as well as 14 regional outpatient methadone clinics. In January 2006, Croatian authorities adopted guidelines 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 and 20 persons died from overdose. Under the guidelines only licensed psychiatrists are allowed to prescribe substitute treatment, which must occur under the supervision of a medical doctor. The Ministry of Health is currently forming guidelines for buprenorphine usage. The GOC spent 49.8 million kuna (\$8.6 million) on all drug abuse related programs in 2005, which is eight percent less than in the previous year. It has created a network of county-level expert advisory groups that work with local governments to counter narcotics abuse and serve as incubators for policy initiatives. In Varazdin, the advisory group continued 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 have been focused on improving the ability of Croatian law enforcement agencies to work bilaterally and regionally to combat organized crime and narcotics trafficking. Having achieved these two basic objectives, U.S. assistance for police reform efforts under the ICITAP (DoJ) program was refocused on combating organized crime and corruption in 2006. In October 2006, Croatian police formed the first joint police-prosecutor task force to target a criminal organization allegedly involved in drug trafficking and other illegal activities. 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 this year on border security, tracking training, and commodity identification, all of which will assist in preventing drug trafficking through Croatia.

Road Ahead. For 2007, U.S. expert training teams will join in-country U.S. trainers to help Croatian police develop skills in surveillance, management development, port security and port vulnerability assessments. 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 2007 under the EXBS program will have spin-off benefits for Croatia's fight against narcotics trafficking, particularly in the areas of interagency cooperation and border management.

Cyprus

I. Summary

Cyprus has been divided since the Turkish military intervention of 1974, following an unsuccessful coup d'etat directed from Greece. Since then, the southern part of the country has been under the control of the Government of the Republic of Cyprus. The northern part is controlled by a Turkish Cypriot administration that in 1983 proclaimed itself the "Turkish Republic of Northern Cyprus (TRNC)," recognized only by Turkey. The U.S. Government recognizes only the Government of the Republic of Cyprus and does not recognize the "TRNC." This report refers to the Government-controlled area unless otherwise specified.

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. The geographic location of Cyprus and its government's decision to opt for free ports at its two main seaports continue to make it an ideal transit country for legitimate trade in most goods, including chemicals, between the Middle East and Europe. Drug traffickers use Cyprus as a trans-shipment point due to its strategic location but to a limited extent due to 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 to deter those who would attempt to use Cyprus free ports for narcotics smuggling. Cyprus is a party to the 1988 UN Drug Convention.

II. Status of Country

Cypriots themselves do not produce or consume significant quantities of drugs. The island's strategic location in the eastern Mediterranean creates an unavoidable liability for Cyprus, as Cyprus is a convenient stopover for narcotics traffickers moving from Southwest Asia to Europe. Precursor chemicals are believed to transit Cyprus in limited quantities, although there is no hard evidence to confirm this. Cyprus offers relatively highly developed business and tourism facilities, a modern telecommunications system, and the ninth-largest merchant shipping fleet in the world.

This year, Cyprus has seen an increase of bank accounts as well as accountants being involved in the laundering of money derived from online Internet pharmaceutical sales, not only from the U.S., but from European countries as well. In 2006, approximately \$2.3 million worth of illegal narcotics proceeds was frozen in several bank accounts. 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 carries 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. This has continued through 2006. 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 Cypriot Courts began sentencing individuals charged with distributing heroin and Ecstasy (MDMA) with 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.

Cyprus's 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. There were nine reported drug-related deaths in 2006, five of which were the result of overdose, and four of which involved traffic accidents where traces of narcotics were found in the deceased's system. The use of cannabis and Ecstasy by young Cypriots and tourists continues to increase. Cypriot authorities have no tolerance toward any use of narcotics by Cypriots and use a pro-active public relations strategy to remind Cypriots that narcotics use carries heavy penalties. The media reports extensively whenever narcotics arrests are made. The Government of Cyprus has no working relations with enforcement authorities in the area administered by Turkish Cypriots. The U.S. Embassy in Nicosia, particularly the DEA, within the Embassy, nevertheless works with the Turkish Cypriot community on international narcotics-related issues. Turkish Cypriots have their own law enforcement organization responsible for the investigation of all narcotics-related matters. They have shown a willingness to pursue narcotics traffickers and to provide assistance when asked by foreign law enforcement authorities.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In May 2004, Cyprus became a member of the European Union (EU). Prior to its accession into the EU, Cyprus implemented all the necessary requirements to comply with EU regulations, such as establishing the Anti-Drug Council. The Council is responsible for national drug strategies and programs, and is chaired by the Health Minister and is composed of heads of key agencies that are appointed by the Council of Ministers for a three-year period. As the national coordinating mechanism on drug issues in the country, the Council's mandate includes the planning, coordination and evaluation of all actions and programs and interventions aimed at the primary, secondary and tertiary levels of drug prevention. The Council acts as a liaison between the Republic of Cyprus and other foreign organizations concerning drug-related issues, as well as having the responsibility for promoting legislative or any other measures in an attempt to effectively counter the use and dissemination of drugs. Moreover, the Cyprus Anti-Drug Council is the responsible body for the strategic development and implementation of the National Drugs Strategy and the National Action Plan on Drugs aligned with the EU Drugs Strategy.

Also in connection with EU entry, Cypriot authorities established the Cyprus Police European Union and International Police Co-operation Directorate, which replaces a similar operational unit established in 2002. The Division is responsible for cooperating with foreign liaison officers appointed to Cyprus, including the DEA, Nicosia Country Office (NCO), as well as Cypriot liaison officers appointed abroad. The Cyprus Police, Drug Law Enforcement Unit, (DLEU) is the lead Police agency in Cyprus charged with combating drug trafficking in Cyprus. The DLEU hosts weekly meetings attended by foreign liaison officers from the United States (DEA), Greece, United Kingdom, Russia and France assigned to Cyprus and regional liaison officers not assigned in Cyprus from Australia, Canada, Germany, and Italy with reporting responsibilities for Cyprus. In 2006, DLEU's budget increased slightly which contributed to the continuation of training its members in combating drug trafficking. Also, this year has seen the appointment of a new DLEU commander, who brought a wealth of experience into the unit. It is expected that narcotic-related seizures and arrests will increase due to the new commander's innovative methods of drug investigations. In late October 2006, the DEA Office of International Training conducted an Asset Forfeiture Training conference in Nicosia, which was attended by more than forty law enforcement personnel.

Law Enforcement Efforts. Government-controlled area Cyprus aggressively pursues drug seizures, arrests, and prosecutions for drug violations. Cyprus focuses on major traffickers when cases subject to their jurisdiction permit them to, and readily supports the international community in efforts against the narcotics trade. Cypriot police are generally effective in their law enforcement

efforts, although their techniques and capacity remain restricted by a shortage of financial resources. Through the first eleven months of 2006, the Cyprus Police Drug Enforcement Unit opened 557 cases and made 632 arrests. Of those arrested, 421 were Greek Cypriot while 211 were foreign nationals. They also seized approximately 18 kg of cannabis, 304 cannabis plants, 1 kg of cannabis resin (hashish), 6.484 kg of cocaine, 8,229 tablets and 55 grams of MDMA (Ecstasy), 125 tablets and 8.5 grams of amphetamines, 1.75 kg of opium, and 819 grams of heroin, 39 tablets of DHC, 36 tablets of methadone and 201 grams of psilocybin. Seizures of inbound parcels, containing illegal narcotics, through the Greek-Cypriot postal system have increased significantly since 2005. In 2005, five parcels containing narcotics were seized; in 2006, nineteen parcels were seized. The vast majority of the seized parcels originated in England.

Area administered by Turkish Cypriots: The Narcotics and Trafficking Prevention Bureau functions directly under the General Police Headquarters. From January 1 to October 18, 2006 the Turkish Cypriot authorities arrested 246 individuals for narcotics offenses and seized 17.639 kg of hashish, 15.476 kg of heroin, 2 grams of cocaine, 1.498 kg of opium and 1,604.5 tablets of Ecstasy. The Turkish Cypriot authorities also reported an increase of inbound drug related parcels, but did not provide any statistics.

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 UN Single Convention as amended by the 1972 Protocol and the 1972 UN Convention Against Psychotropic Substances. Cyprus is also party to the UN Convention against Transnational Organized Crime and its three protocols, and has signed but has not yet ratified the UN Corruption Convention. An extradition treaty between the United States and Cyprus entered into force in September 1999. A mutual legal assistance treaty (MLAT) between the United States and Cyprus entered into force on September 18, 2002. Cyprus also became a member of the EU in May 2004.

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. The Police seized 332 cannabis plants in the first 11 months of 2005 compared to just 97 in 2004.

Area administered by Turkish Cypriots: The import/export, sale, distribution, possession or cultivation of narcotics is viewed as a serious offense and sentences of up to 15 to 20 years are not unusual. There have been no reports of large-scale cultivation of narcotics, although some individuals have planted cannabis for their own personal use.

Drug Flow/Transit. Although no longer considered a significant transit point for drugs, there were several cases of narcotics smuggling in the past year. Cypriot law enforcement authorities continued to cooperate with the DEA office in Nicosia on several international investigations initiated during 2006. Tourism to Cyprus is sometimes accompanied by the import of narcotics, principally Ecstasy and cannabis. Cyprus police believe that to a large extent their efforts in combating drug trafficking have converted Cyprus from a drug transit point to a “broker point,” in which dealers meet potential buyers and negotiate the purchase and transport of future shipments. In the past, Cypriot authorities believed that there was no significant retail sale of narcotics occurring in Cyprus; however, with new statistics on arrests and seizures of narcotics, this theory has changed. Last year, arrests of Cypriots for possession of narcotics with intent to distribute were significantly higher than the number of arrests of non-Cypriots on similar charges. 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.

Area administered by Turkish Cypriots: The majority of hashish comes from Turkey, whereas heroin transits from Pakistan and Iran via Turkey. Ecstasy and cocaine come from Turkey and England. The preferred method of smuggling illegal narcotics is through concealed compartments of vehicles.

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.

Area administered by Turkish Cypriots: The Turkish Cypriot community has introduced several demand reduction programs, including regular seminars for school counselors and teachers.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The U.S. Embassy in Cyprus, through the regional DEA office, works closely with the Cypriot police force to coordinate international narcotics investigations and evaluate local narcotics trends. Utilizing its own regional presence, DEA assists the new coordination unit in establishing strong working relationships with its counterparts in the region. DEA also works directly with Cypriot customs, in particular, on development and implementation of programs to ensure closer inspection and interdiction of transit containers. In late October 2006, the DEA Office of International Training conducted an Asset Forfeiture Training conference in Nicosia.

The Road Ahead. The USG enjoys close cooperation with 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 2007, 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. 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. Locally produced pervitine is also exported to neighboring countries. Marijuana, grown locally and imported from Holland, is used more than any other drug. Consumption of recreational drugs, such as marijuana and Ecstasy, continues to grow particularly among youth. The Czech government has taken little action, even though the EU reported last year that Czech marijuana usage is the highest in Europe. Usage and addiction rates of heroin and pervitine are high but seem to have stabilized, while cocaine use remains low but is growing. The Czech Republic is a producer of ergometrine and ergotamine used for the 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 country is also a popular destination country. The maximum sentence for any drug-related crime is 15 years imprisonment, but often convicted drug traffickers only receive light or suspended sentences. The Czech National Focal Point for Drugs and Drug Addiction is the main body responsible for collecting, analyzing and interpreting data on drug use. A four-year governmental action plan "The National Drug Policy Strategy for 2005-2009" is evaluated internally every year and appropriate measures are taken when viewed necessary.

According to a pan-European (EU) study from 2005, 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.

The Czech statistical office estimates Czechs spend 6.5 billion crowns (\$297 million) and consume about 15 tons of drugs annually. Czechs consume 10 metric tons of marijuana, 1.2 million Ecstasy tablets, over 250,000 LSD tabs, 3.5 metric tons of pervitine and 2.2 metric tons of heroin annually as well.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Drug policy remains a contentious issue in Czech domestic politics. The US-DEU political party, one of five members of the former government, oriented its election campaign towards young people and promised to promote the legalization of marijuana. US-DEU did poorly in the June 2006 national elections and won no seats in Parliament. The stalemate following the deadlocked June elections has led to the failure of the government to address drug-related issues, including legalization proposals.

The Criminal Code passed in 2005 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 focuses on enforcement operations against organized criminal enterprises and efforts to reduce addiction and their associated health

risks. One of the top priorities of the government in 2005 and 2006 was the establishment of a system of certification for drug prevention programs. The government also focused efforts on improving laws on asset forfeiture and seizure of illicit proceeds, as well as on controlling pills containing chemical precursors.

The National Drug Headquarters is the main organization within the country responsible for major drug investigations. The drug units of the Czech Customs Service are also responsible for tracking drugs and can use the same operational tools as the police. Since 2005, they are also responsible for monitoring the Czech Republic's modest licit poppy crop, a function previously performed by the Ministry of Agriculture.

In 2005, the Czech Customs Service established mobile groups that control suspicious trucks on highways in the country. Given the Czechs accession into the EU and a loosening of the borders this is of growing importance. Czech Customs is also responsible for the control of highway tickets and the trafficking of illegal cigarettes. As a result of these other tasks, drug trafficking is not their highest priority.

The NDH cooperates regularly with the Custom Services based on a cooperation agreement signed between the Ministries of Interior and Finance. In 2006, the Customs Service placed a liaison officer at the Police Presidium to strengthen and streamline cooperation. The fight against drug smuggling was made more difficult by the Czech Republic's entry into the EU and the resultant more open borders. In November 2005, the Customs Service received on-line access to all police information systems. Discussions continue as to whether the NDH and the customs drug unit should be joined under one institution due to overlapping responsibilities. The National Drug Headquarters cooperates regularly with the Czech Financial Police.

Accomplishments/Law Enforcement. In 2005, the National Drug Headquarters, together with the Customs Service, seized 36.3 kg of heroin; 19,010 Ecstasy pills; 5.3 kg of methamphetamine, 103 kg of marijuana, 1,780 cannabis plants, 4.6 kg of hashish, and 10 kg of cocaine. They also found 261 methamphetamine laboratories.

During the first nine months of 2006, the National Police, together with the Customs Service, seized 15.3 kg of heroin; 12,416 Ecstasy pills; 4.6 kg of methamphetamine, 61 kg of marijuana, 1,550 cannabis plants, only 0.4 kg of hashish, and 1.4 kg of cocaine. In the same period of time, 278 methamphetamine and 11 marijuana laboratories were found which is an increase compared to statistics for all of 2005.

The National Drug Headquarters also scored some significant successes in 2006:

In January, after several years of intensive international cooperation with Venezuela, the Netherlands, Slovakia and Netherlands Antilles, the Czech police arrested two Czechs and one Slovak who ran a large drug smuggling ring importing cocaine from South America to Europe. During the investigation, the Dutch police, in cooperation with NDH arrested several Czech and German drug mules carrying nearly 200 kg of cocaine. It is not clear whether the cocaine's end destination was the Czech Republic. The seized cocaine had a street value of 110 billion crowns (\$5.2 billion).

In May, the police arrested three Israelis who ran an Ecstasy drug trafficking ring in the Czech Republic. The group built its distribution network in Prague's center, selling Ecstasy primarily in clubs and discos and was successful in monopolizing the Ecstasy trade in downtown Prague. During the bust, police found over 4,200 Ecstasy pills, with an estimated street value of one million crowns (\$50,000) as well as other drugs.

During the summer, six Czechs were arrested for large-scale production and distribution of pervitine. These individuals worked with conspirators from the Former Republic of Yugoslavia in

obtaining the necessary ephedrine to make pervitine and organized distribution within the Czech Republic and also exported the highest quality pervitine, called “crystal,” to Germany. The price of one dose of crystal in Germany is about 2,000 crowns (\$90). Czech police continue to investigate the case.

According to police statistics for the first half of 2006, 1,261 people were investigated for drug related crimes. Police investigated 1,230 suspects for unauthorized production and possession of narcotics and psychotropic substances and “poisons”. Police investigated 104 individuals for drug possession for personal use, and 31 others were investigated for spreading addiction.

According to the statistics provided by the Ministry of Justice for the same period of time, the state prosecuted 1,438 suspects and indicted 1,270 others for drug related crimes; 116 were indicted for drug possession for personal use and 50 were indicted for spreading addiction. Courts convicted 747 individuals for drug related offenses, including 29 convictions for drug possession for personal use and 7 for spreading addiction.

Statistics for first six months of 2006 show that most convicted criminals (54 percent) received conditional sentences for drug related crimes and only one-third of convicted criminals were actually sentenced to serve time in prison. Only 15 percent of this latter group received sentences higher than 5 years in prison. Compared to 2005, this is a slight improvement since at that time only 13 percent of prison sentences were higher than five years. The majority of those sentenced to serve time in prison (71 percent) received sentences ranging from one to five years. The practice of adding on penalties such as fines, asset forfeiture or public service was similar to previous years.

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”. This leaves the determination to the individual police officer thus opening up 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 and 2005 a few police officers were arrested for drug-related crimes including four cases of production and distribution of drugs and one case of trafficking. In August, one policeman was convicted of selling drugs in Northern Bohemia. He only received a one-year suspended sentence, but the prosecutor has appealed the verdict to the higher court in an attempt to stiffen the penalty. The Czech Republic signed the UN Convention against Corruption in 2005 but has not yet ratified it.

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. A 1925 extradition treaty, as supplemented in 1935, remains in force between the United States and the Czech Republic. The U.S. and Czech representatives signed supplements to the U.S. — EU extradition treaty in May 2006.

Drug Flow/Transit. Whereas in past years heroin trafficking in the country was solely under the control of ethnic Albanian groups that import their product from Turkey, according to the Czech counternarcotics squad this is no longer the case. Due to several major successes against these groups in the past, they are now experiencing financial insolvency and are having difficulties importing large amounts of heroin. However, Turks living in the Czech Republic have better relations with suppliers in Turkey and have more cash available for large heroin purchases from Turkey. Heroin is transported in the Czech Republic primarily using modified vehicles. Abuse of cocaine is not as widespread as other drugs, but abuse is increasing also thanks to the growing

purchasing power of Czech citizens. Cocaine is frequently imported by Nigerians or Czechs through Western Europe from Brazil or Venezuela. Mail parcels, Czech couriers or “swallowers” are the most common ways of import.

Pervitine is a synthetic methamphetamine—type stimulant primarily produced in homes and laboratories. Its production is growing thanks to growing local demand and growing export possibilities to Germany, Austria and Slovakia. Besides Czech citizens, who are still the main producers of the drug, Vietnamese and Albanians residing in the Czech Republic and Germans are also major pervitine traffickers. The Vietnamese control mainly the border areas, selling drugs in market places where they collect orders from German customers and use Czech and German couriers to satisfy demand in the region. Pervitine is produced from imported ephedrine from the Balkans or from locally available flu pills.

Imported Ecstasy tablets remain a favorite drug of the “dance scene.” Ecstasy is trafficked primarily from the Netherlands and Belgium. Ecstasy tablets are smuggled into the country by local couriers, mainly hired in localities with high unemployment rates like Northern Bohemia and Northern Moravia. These couriers travel into the country on trains, buses or planes within the EU. There is also some trafficking organized by Nigerians. A trend toward larger-scale growth of cannabis plants in hydroponic laboratories continued in 2006, along with a similar growth in the potency of the drug produced (up to 20 percent THC). Consumption of cannabis is mainly covered by local production, but is also imported from the Netherlands in small amounts and to a lesser extent from Spain or India. Most smugglers are Czechs or Dutch citizens, but local Vietnamese have also become involved in marijuana trafficking.

Salvia Divinorum is a legal drug that is more common among young experimenters. A plant of salvia is relatively easy to buy on Internet for about 500 crowns (\$25). Toluene, a solvent, is commonly inhaled by poor young segments of the population, primarily in the north of the country.

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 that 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 May, the government released a study on drug addiction treatment programs that stressed the importance of services provided by telephone and the Internet. As a result, the Czech government produced an online “Map of Help” including contact information for all drug treatment programs in the Czech Republic.

To provide high-level treatment services to clients all over the country, the National Strategy set standards that are required from all drug treatment providers. In connection with this effort, the government began a certification process in 2005 for treatment facilities. All providers of secondary and tertiary prevention programs that applied for governmental funding in 2006 were required to have received prior government certification. Certification of primary prevention programs under the administration of the Ministry of Education was delayed although all such providers must obtain certification prior to the end of 2008.

Since January, mandatory drug testing of individuals suspected of traffic violations is now required by law, but is facing problems due to a lack of resources. Traffic police do not have enough test kits and the law allows police only to test the driver’s saliva as opposed to sweat, which is more commonly used in many other European countries.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. covers Czech Republic drug issues through the DEA office in Warsaw, which maintains a cooperative relationship with Czech counterparts.

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) to prevent against the transit of illicit drugs. 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 2006

Policy Initiatives. 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. Over the past two years, there has been 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." 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. Serbian and Albanian nationals control heroin trafficking. Final crime statistics for 2006 are not yet available, but the latest 2005 figures show an increase in drug seizures for all major drugs, including heroin, cocaine, hashish, and amphetamines.

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. Denmark is also a Major Donor to the UN Office on Drugs and Crime (UNODC), with an annual pledge of nearly \$2,000,000.

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

The closures of illegal synthetic drug labs, seizures of drug precursors, and detection of local and international drug chains indicate drug production and transit activity in Estonia, but also reflect the increasing efficiency of counternarcotics efforts by Estonian law enforcement agencies. The drug situation in Estonia does not differ dramatically from that in other European countries except for the high HIV-infection rates among intravenous drug users. Estonia is a party to the 1988 UN Drug Convention.

II. Status of Country

Estonia's most popular illegal narcotics include trimethylpentanyl, or "White Persian," Ecstasy, amphetamine, and cannabis. The closure of illegal synthetic drug labs, along with seizures of production equipment and precursors, indicate that synthetic drugs are produced in Estonia. While some drugs are consumed locally, production is also exported to neighboring countries, as evidenced by the frequent arrests of drug traffickers at the border. Seizures of large quantities of narcotic substances by Estonian law enforcement agencies indicate that Estonia is involved in drug transit in the region.

According to Government and NGO estimates, there are about 14,000 intravenous drug users (IDUs) in Estonia (about one percent of the total Estonian population). Due to its large IDU population, Estonia has the highest per capita HIV-infection growth rate in Europe. As of October 2006, a total of 5,567 cases of HIV had been registered nationwide, 504 of which were registered in 2005 (a slight decline compared to recent years). To date, AIDS has been diagnosed in a total of 112 people, 12 of whom were diagnosed in 2006. Male IDUs account for the largest share of newly registered HIV cases; however, the number of HIV-positive young women and pregnant women has increased, indicating that the epidemic is spreading into the general population.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2006, Estonia continued to upgrade its antinarcotics legal framework. On July 17, 2006, the Amendment Law on the Narcotic Drugs and Psychotropic Substances Act (ALNDPSA), adopted by Parliament came into force. The ALNDPSA harmonizes Estonia's legislation with European Union (EU) narcotics regulations and brings domestic law into compliance with the United Nations (UN) Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The ALNDPSA specifies that, starting from January 1, 2006, the Estonian Drug Monitoring Center has the right to collect data on illegal drugs and drug users and to establish a national drug treatment registry.

Also in 2006, Estonia continued to implement its national 2006-2015 anti-HIV/AIDS strategy. The national anti-HIV/AIDS strategy was adopted on December 1, 2005. Its aims are 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 IDUs. As part of its anti-HIV/AIDS strategy the Government of Estonia (GOE) formed a high-level committee to coordinate all HIV and drug abuse prevention activities. The committee is comprised of representatives from the Ministries of Social Affairs, Education and Research, Defense, Internal Affairs, Justice, and Finance, as well as the UN Global Fund to Fight HIV/AIDS, TB, and Malaria (UN Global Fund), local governments, the World Health Organization, organizations for people living with HIV/AIDS, and members of the original working groups that drafted the GOE's anti-HIV/AIDS strategy. The committee reports directly to the GOE on a biannual basis.

Law Enforcement Efforts. Combating narcotics is a major priority for Estonian law enforcement agencies. Good cooperation on counternarcotics activities is maintained between police, customs officials, and the border guard. Currently 92 police officers are working solely on drug issues. In 2006, the police registered 701 drug-related criminal cases and successfully carried out several counternarcotics operations. In March, the Central Criminal Police discovered an amphetamine lab in a rural community outside the capital. Amphetamine, precursors, and lab equipment were seized. The street value of the confiscated items was \$8,400. In May, police seized 450 grams of fentanyl, or "White Chinese," estimated at 15,000 doses with a total value of \$84,000. As a result of several operations in June and August, Estonian police eliminated a drug conspiracy group, detained five people, and seized over 20 kg of the psychotropic substance gammahydroxybutyrate (GHB), lab

equipment, and 15 kg of the precursor gammabutyrolactone (GBL), sufficient to produce 45 kg of GHB.

Combating the illicit narcotics trade is also a high priority for the Estonian Tax and Customs Board (ETCB). The ETCB has 27 officers solely dedicated to the fight against drug trafficking, including 17 dog teams assigned to regional Customs Control Departments. All customs, investigation, and information officers have received special training in narcotics control, and all customs border points are equipped with rapid drug tests. In 2006, ETCB installed new equipment with the capability to X-ray truck cargo at the border. The ETCB has further entered into memoranda of understanding with major courier companies in an effort to involve them in drug trade prevention. From the period of January-October 2006, the ETCB seized a total of 210.2 kg of hashish (11 cases), 11.8 kg of cannabis (three cases), 4.5 kg of heroin (single seizure), 1.2 kg of amphetamines (three cases), and confiscated lab equipment for synthetic drug production.

Corruption. The GOE does not encourage or facilitate illicit production or distribution of narcotics or psychotropic drugs or the laundering of proceeds from illegal drug transactions. There are no reports of any senior official of the GOE engaging in, encouraging, or facilitating the illicit production or distribution of narcotic substances.

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. A 1924 extradition treaty, supplemented in 1934, remains in force between the United States and Estonia, and the countries entered into a treaty on mutual legal assistance in criminal matters in 2000. On October 18, 2006 the Estonian Parliament ratified a new Estonian-U.S. extradition agreement and a revised agreement on mutual legal assistance in criminal matters. These new agreements, still pending official enactment in the United States, are in compliance with agreements previously signed between the EU and the United States as well as a 2002 decision of the EU Council concerning arrest warrants and transfer procedure. Estonia is a party to the UN Convention against Transnational Organized Crime and its three protocols. Estonia's domestic drug legislation is consistent with international laws regulating the combat against illicit drugs.

Cultivation/Production. Estonia's cold climate precludes it from becoming a major drug cultivator; however, in northeastern Estonia small amounts of poppies are grown for local consumption. During the past ten years police have closed 27 drug labs and seized products and precursors from different regions of Estonia, demonstrating Estonia's involvement in synthetic narcotics production. Most of the known labs are small and very mobile, making them difficult to detect and close. In addition to production for domestic consumption, Estonia supplies drugs to neighboring countries, including the Nordic countries and northwestern Russia.

Drug Flow/Transit. The geographical position of Estonia makes it attractive to drug smugglers. Frequent arrests of drug traffickers and seizures of narcotic substances at the borders indicate Estonia's involvement in the international drug trade, but also demonstrate the high performance level of Estonian law enforcement agencies. In summer 2006, in cooperation with foreign partners, Estonian police disrupted an international drug conspiracy. Police arrested three people within Estonian borders and seized 17,000 tablets of Ecstasy and more than 60,000 tablets of chlorophenylpiperazine in transit from the Netherlands to Russia. The estimated street value of the seized substances was about \$670,000.

Domestic Programs/Demand Reduction. In 2006, Estonia continued to implement its 2004-2012 National Strategy on the Prevention of Drug Dependency. Combating the drug trade and reining in domestic consumption continue to be high priorities for all Estonian law enforcement agencies and for several government ministries. Emphasis on the prevention of drug addiction and HIV/AIDS prevention continued in 2006 with the continued implementation of the 2005 Government

Coalition Agreement. There are approximately 60 governmental, non-governmental, and private entities in Estonia working with IDUs to provide services to decrease demand and reduce harm. There are currently seven voluntary HIV testing and counseling centers in Estonia funded by the GOE, local governments, and the UN Global Fund. A needle exchange program is operational in 27 cities and includes a number of mobile needle exchange stations. In Tallinn and northeastern Estonia (the center of the HIV epidemic) methadone treatment is provided at six centers. Drug rehabilitation services are available in eight facilities nationwide, three of which are church-sponsored.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In 2006, the U.S. Department of Defense (DOD) initiated a major project with the Estonian Defense Forces (EDF) entitled “DOD HIV/AIDS Prevention Program” to raise awareness of military personnel and to assist in the creation of a sustainable EDF HIV/AIDS prevention system. In addition, the GOE continues to implement projects financed by the State Department on the prevention of HIV transmission from mother to child in the Russian border area. The implementation of HIV-related stigma reduction programs continued in 2006, including a State Department-sponsored visit by a stigma expert from the United States. The State Department further financed the printing of brochures for people living with HIV.

In 2006, the Export Control and Border Security program (EXBS) provided training for customs agents, border guards, security police, and criminal central police. While principally designed for antiproliferation and WMD detection, many of the techniques in the training are directly applicable to narcotics searches and seizures.

The Road Ahead. The U.S. will continue to cooperate with Estonia and will continue to build on the training completed during 2006: International Railroad Interdiction Training in El Paso, TX (April 3-7); International Seaport Interdiction Training in Charleston, SC (September 18-22); International Railroad Interdiction Training in Narva, Estonia (September 25-29); and International Airport Interdiction Training in New York City, NY (scheduled for December 2006).

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 and Western Europe. Estonian organized crime syndicates are believed responsible for much of the drug trafficking into Finland. Finland'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 and Beijing 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 UNODC 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 are 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. Domestic drug abuse and rehabilitation programs are excellent, although access to rehabilitation programs for prison inmates was criticized in 2005 as being insufficient due to resource constraints. As of 2006, a government committee was looking into recommendations to improve this situation.

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 growing Finnish expatriate community in Malaga. 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 larger cities such as Turku, Tampere, and Oulu. Social Welfare authorities believe the introduction of GHB and other "date rape" drugs into Finland has led to an increase in drug-related 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 90's, but seizures have declined since 2004. Subutex (buprenorphine) and other heroin-substitutes seem to have supplanted actual heroin use 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 supply, which is 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. The actual extent of Subutex use is unknown.

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 EU, Estonian travelers to Finland are no longer subject to routine inspection at ports-of-entry, making it more 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. Ecstasy is primarily sold in dance clubs in larger cities and is reportedly readily available in many of the most popular clubs. There is also demand for Ecstasy on university campuses. Ecstasy use tends to be concentrated among students and young adults. 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 human smuggling and trafficking-in-persons. Finland's Frontier Guard stationed a permanent liaison officer in Beijing in 2006 to better monitor this phenomenon, and has liaison officers in St. Petersburg, Moscow, and several other cities.

III. Country Actions Against Drugs In 2006

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 about the "mixed message" that the fine system sends 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.

Accomplishments. The GoF's strategy in 2006 focused on regional and multilateral cooperation aimed at stemming the flow of drugs before they reach Finland's borders and on using the country's position as EU President from July-December to facilitate EU cooperation on antinarcotics efforts. Finland spearheaded efforts at the EU Justice and Home Affairs Ministerial Meeting in September to make it easier for the EU to use qualified majority voting procedures to facilitate law enforcement cooperation and information sharing. Finland participated in several multilateral conferences and seminars on combating narcotics globally and in the Nordic-Baltic region. A Finnish delegation met with Chinese counterparts to discuss narcotics smuggling from Asia to Europe. During Finland's EU Presidency, Interior Minister Rajamaki frequently cited antinarcotics

cooperation as one of the EU's and Finland's key goals; in November, Rajamaki visited the U.S. for the U.S.-EU Justice and Home Affairs Ministerial Meeting and discussed, inter alia, trans-Atlantic narcotics eradication efforts.

Law Enforcement Efforts. The police report that arrests and seizures in 2006 are projected to remain stable (statistics are not yet available). Law enforcement focuses limited police resources on major narcotics cases and significant traffickers. The Frontier Guard stationed a permanent liaison officer in Asia (Beijing) for the first time to better monitor and combat narcotics trafficking. Finland in 2006 continued its impressive record of multilateral cooperation. Finnish police maintain liaison officers in ten European cities (six in Russia). The Prosecutor-General's Office maintains liaison officers in St. Petersburg, Tallinn, and Moscow. In addition, Finland and the other Nordic countries pool their resources and share information gathered by Nordic liaison officers stationed in 34 posts around the world.

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 has extradition treaties with many countries, including the U.S. Finland ratified the EU extradition treaty in 1999 and the EU Arrest Warrant in 2005, and signed the bilateral instrument of the EU-U.S. Extradition Treaty in 2004. Finland is a party to the UN Convention Against Transnational Crime and its protocols against trafficking in persons and migrant smuggling.

Finland has also concluded a Customs Mutual Assistance Agreement with the United States. Finland is a member of the Dublin Group of countries coordinating policies on drug issues and is also a "major donor" to the UNODC, with an average annual pledge of nearly \$2,000,000.

Cultivation/Production. There were no reported seizures of indigenously cultivated opiates, no recorded diversions of precursor chemicals, and no detection of illicit methamphetamine, cocaine, or LSD laboratories in Finland in 2006. Finland's climate makes cultivation of cannabis and opiates almost impossible. Local cannabis cultivation is believed to be limited to small numbers of plants in individual homes using artificial lighting for personal use. The distribution of the 22 key precursor chemicals used for cocaine, amphetamine, and heroin production is tightly controlled.

Drug Flow/Transit. Hashish and Ecstasy are the drugs most often seized by the police. Finland is not a 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 GoF emphasizes rehabilitation and education over punitive measures to curb demand for illegal drugs. The central government gives substantial autonomy to local governments to address demand reduction using general revenue grants. Finnish schools in 2006 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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. has historically worked with Finland and the other Nordic countries through multilateral organizations to combat narcotics trafficking in the Nordic-Baltic region. This involves assistance to and cooperation with the Baltic countries and Russia. FBI Agents twice visited Finland in 2006 to participate in antitrafficking-in-persons training programs; human trafficking into Finland is believed in some cases to be associated with narcotics smuggling. Finnish law enforcement maintains a close relationship with American counterparts; cooperation is excellent.

The Road Ahead. The U.S. anticipates continued close cooperation with Finland in bilateral and multilateral settings such as the UNODC, 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 continues to be a major transshipment point for drugs moving through 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 Schengen open border system, contribute to its desirability as a transit point for drugs, including drugs originating in South America. France's own large domestic market of predominantly cannabis users is attractive to traffickers as well. Specifically, in descending order, cannabis originating in Morocco (and to a lesser extent, Algeria), cocaine from South America, heroin originating in southwest Asia, and Ecstasy (MDMA) originating in the Netherlands and Belgium, all find their way to France. Seizures of amphetamines and methamphetamine in France remain relatively inconsequential. Increasingly, traffickers are also using the Channel tunnel linking France to Great Britain as a conduit for drugs from Continental Europe to the UK and Ireland. Although the total number of drug seizures reported in 2005 (latest published figures) declined by 2.19 percent from 2004 levels (to 83,932), the gross total of the quantity of seizures of cocaine (HCL), Heroin, and Khat all increased, whereas cannabis products, MDMA, and cocaine base ("crack" form) all decreased. Drug trafficking and possession arrests decreased in 2005 by 0.78 percent to 120,305, a significant decline from the 24 percent increase seen in 2003 and the 13 percent increase seen in 2004. 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 4 percent and 2 percent of users respectively. 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 1990, MILDT (which received its current name in 1996) coordinates the 19 ministerial departments that have direct roles in establishing, implementing, and enforcing France's domestic and international drug control strategy. The MILDT is a policy organ that does not have input into enforcement matters or its own budget. The French also participate in regional cooperation programs initiated and sponsored by the European Union. Deaths by drug overdose have declined since 1995. In 2005 there were 57 deaths due to overdose, compared to 69 deaths in 2004. Possession of drugs for personal use and possession of drugs for distribution both constitute crimes under French law and both are enforced. Penalties for drug trafficking can be severe and can include up to a sentence of life imprisonment. French counter narcotics agencies are effective, technically capable and make heavy use of electronic surveillance capabilities. In France, the counterpart to DEA is the Office Central pour la Repression du Trafic Illicite des Stupifiants (OCRTIS), also referred to as the Central Narcotics Office (CNO). Two aspects of French law make narcotics enforcement difficult compared to U.S. law: French law prohibits reductions in prison sentence or dismissal of charges for cooperation (plea bargaining) and French law limits undercover operations to those approved by a judge or government prosecutor. 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 activities such as money laundering and clandestine gambling.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In late 2004, France launched a five-year action plan called “Programme drogue et toxicomanie” (Drug and Addiction Program) to reduce significant 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 counter narcotics 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. In 2006, French authorities made several important seizures of narcotics. On February 3, 2006, French Customs officials seized 305 kg of heroin after searching a tractor trailer as it was preparing to transit from France, near the Belgian border, to the United Kingdom. The tractor trailer contained a shipment of auto parts fabricated in Turkey and had transited multiple east and west European countries prior to its seizure in France. On May 8, 2006, following receipt of information concerning a cocaine transaction to be conducted in Paris, French Customs and the Paris Narcotics Squad conducted surveillance resulting in the seizure of over 275 kg of cocaine and the arrest of three British nationals, one Dutch national, and one French national. On June 19, 2006, French Customs stopped a passenger vehicle entering France from Belgium and seized 19.6 kg of MDMA in the possession of a Dutch national. The MDMA was reportedly being transported to Spain. On August 26, 2006, as a result of a joint Spanish/French/US investigation, Spanish naval assets intercepted a sailing vessel near the Canary Islands and located over 3,000 kg of cocaine. The organization involved in this shipment consisted primarily of French nationals residing in southern Spain. French authorities routinely seize quantities of heroin and cocaine ranging between one and five kg, which are entering or transiting France via its two international airports in Paris. Occasionally, these seizures involve larger quantities of heroin or cocaine located in luggage.

Corruption. As a matter of government policy, the Government of France is firmly committed to the fight against drug trafficking domestically and internationally. The government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. 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. have an extradition treaty and an MLAT, which provides for assistance in the prevention, investigation, and prosecution of crime, including drug offenses. 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 against 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 and South American 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/Demand Reduction. MILDT is responsible for coordinating France's demand reduction programs. Drug education efforts target government officials, counselors, teachers, and medical personnel, with the objective of giving these opinion leaders the information they need to assist those endangered by drug abuse in the community. The government is continuing its experimental methadone treatment program, and clinics were treating an estimated 100,000 opiate addicts at the beginning of 2006. At last report, there were currently 85,000 persons taking Subutex as a treatment for opiate addiction in France, and 25,000 on methadone. 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. That said, cannabis use by young people is widely tolerated in practice.

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 and OCRTIS have been working together on operations that have resulted in the seizure and/or dismantling of 29 operational, or soon-to-be-operational clandestine MDMA (Ecstasy) laboratories, the arrests of more than 51 individuals worldwide, and 19 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 of 2005, 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. They have cooperated in the dismantling of a major hashish smuggling/drug money laundering/credit card fraud group operating in the U.S., France and Morocco. In 2006, France provisionally arrested at U.S. request two fugitives in drug related matters; their extraditions are pending.

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.

Georgia

I. Summary

Georgia has the potential to be a transit country for narcotics flowing from Afghanistan to Western Europe. In 2006, however, there were no western-bound, significant seizures of narcotics. Subutex, a licit pharmaceutical produced in the UK, continues to flow from the west into Georgia, and beyond. Breakaway territories not controlled by the Government of Georgia (GOG)--South Ossetia and Abkhazia--also provide additional routes for drug flow and other contraband. There is little or no exchange of information on trafficking between the de facto governments of these territories and the GOG. Anecdotal evidence indicates a sizable domestic drug problem in Georgia. In response, the GOG is belatedly developing an Anti-Drug Strategy. The GOG also is continuing efforts to increase border security with the United States Government, European Union (EU) and other donors' assistance. Statistics on seizures, arrests, and prosecutions for narcotics-related crime are not up to Western standards. A national register of drug abusers has recommenced after falling into disuse. State-supported treatment is largely non-existent.

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 may enter Georgia from Azerbaijan via the Caspian and exit through the northern Abkhaz or southern Ajaran land and water borders. Thinly staffed ports of entry and confusing and restrictive search regulations make TIR (long-haul trucks carrying nominally inspected goods under Customs Seal) trucks the 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 any significant seizure of drugs moving west in 2006.

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. Subutex, used as an intravenous drug, is increasingly the drug of choice since it is cheaper than heroin, provides a longer high, and promises high mark-ups for dealers. There have been public reports of major seizures of Subutex trying to enter the country for domestic consumption. Anecdotal evidence, discussions with law enforcement, and an abundance of discarded needles fouling streets all point to a sizable drug problem.

III. Country Actions Against Drugs in 2006

The "Advisory Council on Drug Policy," which includes the Ministry of Health, MOIA, NGOs, doctors, and jurists, developed an "Anti-Drug Strategy," which was presented to the cabinet at the end of August. The strategy aims for a "holistic, consistent, and balanced antidrug policy", i.e. a mix of fighting supply and reducing demand. Action plans are being worked out for implementation and funding in 2007. In conjunction with this effort, the Prosecutor General and the MOIA are working out an "antidrug legal package." Already, an amendment has been presented in Parliament increasing penalties for drug abuse, and intensifying monitoring of drug users. Some observers, however, have criticized GOG antidrug efforts to date as poorly-coordinated, under-funded, and directionless.

Law Enforcement Efforts. The Special Operations Department of the MOIA is the lead agency for fighting drug trafficking. The Georgian Border Police also play a role, though far smaller. The Border Police reported four seizures of narcotics at border points in 2006. Most arrests for cultivation are believed to be small plots intended for personal use.

In the first nine months of 2006, drug related cases increased by 31 percent over 2005. It is unclear whether the jump is due to increased drug use or more aggressive policing in line with President Saakashvili's "zero tolerance policy" for criminal acts. According to MOIA statistics:

Activities	2005	2006 (Jan-Sept)
Drug-related cases	2,074	2,038
Felonies	1,427	1,357
Contraband	34	27
Dealings	138	90
Cultivation	109	95
Heroin seizure	2.59 kg	4.79 kg
Marijuana seizure	23.3 kg	11.14 kg
Opium seizure	4.75 kg	0
Cocaine	1.59 kg	0
Subutex	4,302 pills	4,539 pills
Methadone	4,717grams	0

Corruption. As a matter of policy, the GOG neither encourages nor facilitates illicit drug production, distribution, or the laundering of drug profits. No senior officials are known to be engaged in such activities. Rather, the GOG declared war against corruption after the 2003 Rose Revolution and remains publicly committed to this effort. Statistics from the World Bank and other organizations indicate that there has been a dramatic decrease in corruption across the government. The GOG is continuing civil service, tax and law enforcement reforms aimed at deterring and prosecuting corruption. Despite these efforts, however, corruption still exists.

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. In September 2006 Georgia ratified the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. In addition, the GOG has signed antinarcotics agreements with the Commonwealth of Independent States, Black sea basin countries, the GUUAM Group (Georgia-Ukraine-Uzbekistan-Azerbaijan-Moldova), Iran, and Austria.

Cultivation and Production. Estimates by the GOG on the extent of narcotics cultivation within the country are unreliable and do not include the breakaway regions outside the central government's control (South Ossetia and Abkhazia). A small amount of low-grade cannabis is grown for domestic use, but there are no other known narcotics crops 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. In fact, many factories that could produce precursors closed after the collapse of the Soviet Union.

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 significant seizures in 2004, 2005, and the

first nine months of 2006. This, for some, is proof that Georgia is indeed not a transit country; others point to inadequate policing and/or possible corruption. For their part, antinarcotics police complain of a lack of equipment and “sniffer” dogs to properly examine vehicles at borders. Even those who argue that drugs do transit Georgia to Western markets believe that Georgia is a secondary route.

Demand Reduction. There are no widely accepted figures for drug dependency in Georgia, and more generally, statistics are poorly kept. Some sources put the number of drug users between 240,000 and 350,000. Such calculations are, however, at best, a guess. They result from multiplying known users by a coefficient to account for the covert, hidden nature of the problem and poor record keeping.

The GOG has just restarted a national register on drug abusers, which at the end of 2004 numbered 24,000. The register had fallen into disuse after mandatory drug testing was moved from the Ministry of Health to the Ministry of Justice. There were 1488 new registered drug abusers between May-December 2005, with another 4380 registered from January 2006 through mid-October 2006. New figures for 2005 and 2006 are, however, for Tbilisi only. All figures include both hard-core addicts as well as other users.

According to the UNODC Southern Caucasus Anti-Drug Program (SCAD), the GOG has slashed demand reduction funding in the past ten years ten times, allotting just 50,000 GEL (\$28,730) in 2006. A handful of private clinics provide treatment, which is in great demand. In December 2005, the first ever substitution therapy program, which is financed by the Global Fund for AIDS, was launched in Georgia. Numbers treated, however, are small.

IV. U.S. Policy Initiatives and Programs

Bilateral Programs. In 2006, the USG continued timely and direct assistance on procuracy reform, anticorruption efforts, money laundering, writing a new criminal procedure code, upgrading the forensics lab, building a police academy and introducing a new curriculum, fighting human trafficking, and equipping the patrol police with modern communication equipment.

The Road Ahead. Recent efforts to hammer out a national drug strategy should be welcomed in light of the rise of Subutex. Most likely, that strategy will be a balance between interdiction and demand reduction. If implemented quickly and funded-properly, that strategy may spare Georgia the full blight of HIV/AIDS, which is a growing, but still relatively minor problem.

Germany

I. Summary

Although not a major drug producing country, Germany is 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 2006, Germany continued to implement its Action Plan on Drugs and Addiction, which it launched in 2003, with a specific focus on prevention. Cannabis is the most commonly consumed illicit drug in Germany. Organized crime continued to be heavily engaged in narcotics trafficking. The Federal Office of Criminal Investigation (BKA) publishes an annual narcotics report on illicit drug-related crimes, including data on seizures, drug flows, and consumption. The most recent complete German figures available for narcotics cover calendar year 2005. That year saw drug-related crimes (276,740) drop for the first time since 1996. Germany is a party to the 1988 UN Drug Convention.

II. Status of Country

Germany is not a significant drug cultivation or production country. However, Germany's location at the center of Europe and its well-developed infrastructure make it a major transit hub. Ecstasy moves from the Netherlands to and through Germany to Eastern and Southern Europe. Heroin is trafficked to Germany from Turkey, Austria, and Italy. Cocaine moves through Germany from South America and the Netherlands. Organized crime continues to be heavily engaged in narcotics trafficking. Germany is a major manufacturer of pharmaceuticals, making it a potential source for precursor chemicals used in the production of illicit narcotics, although current precursor chemical control in Germany is excellent.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Germany continues to implement the Federal 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 an immediate remedy for drug-addicts, and (4) interdiction and supply reduction. Germany also abides by the EU Drugs Action Plan 2005-2008. The National Inter-agency Drug and Addiction Council that had been established in 2004 to coordinate and review the implementation of the government's "Action Plan on Drugs and Addiction" passed a new working program in March 2006. The program recommends, inter alia, a continued focus on demand reduction in the consumption of cannabis.

Law Enforcement Efforts. Counternarcotics law enforcement remains a high priority for the BKA and the Federal Office of Customs Investigation (ZKA). German law enforcement agencies scored numerous successes in seizing illicit narcotics and arresting suspected drug dealers. According to the most recent publicized analyses, the number of narcotics related seizures increased in 2005. However, the seized amounts decreased overall. Seizures of Ecstasy decreased in 2005, while seizures of amphetamine, heroin and cocaine increased. The number of seizures of cannabis rose in 2005, while the amount of seized cannabis fell. In 2006, the BKA seized significant amounts of hashish transported from the Pakistan/Afghanistan border region. The ZKA conducted 7,683 criminal narcotics related investigations in 2005. The Frankfurt/Main Airport Customs Office alone seized 846 kg of illicit drugs in 2005 at Europe's second busiest passenger airport and a major freight hub -- roughly the same amount as in 2004.

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. No cases of official corruption have come to the USG's attention.

Agreements and Treaties. A 1978 extradition treaty and a 1986 supplemental extradition 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 German Parliament is expected to ratify in early 2007. The U.S. Senate gave its advice and consent to ratification of the treaty on July 27, 2006. Additionally, the U.S. and Germany signed bilateral instruments to implement the U.S.-EU Extradition and Mutual Legal Assistance Agreements on April 18, 2006. These bilateral instruments were submitted for review together with the MLAT for approval by the German Parliament in order to implement all international obligations simultaneously. 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 ratified the UN Convention against Transnational Organized Crime on June 14, 2006. Germany has signed but has not yet ratified the UN Corruption Convention.

Cultivation and Production. Germany is not a significant producer of hashish or marijuana. The BKA statistics reported seizure of eight synthetic drug labs in Germany in 2005.

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 to and through Germany to other European countries. Heroin 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 for 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. The National Drug Commissioner at the Federal Ministry of Health coordinates Germany's national drug policy. Drug consumption is treated as a health and social issue. Policies stress prevention through education. The Ministry funds numerous research and prevention programs. Addiction therapy programs focus on drug-free treatment, psychological counseling, and substitution therapy. Initial results of a heroin-based treatment pilot project to treat seriously ill, long-term opiate addicts published in 2006 found heroin-based treatment for this group had advantages over a substitution therapy approach. In 2006, there were 25 medically controlled "drug consumption rooms" in Germany supplementing therapy programs to offer survival aid. German federal law requires that personnel at these sites provide medical counseling and other professional help and ensure that no crimes are committed. Drug-related deaths have been decreasing for several years. In 2005, they dropped by four percent compared to 2004, making 2005 the year with the lowest number of drug-related deaths since 1989. The number of first-time users of illicit drugs fell five percent in 2005 compared to 2004. First-time use of Ecstasy, heroin, and cocaine decreased in 2005, while the first-time use of crack increased.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. German law enforcement agencies work closely and effectively with their U.S. counterparts in narcotics-related cases. Close cooperation to curb drug trafficking continues among DEA, FBI, the U.S. Customs Service and their German counterparts, including the BKA, the State Offices for Criminal Investigation (LKAs), and the ZKA. German agencies routinely cooperate very closely with their U.S. counterparts in joint investigations. U.S.-German cooperation to stop diversion of chemical precursors for cocaine production continues to be close (e.g., Operations "Purple" and "Topaz"). A DEA Diversion Investigator is assigned to the BKA

headquarters in Wiesbaden to facilitate cooperation and joint investigations. The DEA Frankfurt Country Office facilitates information exchanges and operational support between German and U.S. drug enforcement agencies. The BKA and DEA also participate in a tablet exchange program to compare samples of Ecstasy pills. Germany is also a “major donor” to the UN Office on Drugs and Crime (UNODC), with an annual pledge of approximately \$2,300,000.

The Road Ahead. The U.S. will continue its close cooperation with Germany on all bilateral and international counternarcotics fronts, including the Dublin Group, a group of countries that coordinates the provision of counternarcotics assistance and the United Nations Office on Drugs and Crime (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 longstanding investigation of judiciary corruption, culminated in November 2006, in the dismissal, suspension, indictment and/or prosecution of several judges. 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.

III. Country Actions Against Drugs in 2006

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 significantly disrupt the ability of drug trafficking organizations to operate in the region.

Law Enforcement Efforts. Several notable joint U.S./Hellenic counternarcotics investigations occurred during 2006 with significant arrests and seizures. Since July 2005, DEA, Australian authorities and Hellenic National Police Agents conducted negotiations with three high-ranking members of a large-scale, international poly-drug trafficking organization with ties to South America, Europe, Australia and the United States. The investigation culminated in May 2006 when the members of the organization delivered 100,000 MDMA tablets. All of the MDMA was seized, along with \$1,333,000 in drug-related assets and proceeds, and four individuals were arrested. This was one of the largest single seizures of MDMA in Greece. Prior to the arrests, the DEA, in coordination with Hellenic and Australian Authorities, targeted several Greek bank accounts belonging to the targets of the investigation for seizure. Pursuant to Hellenic laws, a financial investigation was initiated after the arrests, which resulted in the seizure of the aforementioned bank accounts and drug-related assets.

In a separate investigation, DEA, authorities of Greece and the Republic of Macedonia seized over 10 kg of cocaine and arrested six individuals of a large-scale international cocaine trafficking

organization operating in the Balkan region since 2003. This investigation involved unprecedented cooperation between Hellenic and Macedonian Authorities. Additionally, Hellenic and Macedonian Prosecutors were able to coordinate different facets of the investigation to improve the chances of a successful prosecution in both countries. As a result of the prosecutorial coordination, immediately after the cocaine seizure in Macedonia, Hellenic Prosecutors authorized the arrest of targets in Greece. This investigation established a new level of cooperation, as well as new precedents, for bilateral investigations between Greece and Macedonia.

Narcotics seizures increased considerably in 2006. The Hellenic National Police reported that in the first six months of 2006, 52.3 kg of processed hashish and 5,067 kg of unprocessed hashish, 67.6kg of heroin, 98.3 kg of unprocessed opium, 3,269 methadone tablets, 1,137 opiate tablets, 100,763 Ecstasy pills, and 14 kg of cocaine were seized by authorities. Additionally, some 6,809 individuals were arrested in connection with the above 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. Greece continued cooperation with bordering countries' police authorities to better combat narcotics smuggling. Greek, Albanian, and Bulgarian police chiefs meet regularly twice a year to coordinate counternarcotics efforts.

Corruption. 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 the illegal proceeds. However, 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 narcotics-related activities.

As part of an ongoing investigation of judicial corruption, by November 2006, 13 justices had been dismissed, 14 temporarily suspended from duty, two have been detained and are being prosecuted for money laundering and receiving bribes, 33 were indicted, and disciplinary action has been initiated against 49 other justices for charges related to corruption or early prison release of defendants, including accused drug traffickers.

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. 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 cocaine, Ecstasy and methadone pills, which reflects developments in the growing European synthetic drug market. Some years ago, the GOG estimated that there were between 20,000 and 30,000 addicts in Greece of whom about 19,000 were addicted to heroin, with the addict population growing. While there has been no formal survey since then, the general view is that the addict population in 2006 is considerably larger. 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, eight offer methadone substitution programs, and 8 offer buprenorphine substitution programs. OKANA's plans to extend its program to other regions and to open it to more addicts has gone forward more slowly because of strong local reactions against the establishment of such treatment centers.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. 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 neighboring countries of the former Yugoslavia. Since the collapse of communism in Europe, Hungary has become a significant consumer of narcotics as well. Drug abuse, particularly among persons under 40 years of age, rose dramatically during the nineties 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 Social Affairs and Labor has held primacy over all matters related to narcotics issues. Hungary continues to expand the collection and reporting efforts of its National Narcotics Data Collection Center. The center was established in February 2004 to report valid, comparable and reliable data on drug abuse trends to the European Monitoring Center for Drugs and Drug Addiction. Hungary is a party to the 1988 UN Drug Convention.

II. Status of Country

Throughout 2006, Hungary continued to be a major transit route for illegal narcotic 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 from Albania, Turkey, and Nigeria, controls 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 in the transport, sale, and distribution of narcotics. 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 2006

Policy Initiatives. A National Narcotics Data Collection Center (NDCC), established in 2004 in the national epidemiological center of the national public health network, is charged with the compilation of an annual report of data for the European Monitoring Center for Drugs and Drug Addiction. The National Drug Prevention Institute (NDPI) was set up in 2000 to provide technical and financial support for drug action teams in cities with populations over 20,000. The NDPI encourages the creation of local fora composed of officials of local government institutions, law enforcement agencies, schools and non-governmental organizations to create local drug strategies customized for local needs. As of November 2006, 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 continue to be problems with increasing drug dealing at schools. Research findings from the NDCC as well as the Ministry of Social Affairs and Labor indicate that the rate of experimentation and use of narcotics is steadily increasing. One in five youth have tried marijuana; one-third of these are under the age of fourteen. The drugs of choice are marijuana, Ecstasy, and to a lesser extent LSD.

Accomplishments. Preliminary reporting and data indicate that seizures of Ecstasy and cocaine continued to increase between 2005 and 2006. Accession to the European Union (EU) provided Hungarian border guards and national police forces with greater access to modern electronic detection equipment provided by the European Union to certain high threat border posts. This equipment was initially installed in 2003 and has continued to result in improved border interdiction of all types of contraband. Hungary is working to meet Schengen Standards for border control. 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. In an effort to build upon successes against narcotics-related crime throughout 2005, 2006 saw a continuation of the close cooperation between the Hungarian Border Guards and the Hungarian National Police. The Hungarian Ministry of Finance and the national headquarters of the customs and finance guard supported antinarcotics and antismuggling activities as well. These groups jointly planned and staged actions related to crime and border security that were specifically designed to prevent drug trafficking and a wide range of illicit transit and smuggling activities. The Interior Ministry merged this year with the Ministry of Justice; U.S. Embassy Budapest will monitor this new agency's performance on narcotics-related issues, particularly through arrest and prosecution statistics. 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 guarantee the security of society, combat the illegal production and smuggling of drugs and precursors facilitate joint actions with the EU member countries, as well as combat production, trading and consumption of synthetic drugs. According to the Ministry of Social Affairs and Labor, 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, which are alleged to have eliminated negative individual consequences for drug use. The cooperation between the Hungarian National Police (HNP) and the U.S. Drug Enforcement Administration (DEA) Office in Vienna, Austria has slowly improved. Hungarian authorities twice asked for DEA assistance this past year with investigations that resulted in the seizure of 30 kg of cocaine and the arrest of seven persons.

Corruption. The USG is not aware of systemic corruption in Hungary that facilitates narcotics trafficking. The Hungarian Government enforces its laws against corruption aggressively, and takes administrative steps (e.g., the regular re-posting of border guards) to reduce the temptation for corruption whenever it can. A challenge to accurately assessing the scope and success of Hungarian efforts to combat corruption is the GOH treatment of corruption-related information and prosecutions as classified national security information. Hungary is a party to the UN Corruption Convention.

Agreements and Treaties. Hungary is party to the 1961 United Nations (UN) Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. A mutual legal assistance and an extradition treaty between the U.S. and Hungarian governments were signed in 2005. This agreement has paved the way for closer cooperation between U.S. and Hungarian law enforcement agencies. In addition, in December 2006 the Hungarian National Assembly ratified the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling.

Cultivation/Production. GOH authorities report that marijuana is cultivated in western Hungary, Ecstasy, 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. Hungarian authorities for the Ministry of Interior and Border Guards report smuggling and distribution of narcotics throughout Hungary. In particular, long-term resident Albanians, Turks and Nigerians are involved in trafficking. Budapest's Ferihegy International Airport continues to be an important stop for cocaine transit from South America to Europe. Synthetic drugs such as Ecstasy 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 is significantly higher among youth between the ages of 12-25. As a result, drug prevention programs are taught to teachers as part of the normal educational training and schools in Hungary include several drug prevention and health promotion programs within the educational system. The life skills program is the largest of the antidrug 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. An amendment to Hungarian counternarcotics legislation, which went into effect in March 2003, was designed to shift the focus of criminal investigations from consumers to dealers. Before this amendment was enacted, Hungarian civil rights leaders claimed that the Hungarian narcotics law, among the toughest on users in Europe, subjected even casual users to stiff criminal penalties, while addicts were often exempted from prosecution. The 2003 Amendment allowed 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 provided judges with more alternatives and flexibility when sentencing drug users. Due to the continued 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 deterrence system and is currently considering a return to the punishment-based deterrence system. As a result, the constitutional court has begun to scale back treatment programs and focus again on prison sentences. However, the State Secretary for Drug Affairs has reconfirmed the GOH commitment to maintaining alternative treatment programs. In 2006, the GOH continued to provide access to 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 International Law Enforcement Academy (ILEA). In addition, the U.S. DEA maintains a regional office in Vienna, Austria that is accredited to Hungary to work with local and national Hungarian authorities. Health professionals in Budapest continue to benefit from training received in 2003 from doctors from the University of California, San Diego, who provided instruction to 200 drug treatment professionals in Budapest. The Hungarian Ministry of Health reports the 200 trainees continue to provide advice and assistance to hospitals and clinics throughout Hungary to acquaint the medical professionals with American experiences in the field of diagnosis and treatment of drug addict offenders within the criminal justice system.

The Road Ahead. The USG continues to support and encourage Hungarian legislative efforts to stiffen criminal penalties for drug offenses, and will continue to support the GOH law Enforcement efforts through training programs and seminars at the 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. 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. Most illegal drugs in Iceland are smuggled in through the mail, inside commercial containers, or by airline and ferry passengers. The chief illicit drugs entering Iceland, mainly from Denmark, are cannabis and amphetamines, with the latter becoming increasingly common during recent years as part of a trend of stimulant drug use that also involved heightened levels of cocaine in circulation. According to authorities there were 92 cases of importation of drugs and precursors in 2006 (latest available National Commissioner of Police figures through December 27). Icelandic officials raised concerns during the year that drugs smuggling into Iceland could be tied to eastern European and Baltic organized crime groups, and said publicly that investigation and interdiction efforts were being redirected accordingly. Results of the third European School Survey Project on Alcohol and Other Drugs, conducted in 2003, showed that controlled substance use among Icelandic adolescents has decreased significantly in recent years, and that students currently completing secondary school have used drugs less 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 non-profit research center that specializes in youth research and studies for policymakers -- supported these findings.

III. Country Actions Against Drugs in 2006

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. 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 non-governmental organizations working primarily in prevention. During the year it made grants worth roughly \$60,000 to a total of 50 groups and projects across the country. 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.

In July, the government launched a collaborative effort by parties involved in preventive measures to draw up a comprehensive policy on drug prevention in Iceland with the aim of coordinating measures on drug prevention.

Authorities have documented a substantial upward trend in narcotics violations over the past several years (from 1671 in 2004, to 1816 in 2005, and 2034 as of December 27, 2006). While one explanation may be escalating drug use, another is a 2002 National Commissioner of Police decision to increase enforcement against possession. Police nationwide have intensified

surveillance in public places and initiated searches of suspicious individuals, while also improving interdiction training for border police and customs officials. In April the Icelandic Supreme Court confirmed the sentence of a Lithuanian man who, along with another Lithuanian, was sentenced to three years in prison for smuggling 4 kg of methamphetamines on a passenger ferry arriving in Seydisfjördur (east Iceland). In June Reykjavik District Court sentenced a man to four years in prison for smuggling 3.7 kg of amphetamines through Keflavik International Airport (KEF). In July the Reykjavik District Court sentenced two Lithuanian nationals to two and a half years in prison for smuggling and receiving 1.7 liters of liquid amphetamines through KEF, and in October the Icelandic Supreme Court increased the sentence of one of them to four years. In the same month another Lithuanian man was sentenced to two and a half years in prison for smuggling 2 liters of liquid amphetamines through KEF. In September the Reykjavik District Court sentenced three men under the age of twenty to three, two, and one and a half years in prison for smuggling 400 grams of cocaine through KEF. In November Reykjavik District Court sentenced two Lithuanians to seven years in prison for smuggling 12 kg of amphetamines in a car aboard the ferry that stops in Seydisfjördur. In December Reykjavik District Court sentenced four men to prison for attempting to smuggle 15 kg of amphetamines and 10 kg of hashish hidden in the gas tank of a vehicle. The court sentenced one man to eight and a half years, two others received six years, and the fourth man was sentenced to four years in prison. In the same month Reykjavik District Court sentenced a Lithuanian national to three and a half years in prison for smuggling 4.5 kg of amphetamines to Iceland stowed away in a car aboard the ferry that runs between Iceland, Norway, Denmark, and the Faroe Islands.

Law Enforcement Efforts. In 2006, KEF authorities made 49 seizures compared to a total of 33 in 2005. Nationwide drug seizure highlights include:

- In January, Vestmannaeyjar police arrested a man and confiscated 1.3 kg of hashish.
- In January, Reykjavik police arrested a couple on charges of possessing between 200 and 300 cannabis plants and about 1 kg of hashish and 1 kg of amphetamines.
- In February, KEF police and customs arrested a couple with 3.5 kg of amphetamines hidden in a secret compartment of a suitcase.
- In February, Reykjavik Police found 3 kg of amphetamines buried in the ground near Reykjavik. The owner of the substance has not been found.
- In April, KEF police arrested a man in his forties with 700 grams of cocaine in his baggage.
- In April, Reykjavik police seized 15 kg of amphetamines and 10 kg of hashish from the fuel tank of a car that had been imported to Iceland. The police arrested four men connected with the case who had been under surveillance for two weeks. Police had discovered the narcotics during customs inspection and waited for the men to pick up the car. This is one of the largest quantities of narcotics ever seized at one time in Iceland.
- In April, Borgarnes police confiscated 228 cannabis plants at a farm.
- In July, customs officials in Seydisfjördur seized 12.5 kg of amphetamines aboard the car ferry that runs between Iceland, Norway, Denmark, and the Faroe Islands. This was the largest-ever drug seizure connected to the ferry.
- In July, Icelandic customs officials stopped a couple arriving at KEF and confiscated 1 kg of cocaine that they had hidden inside the bottom of their shoes.
- In August, police arrested a Lithuanian man for smuggling 7 kg of amphetamines, hidden in various places inside his vehicle. The man arrived with the car ferry that stops in Seydisfjördur.
- In September, customs officials confiscated 11 kg of amphetamines aboard the car ferry making

a stop in Seydisfjordur from two Lithuanian men who had hidden the substance in their car.

-- In October, Hafnarfjordur police confiscated 170 cannabis plants and a few kg of cut-down marijuana.

-- In October, KEF police arrested three men who had hidden approximately 500 grams of cocaine in their shoes.

-- In October, Reykjavik Police arrested two men after 14 kg were found in a mail delivery from Denmark.

-- In November, Reykjavik Police arrested three men after finding 800 Ecstasy tablets in a mail delivery from the Netherlands.

-- In November, KEF Police arrested an Icelandic man, arriving from Copenhagen, after seizing 3 kg of cocaine from his luggage. This is the largest amount of cocaine confiscated in Iceland at one time. The amount of amphetamines authorities had seized by year's end was 46.5 kg, or drastically higher than the total amount seized in 2005. During the year, police seized at least 2,089 Ecstasy pills, up from around 1,500 seized in 2005; and confiscated approximately 1,203 cannabis plants (latest available National Commissioner of Police figures). In 2006, KEF authorities seized a total of 1.4 kg of hashish, 8.4 kg of cocaine, and 4.2 kg of amphetamines.

The National Police Commissioner and the Keflavik Airport Police Commissioner have 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 suspected of attempting to expand their criminal operations to Iceland; there were no new biker gang incidents this year. A Norwegian Customs expert in training drug-sniffing dogs conducted courses in July for Icelandic police and customs officials who manage such dogs. Authorities affirm that the animals' 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. The total number of seizures was at least 111, the highest ever for this weekend.

Corruption. There were no reports of narcotics-related public corruption in Iceland. 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. In August, a guard at Iceland's main prison was arrested after attempting to smuggle hashish and amphetamines into the prison for sale to inmates. The guard, a temporary summer hire, admitted that this was the eighth time he had smuggled drugs into the prison. The guard was fired and charges are expected in the matter by year's end. An investigation has not revealed any further complicity by prison guards or officials thus far.

Agreements and Treaties. Iceland is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol. Iceland has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. 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 SAA, the National Center of Addiction Medicine. (Individuals with less acute problems may turn to Samhjalp or Byrgid, two Christian charities that use faith-based approaches to treating addiction.) 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 is no wait for teenagers. SAA's main treatment center estimate for the number of admitted patients in 2006 is around 2,500. Some 300 drug addicts (often those with complicating psychiatric illnesses) annually go to the National-University Hospital.

The Directorate of Customs continued with its national drug education program, developed in 1999 and formalized in an agreement with the national (Lutheran) church in 2003, in which an officer accompanied by a narcotics sniffing dog informs students participating in confirmation classes about the harmful effects of drugs and Iceland's fight against drug smuggling. Parents are invited to the meetings in order to encourage a joint parent-child effort against drug abuse. Customs officials also use the meetings to distribute an educational multimedia CD dealing with drug awareness.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA will continue to try to accommodate Icelandic requests for U.S.-sponsored training.

The Road Ahead. The DEA office in Copenhagen and the Regional Security Office in Reykjavik have developed good contacts in Icelandic law enforcement circles for the purpose of cooperating on narcotics investigations and interdiction of shipments. 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 up to now has facilitated the exchange of intelligence and cooperation on, e.g., controlled deliveries. The U.S. G. will continue efforts to strengthen exchange and training programs in the context of its on going effort to strengthen law enforcement, homeland security, and counterterrorism ties with Iceland.

Ireland

I. Summary

The Republic of Ireland is not a transshipment point for narcotics to the United States, nor is it a hub for drug trafficking outside Europe. 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 domestic traffickers attempt to import drugs in larger quantities. The GOI's National Drug Strategy aims to reduce drug consumption significantly through a concerted focus on supply reduction, prevention, treatment, and research. In 2004, the GOI signed the European Arrests Warrant Act 2003, by which Irish police (Garda) can work with foreign police to detain suspects in Irish narcotics cases. Also in 2004, Ireland enacted 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 500 million Euros worth of Ecstasy and amphetamines.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The GOI continued to implement the 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.” Since the 2003 launch of a National Awareness Campaign on Drugs, substance abuse programs have become part of every school curriculum in the country. The campaigns feature television and radio advertising, and lectures by police, supported by an information brochure and website, all designed to promote greater awareness of and communication about drug issues. Regional Drug Task Forces (RDTF), set up to examine narcotics issues in local areas, were operational throughout the country. The GOI established a review procedure to measure each government departments' effectiveness in 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 near completion. Progress has been made in 45 of them, and six need considerably more progress. The six actions requiring more progress were: the extension of community policing fora; review of the effectiveness of the prison strategy with respect to drugs; development of drop-in centers, respite facilities and half way houses; setting up of a pilot community pharmacy, needle and syringe exchange program; narcotics training for various professionals; and discussion of the national drugs strategy at meetings of the parliament committees. 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 in September 2005, which should provide an accurate estimate of people who die directly from drugs or of people who die as a result of the consequences of drug use.

The Minister for Health and Children announced in January that the possession or sale of mushrooms containing the psychoactive drug psilocin or an ester of psilocin - so-called magic mushrooms - is a criminal offence under the Misuse of Drugs Act 1977. Previously, it had been legal to sell the psychoactive mushrooms as long as they had not been dried or processed. In May 2006, the Minister for Justice, Equality and Law Reform announced the expansion of Operation Anvil, an anticrime initiative targeting armed Dublin gangs and covering their drug trafficking activities, a major source of their illicit funds. Some of the Euro 21 million for overtime hours committed to Operation Anvil in Dublin can now be made available to the Assistant Commissioners in the regions. Members of specialist units such as the National Surveillance Unit (NSU) and National Bureau of Criminal Investigation (NBCI), which investigate all serious crime, will be assigned from Dublin to work alongside local detectives. Other units such as the Criminal Assets Bureau (CAB), Garda National Drugs Unit (GNDU), the Garda Bureau of Fraud Investigation (GBFI), Emergency Response Unit (ERU) and the Special Detective Unit (SDU) can also be used when needed. In April, the Minister for Justice, Equality and Law reform said that the Government's top policing priority for 2006 was to continue to target organized crime and the trafficking and distribution of all illicit drugs at local, national and international levels.

Accomplishments. Prosecutions increased in 2005. In the Dublin metropolitan region 3,545 people were prosecuted for drug offences, as compared to 2,296 in 2004. In Cork, 1,166 were prosecuted, as compared to 867 in 2004. The Irish Police continued to cooperate closely with other national police forces. In October 2006, one such case resulted in the Dutch arrest of four Irish citizens suspected of organizing shipments of heroin and cocaine out of Rotterdam, intended for distribution to other European countries, including Ireland. Also in October, three Irish citizens were among five people arrested in the Netherlands and Belgium after an Irish-registered private jet was impounded in Belgium, as it was about to leave for Ireland with heroin worth Euro 10 million. The arrests took place after the GNDU provided intelligence to the authorities in both countries.

Law Enforcement Efforts. Although official statistics are not yet available for 2006, the Irish Police confirmed that drug-related arrests remained roughly constant over the previous three years. There are normally 7,000-8,000 arrests annually, including the approximately 450 arrests made by the GNDU each year. The GNDU's arrests tend to include most of the large seizures, but local police also have had success. For example, in 2006 the local police in Limerick seized various narcotics totaling over Euro five million, including a July seizure of heroin and cocaine 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 of arrests are for possession with the intention to sell' and the remainder of arrests are related to obstructing drug arrests or forging prescriptions. A breakdown of the type and quantity of drugs seized by police in 2005 follows:

Garda Seizures of main drugs 2005

Type of Drug	Quantity	Estimated Street Value
Cannabis	150,401 grams	€300,802
Cannabis Resin	6,259,750 grams	€43,818,250
Heroin (Diamorphine)	32,283 grams	€6,456,600
Ecstasy	327,179 tablets 3,444 grams	€3,306,230
Amphetamine	10,515 grams 19,452 tablets	€449,505
Cocaine	229,388 grams	€16,057,160
	Total	€70,388,547

Source: Garda Annual Report 2005

In February 2006, a man who was caught selling heroin worth almost Euro 500,000 to undercover police in August 2005, was jailed for seven years by the Limerick circuit court. Figures released in March showed that Customs officials at Dublin airport seized almost 500 kg of narcotics, worth Euro 4.8 million in 2005, including 40 kg of cocaine valued at Euro 3.5 million. Also in February, police arrested three men in connection with the seizure of 25 kg of cocaine, with a value of Euro 3.5 million, when a van was stopped in Dublin's north inner city in a joint police-Customs operation. In March, four men were arrested in connection with the seizure of cocaine with an estimated value of Euro 1.5 million in the Coolock area of Dublin. In the same month, two men were arrested after police seized 400 kg of cannabis worth Euro 2.8 million in north Dublin. In May, a man caught with a kg of cocaine valued at Euro 64,000 in August 2005 was given a 12-year sentence at Dublin Circuit Criminal Court. In August, three men were arrested in connection with the seizure of cannabis resin with an estimated street value of Euro 2.5 million in Dublin. During the first eight months of 2006, police seized over 40 kg of heroin - with a street value in excess of Euro 8 million - compared with just 32 kg seized in all of 2005. In October, police recovered 54 kg of heroin, with a street value of Euro 10.8million, (the largest seizure by value ever in Ireland) and 40 kg of herbal cannabis, worth Euro 80,000, in the Clondalkin area of Dublin. The seizure was made by members of the Dublin Metropolitan Region South Central Divisional Task Force, assisted by support units from Operation Anvil. A machine gun, a small quantity of ammunition and some cash were also found during the raid.

Corruption. As a matter of government policy, the GOI 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 was signed in January 2001 but has not yet entered into force. An extradition treaty between Ireland and the United States is 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 2005, reported that 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 2006, published in June, placed Ireland in joint fifth place (out of 32 European countries) for cocaine use and in joint tenth place for Ecstasy use. Cocaine, available in Ireland, comes primarily from Colombia and other countries in Latin America and the Caribbean. Heroin, cocaine, Ecstasy, and cannabis are often hidden in cars in either Spain or the Netherlands and then driven into Ireland, by gang members posing as tourists, 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 7,390 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. In January 2005, the ten health boards were replaced by a single entity, the Health Service Executive (HSE), which manages Ireland's public health sector. Since September 2005, health care is now provided through four HSE regions and 32 local health offices. For heroin addicts, there are 65 methadone treatment locations. The treatment centers treat 8,000 of Ireland's approximately 14,000 heroin addicts, 12,000 of which live in Dublin. In 2004, the GOI undertook an evaluation of drug treatment centers' to determine whether they were effective in reducing drug use. Four pilot projects to tackle cocaine use were announced in January 2005, following a number of reports indicating 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 2006, 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 law enforcement 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 Prodi government continues Italy's strong counternarcotics stand with capable Italian law enforcement agencies. Italy is a consumer country and a major transit point for heroin transiting from the Middle East and southwest Asia through the Balkans and for cocaine originating from South America en route to western/central Europe. Italian 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. 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 2006

Policy Initiatives. Italy continues to combat narcotics aggressively and effectively. In March 2006, Italy adopted a tougher new drug law that eliminates distinctions between hard and soft drugs, increases penalties for those convicted of trafficking, and establishes administrative penalties for lesser offenses. All forms of possession and trafficking are illegal but punishment depends on the severity of the infraction. Stiff penalties for those convicted of trafficking or possessing drugs include jail sentences from 6 to 20 years and fines of over \$330,000. The law provides alternatives to jail time for minor infractions, including drug therapy, community service hours, and house arrest. Some center-left political parties vowed to overturn the legislation if elected to office in May 2006, but the new Prodi government--a center-left coalition of nine parties--has not yet followed through on those statements. At the multilateral level, Italy has contributed an average of \$12 million to the UN Office for Drug Control and Crime Prevention (UNODC), over the last several years, 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. During 2006, Italian authorities arrested 24,918 people on narcotics-related offenses and seized 1317.2 kg of heroin; 4538.8 kg of cocaine; 5437.5 kg of marijuana; 93785 marijuana plants; 19097 kg of hashish; 62,483 MDMA tablets and 1131 doses of LSD. The majority of those arrested are non-Italian nationals and the primary nationalities were Moroccan, Tunisian, Albanian, Algerian, Nigerian, Spanish, Senegalese and Colombian.

In January 2006, an Italian Guardia di Finanza (GdF) investigation led to the seizure of 96.7 kg of heroin in Trieste, Italy. The heroin shipment was concealed within a cargo truck, which had arrived via ferry from Turkey and was destined for Germany. In April 2006, another GdF operation led to the seizure of 127 kg of cocaine from a merchant vessel in Salerno, Italy. In July 2006, an Italian National Police investigation resulted in the seizure of 424 kg of cocaine from a brick oven being transported via truck to Naples, Italy. The investigation indicated Colombian, Mexican and Italian nationals were involved in this trafficking operation. In June 2006, a GdF investigation in northern Italy led to the seizure of 52 kg of heroin concealed within compressed air tanks being transported by a cargo truck.

The fight against drugs is a major priority of the National Police, Carabinieri, and GdF counternarcotics units. The Central Directorate coordinates the counternarcotics units of the three national police services for Drug Control Prevention (DCSA). Working with the liaison offices of the U.S. and western European countries, DCSA has 21 drug liaison officers in 20 countries that focus on major traffickers and their organizations. DCSA recently stationed liaison officers 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 a number of these organized crime groups.

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. 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 ratified the UN Convention against Transnational Organized Crime. Italy has signed but has not yet ratified the UN Corruption Convention. In August 2006, Italy ratified the UN Convention Against Transnational Organized Crime and its three protocols. Italy has bilateral extradition and mutual legal assistance treaties with the U.S. In May 2006, the U.S. and Italy signed bilateral instruments on extradition and mutual legal assistance to implement the U.S.-EU Agreements on Extradition and Mutual Legal Assistance signed in 2003.

Cultivation/Production. There is no known large-scale cultivation of narcotic plants in Italy, although small-scale marijuana production in remote areas does exist, but this production 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 enroute 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 also a source country for marijuana and hashish destined for Italy.

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 kg shipments enter Italy via 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 destinations. Cocaine shipments off-loaded in Spain and the Netherlands are eventually transported to Italy and other European countries by means of land vehicles. Smaller amounts of cocaine consisting of grams to multi-kg (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 land 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, the journey made somewhat less risky by the EU's open borders. Once in Italy, the couriers are provided an originating airline ticket from Italy to the U.S. that is intended to disguise 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. As with cocaine, larger hashish shipments are smuggled into Spain and eventually transported to Italy by vehicle. Hashish also is smuggled into Italy on fishing and pleasure boats from Lebanon.

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 535 public health offices operated at the regional level; the Ministry of Interior supports 766 residential, 217 semi-residential, and 229 portable facilities. Private nonprofit NGOs fund another 1,430 treatment communities that offer 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 Prodi 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 2006, 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-October 2006, DEA received approximately 82 samples of heroin, cocaine and Ecstasy. DEA has 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. DEA independently conducted drug awareness programs at international schools in Rome and Milan. DEA also provided training to Italian counterparts in the areas of asset forfeiture and drug law enforcement operations.

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 reduction policies. Italy also maintains a 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. The USG will also continue to work with Italy in multilateral settings such as the Dublin Group of countries coordinating counternarcotics assistance and UNODC policies.

Kazakhstan

I. Summary

Kazakhstan is a major transit country for narcotics originating from Afghanistan and bound for Europe. In 2006, Kazakhstan significantly increased counterdrug operations. President Nazarbayev declared a national effort against drug use and drug trafficking. The government encouraged law enforcement agencies, NGOs, political parties and media to join together to combat drugs. The number of people who committed drug related crimes this year increased 13.4 percent. President Nazarbayev announced two ambitious programs on combating corruption and drug trafficking. Strengthening the borders, especially in the south, is a priority for Kazakhstan as well. Officially the number of young drug addicts under 17 years old increased 9.3 percent in comparison with the same period last year. Seventy percent of the drug addicts in the country consume heroin. The Government of Kazakhstan (GOK) is devoting more attention and resources to interagency cooperation in the fight against drug supply and demand. Law enforcement services acknowledge that without the assistance and pressure of society in general, NGOs, and the mass media, they will not be able to effectively combat drug distribution. Kazakhstan is a party to the 1988 UN Drug Convention.

II. Status of Country

With a record amount of opium produced in Afghanistan in 2006, increasing amounts of opiates may transit Kazakhstan en route to Russia and Europe. While sources differ, the UN reports that about 11 percent of the drugs transiting the country remain in Kazakhstan. Importation of synthetic drugs such as Ecstasy (MDMA) and LSD from Russia and Europe is increasing. However, more recent estimates provided by the Deputy Head of the Division on Combating International Drug Trafficking of the Committee for National Security showed that of the 100-120 tons of drugs expected to transit Kazakhstan in 2006 about 15-20 tons will stay in the country. In addition, there is an existing marijuana growing area in the Chu valley on the Kazakhstani-Kyrgyzstani border.

According to the local press, the Deputy Head of the Division on Combating International Drug Trafficking of the Committee for National Security announced that criminal activity related to the production of Afghani opiates presents the most serious problem for Kazakhstan. He stated that the problem of drug trafficking became much more acute when Russian border guards left the border of Tajikistan with Afghanistan at the end of 2005. Another newspaper, *Komsomolskya Pravda*, reported that in Kazakhstan one kg of high quality “999” type heroin costs around \$18,000, while in Europe the price would increase to \$60,000 and in the U.S. to \$120,000.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In November 2005 President Nazarbayev signed the Decree on Approval of the Strategy on Combating Drug Addiction and Drug Trafficking in the Republic of Kazakhstan for 2006-2014. The aim of the strategy is to counter drug addiction and drug trafficking in Central Asia. In an effort to ensure the gradual development of the process of combating drug addiction and drug trafficking, the strategy was divided into three stages: 2006-2008, 2009-2011, and 2012-2014. The goal of the first stage is to stop the increase in drug consumption and the illegal drug trade. The second stage focuses on stopping the growth of addiction to psychoactive substances

among the Kazakhstani population. The third stage aims to further develop a complete and effective system of state and public counteraction to drug addiction and the drug trade.

In addition to the strategy above, in September 2006 President Nazarbayev stated to the Security Council that the commitment of the capital city to combat narcotics should set an example for the rest of Kazakhstan. With the public backing of President Nazarbayev, the Akimat (City Hall) of Astana in consultation with the Ministry of Internal Affairs (MVD) developed a program entitled “Astana - Drug Free City for 2006-2008.” It covers three main themes: demand reduction, treatment of drug addiction, and combating drug trafficking. On September 29 the government decided to allot one billion tenge (\$8 million) to implement the program. In remarks to the Security Council, the President authorized the Committee for National Security (KNB) and MVD to join forces to combat drug use and drug trade. Nazarbayev advocated publicizing the counternarcotics push on television in order to get the message out to the population that drug use is unacceptable. Notwithstanding that the program “Astana - Drug Free City” was designed for the capital, law enforcement agencies have begun to apply it to the whole country. The MVD Minister, Baurzhan Mukhamedzhanov, mentioned that in the near future similar projects will be developed in other cities with serious drug problems.

The “Kazakhstan Today” newspaper reported that owners of night clubs in Almaty and Astana met with the leaders of the MVD to discuss measures to counteract the spread of drugs in night clubs and prevent drug addiction among their clients. As a result of the meeting the parties came to the unanimous decision to join forces with government law enforcement and security services to combat drug distribution and ensure the security of night clubs. In addition, the businessmen proposed that MVD officers train the security guards working in night clubs in basic knowledge and skills of drug detection. In July and again in October the KNB publicly burned seized Afghan heroin. In July, 43 kg were burned and in October 67 kg of heroin and 217 kg of opium.

In 2006, the MVD Minister suggested toughening punishment for drug-related crimes. In an interview in “Kazakhstanskaya Pravda” in September, he said that the MVD prepared draft legislative amendments to the Criminal Code stipulating tougher punishment for drug-related crimes, including the death penalty. The Procurator General's Office suggested establishing an interagency information center for the exchange of legal information to be used by law enforcement bodies and special services of CIS member countries. Deputy Procurator General Georgy Kim stated at a CIS conference of the heads of law enforcement information services that the Center should be not just a data base, but a unified analytical complex, where information about transnational crime received from customs, border guards, law enforcement, prisons and other agencies would be accumulated and analyzed. He said that Kazakhstan was ready to provide the Center with available software and the necessary legal basis, and would assist in the development of data security measures for shared information.

In 2006, Kazakhstan devoted more attention to drug demand reduction programs in addition to law enforcement efforts. The Ministry of Information and Culture, Ministry of Tourism and Sport, Ministry of Education and Science, MVD, Ministry of Health and NGOs all have begun efforts to reduce demand for illegal narcotics in Kazakhstani society. One of the aims is to involve youth as much as possible in other activities such as sports and social events. In one case, a member of the Mazhilis (Parliament), Tanirbergen Berdongarov, explained that after the launch of “Astana-Drug Free City, Zhas Otan”, the youth wing of the “Otan” political party joined in the effort to reduce drug demand. Recently the Committee on Combating Drugs of the MVD organized a media forum and proposed to the assembled journalists that they actively cooperate in combating drug addiction. MVD representatives pointed out to the journalists the necessity of increasing social advertisements in mass media directed against drug addiction.

Accomplishments. Kazakhstan continues to comply with UN conventions on combating illicit narcotics cultivation and production within its borders. Foreign Ministers of the member states of the Memorandum on Understanding and Cooperation on Control over Illegal Production, Circulation, Abuse of Narcotics, Psychotropic Substances and Precursors decided to locate the Central Asia Regional Information Coordination Center (CARICC) in Almaty, Kazakhstan. The Center will be the focal point for communication, analysis and exchange of operations information on transnational crime and will assist in organization and support on coordination of joint operations to combat narcotics. According to official information from the Ministry of Foreign Affairs, 50 specialists will work in CARICC. The President of Uzbekistan Islam Karimov proposed the idea of CARICC during the visit of then UN Secretary General, Kofi Annan, to the Republic of Uzbekistan in October 2002.

Law Enforcement Efforts. The GOK continues to actively combat narcotics. During the KNB's 2006 "Operation Trap," a lengthy joint operation between Kazakhstani agencies, Russian special services, and Tajik law enforcement bodies, KNB officers stopped the activity of a criminal drug group, which controlled a significant portion of drug trafficking transiting through Central Asia. Experts of the KNB successfully identified the money laundering mechanisms for drug trafficking proceeds. Isatai Sabetov, Deputy Head of KNB Division on Combating International Drug Trafficking, stated that in order to launder the proceeds of drug sales, the criminal group created several businesses in Kazakhstan, Europe and offshore zones. In one of these businesses alone, KNB officers discovered and seized \$1.6 million.

In October 2006, Almaty KNB officers intercepted an international drug ring of five people at the final stage of a controlled delivery operation. The criminals transported drugs through the territory of Tajikistan and Uzbekistan inside a truck carrying grapes. The consignment of narcotics was destined for the European Union. Also in October, the Almaty city KNB Department burned 67 kg of heroin and 217 kg of opium in front of TV cameras. According to Kazakh authorities, the packages of heroin were stamped with a sign "999" showing that it was produced in Afghanistan and was of the highest quality. The drugs were seized in a June 2005 special operation.

In the first 10 months of 2006, the KNB detected and eliminated 20 international drug distribution and transit networks and eight criminal rings, instituted criminal proceedings against 135 people, and claimed to have seized over 800 kg of opium and heroin.

As a result of a special operation from September 21 to October 1, MVD officers detected 577 incidents of drug use, seized over two tons of drug substances (including four kg of heroin), and discovered 154 drug sales. Law enforcement agencies seized 22,549 kg of drugs in the first nine months of 2006, compared with 21,635 kg last year. The MVD seized the largest amount of drugs with 19,753 kg; the KNB - 2,598 kg; and the Customs Control Committee of the Ministry of Finance - 198 kg.

Head of the Committee on Combating Narcotics Anatoliy Vyborov announced that as a result of the work of law enforcement agencies, 7,900 drug-related crimes were prepared for prosecution in the country; this is 5.6 percent higher than the same period last year.

According to the "Liter" newspaper, the increased seizure rates show that law enforcement agencies and security services were more efficient in 2006. This is attributed to increased collaboration with neighboring countries in Central Asia and the regular exchange of information with them. "Liter" newspaper also reported that Russian special services are the most effective in collaborating on regional antinarcotics work because they have maintained contacts in Afghanistan since Soviet times. Law-enforcement agencies seized 3,665 liters of liquid precursors in the first nine months of 2006, versus 89 liters for the same period last year.

Corruption. Corruption in Kazakhstan is a factor hampering the country's war on drugs. On December 28, 2005, the President of the Republic of Kazakhstan signed the decree "On the State Program of Combating Corruption for 2006-2010." All state agencies were mandated to take measures to combat corruption internally. From January to September 2006, the Agency on Combating Economic Crimes and Corruption registered 1,225 corruption crimes - an increase of 20.2 percent over the same time last year. Criminal cases were brought against 378 people, among them 44 employees of the MVD. According to the "Express-K" newspaper, a senior officer of the Department of Internal Affairs (DVD) of Zhambul'skaya oblast (southern Kazakhstan) was sentenced to 10 years in prison. The officer, a police major, dealt drugs; he used his position to charge drug addicts a price three times higher than the street rate. One drug addict who had to pay 4,000 tenge (\$32) for 1.5 grams of heroin reported the Major to the KNB.

Agreements and Treaties. The U.S. and Kazakhstan signed the fourth Supplementary Protocol to the Memorandum of Understanding on Narcotics Control and Law Enforcement in August 28, 2006. This amendment increased funds available for narcotics law enforcement programs in Kazakhstan. Kazakhstan is party to the 1988 UN Drug Convention and has signed the Central Asian Counternarcotics Memorandum of Understanding with UNODC. The Kazakhstan national antinarcotics law, passed in 1998, specifically gives provisions of international antinarcotics agreements precedence over national law (Article 3.2). Kazakhstan, the 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. On October 3, officers of Astana Department of the KNB discovered an area for the cultivation of a high quality Afghan strain of marijuana in the village of Romanovka, 30 kilometers from Astana. The owners of the land had set up an entire process to produce and package the drugs. KNB officers seized 100 kg of marijuana and 77 grams of heroin in the operation.

KNB officers in Zhambul'skaya oblast discovered a workshop for the production of drugs in the cellar of a secondary school in the Chu region. A physical education teacher from the school had established the workshop to produce and package drugs for a drug ring. A search of the teacher's home revealed 90 kg of dried hemp and a 9 kg sack of hashish.

Drug Flow/Transit. The main flow of drugs, including heroin and opium, enters Kazakhstan from the Central Asian region (Afghanistan, Tajikistan, Uzbekistan, Kyrgyzstan, and Turkmenistan). Drug couriers are mainly residents of Central Asian countries. The main reason for this is poverty and high unemployment rates. Couriers rely on vehicles and trains to smuggle the majority of the narcotics into Kazakhstan. In 2006, drug smugglers responded to the increased counterdrug operations by law enforcement and security agencies by devising new methods and new routes. Increased operations on the south-central border forced the smugglers to look for other routes to the east and west to avoid interception.

According to the KNB, during the last year officers detained several passengers on an Almaty - Beijing flight at the Almaty airport when they tried to smuggle 10 kg of heroin. The couriers were two Russian citizens, one citizen of Kazakhstan, and one citizen of Azerbaijan. Six months later, special service officers arrested the leader of the group. When arrested, he had over 3,000 tablets of Ecstasy in his possession.

Local newspapers report that Almaty, the former capital in the south of Kazakhstan, stopped being a terminal point for transiting drugs from Afghanistan to Europe. Today criminals transport drugs directly through Karaganda (located in the center of Kazakhstan) in the north of the country. Drugs

are transported to Almaty only for local market there, since the local demand for drugs has not decreased.

Couriers developed or borrowed new methods to avoid detection. Some couriers cover packed drugs with parts of wolf in order to escape detection by drug dogs. According to *Kazakhstanskaya Pravda*, on another case, “Aul” post customs and border guard officers found over 230 grams of heroin in a propane tank, while inspecting a car.

Train passengers also resort to novel approaches. A common method for concealing illegal narcotics is to hide them in big suitcases or bags with false bottoms. One unusual method is to put heroin in walnut shells and then glue them back together.

Domestic Programs. According to official statistical data for the first nine months of 2006, there are 54,705 people using drugs and psychotropic substances in Kazakhstan. This represents a 4.9 percent increase from last year (52,137 registered last year). The figure includes 4,890 women, 4,652 minors (including 1,331 children under 14), 29,629 young people aged 18-30 years old, and 20,424 who are 30 and older. Several Kazakh government ministries and local government bodies conduct sport events, cultural events, and competitions to keep young people away from drugs. The Government of Kazakhstan has promised to build more sport clubs for young people. The government now requires that NGOs go through professional training to be able to effectively conduct demand reduction programs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The overall USG goal is to develop a long-term cooperative relationship between law enforcement bodies in the United States and Kazakhstan. This relationship will enhance the professional skills of officers and improve the organization and management of GOK law enforcement services, thereby improving the results in the fight against illegal narcotics and terrorism.

The Road Ahead. The USG conducted a Counter Narcotics Bilateral Strategy meeting with Kazakhstan in December 2006 to improve collaborative efforts to combat narcotics. The meeting discussed best practices the U.S. has learned from its efforts to combat illegal narcotics including interdiction, demand reduction, and rehabilitation. To allow for the more effective search of trucks and trains, the USG also provides technical assistance and training to GOK law enforcement and security services, including search equipment for border posts, interior checkpoints, and patrolling the green border. The USG is working with law enforcement and security service training academies to improve curriculum and training methods, and will continue to work closely with Kazakh enforcement personnel to enhance cooperation on narcotics interdiction.

Kyrgyz Republic

I. Summary

The Kyrgyz Republic has minimal internal production of illicit narcotics or precursor chemicals, but it is a major transit country for drugs originating in Afghanistan and destined for markets in Russia, Western Europe, and the United States. The Government of the Kyrgyz Republic (GOKG), though it has only limited resources, attempts to combat drug trafficking and prosecute offenders. The GOKG has been supportive of international and regional efforts to limit drug trafficking and has made a significant effort to address its own domestic drug abuse problems. The GOKG recognizes that the drug trade is a serious threat to its own stability and is continuing efforts to focus on issues such as money laundering, drug-related street crime, and corruption within its own government.

Drug abuse continues to be a serious issue in the Kyrgyz Republic. As of January 1, 2006, 7290 people were officially registered in the Republican Drug Treatment Centre, which is 5.8 percent more than last year. According to non-official data, the number is much higher. Moreover, according to UNODC estimates, 70 percent of drug users use drugs through injections, which leads to other serious problems such as HIV/AIDS. According to official data, there are 1,019 people in the Kyrgyz Republic registered with HIV/AIDS. The Ministry of Health reports that almost 90 percent of them acquired this disease through injecting drugs. The Drug Control Agency (DCA) has proposed legislation that would make first time offenders eligible for treatment instead of incarceration. The legislation was introduced to the Kyrgyz Parliament in the beginning of 2006, but was sent back for further review and amendments. It is expected to be considered by the Parliament again in early 2007.

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. There have been some positive indications that perhaps the tide is beginning to turn. Since August 2005, the new DCA director has reorganized the Agency, and purged lazy and corrupt employees. The number of drug seizures has shown a significant increase in the third quarter of 2006.

The drug trafficking problem is especially acute in the south of the country, particularly in Osh City and its surrounding regions, where drug trafficking has become an ever-increasing source of income and employment. The opening of the Southern DCA Branch in Osh took place on 6 July 2006. There is hope that the DCA will become a lead agency in the Kyrgyz Republic in minimizing drug trafficking and gaining the public's confidence. The Issyk-Kul region has favorable conditions for growing hemp. Also, one of the major drug trafficking routes passes through this area. Thus, there is a need to establish an Eastern DCA Division in the beginning of 2007 in Issyk-Kul. The Kyrgyz Republic is a party to the 1988 UN Drug Convention.

II. Status of Country

The Kyrgyz Republic shares a common border with China, Kazakhstan, Uzbekistan, and Tajikistan. Mountainous terrain, poor road conditions, and an inhospitable climate for much of the year make detection and apprehension of drug traffickers more difficult. Border stations located on mountain passes on the Chinese and Tajik borders are snow covered and uninhabited for up to four months of the year. These isolated passes are some of the most heavily used routes for drug traffickers. Government outpost and interdiction forces rarely have electricity, running water or modern amenities to support their counternarcotics efforts. The Kyrgyz Republic is one of the poorest successor states of the former Soviet Union, relying on a crumbling infrastructure and

suffering from a lack of natural resources or significant industry. Unlike some of its Central Asian neighbors, the Kyrgyz Republic does not have a productive oil industry or significant energy reserves. The south and southwest regions--the Osh and Batken districts--are primary trafficking routes used for drug shipments from Afghanistan. The city of Osh, in particular, is the main crossroads for road and air traffic and a primary transfer point for narcotics into Uzbekistan and Kazakhstan and on to markets in Russia, Western Europe and the United States. The Kyrgyz Republic is not a major producer of narcotics; however, cannabis, ephedra, and poppy grow wild in many areas.

III. Country Actions Against Drugs in 2006

Law Enforcement Efforts. The Drug Control Agency (DCA) was established in 2003 with the assistance of the U.S. Government and UNODC. It has become the lead agency in coordinating all drug enforcement activities in the Kyrgyz Republic. The DCA estimates that there were 3,494 kg of illicit narcotics seized on the territory of the Kyrgyz Republic during the first 9 months of 2006, 7.5 percent less than during the first 9 months of 2005. It also reports that 1,922 drug crimes were detected in the first nine months of 2006 (1.6 percent less than during the same period in 2005). Investigations were completed on 1,871 of those crimes. Meanwhile, the results of the DCA itself have significantly increased compared to last year. Since the beginning of 2006 (and more significantly since May 2006) the DCA has seized 1,075 kg of narcotics and psychotropic substances (396.5 percent more than in 2005), in particular: 112 kg of heroin (27 kg in 2005), 224 kg of opium (143 in 2005), and 680 kg of marijuana (35 kg in 2005). The DCA closely cooperates with relevant competent bodies of Russia, Kazakhstan, Tajikistan, and Uzbekistan. Since the beginning of 2006 the DCA conducted 5 joint “controlled delivery” operations aimed at disrupting organized trafficking operations by drug gangs and 5 other joint operations with Russian and Lithuanian police. As a result, 182 kg of drugs and psychotropic substances and 100,000 Ecstasy pills were seized.

Since the beginning of 2006, the DCA suppressed the activities of eight large-scale drug gangs. DCA and Ministry of Interior of Kazakhstan worked out a joint plan to suppress drug contraband activities on the Kyrgyz-Kazakh border. The exchange of operational information among law enforcement bodies of the Kyrgyz Republic (Ministry of Interior, National Security Service, Customs, and Border Guard) was enforced in order to increase effectiveness in the field of combating drugs; joint operations are being conducted at railroad stations, airports, and major highways. The DCA believes that drugs are being delivered to the southern part of the country by well-organized criminal groups and, in some cases, law enforcement representatives are involved in this process. In this regard, the Procurator’s Office, National Security Service, and Border Guards worked out a joint strategy to check and inspect all law enforcement representatives arriving at border zones. Several joint operations have been conducted since the beginning of 2006. The “Mak (poppy)-2006” joint operation resulted in the detection of 466 drug crimes and the seizure of 1,084 kg of narcotics. The “Kanal (channel)-2006” joint operation was conducted together with the forces of the DCA, Ministry of Interior, National Security Service, and Border Guard and resulted in the detection of 40 drug-related crimes the seizure of 40 kg of illicit narcotics, and the seizure of 2 hand grenades and 9 guns. The “Marzbon-2006,” a joint border operation, resulted in the seizure of 90 kg of narcotics, including 75 kg of opium and 3 kg of heroin.

Corruption. The GOKG recognizes that corruption remains a serious problem and is a deterrent to effective law enforcement efforts. An October 21, 2005 presidential decree established an Anti-Corruption Agency. The Goal of the Agency is to minimize the level of corruption in the country by means of developing, monitoring, and realizing measures aimed against corruption. However, since its inception the unit has been largely ineffective.

The DCA recently arrested two counternarcotics police officers, two customs officers and a national security officer for drug trafficking. The Kyrgyz DCA now has a relatively good reputation. DCA staff goes through a very thorough vetting procedure and receives substantial salary supplements from the UN/US counter narcotics project.

Since August 2005 more than 40 enforcement officers of the GOKG have been fired due to lack of productivity or corruption. Polygraph testing is being used extensively to ensure integrity and a corruption-free environment among the DCA employees. Corruption cases were identified using the polygraph. As a result, internal investigations were conducted, and offenders were dismissed. The GOKG is a party to the UN Corruption Convention.

Agreements and Treaties. The Kyrgyz Republic is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The Kyrgyz Republic is also a party to the UN Convention Against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. It is also a party to the Central-Asian Counter Narcotics Protocol, a regional cooperation agreement encouraged by the UN. Kazakhstan, the 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. While there is no significant commercial production of drugs in the Kyrgyz Republic, cannabis and ephedra grow wild over wide areas, especially in the Chui valley region, and around Lake Issyk-Kul. In the past, the Kyrgyz Republic was a major producer of licit opium, and was the Soviet Union's main source of ephedra plant for decades. However, with the explosion of opium production in Afghanistan, it has become less risky and easier to import drugs from Afghanistan via Tajikistan than to produce them locally. The GOKG nevertheless carries out yearly eradication campaigns against illicit crops. Despite sporadic cases of, it has little impact on the general drug situation in the Kyrgyz Republic.

Drug Flow/Transit. The overall drug situation in the country continued to gradually deteriorate in 2006. With a record amount of opium produced in Afghanistan in 2006, increasing amounts of opiates may transit Kyrgyzstan. Metric ton quantities of Afghan opiates are being trafficked through the so-called "Northern route" which includes the Central Asian States of the Former Soviet Union. Local analysts estimate that ton quantities of heroin pass through the Kyrgyz Republic. The principal market for Afghan opiates is Russia and to a lesser extent Western Europe, but seizures have also occurred in the United States and elsewhere.

Due to a very limited and largely primitive transportation system, traffickers mostly utilize lengthy overland routes leading through Afghanistan's neighboring countries. A large part of the drugs smuggled through Central Asia in 2006 entered the region through Tajikistan. Together with Uzbekistan, Kyrgyz Republic represents the main conduit for onward smuggling of opiates. Following a pattern observed across the Central Asian region in 2006, the share of opiates seized in Kyrgyz Republic increased significantly. While the amount of opium seized increased by 154 percent, the amount of heroin increased by only 56 percent. In particular, the southern border provinces of Osh and Batken again experienced a high flow of drugs in 2006. Over a number of years, there has been a well-established trafficking route from the Gorno-Badakhshan Autonomous Province in Tajikistan along the Pamir highway and the town of Murghab into Osh province. In the last few years, trafficking activities have increased on the long and mountainous border between the Tajik Garm region and Batken in the Kyrgyz Republic. Onward smuggling through the Kyrgyz Republic takes drugs mainly to the Uzbekistan section of the Ferghana valley, and across the

Northern border into Kazakhstan. In trafficking drugs into the Kyrgyz Republic and onward, traffickers can hope for high profits. In August 2006, depending on purity, a kg of heroin was worth U.S. \$6,000-\$9,000 in the Southern Batken and Osh provinces bordering Tajikistan, but U.S. \$12,000-\$15,000 in Bishkek and the Northern provinces. The large increase of opium production in the Badakhshan province of Afghanistan in 2005 and, particularly so, in 2006, is of special relevance to Central Asian region, as transport and trafficking routes out of Badakhshan are basically through the Central Asian countries in the North, including Tajikistan and the Kyrgyz Republic.

Domestic Programs/Demand Reduction. According to UNODC data, there are 7,290 officially registered drug users in the Kyrgyz Republic now. A total of 1,019 people with HIV/AIDS are registered by the medical system in the Kyrgyz Republic. Out of that number 774 are intravenous drug users. Existing economic problems and budget constraints do not allow the GOKR to effectively address the growing drug abuse and HIV/AIDS problem. Insufficient allocation of budget funds is hampering prevention and treatment programs and the training of professional staff. Although for the past couple of years funding for international financial and technical assistance programs to address HIV/AIDS problems in Central Asia have been considerably increased, very little attention is paid to the conceptual and strategic development of a modern drug treatment service provision system capable of contributing towards effectively halting drug abuse and consequently the HIV/AIDS pandemic.

State institutions in partnership with civil sector organizations conduct the programs for drug users in the Kyrgyz Republic. As of 2005 there are eleven needle exchange programs in the localities most affected by drug abuse (Bishkek, Osh, Tokmok, Jalalabat, Karasuu). One of the needle exchange programs is implemented in the penal system, which is a unique program for a post soviet country. The programs cover about seven thousand IDUs, which constitute about 13 percent of estimated number of drug users.

USAID has a Drug Demand Reduction Program (DDRP) in the Fergana Valley (Osh and Jalal-Abad) implemented by the Open Society Institute Assistance Foundation. DDRP strives to improve the regulatory environment within the prison system by working towards the institutionalization of the DDR and health promotion training that targets inmates, medical and non-medical prison staff. This year, AFEW/DDRP has been promoting efforts to institutionalize training by prison authorities through development of training modules to target medical staff, non-medical staff and inmates.

In 2006, a series of national working group meetings on drug demand reduction and health promotion in prisons were held in the Kyrgyz Republic. As a result, Deputy Minister of Justice of the Kyrgyz Republic approved a 12-hour education course entitled "Health Promotion in the Penal System of the Ministry of Justice of Kyrgyz Republic". By the order of the Head of the Prison system, this program was included into the educational program of the Penal System Training Center. To date, 15 staff members passed this training course. UNODC also implements the following drug programs in the Kyrgyz Republic:

Diversification of HIV prevention and drug treatment services for injecting and other drug users in Central Asia, a four-year project (ends in 2007) that improves and further develops the range of HIV prevention and drug treatment services for injecting drug users in selected localities in Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan;

Drug Demand Reduction and HIV/AIDS Prevention and Care Policy Advice to the Central Asian Governments, a two-year program (that ended in 2006). It aimed at a strengthening of policy development, implementation, coordination, and monitoring and evaluation capacities of the Central Asian governments in drug demand reduction and HIV/AIDS prevention and care.

Drug Abuse and HIV/AIDS Prevention through mass media, NGO and civil society, a three year project (ends in 2007) that is aimed at mobilizing the efforts of governments, the media, and civil society organizations in order to produce an expanded and concerted response to drug abuse in the Central Asian region.

IV. U.S. Policy Initiatives and Programs

Road Ahead. The DCA currently has displayed momentum toward becoming a solid and respected law enforcement organization in the field of drug enforcement in the Kyrgyz Republic. Another initiative, which is currently being negotiated, is the presence of a TDY DEA Agent embedded at the DCA. The most significant initiative in terms of funding is the development of Mobile Interdiction Teams for the DCA. This \$1 million project will give the DCA the capability to strike quickly anywhere in the Kyrgyz Republic and identify drug traffickers as they are transporting narcotics. Other initiatives include assuring immediate dismissal of employees who fail the polygraph, a review of all internal investigations, and tracking of all seizures and court cases as a result of those seizures.

Latvia

I. Summary

Drug use in Latvia is characterized by continued prevalence of synthetics, though cannabis is also popular. Heroin and cocaine can also be found. Recreational drug use has shifted to synthetic stimulants due to their low cost, as well as national information campaigns highlighting the dangers of intravenous drug use. Heroin use, which had once been Latvia's most serious narcotics problem, then flagged somewhat, is now showing marginal signs of renewed popularity. Latvia is party to the 1988 UN Drug Convention.

II. Status of Country

Latvia itself is not a significant producer of precursor chemicals, but Customs officials believe that a significant quantity of diverted “pre-precursors” originate in neighboring countries, such as Russia, Belarus, Lithuania, and Estonia and transit Latvia en route to other countries. Heroin is usually sold at “retail” only to people known to the seller and is generally not available in public places, though selling tactics and methods constantly change. Amphetamines are distributed in venues that attract youth, such as nightclubs, discotheques, gambling centers and raves. Organized crime groups also engage in both wholesale and retail trade in narcotics. Recreational drug use has increased, albeit relatively insignificantly, with Latvia's growing affluence and increased accessibility of drugs.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Latvia is in the second year of its State Program for the Restriction and Control of Addiction and the Spread of Narcotic and Psychotropic Substances (SPRCASNPS), which was approved by the Cabinet of Ministers 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.

Law Enforcement Efforts. In 2006 the amount of seized amphetamine, methamphetamine, heroin and cocaine increased compared to 2005 figures. Poppy straw, marijuana, hashish, ephedrine, Ecstasy and LSD seizures dropped last year. Amphetamine seizures, which jumped from 3.7 kg in 2005 to 11.1 kg in 2006, were accomplished chiefly by four large seizures: 1.97 kg on February 7, 1.98 kg on May 24, 0.97 kg on June 1, and 3.28 kg on June 27. All four seizures occurred in Riga. Heroin seizures increased from 42.3 grams in 2005 to 157.4 grams in 2006. Methamphetamine seizures also more than doubled, from 3.4 kg in 2005 to 8.2 kg in 2006. Ecstasy seizures dropped from 21,937 tablets in 2005 to 4,640 tablets in 2006. Marijuana seizures dropped to 6.3 kg in 2006, down from 25.9 kg in the previous year. Ephedrine seizures dropped from 18.46 grams in 2005 to 0.88 grams in 2006. Hashish seized dropped to 358.4 grams in 2006, from 1,553.8 grams the year before. Additionally, at the end of October 2006, the GOL reported a seizure of 42.2 grams of “China White” or 3-methylfentanyl. The Latvian government acknowledges that Latvian law enforcement needs to show better results for its counternarcotics efforts, despite resource and funding difficulties. The 2005-2008 national strategy takes this into account and indicates the government's intent to increase funding, personnel, and education for law enforcement.

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. According to the KNAB Director, his bureau has not found any senior-level Latvian officials to be involved in, encouraging,

or facilitating narcotic crimes or the laundering of proceeds from illegal drug transactions. The USG also has no evidence of drug-related corruption at senior levels of the Latvian government. As a matter of government policy, Latvia does not encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

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 neighboring countries, 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. Heroin is primarily trafficked via Russia from Central Asia.

Domestic Programs/Demand Reduction. The current national strategy addresses demand reduction, education, and drug treatment programs. Since its passage by the Cabinet of Ministers, the following objectives have been achieved: establishment of a co-ordination mechanism for institutions involved in combating drug addiction (involving eight ministries); establishment of a system for monitoring court directed treatment for addicted offenders; holding educational events for teachers and parents, as well as updated educational materials and informative booklets; inclusion of information on drug addiction in school curriculums; establishment of 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; and an increase in the number of employees in the regional offices of the Organized Crime Enforcement Department under the State Police. In addition to the State Narcotics Center, Latvia has established four regional narcotics addiction treatment centers in Jelgava, Daugavpils, Liepaja, and Straupe. There are rehabilitation centers in Riga and Rindzele, and youth rehabilitation centers in Jaunpiebalga and Straupe. Data from 2005 showed that Latvia had 27,648 patients in alcoholic addiction programs and 2,441 patients being treated for narcotic or psychotropic drug addiction.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States offers 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

Lithuania's illegal drug trade grew slightly in 2006, even as the government increased funding for drug prevention and control programs, and undertook greater cooperation with international partners in law enforcement work. Lithuania remains a source country for synthetic drugs, especially amphetamines, as well as a transit route for heroin and other illicit drugs. Lithuania is a party to the 1988 UN Drug Convention.

II. Status of Country

Cannabis and synthetic narcotics are the most popular illicit drugs in Lithuania, according to the country's Criminal Police Bureau. In 2006, police intercepted several shipments of locally produced amphetamines to Scandinavian countries, and closed down an illicit synthetic drugs laboratory, the 17th amphetamine lab discovered in Lithuania during the past decade. Police also intercepted heroin smuggled through Lithuania, cocaine imports from Venezuela that had transited Western Europe, and several caches of Ecstasy tablets.

The number of people seeking initial treatment for drug addiction has decreased according to the most recent data, falling from 12.3 cases per 100,000 inhabitants in 2004 to 10.2 cases per 100,000 inhabitants in 2005. Nearly 73 percent of registered drug addicts are younger than 30 years old, and 88 percent are men. Approximately seventy-one percent of the registered 1,173 people living with HIV contracted the disease through intravenous drug use. The Narcotics Control Department's (NCD) survey of drug use in Lithuania showed 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.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Lithuania's Ministry of Interior, Police, and other law enforcement institutions worked to implement the National Program on Drug Control and Prevention of Drug Addiction for 2004-2008, adopted in 2005. Parliament has passed several new measures aimed at monitoring, treating, and preventing drug addiction.

Accomplishments. Lithuania worked effectively with international partners to break up drug smuggling operations in 2006, making important seizures in cooperation with Norwegian, Swedish, Estonian, Latvian, Russian, and Polish law enforcement partners. Lithuania increased funding to the National Drug Prevention and Control Program from LTL 12.1 million (\$4.21 million) in 2005 to 14.6 million (\$5.41 million) in 2006. The national police department strengthened prevention and control measures at schools and implemented nationwide educational programs to prevent drug use among youth.

Law Enforcement Efforts. Lithuanian law enforcement officials recorded 1,393 drug-related crimes as of November 2006, a slight decrease from the 1,436 during the same period in 2005. As of November 2006, police and customs had seized 15 kg of poppy straw, 31 liters of poppy straw extract, 140 kg of hashish, 26,050 Ecstasy tablets, 12 kg of methamphetamines, and 25 kg of amphetamines. Lithuanian authorities confiscated 111 kg of synthetic drugs working in cooperation with other countries' law enforcement agencies. They also impounded small quantities (less than five kg each) of heroin, cocaine, marihuana, LSD, hallucinogenic mushrooms, various psychotropic drugs, and precursors.

Using European Union funds allocated for the strengthening of Lithuania's external borders, the Lithuanian State Border Guard Service bought 14 “sniffer” dogs to strengthen border enforcement in 2006.

In 2006, the police shut down one laboratory producing high-quality amphetamines and confiscated 7.89 kg of methamphetamine bases from the laboratory site.

As of November 2006, the Lithuanian court system heard 781 drug-related cases and convicted 827 persons. Sentences for trafficking or distribution of drugs range from five to eight years.

Corruption. Narcotics-linked corruption does not appear to be a major problem in Lithuania. Lithuania does not, as a matter of policy, encourage or facilitate illicit production of drugs or the laundering of proceeds from the illegal drugs trade. Lithuania has established a broad legal and institutional anticorruption framework, but low-level corruption and bribery continues to be the basis of frequent political scandals, and press reports have highlighted corruption in law enforcement structures during 2006. There were no reports involving Lithuanian government officials in drug production or sale or in the laundering of drug proceeds.

Cultivation/Production. Laboratories in Lithuania produce amphetamines for both local use and export, according to the Lithuania Ministry of Interior. Law enforcement agencies regularly find and destroy small plots of cannabis and opium poppies used to produce opium straw extract for local consumption. In 2006, police, in cooperation with customs agents, eradicated 4733 square meters (about one-half of a hectare) of poppies and 233 square meters of cannabis (less than 3 percent of a hectare).

Drug Flow/Transit. According to Lithuanian law enforcement agencies, domestically produced synthetic drugs have been intercepted en route to Sweden and Norway and also passing through Germany, Poland and Denmark. Customs agents have stopped drugs entering Lithuania from all sides; cocaine, Ecstasy, and other synthetic drugs arriving mostly from or via Western Europe; and heroin arriving from Central Asia via Russia and Belarus. Domestically grown poppy straw serves nearby markets in Lithuania, in Russia's Kaliningrad region, and in Latvia.

Domestic Programs (Demand Reduction). Lithuania operates five national drug dependence centers and ten regional public health centers, and several programs aim to reduce drug consumption through education programs and public outreach, especially in schools. The Prisons Department operates a rehabilitation center for incarcerated drug addicts, and spent around LTL 1 million (\$350,000) in 2005 to purchase equipment and fund activities to prevent drug trafficking, train officials, and educate inmates.

In 2006, Lithuania's Narcotics Control Department (NCD) implemented targeted drug prevention programs involving parents, teachers, and communities in prevention activities and efforts to keep high-risk youth occupied with better things. In cooperation with the Nordic Council of Ministers, NCD initiated an education project targeted at reducing the use of narcotics in bars and clubs. The NCD has also provided narcotics control and prevention training for members of municipal drug control commissions.

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 ratified the UN Convention against Corruption in 2006.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Law enforcement cooperation continues to be an area of great success, a result of several years of legal reform and law enforcement training. The United States has successfully cooperated with the Lithuanian authorities in numerous investigations involving fraud, narcotics trafficking, money laundering, and other crimes.

The Road Ahead. The United States will continue cooperating with Lithuanian institutions to support drug prevention activities and fight against narcotics trafficking.

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 2006 -- illicit drug seizures in Macedonia increased during 2006 -- although domestic use of illicit drugs also rose. The quantity of drugs seized in 2006 increased on average in some categories (heroin, opium, and marijuana), while decreasing in others (cocaine and other psychotropic substances). The government approved the Inter-ministerial Counternarcotics Commission's "Counternarcotics Strategy and Action Plan" on December 16. Macedonian law enforcement authorities cooperated closely with regional counterparts, including the UN Mission in Kosovo (UNMIK), in counternarcotics operations. Such operations occasionally were hindered by ineffective interagency coordination and planning, as well as by inadequate criminal intelligence, although there were some modest improvements in interagency coordination compared to the previous year. Macedonia is a party to the 1988 UN Drug Convention.

II. Status of Country

Macedonia lies along one of several overland routes used to deliver Southwest Asian heroin (through Turkey and Bulgaria) to Western Europe. Hashish and marijuana produced in Albania travels along the same route 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. According to government sources, there were no reports of the production of precursor chemicals in Macedonia. Cocaine was not transported to or through Macedonia in significant quantities (although a major seizure of nearly 500 kg of cocaine in January 2007 suggested official figures might have been under-reported). According to MOI sources, trafficking in synthetic drugs appeared to increase in 2006, but seizures were not higher than in 2005. Macedonia produced some poppy straw and poppy straw concentrate, but in quantities insufficient for its pharmaceuticals industry. As a result, some poppy was imported, under license, from Serbia and Australia.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The 2005 draft national strategy and action plan for demand reduction and combating drug trafficking, prepared by the GOM's Inter-ministerial Counter-Narcotics Commission, did not include any provision for adequate funding for its implementation. The government approved the strategy on December 16, and was preparing by year's end an action plan for implementing it.

As of the end of 2006, there has not been a parliamentary vote on draft laws, previously submitted by the GOM, to further strengthen control of narcotic drugs, psychotropic substances, and medical and chemical precursors.

As of October 2006, a draft National Strategy and Action Plan for Prevention, Treatment and Harm Reduction related to drug abuse for 2006-2012, which had been prepared by a working group established and chaired by the Minister of Health, had not been finalized.

Accomplishments. The Witness Protection Law was adopted in May 2005, strengthening the legal framework for combating organized crime and drug trafficking. In November 2006, the Macedonian parliament passed legislation, which will enhance the ability of prosecutors to use wiretaps as evidence in criminal proceedings.

The Ministry of Interior's (MOI) Organized Crime Unit includes a sector for combating illegal drug trafficking and a criminal intelligence cell. However, inadequate MOI intelligence regarding narcotics trafficking hampered counternarcotics efforts.

The Customs Administration continued to strengthen its intelligence units and mobile teams, and police officials claimed cooperation with their Customs colleagues had improved compared to past years. Wide-ranging personnel changes in Customs after the new government took office in August, however, called into question the training and competence of the new Customs cadres.

Law Enforcement Efforts. According to MOI statistics, in 2006 criminal charges were brought against 328 persons, including two juveniles and two police officers, involved in 249 cases of illicit drug trafficking. Police seizures of heroin and, marijuana in 2006 were on average higher than in the previous year. Seizures of other drugs, such as cocaine, hashish, and other psychotropic substances were significantly lower. However, MOI sources believe trafficking in some synthetic drugs, such as Ecstasy, actually rose in 2006, as evidenced in lower prices for such narcotics, reflecting an increased supply on the market.

The MOI reported the following quantities of drugs and psychotropic substances seized:

- heroin, 150 kg (two and a half times more than in 2005);
- marijuana, 309 kg (50 per cent higher than in 2005);
- cannabis, 142 plants (a major decrease from the 3,000 plants seized and destroyed the previous year);
- hashish, 16 grams (about 5 percent of the amount seized in 2005);
- raw opium, 3 kg (a significant increase compared to the 7.8 grams of opium seized in 2005); and
- Ecstasy, 1,377 pills (about half the amount seized in 2005).

In mid-September, a Macedonian court convicted four defendants on drug smuggling charges. All four defendants, (three Macedonian citizens and one Greek citizen) received prison sentences ranging from five to eight years. The convictions resulted from a successful inter-agency, cross-border counterdrug operation involving the Macedonian MOI, Ministry of Justice, and the Special Organized Crime Prosecutor's Unit, working with Greek authorities and U.S. DEA agents.

Corruption. Corruption is pervasive 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. The new government removed the Chief Public Prosecutor, accusing him of having failed to effectively prosecute a range of crimes, including high-level corruption cases. As a matter of policy and practice, however, 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, although MOI sources reported only small quantities of the drug were cultivated, mostly for personal consumption.

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. The quantity of synthetic narcotics trafficked to Macedonia in 2006 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. At border crossings with Bulgaria and with Kosovo and Serbia, Customs officials and police seized significant quantities of both outbound and inbound heroin.

Domestic Programs/Demand Reduction. Official Macedonian statistics regarding drug abuse and addiction are unreliable, but the government estimated there were between 7,000-8,000 drug users in the country. The most frequently used drug was marijuana, followed by heroin and Ecstasy. There were an estimated 1,000 cocaine users in the country in 2006, according to official sources. Treatment and rehabilitation activities are carried out in the one state-run outpatient medical clinic for drug users that dispenses methadone to registered heroin addicts. There are also seven specialized local centers for methadone substitution treatment, including one in the largest prison in the country (with over 60 percent of the prisoner population). Nevertheless, Macedonian health officials acknowledge that rehabilitation centers currently are overcrowded. The Ministry of Health announced in June a cooperative project, funded by the EU, to “combat drug-related criminal activity” through the opening of three new addiction treatment centers. 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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During 2006, DEA officers worked with the Macedonian police to support coordination of regional counternarcotics efforts. As reported above, DEA officers supported a successful cross-border Macedonian-Greek counterdrug operation that resulted in the conviction and sentencing of four drug smugglers in September.

MOI police, the financial police, Customs officers, prosecutors, and judges continued to receive USG-funded training in antiorganized crime operations and techniques. USG representatives continued to provide training, technical advice, and other assistance to Macedonian Customs and MOI Border Police units.

The Road Ahead. Macedonia’s porous borders and the influence of regional narcotics trafficking groups suggest the country will continue to provide an important route for the transit of illegal drugs, which is likely to boost drug use domestically. DEA officials continue to expect increased use by traffickers of Macedonia as a “warehousing” base during transshipments. Some Macedonian authorities argue, however, that the accession of both Bulgaria and Romania to the EU in 2007 could decrease the flow of illicit narcotics through Macedonia, as Asian suppliers find it easier to reach Western European markets through those two countries.

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. In cooperation with EU and other international community partners, the U.S. will press for implementation and funding of the national counternarcotics strategy, and for a permanent secretariat for the National Commission.

With the passage of wiretapping legislation in November, USG law enforcement training agencies in Macedonia can now focus on working with GOM counterparts to implement the law in order to strengthen the hand of prosecutors in counterdrug cases. The USG will continue to 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, as well as on 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 joining the European Union in 2004. As a result, Malta's criminal code is in alignment with the goals and objectives of the 1988 United Nations Drug Convention. 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 some 400,000 people located 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. However, with daily flights, numerous ship calls, a large commercial port, numerous illegal immigrants, membership in the European Union, and frequent international travel by a large percentage of Maltese, Malta is not an isolated country. The drug problem is generally limited to the sale and use of consumer quantities of illegal drugs. There has been a recent increase in the proliferation of recreational drugs such as Ecstasy and also increased use and trafficking of illicit drugs by persons under eighteen. Cultivation activity is limited to less than a few hundred cannabis plants per year.

Malta is not a precursor or essential chemical source country. Malta does not produce or possess significant amounts of precursor or essential chemicals nor does it have chemical manufacturing or trading industries that conduct considerable trade with drug producing regions. There are a number of generic pharmaceutical firms operating in Malta but no evidence of 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 2006

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. Port authorities have shown the ability to respond quickly when notified by foreign law enforcement of intelligence related to transshipment attempts.

Accomplishments and Policy Initiatives. In 2004, the Government of Malta and the United States successfully negotiated a Maritime Counter-Narcotics Cooperation Agreement, but it has not yet been ratified. This treaty 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. The text of the treaty is final and has been signed, but has not yet been implemented. In 2006, Malta and the U.S. finalized agreement on the Proliferation

Security Initiative (PSI) Ship Boarding Agreement. The Ship Boarding Agreement and the Counter Narcotics Cooperation Agreement will require legislation to amend Malta's civil code.

Law Enforcement Efforts. Maltese law provides the necessary provisions for asset forfeiture of those accused of drug related crimes. In 2006, the Malta Police Force Drug Squad seized several vehicles, boats, and cash property.

2006 Drug Seizures:

The statistics below are for January 1 - November 30, 2006.

A) Coca leaf	n/a
B) Cocaine	4 kg 258.95 g
C) Opium poppy straw	n/a
D) Opium gum	n/a
E) Heroin	1 kg 883.675 g
F) Cannabis:	
- Resin	44 kg 931.01 g
- Grass	2 kg 862.74 g
- Seeds	n/a
- Plants	39 plants
G) Other	

Police statistics also reveal the seizure of:

- 16,559 tabs of Ecstasy
- 50,533 tabs of Ecstasy
- 70.5 tabs of BZP
- 11 kg 812.3 g of Khat
- 84 tabs DHC
- 2 tabs Valium
- 0.5 g of Amphetamines

2006 Arrests:

Arrests	- 499
Nationals	- n/a
Foreign	- n/a
Arraignments for possession	- 392
Arraignments for trafficking	- 101
Sentences awarded	- 243
Raids/Searches	- 369

Corruption. There is no indication of any widespread corruption of public officials associated with illegal drug activities or 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 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. The final outcome in this case is pending appeals filed on behalf of the defendants.

Agreements and Treaties. As part of its accession to the European Union, Malta signed the Council of Europe's Criminal Law Convention on Corruption. The European Union promulgated the convention in order to improve judicial cooperation in criminal matters among the member states and to require all member states to implement "a common criminal policy aimed at the protection of society against corruption." Malta has also signed the UN Corruption Convention, but has not yet ratified it. 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. In November 2005, Malta and the United States concluded bilateral negotiations and agreed to a new extradition treaty. The extradition treaty is before the U.S. Senate for advice and consent to ratification; Maltese actions to bring it into force have been completed.

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 non-proliferation and border security initiatives that also have enhanced Malta's ability to monitor illicit trafficking through the Freeport. This should improve detection and act as a deterrent to narcotics traffickers seeking to use container-shipping activity at the Freeport as a platform for drug movements through the country.

Malta serves as a transfer point for travelers between North Africa and Europe. 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 2006, two Mexicans were apprehended at the airport transporting cocaine on two separate days. These apprehensions represented a new trend in that previously cocaine had not been transported directly from South America, but filtered through Europe.

Home to the world's eighth largest ship registry, Malta can be anticipated to be involved in interdiction operations.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. law enforcement and security agencies and their Maltese counterparts continue to cooperate closely on drug-related crime investigations. Maltese officials remain interested in securing USG sponsored training for personnel involved in narcotics control.

U.S. Customs has provided several training courses in Malta over the last two years. Under the Export Control and Border Security assistance program managed by the U.S. Embassy at 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 a state-

of the-art patrol boat. The Embassy's Regional Security Officer (RSO) works closely with the DEA Country Attaché and the FBI Legal Attaché based in Rome to foster cooperative efforts to strengthen law enforcement.

The Road Ahead. 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. Close USG-Maltese cooperation, so clearly beneficial to both sides, will continue.

Moldova

I. Summary

The Moldovan Ministry of Interior (MOI) is responsible for counterdrug law enforcement activity. The Anti-Drugs Unit has 78 officers nationwide. The number of criminal proceedings in 2006 also indicates a noticeable increase in cases sent to trial. Drug usage within Moldova remained a concern; the number of officially registered addicts increased by over six percent, despite the fact that widespread poverty makes Moldova a relatively unattractive market for narcotics sales. Moldova is not a significant producer of narcotics or precursor chemicals, and the true extent of money laundering here is difficult to determine. During 2006, the USG donated several field drug-test test kits to the MOI and financed basic law enforcement training programs (via the Department of State's Bureau of International Narcotics and Law Enforcement Affairs, "INL") that included narcotics enforcement modules. Additional support in the form of skills training and equipment donations is pending proposed project approval. The USG supported visits of Moldovan police officers, prosecutors, judges and legislators abroad on various capacity-development programs. These programs focused on enhancing techniques related to combating corruption, money laundering, illicit drug trafficking and organized crime. Moldova is a party to the 1988 UN Drug Convention.

II. Status of Country

Moldova is an agriculturally rich nation with a climate favorable for cultivating marijuana and poppy. Annual domestic production of marijuana is estimated at several hundred kg. Authorities regularly seize and destroy illicitly cultivated hemp plants and poppy plants. The market for domestically produced narcotics remains small, largely confined to local production areas or neighboring countries. The importation of synthetic drugs continues to grow. A significant problem for Moldova is smuggling of narcotic or psychotropic substances. Investigations performed in 2006 revealed increased cases involving narcotic substances of synthetic origin, such as: methamphetamine, amphetamine, Ecstasy (MDMA) and LSD. These investigations identified 29 networks involved in substance distribution. According to the MOI, domestic drug traffickers remain closely connected to organized crime in neighboring countries. These groups are not only involved in narcotics trafficking, but also trafficking in persons (TIP). Moldova is not a regional producer of any precursor chemicals. During the first ten months of 2006, the MOI discovered 13 cases of medical personal prescribing narcotic or psychotropic substances in violation of the law or appropriate procedure.

III. Country Actions Against Drugs in 2006

Policy initiatives. In February 2005, the GOM approved the Measures to Combat Drug Addiction and Narco-Business for the years 2005-2006. These measures include 70 activities that are structured into the following major groups:

- establishing the normative framework;
- organizational and legal issues;
- preventing drug use;
- treatment, psychosocial rehabilitation, and social and family reintegration of drug addicts; and
- ensuring control over the distribution of narcotic and psychotropic substances and their precursors.

Pursuant to its mission of curbing the increasing threat of trans-border crime, in April 2006 the MOI established the Department of Operative Service in order to ensure effective cooperation among existing law enforcement authorities in combating trans-border crimes. The Anti-Drugs Unit comprises 78 officers nationwide. All of the personnel are dedicated exclusively to antinarcotics activity. Moldova also continues to pursue, with U.S. support, anticorruption, antitrafficking, and border control initiatives that supplement counterdrug efforts.

Law Enforcement Efforts. Moldovan authorities initiated 1,691 drug related cases in the first nine months of 2006, as compared to 1,686 cases during the same timeframe in 2005. During 2006, 332 kg of poppy straw and 22 liters of liquid opium were seized, compared with 588 kg of poppy straw and 9 liters of opium seized for the same period in 2005. Heroin seizures decreased considerably in 2006. Twelve grams were seized during the first nine months of 2006. Concerns remain that Moldova, which is primarily a transit country, could become a user country. Twenty-eight cases were identified in which drugs were transferred to detainees serving in prisons. Moldova will need to invest significant resources in education, border enhancement, and further law enforcement initiatives if it hopes to stem the growth of its user population. However, given Moldova's poverty and the scarcity of government resources, significant additional government investment is unlikely.

Corruption. Corruption, at all levels, is a major systemic problem within Moldova but there has been some improvement. The Center for Combating Economic Crimes and Corruption (CCECC) is the law enforcement agency responsible for investigating corruption allegations, including those related to narcotics. The CCECC has been accused of political bias in targeting its investigations, although not specifically with regard to narcotics cases. The Government of Moldova, as a matter of policy, does not encourage or facilitate the production or distribution of drugs or launder proceeds from illegal drug transactions.

Agreements and Treaties. Moldova is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention. Moldova is a party to the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. Moldova participates actively in arrangements among former Soviet states and others of its neighbors, to cooperate to confront narcotics trafficking and other organized trans-border crimes.

Cultivation/Production. Each year, during July-August, the MOI launches a special law enforcement operation called "POPPY." This operation targets illicit poppy and marijuana fields for eradication. In the first nine months of 2006, 447 hemp fields were discovered and destroyed and 964 poppy fields suffered a similar fate.

Drug Flow/Transit. Seizures of illicit narcotics this year continue to indicate that Moldova remains primarily a transshipment country for narcotics. Information provided by the MOI indicates that two of the predominant heroin routes are from Ukraine through Moldova to Western Europe and from Turkey through Romania/Moldova into the CIS.

Domestic Programs/Demand Reduction. As of November 2006, the number of officially registered addicts in the Republic of Moldova was 8,750. This number represents an increase compared with the same period of 2005 (8,247). In 2006, the MOI organized 17 lectures at educational institutions on the topic of "Drug Addiction - Ways of Prevention." At the same time, three seminars were organized at the MOI Police Academy on the topic: "The Use of Operative Investigative Techniques in Combating Drug Trafficking." There were also concerts for young people to communicate the message: "Dangers of Drug Addiction." In addition, four television shows were broadcast on the national television station regarding similar topics. The MOI also publicized, through high profile media releases, 156 cases involving the apprehension and arrest of

drug traffickers. Treatment is an option for only the wealthiest of drug addicts. The Moldovan government and NGOs continued to provide limited information about narcotics and conducted education campaigns, but were unable to meet the demand for treatment of those already addicted.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Ongoing USG training and equipment initiatives are designed to improve the abilities of police to investigate and infiltrate organized crime and narcotics syndicates. The U.S. also offers assistance, including customs and border improvement programs aimed at strengthening Moldovan border control. While not specifically related to narcotics-these programs are focused on detecting WMD- they clearly have a “spin-off effect” of reducing the general illegal flow of goods through Moldova, including narcotics. State Department assistance also supported travel abroad by Moldovan police investigators. Customs officials and border guards attended basic law enforcement training courses at the International Law Enforcement Academy (ILEA) in Budapest. The course included sessions on combating organized crime, drug trafficking, human trafficking, money laundering and corruption. State Department assistance also organized an ILEA Roswell Advanced Management training course for ILEA graduates from Moldova focused on the same issues. In addition, the USG also donated six field drug-test kits to the MOI during 2006.

The Road Ahead. The U.S. and Moldova will continue to work together within the framework of several different U.S. assistance programs to improve the capacity of Moldovan law enforcement to target illicit movement of goods and persons through Moldovan territory.

Montenegro

I. Summary

Organized crime groups use Montenegro as a transit country for cannabis from Albania and Kosovo, and smaller amounts of other narcotics from the Middle East and Latin America, destined for the western Balkans and Western Europe. A small domestic market for illegal drugs exists. The Government of Montenegro is implementing a comprehensive action plan against illegal drugs, and is seeking close law enforcement relationships with other states in the region. Montenegro became an independent state on June 3, 2006, and is in the process of becoming a signatory to relevant international conventions and agreements, including the 1988 UN Drug Convention.

II. Status of Country

The Government of Montenegro estimates that only a small percentage of the illegal drugs entering the country are for the domestic market. Protection of its borders is a national priority, and the United States and other international donors support those efforts; in particular, U.S. donations of ocean and lake patrol craft have been effective in interrupting water-borne smuggling. However, if left unchecked, the use of Montenegrin territory by drug smugglers could undermine political stability and economic growth, and contribute to crime in neighboring states.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Changes passed by the Parliament in 2006 to the domestic criminal surveillance law will allow the use of improved methods and additional technical means in investigating crimes, including drug trafficking. The adoption in 2004 of the new Criminal Code and Criminal Procedure Code included antinarcotics provisions meeting objectives in the 1988 UN Drug Convention, and included Montenegro's first Law on Witness Protection, creating a specialized police unit for this purpose as well. In 2006, Montenegro continued discussion with neighboring states on regional cooperation in witness protection.

Law Enforcement Efforts. Training of police officers in techniques for combating organized crime and financial crimes remains central to coursework at the national police training center, re-established as a professional Police Academy on October 25, 2006. Montenegro has retained a separate counternarcotics service in the police force, and is looking to coordinate its efforts with the police surveillance unit, border police, the customs service, and the domestic intelligence service. Montenegrin authorities report that through the end of September 2006, police arrested 320 persons on felony drug charges in 280 cases, with an additional 42 persons charged with misdemeanor drug charges in 38 cases. The police seized 936.7 kg of cannabis, 3.3 kg of heroin, 8 grams of hashish, 69 grams of cocaine, 332 tablets of Ecstasy, and 4.8 kg of precursor chemicals. Two seizures of marijuana crops were made in 2006: one of 400 seedlings, the second of 670 seedlings.

Corruption. Corruption and the perception of corruption are common in Montenegro, and affect both law enforcement and the judiciary. The Government attempts to identify, prosecute and punish instances of official corruption, but does not specify whether the acts underlying specific disciplinary actions and prosecutions are narcotics-related or not. Laws that criminalize any and all corrupt activities by government employees address narcotics-related corruption. The Government has criminalized the production and distribution of narcotic and psychotropic drugs as well as the laundering of proceeds from illegal drug transactions, and enforces these laws as a matter of policy. As a matter of government policy, the GOM 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. Montenegro is a party to the UN Convention against Corruption.

Agreements and Treaties. Montenegro became an independent state on June 3, 2006, and has succeeded to a number of multilateral treaties to which the State Union of Serbia and Montenegro was a party or signatory, including the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention, as amended by the 1972 Protocol. Montenegro is also party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons. Montenegro has signed memorandums of understanding (MOUs) with neighboring states to facilitate cooperation in the fight against all forms of crime. As of October 2006, Montenegro has such MOUs with Albania, Austria, Bulgaria, Croatia, Macedonia, Romania, Serbia, and Slovenia, as well as with the UN Mission in Kosovo (UNMIK). Montenegro signed an international agreement on Witness Protection Relocation and Cooperation with Serbia and Bosnia and Herzegovina in July 2006.

Drug Flow/Transit. Organized crime groups use Montenegro as a transit point for drug smuggling, due to the country's central location, topography - both coastal and mountainous - and its past reputation as a facilitator of smuggling. Cannabis is smuggled from producers in Albania and Kosovo, en route to the Western Balkans and Western Europe; heroin from Southwest Asia transits Albania and Kosovo, crossing Montenegro before being transported further into Western Europe. A joint action by Montenegro, Serbia, and Italy at the end of 2004 into the first half of 2005 seized 200 kg of cocaine from Latin America before it could be smuggled into Western Europe.

Domestic Programs (Demand Reduction). The Government plans to re-convene its expert group to update its 2003-2006 action plan to combat drug use among children and youth. The group includes participants from the Interior Ministry, Ministry of Health, Ministry of Culture, Education Ministry, Justice Ministry, Labor and Social Welfare Ministry, Customs service, local governments, and NGOs. The Government has recognized the potential problem of drug use -- especially synthetic drugs -- among foreign tourists, and the effect upon Montenegro's tourism sector, which is a central pillar of the economy.

IV. U.S. Policy Initiatives

Bilateral Cooperation. The Government of Montenegro works closely with the United States and EU countries in reforming and improving its law enforcement and judicial capacity. The United States has provided extensive technical assistance, equipment donations, and training, to the police, customs service, and judiciary. Several U.S. Departments have programs that directly and indirectly support counternarcotics activities in Montenegro, including the Department of Justice (ICITAP and OPDAT programs funded by the State Department), Department of Homeland Security (Montenegro Border Security Program, and U.S. Coast Guard), Department of Defense (Defense Threat Reduction Agency), Department of the Treasury, and Department of State (Export Control and Border Security/EXBS, and SEED foreign assistance funding of Justice, Treasury, and DHS programs).

The Road Ahead. Current U.S. assistance programs, which are aimed at professionalizing the police and customs service, improving the ability of Montenegro to control its borders at land and at sea, improving prosecution of corruption and organized crime, including money laundering and illicit trafficking, and increasing the ability of the judiciary to effectively address serious crime are expected to continue. SEED-funded speakers have also helped publicize antidrug campaigns carried out by local NGOs, and will also continue into the future, as the U.S. seeks opportunities to cooperate closely with Montenegro in joint efforts against narcotics smuggling.

Netherlands

I. Summary

With its extensive transportation infrastructure and the busiest maritime port in Europe, the Netherlands continues to be a major distribution point for illicit drugs to and from Europe. A significant percentage of the cocaine consumed in Europe enters through the Netherlands, and the country remains an important producer of Ecstasy (MDMA), although production seems to be declining substantially. The Netherlands' successful five-year strategy (2002-2006) against production, trade and consumption of synthetic drugs will be reviewed at the end of 2006, and a new long-term plan will be published in early 2007. According to the Dutch National Police, three large seizures caused the number of Ecstasy tablets seized in the U.S. that could be linked to the Netherlands to rise to 0.85 million in 2005 from 0.2 million in 2004. 2005 seizures are still down from the 1.1 million seized in 2003 and 2.5 million in 2002. Operational cooperation between U.S. and Dutch law enforcement agencies is excellent, despite some differences in approach and tactics. ONDCP Director Walters praised the Dutch during his April 2006 visit to The Hague for their efforts to curb Ecstasy trade and expressed eagerness to continue progress on the bilateral agreement to exchange scientific and demand reduction information that he and Dutch Health Minister Hoogervorst signed in July 2005. The Netherlands actively participates in DEA's El Paso Intelligence Center (EPIC). One hundred percent controls at Schiphol airport on inbound flights from the Caribbean and some South American countries have 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 a sizeable amount of Ecstasy production has shifted outside the country. There also is 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 2006

Policy Initiatives. Major Dutch Government policy initiatives in 2006 include:

Cannabis. In June 2006, then-Justice Minister Donner and Interior Minister Remkes announced measures to step up the fight against illegal cannabis cultivation through enhanced cooperation among police, prosecutors, energy companies, housing corporations, insurance companies, and tax and welfare services. The National Prosecution's 2006-2010 plan, published in October 2006, lists prosecuting illegal cannabis cultivation as a major priority area. The investigations will focus on fighting the criminal organizations behind the cannabis plantations.

In June 2006, the Dutch Parliament backed away from a proposal to permit the regulated large-scale production of cannabis to supply marijuana "coffeeshops." Then-Justice Minister Donner,

who strongly opposed the proposal, had threatened to resign if Parliament had passed a resolution authorizing a trial program for commercial cultivation of cannabis in Maastricht.

In June 2006, Maastricht mayor Leers suspended his plan to move 7 of the 15 coffeeshops currently in the city center to the city outskirts and closer to the Belgian border. Instead, he and neighboring towns will look for a regional solution to the drug problems caused by drug “tourists.” In 2006, Maastricht began a trial project to offer local residents special access passes to coffeeshops. The Netherlands allows 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, but it already faces legal challenges aimed at determining whether or not such limitations comply with EU law.

In May 2006, Health Minister Hoogervorst informed Parliament that the government will continue to treat Dutch-grown cannabis with high THC content as a “soft” drug. Research by the National Institute for Health and Environment (RIVM) showed that, although high-THC cannabis use induced elevated heart rates, lower blood pressure and sleepiness, the symptoms were not sufficiently serious to require regulation comparable to that for “hard” drugs. According to RIVM's report, the average THC content of cannabis available in the Netherlands dropped to 17.5 percent in early 2006, from 17.7 percent in 2005.

In March 2006, the Justice Minister sent Parliament an amendment to the Opium Act making it easier for local governments to close down premises where drugs are sold illegally. Under the bill, mayors would no longer have to prove such premises are causing a serious public nuisance, which, in practice, can be very difficult. This authority already applies to public places, such as coffeeshops. The proposed amendment has cleared committee but its final consideration by the Dutch Parliament has been delayed by an election and coalition discussions.

Bilateral law enforcement cooperation treaties with Germany and Belgium/Luxembourg became effective in 2006. 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.

Dutch legislation implementing the EU framework decision on illegal drug trafficking of November 2004 became effective on July 1, 2006. The law, among other things, raises the maximum sentence for large-scale cannabis cultivation and illegal cannabis trafficking from 4 to 6 years imprisonment. A June 2006 study estimated the total number of coffeeshops in the Netherlands at 729 in 2005, down from 737 in 2004. Only 24 percent of the 483 Dutch municipalities allow coffeeshops within their cities - 72 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 the criteria for operating such shops usually are well observed. In July 2006, Rotterdam closed 10 out of the 31 “grow” shops (which sell, among other things, equipment for hemp cultivation) in the Rotterdam region, because they reportedly sold cannabis cuttings and full-grown cannabis plants.

Cocaine Trafficking. As a result of the Schiphol drug policy, which has implemented stricter controls and intensified cooperation with the Netherlands Antilles and Suriname, the number of drug couriers attempting to enter the Netherlands from the Caribbean and South America has been greatly reduced. From January to August 2006, 777 couriers were arrested at the airport, down from 1204 couriers in the same period of 2005. Because of the 100 percent drug controls at Schiphol, Dutch drug couriers increasingly appear to divert to the Dominican Republic as a transit point for Colombian cocaine. In November 2006, Justice Minister Hirsch Ballin sent Parliament an assessment of the Schiphol drug policy, including a long-term plan. According to the Justice Ministry, despite the good results, intensive law enforcement efforts remain necessary to be able to control the problem. DEA and the Dutch Royal Military Constabulary are currently working on

possible solutions to a data-sharing problem on individuals apprehended in the Netherlands and charged as narcotics couriers.

In late January 2006, a Rotterdam Customs drug-sniffing dog found 1780 kg of cocaine hidden in an industrial boiler, which had arrived from Curacao by vessel. The drugs had a street value of more than 70 million Euros. In March, Rotterdam Customs found 500 kg of cocaine in a sea container, probably shipped from Trinidad.

Ecstasy. The Government's successful five-year strategy (2002- 2006) against production, trade and consumption of synthetic drugs will be reviewed at the end of 2006, and a new long-term plan will be published in early 2007. According to the Justice Ministry, the UNODC's 2006 World Drug Report shows that the Netherlands has successfully moved away from being the world's leading Ecstasy producing country. The Dutch Justice Ministry noted a shift in production to Belgium and East European countries, including Poland. Canada is now a lead supplier to the U.S.

On December 29, 2005, the Dutch police seized 1800 liters of PMK (precursor for Ecstasy) and 85,000 MDMA tablets, and arrested one subject. The investigation involved close cooperation between the Dutch Crime Squad, Royal Canadian Mounted Police (RCMP) and DEA. In May 2006, the National Crime Squad arrested three people (two Swiss and one Antillean) in Amsterdam suspected of large-scale Ecstasy smuggling to the U.S. The arrests were requested by the U.S. Department of Justice after a DEA operation.

Heroin. On May 10, 2006 the National Crime Squad made routine traffic stop in Rotterdam seizing 200 kg of heroin and arresting five persons. This investigation was coordinated by DEA and Dutch and Turkish officials. In May 2006, cooperation between Dutch and German law enforcement agencies resulted in the seizure of almost 300 kg of Turkish heroin, of which 204 kg were captured in the Netherlands.

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 cannabis is 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 in January 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 a result of the 2005 bilateral “Agreed Steps” law enforcement negotiations, DEA has obtained access to the NR office in The Hague, which focuses on cocaine investigations, and, since October 2006, to the NR office in Helmond, which focuses on synthetic drugs and precursor chemicals. Co-location with these units has greatly enhanced effective cooperation, in particular police-to- police intelligence sharing, and has helped to link Dutch drug investigations to major ongoing DEA international operations.

The National Crime Squad (NR) has proven very effective in drug investigations, which has prompted closer cooperation with the DEA. After a meeting with the U.S. Ambassador to the Netherlands and DEA in September 2006, the KLPD National Police Force agreed to join the International Drug Enforcement Conference (IDEC) as a member country, which will help ongoing efforts to increase communication and cooperation in large and complex narcotics investigations. In addition to working directly with the Chinese on joint precursor chemical investigations, the Netherlands is an active participant in the INCB Project PRISM (a multilateral synthetic precursor chemical control effort).

In May 2006, the Dutch participated in DEA's International Drug Enforcement Conference (IDEC) in Montreal, Canada, as observers. This conference, involving approximately 50 nations, meets to share drug intelligence, identify joint targets and assist in coordinating international drug trafficking investigations. The Netherlands will become a full member of this conference during the May 2007 IDEC conference in Madrid, Spain. In July 2005, the KLPD assigned a liaison officer to Beijing, China to facilitate joint cooperation on precursor chemical investigations.

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 two 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. 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. However, the quick sharing of police-to-police information is improving as a result of the increased access for DEA agents with NR units.

The 100 percent controls on inbound flights from the Caribbean and some South American countries continue at Schiphol Airport. Currently, all drug couriers at Schiphol are prosecuted, regardless of the quantity of drugs they are carrying. The manpower required to conduct these 100 percent controls remains a major monetary expense and logistical challenge for the authorities at Schiphol. The program decreases the resources targeted for outbound flight checks. The number of outbound drug couriers going to the United States arrested at Schiphol remains low and has dropped since 2004. The absolute number of couriers coming from the Caribbean and South America to the Netherlands has also dropped since 2004. Current policy to check vigorously all inbound flights at some cost to checks on outbound flights is continually evaluated by the Ministries of Justice, Defense, and Interior.

In August 2006, Health Minister Hoogervorst allocated 20 million euros to the UNODC for fighting infectious diseases among drug users in Eastern Europe and Russia over the next four years. The Netherlands is a leading member of the Dublin Group of countries coordinating drug-related assistance.

Drug Seizures	2004	2005
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Heroin kg	1,244	902
Cocaine kg	12,387	14,603
Ecstasy (tablets)	5,600,193	1,854,487
Ecstasy (powder and paste) kg	303	430

Synthetic drug production sites	29	19
Amphetamine kg	577	1,576
Amphetamine (tablets)	10,355	980
LSD (doses)	52,000	25,000
LSD (tablets)	-	-
Methadone (tablets)	13,866	13
Cannabis resin kg	16,101	5,484
Marijuana kg	7,491	2,014
“Nederwiet” kg	2,163	2,223
Hemp plants	1,127,174	1,672,103
Dismantled hemp plantations	2,261	2,500

(Source: KLPD National Police Force)

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.

Agreements and Treaties. The Netherlands is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, 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 signatory to the UN Convention Against Corruption, and is a party to the UN Convention Against 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). The Netherlands 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 domestic legal steps to bring it into force.

Cultivation and Production. Although commercial (indoor) cultivation of hemp is banned, about 80 percent of the Dutch cannabis market is Dutch-grown marijuana (“Nederwiet”). The Prosecution's Department's 2006-2010 plan of October 2006, which lists the department's priorities for the next four years, singled out cannabis cultivation as a major focus area. According to this report, some 2,500 cannabis plantations were dismantled in 2005, up from 2,261 in 2004. Because such operations take up significant police resources, and because dismantled production sites often simply relocate, the prosecutor's office wants to give priority to tackling the criminal organizations behind the plantations, for instance through asset seizures. 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. On June 2006, Dutch Parliament backed away from a proposal to permit the regulated large-scale production of cannabis to supply marijuana “coffeeshops.” Then-Justice Minister Donner, who strongly

opposed the proposal, had threatened to resign if Parliament had passed a resolution authorizing a trial program for commercial cultivation of cannabis in Maastricht.

The Netherlands remains one of the largest producers of synthetic drugs, although the National Crime Squad (NR) has noted a production shift to Belgium and Eastern Europe. According to the NR, there also appears to be a shift from Ecstasy to amphetamine production. The NR seized an enormous 42,181 liters of chemical precursors in 2005 compared to 11,120 liters in 2004. The total number of Ecstasy tablets with an alleged Dutch connection confiscated by U.S. authorities rose to 0.85 million in 2005 from 0.2 million in 2004, but is still down from 1.1 million in 2003. The NR attributed the rise in 2005 to three major MDMA seizures. The number of Ecstasy tablets seized in the Netherlands totaled 1.85 million in 2005, down from 5.6 million in 2004.

According to the 2005 NR report, 2005 drug seizures around the world that could be related to the Netherlands involved more than 13 million MDMA tablets and 23 kg of MDMA powder (compared to 10 million tablets and more than 1,000kg of MDMA powder in 2004). MDMA (powder and paste) seizures in the Netherlands in 2005 rose to 430kg from 303kg in 2004. The number of dismantled production sites in the Netherlands for synthetic drugs dropped to 19 in 2005 from 29 in 2004. Of the 19 production sites, 8 were for amphetamine and 3 for Ecstasy production, 5 were meant for Ecstasy tablet making, 1 for LSD, 1 for GHB, and 1 for meta-chlorophenylpiperazine (m-CPP).

Drug Flow/Transit. The Netherlands remains an important point of entry for drugs to Europe, especially cocaine. 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 rose to 14,603kg in 2005 from 12,387kg in 2004. Of the 2005 seizures, some 4,494kg were seized at Schiphol, of which 3,518kg from passengers and 976kg in air cargo. Because of stronger controls at Schiphol, traffickers have diverted to other European airports or alternative routes. 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 of opiate addicts 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 their use of 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 2005 National Drug Monitor, the out-patient treatment centers registered some 30,745 drug users seeking treatment for their addiction in 2004, compared to 29,173 in 2003. The number of cannabis addicts seeking treatment rose to 5,500 in 2004 from 4,485 in 2003, but the number of opiate addicts seeking treatment dropped from 15,195 in 2003 to 13,929 in 2004. Statistics from drug treatment services show a sharp increase in the number of people seeking help for cocaine addiction, from 2,500 in 1994 to 10,000 in 2004. About 61 percent of addicts seeking help for cocaine problems are crack cocaine users.

The Trimbos Institute is expected to publish updated drug prevalence statistics in early 2007. Below are the latest available statistics of drug use among students ages 12-18. (Percent of respondents reporting use at least once in their life-time and use in the last month)

Life-time use	Last-month use
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Year	1999	2003	1999	2003
Cannabis	20.0	19.0	9.0	9.0
Cocaine	2.8	2.2	1.2	0.8
Heroin	0.8	1.1	0.4	0.5
Amphetamine	2.8	2.2	1.1	0.8
Ecstasy	3.9	2.9	1.4	1.2

(Source: National Drug Monitor 2005, Trimbos Institute)

Drug prevention programs are organized through a network of local, regional and national institutions. Programs target schools in order to discourage 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 the 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 in the 12-18 age group about the health risks of cannabis use also continues. The 24-hour national Drug Info Line of the Trimbos Institute has become very popular.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. and Dutch law enforcement 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 there remains room for improvement in accepting reasonable U.S. proposals for controlled deliveries. Dutch authorities continue to resist use of undercover criminal informants 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. Bilateral law enforcement cooperation continues to expand under the “Agreed Steps” list of action to fight drug trafficking. We have also noted improved and expedited handling of extradition requests. The U.S. is also working with the Netherlands to assist Aruba and the Netherlands Antilles in countering narcotics trafficking. The 10-year 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. The Netherlands Ministry of Health, Welfare and Sport has provided the Trimbos Institute for the years 2006-2007 with financial means to set up a continuing dialogue with U.S. counterparts with the aim of bringing scientists and professionals in the field of drugs and drug addiction together to create a better understanding of the respective problems the Netherlands and the United States face in tackling drug use.

Since 1994, U.S. Coast Guard Law Enforcement Detachments (LEDETs) have embarked Royal Netherlands Navy (RNLN) vessels in the Caribbean Sea to conduct counterdrug operations under an informal arrangement. In 2001, the USG presented text of a proposed LEDET MOU to the GON. The draft MOU would provide the legal framework for future LEDET operations from

RNLN, and perhaps Antilles Coast Guard, platforms. Meanwhile, we continue to operate under the well-settled practices developed since 1994.

The Road Ahead. U.S.-Dutch bilateral law enforcement cooperation is expected to intensify in 2007, particularly through DEA's access to the two NR drug units in The Hague (cocaine) and Helmond (Ecstasy). The bilateral "Agreed Steps" process will continue to promote closer cooperation in international investigations, including Ecstasy and money laundering cases. The bilateral exchange on Drug Demand Reduction will also continue in 2007 as well as the collaboration between ZON and NIDA on drug addiction research projects. We expect the follow-up to the Dutch government's successful Ecstasy Action Plan, which expired at the end of 2006, to further improve Dutch counter narcotics efforts.

Norway

I. Summary

Norway's illicit drug production remained very low in 2006. As in the past, Norway continued to tightly control domestic sales and exports and imports of precursor chemicals. The volume of drugs seized increased along with the number of drug seizures. Of the 2006 seizures, cannabis accounted for 45 percent followed by amphetamines (nearly 20 percent) and benzodiazepines (16 percent). Other drugs accounted for 19 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 very low in 2006 mainly due to Norway's tight regulations governing domestic sales, exports and imports of precursor chemicals, and Norway's unfavorable climate for naturally-based drug cultivation. 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.

II. Country Actions Against Drugs in 2006

Policy Initiatives. The Ministry of Health and Care Services continued its Narcotics and Alcohol Abuse Treatment and Prevention Reform program in 2006. Its activities were documented in its annual survey "Status Report on the Drug & Alcohol Situation in Norway". The report states that 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. In 2006, the Ministry of Health and Care Services continued to encourage the use of Oslo's drug injection room for drug addicts; more rooms are reportedly 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 national government unveiled Norway's 2006-2008 Counter-Narcotics Action Plan in late 2005. In the plan, the Health and Care Services Ministry underscores that the Norwegian Government's counternarcotics policy remains comprehensive and coordinated. The Ministry calls for continued international cooperation to combat drug abuse and stressed that increased rehabilitation of drug offenders was a priority in Norway. Meanwhile, the joint Narcotics Action Committee (established 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, 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 and border drug raids. The Police Directorate has a helicopter that is used in narcotics investigations, specifically in tracking narcotics criminals. The Police Directorate's 2003-2008 Action Plan carries forward plans and initiatives to meet the objectives of the 1988 UN Drug Convention. The Plan focuses on reducing domestic drug abuse, identifying and curbing illicit drug distribution, and curbing drug abuse among drivers of motor vehicles. The Norwegian Police Directorate has announced that the list of narcotics drugs is going to be revised in 2007. The Police Directorate supports the Verdal Initiative (Verdal is a small community in northern

Norway), where the local community has introduced measures to curb narcotics use. The Verdal Initiative is based on community cooperation to combat illicit drug use and is a model for other parts of Norway. This initiative involves voluntary nighttime patrols by citizens to report on those in the local community that openly use narcotics, and more visible police patrols in the streets to serve as deterrence. In addition, the Police Directorate supported various local antidrug and rehabilitation actions in 2006. 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 coordinates its efforts closely with the police and the Coast Guard.

Law Enforcement Efforts. According to statistics compiled by the Norwegian police crime unit (KRIPOS), the number of drug seizures in 2006 rose by 10.5 percent to an estimated 26,238 cases (up from 23,754 cases in 2005). The narcotics police also note increases in the volume of some drugs seized (e.g., cocaine) as the police continued to focus attention on bulk drug suppliers rather than individual abusers. Of the seizures made in 2006, cannabis accounted for 45 percent, amphetamines 20 percent, benzodiazepines 16 percent, and other drugs accounted for 19 percent of total seizures. In 2005 (the most recent year in which figures were available), the number of persons charged with narcotics offenses rose 7 percent to approximately 37,500 - compared with 35,000 in 2004. 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 investigate 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. In June 2006 Norway ratified the UN Corruption Convention. Norway has an extradition treaty and customs agreement with the U.S.

Cultivation/Production. In 2006, sporadic, and very small amounts of illicit crop cultivation were discovered. Very small quantities of Norwegian-grown cannabis concealed as potted or cultivated 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 2006.

Drug Flow/Transit. According to the police crime unit KRIPOS, the 2006 inflow of illicit drugs remained significant in volume terms with cannabis, heroin, benzodiazepines, Ecstasy, amphetamines topping the list. Most illicit drugs enter Norway by road from other European countries and other countries in Eastern Europe and Asia. As in the past, some drugs have been seized in commercial vessels arriving from Europe and Central/South America.

Domestic Programs (Demand Reduction). Government ministries and local authorities continue to initiate and strengthen counter narcotics abuse programs. According to the Ministries of Health and Care Services, the reduced number of drug-related deaths suggests that these programs have been successful. While the maximum penalty for a narcotics crime such as trafficking in Norway is 21 years imprisonment, penalties for carrying small amounts of narcotics are mild.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA officials consult with Norwegian counterparts whenever a Norwegian case has a U.S. nexus.

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

Traditionally Poland has been a transit country for drug trafficking. Improved economic conditions and increased ease of travel to Western Europe have increased Poland's 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 2006

Policy Initiatives. The total 2006 budget for state institutions is estimated at over \$38 million. The complete information on the costs of the antidrug program, called the "National Plan," which will include both national and local government funding, will be available in mid-2007. By comparison, in 2005 the total costs of implementing the National Plan amounted to over \$90 million, which was an increase of approximately 30percent. In addition, the National Bureau for Combating Drug Addiction has a 2006 budget of \$3.4 million, up slightly from \$3.2 million in 2005.

Law Enforcement Efforts. Polish National Police cooperated with DEA 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. 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. Poland continues to strengthen its relationship with Interpol in international policing efforts. Additionally, it works closely with the European Police Office (Europol) and has signed a border crossing agreement to monitor its eastern border. Police law enforcement officers go to Brussels for training.

On October 27, customs officers from Bialystok made the largest drug bust of the year at the Lithuanian border. They inspected a Lithuanian truck and found 570 liters of BMK - a precursor for the production of amphetamines. This amount of BMK could have produced 500 kg of amphetamines, with a market value of \$8.3 million (25 million PLN). Each customs officer received a bonus of \$3,300 (10,000 PLN).

The Paprocki case was another notable drug bust. The investigation involved cooperation between DEA's Warsaw and Tampa, FL District Offices and Polish police's Warsaw and Gdansk offices. Cooperation on this case led to the seizure in Poland of large quantities of MDMA (Ecstasy), amphetamines, and \$112,000 in counterfeit U.S. currency, as well as leading to the dismantling of the amphetamine laboratory.

Drug Seizures:

	<u>2004</u>	<u>2005</u>	<u>Jan-Jun 2006</u>
Heroin (kg)	65.6	41.1	53.16
Cannabis (plants)	15,440	34,916	5,899
Marijuana (kg)	207.5	201.4	103.9
Amphetamines (kg)	236.5	308.6	214.6
Hashish (kg)	41	18.5	9.5
Cocaine (kg)	21.7	12.8	10.99
Ecstasy (tablets)	269,377	487,268	77,321
LSD (strips)	34,28	2,157	620
BMK (liters)	4,970	716	411

Corruption. A comprehensive inter-ministerial anticorruption plan 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. 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 Assistance Agreement.

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 against Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons, and illegal manufacturing and trafficking in firearms. In September 2006, Poland ratified the UN Corruption Convention. 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, cocaine, and Ecstasy frequently transit the country, as does opium in all forms originating from Afghanistan. Poland produces a large amount of high quality amphetamines in clandestine laboratories located throughout the country. Polish organized crime syndicates then distribute the amphetamines throughout the European community, especially in Russia, Germany, and the Scandinavian countries. Destinations for these drugs are primarily 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 Plan include reducing the spread of drug use, limiting the spread of HIV infections connected with drug use, and improving the quality and effectiveness of treatment. The Plan 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 their 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. Training under the State Department-funded narcotics assistance program from 2002 through 2005 was highly successful, but this program has expired and will not be renewed. Operational cooperation through joint investigations will continue and should be enhanced by the new DEA office (see below).

Bilateral Cooperation. In August, DEA opened its office in the U.S. Embassy in Warsaw. In past years, Poland was handled from Berlin, Germany. DEA maintains close contact and holds numerous operational liaison meetings with Polish law enforcement officials. The highly successful 2002 Letter of Agreement between Poland the United States under the International Criminal Investigative Training and Assistance Program (ICITAP) expired in 2005 and has not been renewed. In 2006 DEA sent a member of the Polish National Police to the United States for training.

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 counter narcotics activities, facilitating even closer collaboration between Poland and its neighbors to the East and the West. GOP priorities for 2007 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. Overall drug seizures in Portugal in 2006, as compared to 2005, significantly increased. For example, seizures of cocaine increased from 7.2 metric tons in the first six months of 2005 to 30.4 metric tons during the same period in 2006. In the first half of 2006 seizures of hashish and heroin diminished by 78 and 48 percent respectively. U.S.-Portugal cooperation on drugs has included visits to Portugal by U.S. officials and experts, and training of law enforcement personnel. 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 for cocaine arriving in Portugal, largely from Brazil and Venezuela, both of which have large resident Portuguese populations. Other primary source countries were Morocco and Spain, especially for hashish. Cocaine and heroin enter Portugal by 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 2006

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). On October 11, 2006, Portugal passed a law approving the creation of a two-year program targeted at preventing drug use among at-risk populations in Portugal. The government approved a 2,600,000 Euro budget targeting families with a history of substance abuse; youth with a record of delinquency and school absenteeism; and individuals with relatives working in bars, nightclubs or other locations of known drug consumption.

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 a 2006 semi-annual report prepared by the PJ, the Portuguese law enforcement forces arrested 2,087 individuals for drug-related offenses in the first six months of 2006 as “traffickers/consumers.” Most were Portuguese citizens, followed by a number of nationalities, such as Cape Verdeans (198), Angolans (52), Spanish (40), Brazilians (31), Bissau-Guineans (29), and Venezuelans (27). The 2006 PJ semi-annual report indicates a significant increase in the cocaine seized in the first half of 2006 compared to the first half of 2005. Seizures of cocaine increased four-fold. In the first six months of 2006, the PJ seized over 30.4 metric tons of cocaine, up from 7.2 metric tons in the same period in 2005. Hashish seizures decreased by about 78 percent, Ecstasy seizures decreased by 12 percent and heroin seizures declined by 48 percent. The 2006 PJ report indicates the following monetary seizures related to narcotics: 5.9 million Euros in cash, 49.7 thousand Euros in assets and the equivalent of over one million Euros in foreign currency. In February 2006, “Operation Portuguese

Soul” located and halted 8.2 metric tons of cocaine in transit towards Europe. In August 2006, Operation “Tornado” seized six metric tons of cocaine and six million Euros en route to Europe.

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 1994. 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. When these enter into force they will modernize the criminal law relationship between the U.S. and Portugal.

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 and some traffickers use the Azores islands as a transshipment point. The U.S. has not been identified as a significant destination for drugs transiting through Portugal.

Domestic Programs. Responsibility for coordinating Portugal's drug programs was moved to the Ministry of Health in 2002. The Government also established the Institute for Drugs and Drug Addiction (IDT) by merging the Portuguese Institute for Drugs and Drug Addiction (IPDT) with the Portuguese Service for the Treatment of Drug Addiction (SPTT). The 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 implementing its National Drugs Strategy: 2005-2012, with an intermediary impact assessment scheduled for 2008. It builds on the EU's Drugs Strategy 2000-2004 and Action Plan on Drugs 2000-2004 and 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. 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 important source countries for drugs found in Portugal, including countries 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 1994 CMAA.

The Road Ahead. Portugal was selected to host an interagency counternarcotics information sharing initiative, Maritime Analysis and Operation Center (MAOC) beginning in 2007. The MAOC aims to locate possible narcotics shipment vessels and to coordinate Western Europe's law enforcement response. The MAOC will implement some of the methods used by the U.S. Joint Interagency Task Force- East in Key West, Florida.

Romania

I. Summary

Romania serves as a transit country for narcotics, as it lies along the well-established Northern Balkan route that is used to move heroin and opium from Southwest Asia to Central and Western Europe. Romania also sits astride a developing route for the transit of synthetic drugs from Western and Northern Europe to the East. While Romania is not a major source of production or cultivator of narcotics, it has begun to be a source of amphetamines and is used as a transit point for South American cocaine destined for Western Europe. In 2006, Romania made several major drug seizures. Romania worked to implement its 2005-2008 National Anti-Drug Strategy and is a party to the 1988 UN Drug Convention.

II. Status of Country

Romania is a transit country for narcotics, mainly heroin and opium, moving from Southwest Asia, through Turkey and Bulgaria and onward toward Central and Western Europe. Romania finds itself along a developing route for the transit of synthetic drugs from Western and Northern Europe to the East. A large amount of precursor chemicals transits Romania from West European countries toward Turkey. Romania is increasingly becoming a storage location for illicit drugs prior to shipment to other European countries. Heroin and marijuana are the primary drugs consumed in Romania. However, the use of synthetic drugs such as MDMA (Ecstasy) has increased among segments of the country's youth as economic conditions improve. Officials also predict an increase in domestic heroin consumption.

III. Country Actions Against Drugs In 2006

Policy Initiatives. Romania continues to build an integrated system of prevention and treatment services at the national and local level, with 47 Anti-Drug Prevention and Counseling Centers throughout the country. The General Directorate for Countering Organized Crime and Anti-Drug (DGCCOA) operates at both the central and territorial level, with 15 brigades assigned to the local Appeal Courts and 41 county offices for combating narcotics and organized crime. Joint teams of police and social workers carry out educational and preventative programs against drug consumption. Romania plays an active role in the Bucharest-based Southeast European Cooperative Initiative (SECI) Center's Anti-Drug Task Force.

Law Enforcement Efforts. In the first six months of 2006, Romanian authorities seized 162 kg of illegal drugs, including 23 kg of heroin, 10 kg of cocaine, 94 kg of mescaline, 26 kg of cannabis and 11,133 amphetamine pills. During the first six months of 2006, 1218 individuals were investigated for drugs and precursors trafficking, possession and consumption. This was an increase of 11.6 percent compared with the same period in 2005. Three-hundred and fifteen individuals were indicted and 228 were held under preventive arrest. The Romanian Courts convicted 349 individuals (most of these were indicted in 2005 and before) for narcotics-related offenses, of which 329 were sent to prison and 20 were given a fine.

Corruption. As a matter of government policy, the Romanian 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. The USG does not believe that senior officials within Romania engage in, encourage, or facilitate the illicit production or distribution of such drugs or substances. However, corruption remains a serious problem within the Romanian government, including within the judiciary and law enforcement branches. The Code of Ethics for police officers provides strict rules for the professional conduct of law enforcement. It

specifically addresses corruption, use of force, torture, and illegal behavior. Unlawful or abusive acts may trigger criminal or disciplinary sanctions. In conjunction with the Code of Ethics, the government created a permanent commission within the Ministry of the Administration and Interior to monitor compliance with the code. Also, the newly created Anti-corruption unit within the Ministry of the Administration and Interior conducted several internal undercover operations targeting corruption among police officers.

Agreements and Treaties. Romania is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, and the 1971 UN Convention on Psychotropic Substances. The United States and Romania are negotiating a new extradition treaty, which will fully modernize the extradition relationship between the two countries, which is currently governed by a treaty that entered into force in 1925 and a supplementary treaty that entered into force in 1937. Amendments to the Romanian constitution that make it possible for Romania to extradite its own citizens are the proximate reason for renegotiation of the treaty. The U.S.-Romania Mutual Legal Assistance Treaty entered into force in 2001, and the United States and Romania are negotiating a protocol to the treaty to satisfy certain obligations related to Romania's recent accession to the European Union. Romania is party to the UN Corruption Convention, and the UN Convention Against Transnational Organized crime and its three protocols.

Cultivation/Production. For the first time, in 2006, cultivated green cactus (San Pedro), containing high levels of mescaline, was discovered for sale in Baia Mare.

Drug Flow/Transit. Illicit narcotics from Afghanistan enter Romania both from the north and east, and as well as 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 cross the border with Moldova, as well as via the country's international airports. Once in Romania, the drugs move either northwest through Hungary, or west through Serbia. Police estimate that 80 percent of the drugs entering Romania continue on to Western Europe. Romania also is becoming an increasingly important route for the transit of synthetic drugs from Western and Northern Europe to the East.

Domestic Programs. While consumption of narcotics in Romania has historically been low, this appears to be slowly changing; the Romanian government has become increasingly concerned about domestic drug consumption. Approximately, 800 drug prevention programs were initiated during the first half of 2006, including programs against drug consumption in the families, in schools or in the community. These were conducted in cooperation with local authorities, NGOs, religious organizations and private companies. Detoxification programs are offered through some hospitals, but treatment is limited. These programs are hampered by a lack of resources and poorly trained staff.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2006, the United States provided \$1,724,000 in assistance to further develop Romania's activities against cyber-crime, narcotics trafficking, as well as to reform the criminal justice system, combat emerging crimes and counter official corruption. The 2006 agreement covers two projects that continue to help Romania's prosecutorial and judicial institutions to effectively prosecute corruption, trafficking in persons (TIP), organized crime, terrorism and other crimes (\$825,000). They also develop law enforcement capabilities to effectively combat computer crime cases and narcotics violations at both the national and local levels and to support the Romanian National Police in its effort to decentralize decision-making authority (\$849,000). Romania also benefited in 2006 from approximately \$900,000 in U.S. assistance to the Bucharest-based Southeast European Cooperative Initiative (SECI) Center for Combating Trans-border Crime, which more broadly supports the twelve participating states in the Balkan region and focuses on trans-border crime, with one task force directed specifically towards

combating the narcotics trade. The United States is a permanent observer country at the SECI Center, with a DEA Liaison Officer who assists in coordinating narcotics information sharing, maintains liaison with participating law enforcement agencies, and coordinates with the DGCCOA on case-related issues. A Resident Legal Advisor (Senior Prosecutor) from the U.S. Department of Justice is assigned to the SECI Center, providing guidance on drug trafficking investigations.

The Road Ahead. Romania has put a serious emphasis on its counternarcotics efforts and cooperation with the USG. The USG believes that cooperation will continue, as the Romanian government has become increasingly concerned about domestic drug consumption. The United States will continue supporting Romania's efforts to strengthen its judicial and law enforcement institutions.

Russia

I. Summary

In 2006, the Government of Russia (GOR) focused its efforts on prevention, legislation, and combating money laundering 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 demand, as well as transit through Russia to the rest of Europe. In addition, heroin use contributed to a significant increase in the number of persons infected with HIV/AIDS and/or Hepatitis C, directly attributable to intravenous drug use. The Director General of the Federal Drug Control Service (FSKN) emphasized the need for international cooperation to combat drug traffickers that operate without regard to borders. The FSKN continued to work on plans to open liaison offices in ten countries, including Afghanistan. Trafficking in opiates from Afghanistan (primarily opium and processed heroin) and a new synthetic opiate injectable drug comprised of a mixture of heroin and 3-methylfentanyl (Beliy Kitai - White China) and their abuse were major problems facing Russian law enforcement and public health agencies. However, the FSKN reported that the sharp post-Soviet increases in the number of drug users has begun to stabilize. More than 90 percent of Afghan drugs arrive in Russia via Central Asia. The GOR has recognized the extent of the drug trafficking problem 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 a party to the 1988 UN Drug Convention.

II. Status of Country

Trafficking. Russia is both a transshipment point and a market for heroin, opium and other dangerous illegal substances such as “White China”. Since the beginning of 2006, the FSKN has reported a sharp increase in seizures of 3-methylfentanyl by Russian law enforcement. In the first six months of 2006, FSKN recorded 321 seizures of 3-methylfentanyl, five times more than during the same period in 2005. The majority of these seizures were made in the Northwest and Western parts of Russia. 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. In February 2006, the FSKN reported that over 100,000 persons died in Russia of drug addiction compared to 30,000 homicide victims and 35,000 deaths due to road accidents- almost 5 percent of all crimes in Russia - are related to drugs. Per the Director, while there are 500,000 people officially registered as drug addicts in Russia, the actual numbers are 5-6 million, and possibly more. The annual revenue from illicit drug trafficking in Russia was estimated to be \$15 billion. According to the FSKN, seizures have pushed up the price of almost every kind of drug across Russia. The average price for a gram of heroin (retail) in 2006 was \$ 51.54. The average price in 2005 was \$40, in 2004, \$30 and in 2003, \$20. Per gram prices (retail) for heroin were as low as \$19 (in Perm Oblast) and as high as \$132 (in Murmansk Oblast). The wholesale price for a kilo of heroin in 2006 was about \$26,500 kg prices ranged from about \$11,300 dollars to about \$75,200.

Synthetic drugs produced in Russia usually take the form of amphetamine type stimulants and heroin analogues like methadone and mandrax. 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 (FTS) reported that roughly half of the MDMA it seized in 2005 entered the country from Belarus and is typically manufactured in Poland. In 2006, the Deputy Director of FSKN, confirmed that a significant portion of synthetic drugs are smuggled to Russia from Europe, most often through the Baltic States, as well as through Ukraine and Belarus. The FSKN reported in September 2006 that 680 million doses of synthetic drugs had been seized in Russia since January. Synthetic opiates have shown up in Orenburg Oblast, a region where the USG has projects focused on HIV/AIDS prevention and drug demand reduction. The abuse of these synthetic opiates has directly resulted in an increase in death due to drug overdoses.

Although the MDMA tablets produced in Russia are of poor quality, the low prices (as little as \$ 5.00 per tablet) are attractive to Russian youth compared to the \$ 20.00 typically charged per tablet for MDMA tablets from the Netherlands. Methamphetamine is extremely rare in Russia. 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 over the past few 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 Russia 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. FSKN officials have identified a disturbing new trend in narcotics trafficking - the use of the Internet to sell illegal drugs. According to the FSKN, Russia is home to hundred of websites which market illegal drugs both in Russia and abroad. The FSKN has reported that it is attempting to develop technology to interrupt web-based drug trafficking.

Addict/User Population. The FSKN reports that there are 1.5 million drug users with 400,000 officially registered drug addicts in Russia's treatment centers. New models of cognitive therapy are being implemented in treatment centers in St. Petersburg, but substitution therapy has not been fully explored and remains politically sensitive. The Ministry of Health (MOH) estimates that up to six million Russians take drugs on a regular basis. The FSKN Deputy Director confirmed that around six million Russians take drugs, thus agreeing with the MOH estimate, adding that only one in twenty drug addicts are officially diagnosed. 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, Cherkesov claimed that there were only 390,000 officially registered drug addicts in Russia and four to five million Russians who use drugs regularly, and in 2006, claimed that the rise in the number of drug addicts had been halted.) While the number of registered cases of drug use has stabilized, the number of drug overdoses in many regions is increasing due to the introduction of dangerous new substances such as White China. The lack of drug maintenance therapy to treat drug users contributes to the small number of registered cases of IDUs (Intravenous Drug Users) in treatment centers.

According to the MOH, as of August 2006, there were over 350,000 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 90 percent of injecting drug users are Hepatitis C positive. With FY06 HIV/AIDS funding, the National Institute of Health has just begun work with Russian research facilities in St. Petersburg to explore alternative drug treatment regimens acceptable to the GOR. Naltrexone and Bupranorfin are two drugs currently registered in Russia, which may prove to be useful alternative drug treatment measures. A sign of progress is that the MOH has recently requested a special report prepared on medication assisted drug therapy. A group of key MOH health and social welfare officials and NGOs have recently returned from a

study tour to the U.S. financed by USAID to observe effective social programs for high risk families and communities affected by drug use. This has resulted in a new committee in the MOH, which plans to put into action lessons learned from Baltimore, Providence, and New York City. In November 2006, the USG in collaboration with the MOH and the FSKN will sponsor a major technical workshop in St. Petersburg to improve access and quality of drug treatment and rehabilitation services for IDUs.

Trafficking Organizations. 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 (Russia shares a 7,000 km border with Kazakhstan) and into European Russia and western Siberia. The FSKN claims that 90 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.

III. Country Actions Against Drugs In 2006

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 restructured the agency in 2004, which is now known as the Federal Drug Control Service (FSKN). The FSKN has 35,000 employees, with branch offices in every region of Russia. Since its creation the FSKN has stressed the importance of attacking money laundering and other financial aspects of the drug trade. The money laundering division of the FSKN cooperates closely with the Ministry of the Interior (MVD), the Federal Security Service (FSB), and the Federal Customs Service (FTS), but its main partner is the Federal Service for Financial Monitoring (FSFM). 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 FSKN. The GOR has signed many bilateral agreements on counternarcotics cooperation. In 2005, during a visit of the FSKN Director to the U.S., the FSKN signed a Memorandum of Understanding with the U.S. Drug Enforcement Administration to enhance bilateral cooperation to combat illegal drugs and their precursor chemicals. Multilaterally, Russia and the other member nations of the Shanghai Cooperation Organization (SCO) have attempted to use the SCO as a vehicle to combat narcotics trafficking in Afghanistan and Central Asia. In 2006, Russia hosted the Paris II-Moscow I Ministerial Conference on Drug Routes from Afghanistan. This conference, organized by the MFA and UNODC, was a follow-on conference to a similar meeting in Paris in 2003 and addressed ways to combat Afghan drug trafficking, including the illicit traffic in precursors for the production of heroin. Representatives of more than 50 countries and 23 international organizations attended the conference.

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. Legislation passed in 2004 entitled “On Protection of Victims, Witnesses and Other Participants in Criminal Proceedings” extends legal 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. In 2005, the GOR issued implementing regulations and provided money from the Federal budget for implementation of the legislation.

One of the key obstacles in Russia's struggle with drug trafficking is a lack of experience with prosecuting narcotic-related cases. The FSKN Director 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 narcotic-related crimes and establishing a legal framework that is beginning to work effectively against drug dealers. On February 7, 2006, the GOR approved amendments to the Criminal Code that reduce the minimum punishable amounts of illegal drugs subject to prosecution. This amendment was a reversal of a legislative change adopted in November 2003, which had reduced the sentence for possession of drugs for personal use from a maximum of three years in jail to a fine. The amendments introduced the sizes of "large" and "especially large" amounts of drugs to be used in determining sentences for drug-related crimes and eliminated the category of average dose. The amendments classified as large/especially large amounts exceeding the following amounts in grams of: poppy straw (20/500), hashish (2/25), heroin (0.5/2.5), marijuana (6/100), opium (1/25), and methadone (0.5/2.5).

Law Enforcement Efforts. On March 27, 2006, President Putin issued Decree No. 263 On Official Representatives of the Federal Drug Control Service of the Russian Federation to Foreign States authorizing FSKN to station 50 officers (representatives and their deputies) in foreign states to facilitate information sharing and joint investigations. The officers will be based in Russian diplomatic missions but will not be part of embassy staff in order to give them more flexibility in dealing with their counterparts. The FSKN had earlier already established a drug liaison office in Dushanbe, Tajikistan and is now on track to open an office in Kabul in 2007. Seizure statistics: The following figures reflect total drug seizures for 2005 and the first half of 2006 by all law enforcement agencies in Russia: (all figures are in kg/source: FSKN)

Substance	2005	First Half of 2006
Hashish	2,101	1,065
Marijuana	30,618	13,942
Poppy Straw	3,209	833
Opium	1,523	417
Heroin	4,676	2,538
Cocaine	109	32
Controlled substances (Pharmaceuticals, etc.)	95,174	8,602
Other	1,335	815

Corruption. Controlling corruption has been a stated priority for the Putin administration. 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, the FSKN Director endorsed a Code of Honor in 2005 for FSKN personnel. The Code is a brief list of rules of conduct that guide the activities of every FSKN employee. FSKN officials report that over 100 law enforcement officers were arrested in 2005 for drug trafficking. Figures for 2006 are not yet available. In May 2006, five FSKN officers were accused of extortion and detained in Moscow. The case is currently under investigation. There were no reported cases of high-level narcotics related corruption. As a matter of government policy, the

GOR 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 GOR senior officials were 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. Russia is party to the 1988 UN Drug Convention, the 1961 Single Convention on Psychotropic Substances and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The U.S.-Russia Mutual Legal Assistance Treaty (MLAT), entered into force on January 31, 2002. Russia is a party to the 1994 Agreement on Coordination and Cooperation of Customs Authorities in Combating Illicit Distribution of Narcotics and Psychotropic Substances signed by Belarus, Ukraine, Armenia, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Russia is a party to the UN Corruption Convention and the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling.

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 area, 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 2006, Operation Poppy identified numerous illicit plantations of cannabis, primarily in Primorskiy Kray and Altay Kray and about 40 metric tons of narcotic plants were destroyed. Primary cannabis cultivation areas are Primorye, Altay, as well as Amur Oblast and the Republic of Tuva.

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 metric tons of heroin are annually smuggled 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. Cocaine destined both for Russia and 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 area around St. Petersburg.

Each year, law enforcement agencies of Russia and several of its neighbors participate in Operation Kanal. Kanal is an interdiction blitz during which extra personnel are stationed at railroad stations, airports, border crossings, and other checkpoints. During Kanal 2005, 881 individuals were detained and 1,396 kg of illegal drugs were seized in Russia. Kanal 2006 is being implemented in three phases: the first phase took place in May 2006 and focused on the interdiction of precursor chemicals. The second phase is currently underway and is focusing on synthetic drugs. The third phase had not yet been scheduled at the time this report was drafted. For the first time, DEA agents have been invited to observe. FSKN officials continue to report a significant increase in drug trafficking into Russia following the withdrawal of Russian border guards from the Afghan/Tajik border in 2005. Russian forces had been stationed in Tajikistan after the dissolution of the Soviet Union, but departed after the expiration of the agreement governing their presence.

Domestic Programs/Demand Reduction. Russian authorities are attempting to implement a comprehensive counternarcotics strategy that would combine education, health and law enforcement. FSKN is tasked with demand reduction among its other responsibilities and has recently begun a large-scale public awareness campaign. Russian law enforcement authorities also 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 has been expanded 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. In 2006, the FSKN and National Health League launched a preventive program called Health Wave - Take Care of Yourself aimed at children's health and prevention of drug addiction in four cities (Samara, Saratov, Volgograd and Astrakhan).

IV. U.S. Policy Initiatives and Programs

Policy Objectives. The principal U.S. counternarcotics programmatic 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 help improve cooperation of Russian law enforcement authorities with U.S. law enforcement agencies.

Bilateral Accomplishments. In 2002, the U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs (INL) negotiated a Letter of Agreement (LOA) with the GOR allowing direct assistance to the GOR in the area of counternarcotics and law enforcement assistance. DEA provided INL-funded counternarcotics training to over 100 trainees in 2006, drawn from the FSKN, the MVD, and the Federal Customs Service. In 2007, DEA will again offer INL-funded counternarcotics training to Russian law enforcement. In FY 2006, the DEA Office of International Training and the Moscow Country Office, with funds provided by INL, worked together to organize numerous additional narcotics law enforcement training events. In FY 2007, DEA is planning to hold a one-week Forensic Chemist Seminar, funded by INL. This seminar will focus on advanced signature (i.e., seized opiate origin) analysis techniques, including the analysis of Southwest Asian heroin, and to explore joint experience in conducting signature analysis. Progress continued on the Southern Border Project, an effort that will eventually 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. also provided technical assistance in support of institutional change in the areas of criminal justice reform, mutual legal assistance, anticorruption and money laundering.

The Road Ahead. The GOR places high priority on counternarcotics efforts and has indicated a desire to deepen and strengthen its cooperation with the United States and other countries, particularly in light of its 2006 chairmanship of the G-8 and chairmanship of the Council of Europe. 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.

Serbia

I. Summary

Organized crime groups use Serbia, a center point on the Balkan smuggling route, as a transit point for the transfer of heroin, cocaine, marijuana and other synthetic drugs. A small portion of smuggled narcotics remains in Serbia for domestic consumption. Serbia is developing and enacting new laws and law enforcement initiatives, including the National Strategy for the Fight Against Drugs, but a weak legal infrastructure and endemic corruption will make the fight against narcotics and drug smuggling a long process. As legal successor to the state union of Serbia and Montenegro and the Former Yugoslavia, Serbia is party to the 1988 UN Drug Convention.

II. Status of Country

Serbia is primarily used as a transit country for the movement of narcotics, but the ability of organized crime groups to exploit the porous borders and weak infrastructure threatens political stability and economic development of this developing country. The Ministry of Interior notes that the Sandzak portion of Serbia, with its capital of Novi Pazar, is most problematic because of its geographical position near the Montenegrin and Kosovo border on the smuggling route and the storage of large quantities of drugs in the region. The Serbian government estimates that a small portion of narcotics trafficking through Serbia remains in country for domestic consumption. Heroin appears to be the most prevalent.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Articles 246 and 247 of the General Crime law regulate countermeasures against drug crimes in Serbia, both for production, trafficking and usage of narcotics. A newly implemented law on Chemical Substance and Production for synthetic drugs, based on European standards, requires the Ministry of Health to monitor the substances acquired and used by foreign and domestic companies operating in Serbia. The law also allows the Ministry of Interior to get approval from the Ministry of Health to investigate certain companies or individuals in possession of chemical substances. A new law on criminal procedures has also been completed that stipulates that narcotics seized should be destroyed, except for a small sample to be used in court, instead of stored in often less than secure warehouses by the Ministry of Interior or the Ministry of Justice. Serbia is continuing to establish and promote relations with neighboring countries, including Bulgaria, Romania, Croatia, Hungary, and Bosnia and Herzegovina to combat the transport of narcotics across their common borders.

Law Enforcement Efforts. The Drug Unit in the Ministry of Interior is the central unit that polices narcotics smuggling and usage of heroin, cocaine, marijuana, and synthetic drugs throughout the entire territory of Serbia. The Drug unit is responsible for coordinating cooperation and information exchanges with smaller police units located throughout Serbia as well as with Customs officials, the Ministry of Justice and Interpol. The Drug Unit is currently trying to create one database with all narcotics-related crimes, arrests and seizures, but a shortage of financial and technological assistance is hampering its implementation. Officers in the Ministry of Interior participate in workshops organized by the OSCE and other international organizations and intend on continuing training exercises with regional neighbors, including Bulgaria and Romania. The Ministry hopes to have these officers who are trained in combating narcotic-related crimes train their fellow officers in the police force and drug unit. The Drug Unit reports that through nine months of 2006 they have seized around 6.5 kg of cocaine, 150 kg of heroin, 5 kg of hashish and 989 grams of Marijuana. This data excludes any information from local police branches. The unit estimates that by the end of 2006, they will probably seize around 1/2 ton of heroin and more

marijuana. The Customs Administration of Serbia reports that in the first nine months of 2006, they have seized 228 kg of heroin, 36 kg of ephedrine, 18 kg of Ecstasy, and fractional quantities of cocaine, HCL, hashish and marijuana.

Corruption. Corruption is endemic in Serbia and is prevalent throughout the legal infrastructure of the country. The Serbian government does attempt to prosecute instances of corruption, but because it is so accepted by society, is often hard to identify. There are no reports that senior government officials engage in, encourage, or facilitate the production and distribution of narcotic and psychotropic drugs and there is also no evidence that Serbia, as a matter of government policy, encourages or facilitates illicit production or distribution of narcotic or psychotropic drugs or actively launder proceeds from illegal drug transactions. Serbia is a party to the UN Convention against Corruption.

Agreements and Treaties. Serbia became the legal successor state to the state union of Serbia and Montenegro on June 3, 2006. All international treaties and agreements continue in force, including the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. Serbia currently has a bilateral agreement with Romania for the training of Serbian officers, and has cooperation agreements with Slovenia, Croatia and Bosnia and Herzegovina on border control issues meant to stop cross-border narcotics transfers. The 1902 extradition treaty between the United States and the Kingdom of Serbia remains in force between the U.S. and Serbia.

Drug Flow/Transit. Serbia is located in the center of the smuggling and transit route along the Balkan road. Heroin is smuggled from Turkey and moves through Bulgaria into Serbia and then onward into Western Europe. Small amounts of heroin stay in the country, but Serbia mostly serves as a transit point. Cocaine usually comes from South America into Serbia via Spain, Italy and Greece, while synthetic drugs typically originate in the Netherlands and are generally used for trading for other narcotics, including heroin.

Domestic Programs (Demand Reduction). Experts from the Belgrade Institute on Drug Abuse estimate that currently there are 60,000-80,000 drug users in Serbia. A task force of government ministries, including the Ministry of Health, the Ministry of Interior the Ministry of Justice and the Ministry of Education and Sport is developing a National Strategy for the Fight Against Drugs, which incorporates antinarcotics programs used by neighboring countries, and adheres to EU-regulated standards.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The Serbian Government works closely with the United States and EU countries in reforming and improving its law enforcement and judicial capacity. The United States has provided extensive technical assistance, equipment donations and training to the police, customs services, and judiciary. Several USG agencies have programs that directly or indirectly support counternarcotics activities in Serbia, including the Department of Justice (ICITAP), Department of Homeland Security, Department of Defense, Department of the Treasury, and Department of State. The Department of State and Justice have also been instrumental in supporting the new Organized Crime Court and the new Special Court for Organized Crime and War Crimes. The programs are aimed at professionalizing the police and customs services, improving the ability of Serbia to prosecute corruption and organized crime, including money laundering and illicit trafficking, and increasing the ability of the judiciary to effectively address serious crime.

The Road Ahead. The United States will continue to work with Serbia to improve the administration of justice and narcotics law enforcement. During the next year the U.S. hopes to see further progress in Serbian justice sector development and efforts to combat organized crime and narcotics. This includes increased seizures of narcotics, attempts to prosecute corruption at senior levels, and efforts to reduce domestic narcotics demand.

Slovakia

I. Summary

Slovakia lies near the western end of the historic Balkan drug transit route, which runs from southwest Asia to Turkey and on to other western European countries. Since 1989 Slovakia has seen a steep increase in narcotics transshipments and domestic production and consumption. Slovakia is a party to the 1988 UN Drug Convention.

II. Status of Country

Interest in synthetic drugs, especially pervitin and Ecstasy, has driven an increase in local illicit drug processing and production. Synthetic drugs are normally produced in mobile laboratories, which can be packed and moved quickly and inconspicuously. Local cannabis production is also on the increase, especially hydroponically grown cannabis with sharply increased THC content. Police believe that consumer interest in hydroponically grown cannabis, attributable to experience with higher-THC varieties imported from Western Europe, has driven growth in this sector. Police report that the market for heroin and cocaine has become saturated, and that prices for these drugs are therefore decreasing even as consumer demand continues to rise. For all drugs, there has been a steady decrease in regional differentiation of consumption. With respect to cannabis, pervitin, heroin and Ecstasy, use of which was once confined to larger urban areas, consumption is now spread over the whole territory of the Slovak Republic.

III. Country Actions Against Drugs

Policy Initiatives. In 2005 the National Program for the Fight against Drugs 2004-2008, was developed into Action Plans for specific ministries and regional authorities in accordance with the Action Plan of the EU for the Fight Against Drugs. At the same time, a Methodological Instruction of the Slovak Republic Government Office was issued setting out the activities of regional authorities in the field of narcotics, and unifying the procedure for establishing regional coordination commissions for narcotics issues. A new Penal Code and Code on Criminal Procedure became effective on January 1, 2006. The most important change contained in the new Penal Code concerns criminal liability for the possession of drugs for personal consumption. Specifically, Sections 171 and 135 of the new Penal Code set out maximum sentences of three years incarceration for possession of no more than three times a single dose of any narcotic substance, and up to five years for possession of up to ten times a single dose. Possession of more than ten times a single dose is considered possession for other than personal consumption. There were no other substantial changes in the legislative, institutional or executive framework of narcotics control in Slovakia in 2006.

Law Enforcement Efforts. The National Anti-Narcotics Unit of the Police Presidium was reorganized in January 2005. The unit, which formerly consisted of 150 officers and support staff working in 12 regional bureaus, now employs just 30 people to cover the Bratislava (capital) region. The remainder of the unit, and responsibility for antinarcotics programs outside the capital, was transferred to the Office for the Fight Against Organized Crime, which includes three distinct offices for Western, Central and Eastern Slovakia. The division of the National Anti-Narcotics Unit's resources has affected the ability of the police to coordinate actions and share resources across regions, although the Police Presidium says the strengthening of the Office for the Fight Against Organized Crime has had broadly positive effect. The National Anti-Narcotics Unit includes three distinct sections: the Street-sales Section, the Section for Major Cases (including all trans-national cases) and the Joint Police-Customs Section. In 2005, 1,638 drug-related criminal cases were brought to court in Slovakia. In 2005, the Police seized: 3,707.59 g of heroin, 34.82 kg

of marijuana (herbs), 1,031.65 kg of marijuana (wet), 360.01 g of cocaine, and 1,695 tablets of MDMA.

Corruption. As the post-socialist economy has opened up, and Slovakia received more investment from abroad, the incidence of corruption has been reduced. Nevertheless, corruption remains a serious concern in both the public and private sectors. As a matter of government policy, however, the Government of Slovakia 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. Slovakia is a party to the 1988 UN Drug Convention; the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol; the 1971 UN Convention on Psychotropic Substances; and the UN Convention against Transnational Organized Crime and its three protocols. Slovakia ratified the 2003 UN Corruption Convention on June 1, 2006.

Cultivation/Production. Marijuana is the most commonly cultivated illicit drug in Slovakia due to strong demand and a climate, which permits cultivation. Hydroponic (laboratory) cultivation of marijuana has become more popular lately in response to consumer demand for a product with artificially high THC content. Police are concerned by a growing number of small semi-portable drug laboratories, which are used to produce pervitin and other synthetic drugs. Slovakia's domestic market for synthetic drugs is served exclusively by domestic production. In recent years, the average purity increased in marijuana (THC 7.8percent) as well as in pervitin (58.3percent) and heroin (12.5percent). In Ecstasy tablets, a decrease in purity was observed in 2005. In 2005, for the first time, Ecstasy tablets were discovered containing chlorophenyl piperazine, a stimulant that is not currently included in the list of narcotic and psychotropic substances.

Drug flow/Transit. Since 1989, Slovakia has seen an increase in transshipment of drugs across its territory to markets in Western Europe. Foreign criminal groups with local contacts, especially Albanian groups, are thought to be responsible for most transshipments. Drugs, including heroin from Central Asia and, to a lesser extent cocaine from South America and hashish from Morocco, pass through Slovakia on the final leg of the so-called Balkan drug transit route. Ethnic Albanian groups dominate the heroin trade, though Roma groups are thought to share in street-level sales. Due to the high price of imported drugs, it is believed that only relatively small quantities of transit drugs remain in Slovakia for domestic consumption. In 2005 sales of heroin to Slovak consumers stagnated. This is thought to be a consequence of cheaper and more readily available synthetic drugs from local suppliers. Police fear that many young people have become accustomed to traveling to the Netherlands for higher quality and more readily accessible Ecstasy and cannabis products.

Domestic Programs (Demand Reduction). The National Program for the Fight against Drugs (NPF) 2004-2008 is primarily directed at activities aimed at reducing drug demand. The National Strategy also defines key ministries for the implementation of prevention, including the Ministry of Education, Ministry of Health and Ministry of Labor, Social Affairs and Family. Drug-use prevention is an integral part of the education process at schools. Positions for Drug Prevention Coordinators have been created at many schools, and Pedagogical and Psychological Counseling Centers have been established in each district. In addition, most districts have Educational and Psychological Prevention Centers that focus on the prevention of socially pathological phenomena, conduct training courses for peer activists, teacher training, and provide methodological assistance to school psychologists and educational counselors. According to the 2003 Mini-Dublin group report, Slovakia is among the highest spenders on preventative activities in relation to per capita GNP.

The number of drug users in treatment in Slovakia remained relatively stable in 2006. In 2005, 2,078 drug users were treated in total, including patients treated in general medical facilities.

Conversely, approximately 550 more clients sought non-medical assistance from social work field organizations in 2005 than in the year before. These were mostly users of injected drugs and/or users of heroin and pervitin. A study conducted by the National Monitoring Center for Drugs estimates the number of problem drug users, defined as users of injected drugs, long-term regular opiate and/or pervitin users, at 4.8 per 1000 inhabitants. Experience with pervitin use is relatively limited although comparisons with previous surveys do show an upward trend. The lifetime prevalence of pervitin use in Slovakia's population increased from 0.6percent (2002) to 1.5percent (2004) and, in youth, from 3.4percent (2004) to 4.5percent (2005). Conversely, for the first time ever, a moderate decrease in pervitin users in treatment was recorded in 2005 (489 patients), although their number in proportion to total persons treated did not change compared to 2004. Marijuana usage continued to increase in 2005. From 2000 to 2004, lifetime prevalence of marijuana use in Slovakia's population (15-64 years) increased from 11.7percent to 15.6percent. Cocaine is used only rarely in Slovakia and is believed to be used recreationally by a smaller group of people. In 2005, 11 cocaine users were reported in treatment.

Availability of treatment in Slovakia is relatively good. In 2005, treatment was provided by 6 specialized treatment centers for drug dependency, 54 departments of psychiatric hospitals and facilities, and by offices of psychiatrists specialized in drug addiction treatment. Social reintegration and residential care for clients having received medical treatment were provided by 20 social reintegration centers with the total capacity of approximately 300 beds. The National Monitoring Centre for Drugs is concerned by insufficient coverage of needle and syringe exchange programs. In 2005, such services were provided by 6 organizations in 8 cities. Yet fewer than 20percent of the estimated injecting drug users are in contact with low-threshold agencies, and some areas (city of Zilina, southern Slovakia) are not covered at all. A substitution treatment register still does not exist in Slovakia. Until 2005, a methadone maintenance program was available in only the capital, Bratislava, where it has existed since 1997. In 2005, another methadone maintenance treatment program was launched in Banska Bystrica. Subutex is often used for substitution treatment, particularly outside of Bratislava.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The Regional DEA Office in Vienna, Austria shares information with the Slovak Police Presidium on operational issues of mutual interest, and has offered training for Slovak counterparts in the past. DEA reports, however, that cooperation and communication has been difficult and often seems to be hampered by excessive bureaucracy.

The Road Ahead. The U.S. will continue to work with the Government of Slovakia to fight drug transit through Slovakia and to assist with drug treatment in Slovakia itself.

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 2006. 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 2006. 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 2006

Policy Initiatives/Accomplishments. Slovenia continues to benefit from a two-year regional project sponsored by the European Union concluded in June 2004. This project strengthened cooperation of law enforcement structures and other agencies such as Customs of EU candidate countries in the areas of tracking, risk assessment, and shipment controls, among others.

Law Enforcement Efforts. Law enforcement agencies seized 2,523 tablets of Ecstasy in the first 11 months of 2006 compared with 1,166 in 2005. In 2006 authorities seized slightly less than 134 kg of heroin, compared to slightly less than 24 kg of heroin seized in 2005. In addition, police netted little more than 45 kg of marijuana in 2006, compared to 22.8 kg of marijuana in 2005. Police also seized 1,516 cannabis plants in 2006, compared to 2,183 cannabis plants seized in the first 11 months of 2005. Through mid-October police seized over 4 kg of cocaine, compared to 2005, when police seized just over 2 kg. Police also seized 3.2 kg of amphetamines and 184 individual tablets of amphetamines.

Corruption. As a matter of government policy, the GOM does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. There is no indication that senior officials have encouraged or facilitated the production or distribution of illicit drugs. Police and border control officials are adequately paid, and corruption among them is uncommon.

Agreements and Treaties. Slovenia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The 1902 extradition treaty between the United States and the Kingdom of Serbia remains in force between the United States and Slovenia as a successor state. Slovenia is a party to the UN Convention against Transnational Organized Crime and its three protocols.

Drug Flow/Transit. Slovenia is on the “Balkan Route” for drugs moving from Afghanistan, through Turkey, a traditional refining center for heroin, and then onward to Western Europe. Some heroin is thought to transit on so-called “TIR” trucks, long-haul trucks inspected for contraband at

their place of embarkation, and then sealed by customs authorities before their voyage to a final destination.

Domestic Programs. Slovenians enjoy national health care provided by the government. These programs include drug treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Slovenian law enforcement authorities have been willing and capable partners in several ongoing U.S. investigations.

The Road Ahead. Based on the high quality of past cooperation, the USG expects to continue joint U.S.-Slovenian law enforcement investigation cooperation into 2007.

Spain

I. Summary

For the second year in a row, Spanish National Police, the Guardia Civil and Customs Services seized near-record amounts of cocaine and heroin, and carried out increased enforcement operations throughout Spain to arrest distributors of synthetic drugs, such as LSD and Ecstasy (MDMA). Spain continues to be the largest consumer of cocaine in the European Union with 6,000 youth between the ages of 14 and 18 reportedly using the drug on a daily basis and over 50 percent of new patients admitted to rehabilitation centers being cocaine addicts. Spain also ranks at the top of EU nations in its consumption of designer drugs and hashish. Spain continues to work on ways to reduce demand and in early October launched a comprehensive anti-drug publicity campaign with graphic placards prominently displayed in metro stations throughout the country. Law enforcement officials increased funding and manpower to combat the trafficking of Ecstasy and, partly as a result of this, have seen an increase in the number of Ecstasy tablets seized. Spain has also seen an upward trend in the amount of heroin seized this year. The Spanish government ranks drug trafficking as one of its most important law enforcement concerns, and continues to maintain excellent relations with U.S. counterparts. Spain is a party to the 1988 UN Drug Convention.

II. Status Of Country

Spain remains the principal entry and transshipment zone for the large quantities of South American cocaine and Moroccan cannabis destined for European consumer markets, and is also a major transit location for drug proceeds returning to South and Central America. Colombia appears to be the largest supplier of cocaine from Latin America, although intelligence available suggests an increase in shipments of illicit cocaine from Bolivia, which is transshipped through Brazil and Argentina by vessel or plane to the Iberian Peninsula. Spain also faces a sustained flow of hashish from its southern neighbors, Morocco and Algeria, which makes maritime smuggling 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 has identified established Turkish trafficking organizations 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 as there are other existing production sites throughout Europe. However, traffickers of 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 countries known to manufacture synthetic drugs, such as the Netherlands or Belgium. Spain has a pharmaceutical industry that produces precursor chemicals; however, most precursors used in Spain to manufacture illegal drugs are imported. There is effective control of precursor shipments within Spain from the point of origin to destination through a program administered under the National Drug Plan (Spanish acronym PNSD).

lii. Country Actions Against Drugs in 2006

Policy Initiatives. Spain's policy on drugs is directed by the PNSD, which covers the years 2000 to 2008. The strategy, approved in 1999, expanded the scope of law enforcement activities and permitted the sale of seized assets in advance of a conviction and allowed law enforcement authorities to use informants. The strategy also outlined a system to reintegrate individuals who have overcome drug addictions back 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 October, the Ministry of Health released a report claiming that almost 30,000 Spanish citizens between the ages of 14 and 18 consume cannabis on a daily basis while 6,000 youth in the same age group use cocaine every day. This report spurred the Spanish government to launch a comprehensive anti-marijuana and anti-cocaine publicity campaign with graphic placards prominently displayed in metro stations throughout the country. Spain is a UNODC Major Donor and a member of the Dublin Group, a group of countries that coordinate the provision of counternarcotics assistance.

Law Enforcement Efforts. Spanish officials at the Ministry of Interior report that drug enforcement agencies seized 47 MT of cocaine in 2006. Many of the more significant seizures and arrests in 2006 were a direct result of cooperation between the U.S. DEA Madrid Country Office and Spanish authorities. For example, working with DEA, Spanish Customs, Civil Guard (GC), and Portuguese police intercepted 600 kg of cocaine in the town of Las Rozas that was being transported in a rental truck. The GC intercepted 115 kg of cocaine this summer, which was on board a vessel that departed under a Spanish flag from Tenerife, Canary Islands. Spanish authorities seized 6,948 kg of cocaine during the months of July, August, and September alone, according to Spanish Ministry of Interior and DEA information.

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, nationals of Gibraltar and the Netherlands. 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. Spanish authorities recorded the largest hashish seizure of the year in August when the GC intercepted 9,000 kg of the drug and detained 12 individuals in the port of Almerimar-El Ejido in southern Spain. It is believed that the hashish originated in North Africa and was transported by a large vessel on the high seas. Spanish law enforcement officials have detected a worrying rise in the amount of heroin trafficked through the country this year. Heroin smuggled into Spain originates principally in Turkey, and is usually smuggled into Spain by commercial truck or private vehicle through the Balkan Route or from Germany or Holland. The GC reported a total seizure of 454 kg of heroin for 2006.

Seizures:	2001	2002	2003	2004	2005	2006
Heroin (kg)	631	275	242	271	174	454
Cocaine(mt)	34	18	49	33	48	47
Hashish (mt)	514	564	727	794	670	451
MDMA (pills x 1000)	860	1,400	772	797	573	408

Corruption. The National Central Drug Unit coordinates counternarcotics operations among various government agencies, including the Spanish Civil Guard, National Police, and Customs Service. Their cooperation appears to function well. Spain does not encourage or facilitate illicit

production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. There is no evidence of corruption of senior officials or their involvement in the drug trade, but there have been isolated cases involving corrupt law enforcement officials who were caught facilitating drug trafficking.

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. Spain ratified the UN Corruption Convention in June 2006. 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, and the two countries 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, but they have not yet entered into force.

Cultivation/Production. Coca leaf is not cultivated in Spain. However, there is concern that clandestine laboratories are being established for the conversion of cocaine base to cocaine hydrochloride in Spain and some West African countries. 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. The DEA is in the process of considering an amendment to its regulations to update the list of nontraditional countries authorized to export narcotic raw materials (NRM) to the United States. This change would replace Yugoslavia with Spain and would, once it takes affect, allow Spain to join the other “non-traditional” NRM exporters, Australia, France, Hungary, and Poland, as the only countries which are allowed to supply approximately 20 percent of the NRM required annually by the U.S. Traditional exporters India and Turkey get preferred access to 80 percent of the NRM market. Spain is not a significant production zone for synthetic drugs.

Drug Flow/Transit. Spain is the major gateway to Europe for cocaine coming from Columbia, Bolivia, 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. Spanish police report that the country’s two largest airports, Madrid’s Barajas and Barcelona’s El Prat, are the entry point for much of the cocaine trafficked into and through Spain, and there continues to be a substantial number of body cavity smugglers arriving by air. Spanish officials note that for the month of June, at Madrid-Barajas the monthly record for seizures of both heroin and cocaine was topped, with 2.53 kg of heroin and 172 kg of cocaine seized. Spain’s international airports in Madrid and Barcelona are also a transit point for passengers who intend to traffic Ecstasy and other synthetic drugs, mainly produced in Europe, to the United States. These couriers, however, are typically captured before they leave Spain or when they arrive in the U.S. Spain remains a major transit point to Europe for hashish from Morocco, and Spain’s North African enclaves of Ceuta and Mellila are principal points of departure. Spanish law enforcement has disrupted many drug shipments through its use of the Integrated External Surveillance System (Spanish acronym SIVE), deployed on its southern coast. The Spanish Civil Guard initiated the SIVE system to control the growing flow of illegal maritime drug trafficking especially around the coasts of Cadiz and Malaga.

Domestic Programs/Demand Reduction. The national drug strategy identifies prevention as its principal priority. In that regard, PNSD continued its publicity efforts targeting Spanish youth. PNSD closely coordinates its demand reduction programs with the Spanish National Police, Civil Guard, Ministry of Health, and Ministry of Public Administration. 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 over 4 million € to assist private, non-governmental organizations that carry out drug prevention and rehabilitation programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States continues to improve the current excellent bilateral and multilateral cooperation in law enforcement and demand reduction programs it has with Spain. A series of visits to Madrid in late 2006 by high-level U.S. government officials reinforced to the Spanish the U.S. commitment to the counternarcotics fight.

Road Ahead. With drug traffickers targeting Spain in a major way and its government reaching out to us for assistance, the U.S. will continue to coordinate closely with Spanish counternarcotics officials. Spain will continue to be a key player in the international fight against drug trafficking and is gearing up to host DEA's 25th-annual International Drug Enforcement Conference (IDEC) in May 2007, the first time it will be held outside of the Western Hemisphere.

Sweden

I. Summary

Sweden is not a significant illicit drugs producing, trafficking or transit country. The fight against illegal drugs is an important government priority and enjoys strong public support. The Parliament approved a new narcotics action plan in April of 2006. A United Nations Office on Drugs and Crime (UNODC) Report released in September characterized Sweden's drug control policies as highly successful, noting drug use in Sweden is one-third of the European average. The report noted, however, that the proportion of heavy drug users, as a subset of overall users, remains high. In 2006, the number of seizures of illegal drugs was the same as last year, while overall quantities seized increased slightly by 4 percent. Amphetamine and cannabis remain the most popular illegal drugs even though there was a small decrease in seized substances during the year. Authorities recorded a large increase in the size of cocaine seizures, mainly in the Stockholm area. The use of Ecstasy decreased, continuing the downward trend of the last few years. There was a slight decrease in the use of drugs among teenagers. 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. According to government statistics, 12 percent of the adult population (15-75 years old) has tried drugs. Among adults, the number of drug users is twice as high among men as women. Sweden has approximately 26,000 serious drug addicts (i.e. regular intravenous use and/or daily need for narcotics). This figure represents a decrease of 7 percent from last year. Some 25 percent of the serious drug users are women. Police and government officials state that the annual number of deaths related to drugs is difficult to estimate, but place the figure at approximately 300. Authorities attribute a slight drop in the death rate to the increased use of subutex, a medicine used for maintenance of heroin addicts during detoxification and treatment.

A government-sponsored organization for alcohol and narcotics information named "CAN" reports that the overall number of young people who have used drugs has decreased. The percentage of high-school students (aged 15-16 years old) who claim to have tried drugs fell from 21 to 19 percent among boys, and from 22 to 19 percent among girls. High-school aged boys who claim to have tried drugs stayed the same at 7 percent; the corresponding statistic for high-school aged girls fell from 7 to 5 percent. Approximately 60 percent of those who try drugs for the first time use cannabis. Amphetamine and Ecstasy were the second and third most commonly used drugs. There are large regional differences in drug use. The use of narcotics (and in particular regular use) occurs mainly in urban areas; use in rural areas is very low. Police continued cooperation with Interpol to develop methods to prevent teenagers from buying drugs on the Internet.

CAN detected the following new drugs during the year: "blue fusion," neurontin/gabapentin, nitrazepam and ketogan.

Police attributed an observed increase in the use of cocaine to a significant drop in its price. Previously considered a "luxury" drug, and mainly used in fashionable bars and restaurants, cocaine today is more common. A few years ago one gram of cocaine cost approximately the equivalent of \$80; today the street price is \$40. Police believe new competition for drug sales in Sweden exerts significant downward pressure on prices. Police report that long-established South American networks have recently experienced competition from West African ones.

The Doping Call Center -- a national telephone hot-line -- reported an upward trend in young women's abuse of anabolic steroids since 2004.

III. Country Actions Against Drugs in 2006

Policy Initiatives and Accomplishments. In April, Parliament approved a National Action Plan on Narcotic Drugs, which runs through 2010. Demand reduction and restriction of supply figures prominently in the plan. The plan includes provisions to increase treatment for detainees with drug problems. The Ministry of Social Affairs has primary responsibility for drug-related issues in the government. The government established a working group (SAMNARK) comprised of officials from four different ministries to improve cooperative efforts related to the Action Plan.

In September, the government established an investigative commission to review current narcotics legislation and to make recommendations on how to strengthen it. The commission will also consider proposals for harsher penalties for doping-related crimes. The government also appointed a national coordinator for drugs, Bjorn Fries. The coordinator will map the extent of drug use in Sweden and to suggest measures to combat it.

Continued cooperation with countries in the Baltic region -- where significant drug trafficking routes exist -- constitutes an ongoing and important element in Sweden's counternarcotics efforts. Sweden participates in an on-going project sponsored by the Nordic countries to combat West African criminal networks smuggling heroin, cocaine and marijuana. Authorities report the most dominant West African smuggling networks originate in Nigeria and Gambia.

The government allotted \$4.1 million to the Mobilization Against Drugs (MOB) task force for antidrug education in schools, the development of new drug-treatment methods, the promotion of drug-free bars and restaurants, and the enhancement of antidrug efforts in prisons. In 2006 MOB conducted information campaigns and seminars throughout the country designed to raise awareness. It also aided the establishment and maintenance of national and international NGO networks. MOB earmarked \$200,000 for antidrug programs in Sweden's northern counties. MOB also started a program to educate leading politicians in municipalities countrywide on drug prevention measures.

At the end of 2004, the government allocated \$80 million for a special three-year nationwide fight against drugs. It earmarked approximately \$12 million of this program for treatment of drug abusers in prisons.

Fighting drugs remains a high priority area for Sweden's official development assistance. The Swedish International Development Authority (SIDA) allocated about \$1.2 million for 2006 for multilateral and bilateral UN normative instrument projects against drugs and tobacco. Sweden works with its EU partners to implement the EU strategy plan for narcotics that was approved in late 2005.

In 2004 Sweden joined the Container Security Initiative (CSI), a U.S. Government-sponsored program designed to safeguard global maritime trade through identification and examination of high-risk and/or suspect containers. CSI enhances security for the global trading system, deterring terrorism and hindering illicit traffic of all kinds. Two U.S. Customs Officials are currently based in Gothenburg in support of this program.

Law Enforcement Efforts. During the year authorities detected no major drug processing labs. In March, Customs officials detained two people attempting to smuggle 10 kg of heroin via vehicle into the south of Sweden. The two men were part of a large network smuggling extensive amounts of drugs to the Nordic countries, mainly to Norway. Overall, authorities arrested eight individuals related to this case. In October, the Gothenburg District court sentenced one of those arrested to 14 years in prison-- a relatively severe sentence by Swedish penal standards. Among the remaining 7,

two were prosecuted and are awaiting sentence, and five are awaiting prosecution. Two additional suspects are wanted by the police.

Police reported 49,263 narcotics-related crimes for the January-September 2006 period. This represents a 25 percent increase compared to the corresponding period of 2005. Approximately 30 percent of the arrests under the Narcotics Act led to convictions, which on an average resulted in six months in jail. The majority of the crimes involved consumption and possession.

Media reported a slight decline over the last ten years in arrests of drug dealers, and a concomitant slight increase in the arrest of drug users. Police say this phenomenon results from increased delegation of antidrug responsibilities from national-level to local authorities.

Corruption. There were no known cases of public corruption in connection with narcotics in Sweden during the year. Swedish law covers all forms of public corruption and stipulates maximum penalties of six years imprisonment for gross misconduct or taking bribes. The Narcotics Act contains severe penalties for the use and/or production of illegal narcotic substances.

Agreements and Treaties. Sweden has bilateral customs agreements with the United States, the United Kingdom, Germany, Spain, Norway, Hungary, Latvia, Slovakia, the Czech Republic, Iceland, Russia, Lithuania, France, Finland, Estonia, Poland, Denmark and the Netherlands. Through the EU, Sweden also has agreements with other nations concerning mutual assistance in customs' issues and antidrug efforts.

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 protocols against trafficking in persons and migrant smuggling. Swedish drug liaison officers were posted in Tallinn, St. Petersburg, Moscow, Warsaw, Belgrade, Bangkok, Berlin, Riga, and Vilnius. There are three Swedish policemen at Interpol in Lyon and one at Europol in The Hague.

The Swedish Police have a cooperation agreement with the Russian Narcotics Control Authorities. The agreement facilitates antinarcotics efforts in the region through information sharing and bilateral efforts in police enforcement actions.

Cultivation/Production. No major illicit drug cultivation/production was detected during the year. Some legal cultivation of cannabis for use in fibers occurs in Sweden, as allowed for under EU regulations on the cultivation of flax and hemp for fiber.

Drug Flow/Transit. Drugs mainly enter the country concealed in commercial goods, by air, by ferry, and by truck over the Oresund Bridge linking Sweden to Denmark. Statistics show that 70 percent of all seizures are made in the southern region of Sweden. Despite increased smuggling through the Baltic countries and Poland, 75 percent of illicit drugs are smuggled through other EU countries. Most of the seized amphetamine; however, originates from Poland, the Netherlands, and Baltic countries. Seized Ecstasy comes mainly from the Netherlands; cannabis from Morocco and southern Europe; and khat from Eastern Africa via Amsterdam and London. Cocaine often comes through Spain and the Baltic region. The route for heroin is more difficult to establish, but according to police information, a west-African network has established a route to Sweden. This has lead the countries in Scandinavia to make a joint effort to attempt to combat these networks.

In 2006 law enforcement officials did not encounter any drugs intended for the U.S. market.

Domestic Programs and Demand Reduction. The National Institute of Public Health and municipal governments are responsible for providing compulsory drug education in schools. Several NGO's are devoted to drug abuse prevention and public information programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Swedish cooperation with United States Government law enforcement authorities continues to be excellent.

The Road Ahead. The U.S. will pursue enhanced cooperation with Sweden and 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 2005 (NB: Throughout this report, the latest official statistics available are for 2005) total drug-related arrests reached 49,450 cases. In 2004, drug crimes had reached 50,000 cases for the first time ever. Cocaine and Ecstasy seizures nevertheless increased by 44 percent (2004: +91 percent) and 75 percent (2004: +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 was 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. Switzerland is a party to the 1988 UN Drug Convention.

II. Status of Country

In a country of approximately seven and a half 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 Ecstasy has reportedly increased by 23 percent, the use of other drugs remained stable compared to last year. Nevertheless, cannabis, cocaine, and heroin remain popular among drug addicts. Swiss statistics show that cocaine consumption among youngsters aged 15-16 is on the rise. 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 remained stable with a slight drop for marijuana smokers. Drug trafficking-related arrests also dropped by 21 percent, but deaths due to drug consumption (overdoses) increased by 16 percent. The Swiss Federal Police published a report on narcotics activities in 2005. It is on:

www.fedpol.admin.ch/etc/medialib/data/kriminalitaet/statistik/betaeubungsmittel.Par.0007.File.tmp/Stup%2005.pdf

III. Country Actions Against Drugs in 2006

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 Attorney General's office in Bern. According to the federal prosecutor's office, the number of investigative

magistrates will be increased to 25 by the close of 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 \$158,079 (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. Over the last five years, the city of Zurich has also offered the possibility for youngsters to test their drugs outside nightclubs. In September, Zurich decided to open an office on a regular daily basis, sponsored by the Federal Office of Public Health and the city budget, which offers drug testing services.

Law Enforcement Efforts. To give a sense of drug abuse developments in Switzerland, some important drug-related enforcement operations are described below:

--In February, the Aargau Police arrested 94 people for their involvement with a drug network. Fifty-five of them were recognized as drug dealers. The police also seized several hundreds grams of cocaine, and several kg of marijuana. Later, police authorities also discovered two indoor cannabis plantations and several thousand Swiss Francs in cash.

--In the first three months of the year, the Police noticed a sharp increase in cocaine smuggling and consumption. Eight cocaine rings were dismantled during the same period, with seizures reaching 3.8 kg of cocaine, almost the quantity for the entire year of 2004.

--The Vaud antidrug taskforce code-named STRADA increased the number of drug related arrests five fold.

--In May, the Aargau police broke a marijuana network and seized 240 kg of marijuana. Most of the thirteen drug dealers arrested were Turks. Four of them also face money laundering charges involving Sfr.4.7 million. All the suspects, who live in Basle, have been released on bail.

--In June, The Neuchatel police announced it had dismantled the largest Thai methamphetamine pill drug ring operating in Switzerland ever. After years of investigations, the police arrested 150 drug smugglers in the Neuchatel area, including high profile drug importers located in Basle, Aargau, Bern, Zurich and St-Gallen. Investigative authorities believe that one to two million pills have been sold since 2001, with a value of Sfr.20 million.

--In June, the Geneva police managed to break a heroin drug ring and arrested eight Albanians. The police also seized 1.5 kg of brown heroin, 75 kg of cutting ingredients, one gun, several cell phones, and Sfr 11,000.

--In August, the Zurich police dismantled a cannabis home delivery service and seized 210 kg of marijuana and hashish. Of the nineteen persons also under arrest, only two were foreigners. The police also confiscated several weapons, electroshock devices, some cash and a luxury car.

--In September, cantonal and federal police authorities managed to break an important drug trafficking ring operating in the Lausanne area. Many individuals from mostly West Africa were arrested for building a sophisticated drug network, which ultimately used nearby France as a base to collect the drug revenues and use African tourists to bring the funds back to the drug dealers' families in Africa. So far, French and Swiss police have seized Sfr 700,000 and twenty cell phones.

--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 are the most problematic in this regard. Cocaine arrives, in general, in Switzerland from South America, via Amsterdam. The Swiss market is controlled by traffickers originating in West Africa (Benin, Sierra Leone, Guinea-Bissau, and Guinea-Conakry).

--During 2005, Swiss border guards reported that the amount of drugs seized at the border was significant: with cocaine seizures at 167 kg and 57 kg of heroin. Most of the drug seizures took place at airports. The total number of drug related arrests at the border increased from 2,681 in 2004 to 3,192 in 2005.

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 long-term undercover operations (i.e., operatives require full cover/legend like fictitious papers; UC Officer infiltrates criminal organization/network and has several meetings with offenders, etc.) can only be authorized at the federal prosecutor's level. Previously, this authority rested at all jurisdictional levels (federal, cantonal and local)

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 Republic of Yugoslavia, and Bosnia) Africa (Sierra Leone, Guinea), the Dominican Republic, and Europe (France, Germany, Italy and Portugal). Organizations from the former Yugoslavia/Albania/Balkan area control the heroin market, which enters Switzerland through the Balkan route. Whereas cocaine trafficking is primarily controlled by Dominican and West African trafficking organizations. Cocaine normally enters the country via courier. Cocaine trafficking routes tend to be from South America into West Africa or South Africa and then into Europe, or from South Africa through the Caribbean into Europe. 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, 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 the UN Corruption Convention. In October 2006 Sweden ratified the UN Convention Against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. On June 22, 2004, Swiss and German authorities signed a bilateral police agreement aimed at increasing bilateral cooperation at border checkpoints. The main goal of the agreement is to deal more effectively with drug and weapons smuggling. Document specialists from both countries 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.

Cultivation and Production. Switzerland is not a significant producer of illicit drugs, with the exception of illicit production of high THC-content cannabis/hemp, which is the most widely abused drug in Switzerland, particularly among young people. 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. Cannabis consumption has also increased during the last couple of years, especially among young people. A minority develops problematic consumption patterns, which can have a negative effect on the consumer's psychological, physiological and/or social development.

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 kg to use for maintenance of severe drug addicts as part of its maintenance programs in 2004, compared to 230 in 2003 (the 2005 data are not yet available). 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.

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 to the West. A significant amount of opium/heroin is trafficked, primarily using land-based routes, through Tajikistan, onward via the Northern Route - Central Asia - Russia - West and East Europe. There is also evidence of Afghan opiates entering Tajikistan bound for China via Murghab in the eastern part of the country. There is no evidence yet of a significant amount of Afghan heroin transiting Tajikistan to the U.S. 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 it is ill equipped to handle the myriad social problems that stem from narcotics trade and abuse. Tajikistan continues to implement counternarcotics activities and coordinates well with all major donors. However, corruption within the Tajik government continues to complicate counternarcotics efforts, and so far no anticorruption efforts supported by the Government of Tajikistan have had a large impact. Tajikistan is a party to the 1988 UN Drug Convention, as well as the UN Convention against Corruption.

II. Status of Country

Geography and economics continue to make Tajikistan an attractive transit route for illegal narcotics. The Pyanj River, which forms most of Tajikistan's border with opium-producing Afghanistan, is thinly guarded, and difficult to patrol. Traffickers can easily cross the border at numerous points without inspection. Tajikistan's economic opportunities are limited by a lack of domestic infrastructure and complicated by the fact that its major export routes transit neighboring Uzbekistan. In the past, Uzbekistan closed its border to combat a "perceived instability" from its neighbor, although borders have remained open for at least two years. Criminal networks that came to prominence during the 1992-97 civil war, continued instability in Afghanistan, and the Government's lack of revenue to adequately support law enforcement efforts hinder the Tajik Government's efforts to strengthen rule of law and combat illegal narcotics flows.

With the average monthly income in the country at around \$30, high unemployment, poor job prospects, and massive economic migration to Russia, the temptation to become involved in narcotics-related transactions remains high for many segments of society. In-country cultivation of narcotics crops is minimal. However, the Government of Tajikistan has recently indicated that it is investigating the possible existence of small mobile processing labs to refine Afghan opiates near the southern border area.

While a large portion of Afghan narcotics transit Tajikistan, the picture is still unclear with regard to precursor chemicals moving into Afghanistan. The small amount of licit precursor chemical imports, closely monitored by the Tajik Government, is destined generally for five in-country industrial sites that use such chemicals. The Government of Tajikistan does not have the capability to monitor or intercept precursor chemicals illegally transiting Tajikistan to Afghanistan. Part of the reason for the lack of seizures and information is that the Tajik government has a customs inspection agreement with Uzbekistan and Kyrgyzstan that prohibits inspection of sealed through trucks bound for a non-Tajikistan destination (TIR), many of which carry goods such as licit and illicit precursor chemicals. There were no illegal precursor seizures in 2006. Tajik drug control officers argue that it makes little sense to traffic precursors through Tajikistan because huge amounts of precursors are needed to produce drugs and trafficking would require a developed communication system with Afghanistan, which Tajikistan does not have. This argument ignores the strong monetary incentives, which the drug traffic creates.

III. Country Actions against Drugs in 2006

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.-funded programs to strengthen Tajikistan's drug control capacity, including: new facility construction; renovation of existing headquarters and regional facilities; purchase of vehicles and police support equipment; creation of new analytical centers, a national K-9 facility with trained dogs and handlers; forensics laboratory improvements; national law enforcement communications network, training academy improvements, and salary supplemental programs. The new DCA mobile response and deployment teams have considerably improved DCA's operational capacity. As a result of the final withdrawal of Russian border troops from the Tajik-Afghan border in June 2005, Tajik forces are now solely responsible for patrolling and maintaining the border and the Tajik State Committee for Border Protection (SCBP) continues to adjust to its growing needs, including participating in a new U.S.-funded initiative to provide salary supplements to border guards on the Tajik-Afghan border which will begin in 2007. The Ministry of Interior (MOI) has also begun to pursue renovation of its forensics lab and overhaul of the national police academy. The MOI held its first ever antidrug sports event for young athletes in September 2006 and plans to expand such public outreach events to improve the relations of the police with Tajik youth.

Accomplishments. Although the SCBP are poorly equipped and trained, enforcement operations have increased substantially since the Russian troops' withdrawal, as have arrests and seizures of narcotics and related counternarcotics operations, thanks in large part to new initiatives and programs. From May 23 - 29, 2006 the Drug Control Agency, Ministry of Interior, Ministry of State Revenue and Tax Collection and the State Committee for Border Protection participated in the first stage of the "Channel 2006 Operation" conducted among Collective Security Treaty Organization (CSTO) member states - Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Belarus and Armenia. The operation resulted in the seizure of 243.2 kg of drugs, including 129.9 kg of heroin, disclosure of 105 drug related crimes, seizure of 12 firearms, and detention of 11 suspects. The second stage of this rapid response operation occurred October 9-15, 2006 during which Tajik agencies were able to work cooperatively and seize 441 kg of narcotic substances, including 125.4 kg of heroin as well as more firearms and ammunition. This multi-agency participation confirms the growing professionalism of Tajikistan's law enforcement agencies and their ability to coordinate a "common front" approach on combating drug trafficking.

Despite all obstacles, cooperation between Tajik law enforcement and Afghan counterparts is slowly developing: in March, a successful joint operation conducted between Tajik and Afghan special forces resulted in the seizure of 91 kg of heroin and 44 kg of marijuana. In July, the presidents of Tajikistan and Afghanistan signed a joint communiqué, which calls for the creation of a regional counternarcotics center.

Law Enforcement Efforts. During the first 9 months of 2006, the DCA, SCBP and MOI reported the following seizures: DCA - 405.482 kg of heroin; 926.213 kg of opium; 234.774 kg of cannabis. SCBP - 117.853 kg of heroin; 189.458 kg of opium; 356.740 kg of cannabis. MOI - 1,071.19 kg of heroin; 1,461.304 of opium; 472.585 kg of cannabis. Total drug seizures by all law enforcement agencies in 2006 (January to November 2006), was 3,747.705 kg, as opposed to 3,416.355 kg during the same reporting period in 2005. Overall, the DCA is progressing at a notable rate with some arrests of traffickers and major seizures. The SCBP is still hampered by considerable corruption at the lower levels and its Soviet top-down management style. On the whole, law enforcement and security ministries contributing to management of border smuggling and organized crime have demonstrated greater capacity and willingness to be proactive in comparison to previous years. Much needs to be done in training and capacity building to reinforce this positive trend by Tajik forces. Tajikistan seizes roughly 80 percent of all drugs captured in Central Asia and stands third worldwide in seizures of opiates (heroin and raw opium). Although drug seizures are

significant, the lack of a conspiracy law severely limits law enforcement's ability to target upper echelon drug traffickers. So far, no major narcotics trafficker has been apprehended and brought to trial - a move that will require the backing of the President in order to happen.

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, some senior officials in the SCBP, MOI, DCA, and the Ministries of Security (MOS) and Justice (MOJ) live in modest houses and apartments and drive modest vehicles, while others in the same customs, law enforcement and security agencies have expensive new homes, cars and other investments. Due to this apparent disparity there is a good deal of public speculation about the involvement of government officials in narcotics trafficking, money laundering and corruption. 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 striking difference in the life styles of low salaried government officials and the extravagant lifestyles many senior officials appear to maintain, although their nominal government salaries could hardly support such lifestyles. Even when arrests are made for narcotics trafficking, the resulting cases are not always brought to a satisfactory conclusion. There have been some arrests of Border Guard and Customs officers in the last year by the DCA; however, these are low level officers, and investigations rarely proceed beyond indictment of the courier and foot soldiers involved. Tajikistan signed the UN Convention Against Corruption in accordance with the President's Executive Order No. 1601 of September 10, 2005, and fully ratified it in September 2006.

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 also a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons. Kazakhstan, the 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. 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. In the course of the continuous "Poppy Operation," about 460,000 illicit drug plants - mostly wild hemp, have been eradicated. This eradication program has been implemented for the past several years. All law enforcement structures participate under the lead of the Drug Control Agency, which, in 11 joint operations, destroyed 356,653 plants in 2006.

The Government of Tajikistan suspects that drug processing may occur on the Tajik side of the Afghan border and has begun investigations in the southern part of the country to obtain definitive evidence. There is significant evidence that close family and clan ties between Tajiks and Afghans in the border region have aided, and continue to aid, traffickers in moving their product across Tajikistan. However the U.S. currently has no evidence of major drug processing taking place within Tajikistan.

Drug Flow/Transit. The Tajik government estimates that a significant share of narcotics produced in Afghanistan is smuggled across the border into Tajikistan's southern Shurobod, Moskovskiy, Ishkashim and Pyanj districts. There is some evidence that some portion of Afghan opiates transiting eastern Tajikistan is entering western China, but due to the remoteness of the region,

there is little data on the scale of the trafficking through this route. The government may be seriously overestimating the percentage of Afghanistan's drug production that transits Tajikistan. Although 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. USAID-funded, Population Services International (PSI) is running four “Youth Power Centers” in Dushanbe (1), Khudjand (2), and Khorog (1) aimed at prevention of drug use among youth and other at-risk groups. Each center supports up to 1000 young people aged 15 to 25. The Tajik government 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 a sports complex in Khorog. From September 20 - 26, 2006, the U.S. Embassy and Tajik Ministry of Interior co-sponsored the sport event held under the slogan: “Youth Against Drugs” aimed at advertising a healthy lifestyle among Tajik youth. Despite such efforts, the number of young addicts continues to grow, and 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 in Tajikistan has a growing Narcotics and Law Enforcement Section, with a full-time narcotics and transnational crime assistance officer and a Senior Law Enforcement Advisor to coordinate law enforcement and counternarcotics assistance. The section expects the addition of a Resident Legal Advisor as well. The DEA plans to establish an office in Dushanbe with a permanent Country Attaché, two special agents, and support staff in 2007 and has maintained temporary personnel in country since February 2006. Overall, U.S. security assistance to Tajikistan continues to expand with additional resources coming from the Department of Defense (DOD) and other sources. The Office of Defense Cooperation is implementing installation of a major communications system that will link all border posts and border guard Headquarters. Eventually, this system can be expanded to link all law enforcement/security agencies in Tajikistan and feed into regional efforts such as the UN-supported Central Asian Regional Information and Coordination Centre (CARICC) meant to improve information flow and operational intelligence across Central Asian borders to better combat the increase of transnational organized crime networks in the region. DOD and INL also fund renovations of border outposts, provide training and substantial operational and investigative equipment to various security-related government agencies.

The Embassy's Border and 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, the Border Security International Working Group, (BIG) that meets monthly to coordinate multilateral assistance with IOM, the UN, the OSCE, EU and other major donors to better meet Tajikistan's greatest security assistance needs and avoid duplication of assistance. The USG provided training for a number of Tajik law enforcement officials through the International Law Enforcement Academy in Budapest.

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 will continue to focus on building basic capacity of the major law enforcement agencies in particular, the Ministry of Interior and the Tajik border guards and to expand mid-level management and leadership training to these entities. A permanent DEA presence, more sophisticated training and mentoring of

the DCA, and a greater emphasis on building cases against major trafficking organizations is a key goal for the future of the DCA program. With INL funding, DEA plans to implement drug investigation seminars in 2007. The U.S. will also begin its first project in the rule of law area to strengthen Tajikistan's ability to investigate and prosecute major drug traffickers and organized crime syndicates as well as improve and reform judicial sector training and Tajikistan's corrections facilities. The United States will continue to coordinate closely with European countries, and expand coordination efforts with Russia, Japan and China to maximize available resources for narcotics and border control-related projects.

Turkey

I. Summary

Turkey is a major transit route for Southwest Asian opiates to Europe and serves as a staging area 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, some 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. Opium, morphine base, and heroin are smuggled from Afghanistan to Iran. Both morphine base and heroin are then smuggled from Iran to Turkey and ultimately to Western Europe. A small amount of opium and 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 proactive counter narcotics force, with the Jandarma and Customs continuing to play a significant role. Turkish authorities continue to seize large amounts of heroin and precursor chemicals. It is estimated that multi-ton amounts of heroin are smuggled through Turkey each month.

Turkey is one of the two traditional licit opium-growing countries recognized by the USG and the International Narcotics Control Board (TNCB). 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 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 2006

Policy Initiatives. The Government of Turkey devotes significant financial and human resources to counter narcotics 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 89 training programs for local and regional law enforcement officers in 2006. A total of 384 foreign officers were trained at TADOC this year, including officers from the Balkans, Tajikistan, Afghanistan, Jordan, United Arab Emirates, Montenegro, Kosovo, Azerbaijan, Macedonia, Malta, Germany, Gambia, Morocco, Egypt, Lebanon, Sudan, Guinea, and Pakistan. These training programs focused on drug law enforcement, intelligence analysis, illegal immigration and human smuggling, interview techniques, surveillance techniques, and antiterrorism training for judges and prosecutors. Additionally, TADOC conducted training in several foreign countries, including Montenegro, Romania, Macedonia, Syria, and Yemen.

TADOC, with the assistance of DEA, also provided precursor chemical interdiction training to approximately 67 law enforcement representatives from Uzbekistan, Kazakhstan, Tajikistan and Kyrgyzstan as part of a UNODC/INCB sponsored initiative, code named Operation Transshipment.

Law Enforcement Efforts. In December 2005, the Turkish National Police discovered an Ecstasy and captagon laboratory in Adana, Turkey. Turkish National Police officers seized 300,000 Ecstasy tablets and 1,080,000 captagon tablets from the laboratory. Full year drug seizure statistics for Turkey are as follows:

Heroin	10,283 kg
Morphine Base	529 kg
Cannabis	23,884 kg
Opium	440 kg
AA	6,317 liters
Captagon	19,971,625 tablets
Ecstasy	2,492,200 tablets

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 level government official is alleged to have participated in such activities. Turkey ratified the UN Corruption Convention in November 2006.

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 is also 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 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, who finance and control the

smuggling of opiates to and from Turkey. Afghanistan is the source of most of the opiates reaching Turkey. Morphine base and heroin are smuggled overland from Afghanistan, sometimes through Pakistan, to Iran and then to Turkey. Opiates and hashish are also smuggled to Turkey overland from Afghanistan via Turkmenistan, Azerbaijan, and Georgia. Some criminal elements in Turkey reportedly have interests in heroin laboratories operating in Iran near the Iranian-Turkish border. Turkish-based traffickers control much of the heroin marketed to Western Europe.

Turkish authorities reported an increase in synthetic drug seizures throughout Turkey beginning in 2005. Turkish law enforcement has seen an increase in synthetic drug production, primarily amphetamines (captagon).

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. Seven Alcohol and Substance Abuse Treatment and Education Clinics (AMATEM), which serve as regional and drug treatment centers, have been established. 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. The Ministry of Health is reportedly considering conducting a survey in 2007.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. Since fiscal year 1999, the U.S. Government has extended \$500,000 annually in assistance. In January or February 2007, the U.S. Government anticipates spending approximately \$57,000 in previously-obligated funds on bringing DEA trainers to Turkey to conduct a course for counternarcotics commanders, with Turkish and Afghan law enforcement officers. Trainees will likely consist of between 15 Afghan law enforcement personnel and 5 Turkish police officials. The goal of this project is to enhance the investigative abilities of both Turkish and Afghan investigators, to increase their willingness to cooperate internationally on joint cases, and to build relationships between the two countries' law enforcement agencies.

Bilateral Cooperation. DEA reports excellent cooperation with Turkish officials. Turkish counternarcotics forces are both professional and technically sophisticated.

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, primarily Afghanistan and Iran. Turkmenistan is not a major producer or source country for illegal drugs or precursor chemicals. Turkmenistan shares a rugged and remote 744-kilometer border with Afghanistan as well as a 992-kilometer boundary with Iran. Most of its illegal drug seizures occur along Turkmenistan's borders with Afghanistan and Iran.

Counternarcotics efforts are carried out by the Ministry of National Security (MNB), the Ministry of Internal Affairs (MVD), the State Customs Service (SCS), the State Border Guards Service (SBS), the State Agency for the Registration of Foreigners, and the Prosecutor General's Office. The State Counternarcotics Coordination Commission (SCCC) at the Cabinet of Ministers is an inter-departmental body responsible for coordinating the activities of concerned government departments. It has responsibility for overseeing implementation of the government's new "National Program on Fighting Illegal Drug Trafficking and Assistance to Drug and Psychotropic Substance Addicts for 2006-2010." According to Government of Turkmenistan statistics, law enforcement officers seized a total of 1,551 kg of illegal narcotics in the first six months of 2006. The 2006 seizure statistic is three times greater than the 548 kg reported for the same period in 2005. The Government of Turkmenistan (GOT) continues to publicly commit itself to counternarcotics efforts and has increased cooperation with international organizations and diplomatic missions present in Turkmenistan; however, its law enforcement agencies are hampered by a widespread lack of resources, training and equipment. Mounting evidence, together with increased contacts with government officials and non-governmental organizations, strongly suggests that domestic drug abuse is steadily increasing, although concrete statistics are not publicly available. Turkmenistan remains vulnerable to financial fraud and money laundering schemes due to its dual exchange rate. Turkmenistan is a party to the 1988 UN Drug Convention.

II. Status of Country

Turkmenistan remains a key transit country for the smuggling of narcotics and precursor chemicals. The flow of 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 GOT's law enforcement resources and manpower are directed toward stopping the flow of drugs from Afghanistan and Iran. Common methods of transporting illegal narcotics include concealment in cargo or passenger vehicles, deliveries by pedestrian carriers or animal transport, and in some cases by concealment in the body cavities or stomach of humans and animals. Turkmenistan's law enforcement efforts at the Turkmenistan-Uzbekistan border are focused more on interdicting smuggled commercial goods than on narcotics, thus providing an attractive transshipment route. Commercial truck traffic from Iran continues to be heavy, and Caspian Sea ferry traffic from Turkmenistan to Azerbaijan and Russia continues to be a viable smuggling route. On Dec. 21, 2006, Turkmenistan's leader, Saparmurat Niyazov, aka "Father of the Turkmen" passed away. Counternarcotics policies are expected to continue without significant changes under his successor.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In April, the GOT adopted a multi-year national plan for counternarcotics activities, the "National Program on Fighting Illegal Drug Trafficking and Assistance to Drug and Psychotropic Substance Addicts for 2006-2010" (2006-2010 National Drug Program). This

program supersedes the 2001-2005 National Drug Program, and includes: increased regional cooperation to prevent drug and precursor trafficking, prevention of drug-related crimes committed by minors, enhanced technology-based border security, enhanced training for law enforcement agencies to combat organized crime, increased counterterrorism efforts, and training on drug trafficking and money laundering. The national program also addresses drug demand issues. The plan has a research and treatment of drug addiction and HIV/AIDS component and includes a national survey on the spread of drug use and HIV/AIDS within target populations. The plan calls for the creation of drug abuse “hot lines.” The government specifically includes in the 2006-2010 National Drug Program continued cooperation with USG programs and cites continued cooperation with international organizations and diplomatic missions. In August 2004, the GOT introduced a new draft criminal procedure code in an effort to transform the Soviet era criminal justice sector; the parliament has not yet adopted the new code.

Law Enforcement Efforts. The GOT continues to give priority to counternarcotics law enforcement. Law enforcement agencies with counternarcotics enforcement authority received equipment and training from the USG and international organizations. In 2006, members of diplomatic missions and international organizations were invited to witness two inter-agency drug destruction events. The government is enhancing border security efforts and opened a new border crossing station near the capital Ashgabat (on the Iranian border) in July 2006. The new station is fully equipped with modern instruments including a line scan x-ray to identify narcotic substances, explosives and weapons. The USG built one new border crossing checkpoint facility on the Iranian border and will complete construction of a second facility on the border with Afghanistan in mid-2007, and the EU is planning on building a new checkpoint on the border with Uzbekistan. In May, President Niyazov publicly increased pressure on law enforcement officials by admonishing them to interdict drug smugglers in order to safeguard Turkmenistan's youth. The State Customs Service solicited support from international and diplomatic missions to develop and improve a customs training facility. The U.S. and U.K. governments co-sponsor a customs-hosted inter-agency English language course to equip law enforcement officers with language skills requisite for participation in international conferences and training. Turkmenistan's border forces are moderately effective in detecting and interdicting narcotics. The government reported that 1,551 kg of illegal narcotics were seized on Turkmenistan's borders during the first six months of 2006. In March, the local press reported that a special task force seized 830 kg of opium and 203 kg of hashish from illegal border crossers near the Sarahs border unit on the Turkmenistan-Iranian border. In May, the State Border Service, together with the Ministry of National Security, seized 34 kg of opium and 2 kg of heroin along the southern border. In October, law enforcement officers seized 50 kg of opium and 3 kg of hashish and detained two suspected traffickers while killing a third person attempting to smuggle illegal drugs across the Iranian border into Turkmenistan. All three suspected criminals are Iranian. Obtaining detailed information about individual drug cases remains challenging. The “Adalat” (Justice) weekly newspaper is the only local paper that occasionally publishes information on law enforcement agencies' activities related to illicit drug trade activities.

Corruption. The GOT does not encourage or facilitate illicit production or distribution of narcotic and psychotropic drugs or other controlled substances as a matter of government policy. However, 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 evidence of police officers soliciting bribes, suggests a problematic level of corruption in law enforcement. Payments to lower level officials at border crossing points to facilitate passage of smuggled goods frequently occur. Reports persist that senior Turkmenistan officials are directly linked to the drug trade. In March 2007, the former Prosecutor General was accused of taking bribes and abusing the powers of her office by allowing her relatives to participate in the drug

trade. In contrast to 2005, there were no arrests of law enforcement officials for complicity in the drug trade.

Agreements and Treaties. Turkmenistan is a party to the 1998 UN Drug Convention, the 1961 UN Single Convention and its 1972 protocol, and the 1971 UN Convention on Psychotropic Substances. Turkmenistan and the United States signed a letter of agreement for provision of USG counternarcotics assistance in September 2001. In July 2006, the presidents of Turkmenistan and Iran signed a joint communiqué confirming their countries' readiness to fight illegal drug trafficking, terrorism and the proliferation of weapons of mass destruction. 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 GOT conducts limited aerial inspections of outlying areas in search of illegal poppy cultivation. Upon discovery, law enforcement officials eradicate opium crops. According to the State Counternarcotics Coordination Committee, the Government of Turkmenistan holds Operation "Mak" ("Poppy") twice a year to locate and destroy poppy fields.

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. There are land, air and sea routes through Turkmenistan's territory. Officially released 2006 data shows an increased amount of seized narcotics, but lack of earlier data and comparable statistics from a non-government organization makes analysis incomplete and the reliability of statistics questionable. The government's efforts to improve border crossing stations during 2006 could lead to higher seizure rates or the opening of new trafficking routes if traffickers adapt. 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 without reliable communications systems have been identified by the Government of Turkmenistan and are being improved. However, Turkmenistan is likely to continue to serve as a major transit route for illegal drugs and precursors.

Domestic Programs/Demand Reduction. The president's opening statement read at the Turkmenistan-UNODC Regional Counternarcotics Conference in 2005 was the first high-level admission that drug use was a concern for the government. Since then, government officials have openly made reference to what anecdotal evidence suggests is a chronic domestic problem. 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. Narcotics addicts can receive treatment at these clinics without revealing their identity and all clinic visits are kept confidential. Drug addiction is a prosecutable crime with jail sentences for convicted persons, although judicial officials usually sentence addicts to treatment. Although not yet implemented, there are internationally funded prevention programs under consideration by the government. Within the framework of the 2006-2010 National Drug Program, President Niyazov signed a resolution in June 2006 approving a list of drug addiction preventive measures to provide necessary aid to drug addicts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S.-Turkmenistan bilateral relationship on law enforcement issues, most specifically counternarcotics programs, continues to improve. The GOT 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. In 2006, the U.S. Department of Defense funded the construction of a new border crossing checkpoint station on the Iranian Border (Altyn Asyr), and is currently constructing an additional station on the border with Afghanistan (Imamnazar). Through INL, EXBS and DOD programs, the USG is providing necessary equipment and quality training to make the GOT a more effective partner in counternarcotics issues. INL has an on-going relationship with the Government of Turkmenistan through a MVD forensic lab project, the funding of two UNODC projects on the border with Afghanistan, the funding of English language programs for law enforcement officers working to combat narcotics trafficking, and training port security officials to locate contraband. The USG has also funded counternarcotics training for law enforcement officers working with canines. In March, the first Amendment to the INL LOA's was signed providing additional funding to begin a regional counternarcotics training program for MVD officers, a criminal justice sector reform project, a maritime security project and an English language training course for law enforcement officers. The EXBS program continues to directly benefit counternarcotics objectives by providing search and seizure training and enhancing physical border security.

Road Ahead. Staying engaged with all Turkmenistan's counternarcotics agencies is necessary to encourage a successful effort against narcotics trafficking. Bilateral cooperation is expected to continue, and the USG will expand counternarcotics law enforcement agency training at the working level. As both Turkmenistan and U.S. officials identify areas for improved counternarcotics efforts, the USG will provide an appropriate, integrated and coordinated response. The USG also will encourage the GOT 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

The transit of narcotics and the use of illegal narcotics are challenges for the Government of Ukraine (GOU), although official statistics showed a slight decrease in 2006 in the number of drug related crimes. Combating the trafficking of narcotics remains a national priority, but limited budget resources hamper Ukraine's ability to meet this threat. Coordination between law enforcement agencies responsible for counternarcotics occurs but continues to be stilted due to regulatory and jurisdictional constraints. Ukraine's antidrug legislation is well developed and the GOU is committed to keeping it current with the evolving threats. Ukraine has more than 80 intergovernmental and interagency agreements, both bilateral and multilateral, many of which include specific provisions on combating illegal drug traffic and crime. Ukraine is a party to the 1988 UN Drug Convention, and it follows the provisions of the Convention in its counternarcotics legislation.

II. Status of Country

Ukraine is not a major drug producing country; however, it is located astride several important drug trafficking routes into Western Europe, and thus is an important transit country. Ukraine's numerous ports on the Black and Azov seas, its extensive river transportation routes, its porous northern and eastern borders, and its inadequately financed and under-equipped Border and Customs Agencies make Ukraine an attractive route for drug traffickers into the bordering European Union's profitable illegal drug market. Narcotics originating in East, Central and Southwest Asia (Afghanistan) move through Russia, the Caucasus and Turkey, pass through Ukraine and on to Western Europe. Some drug traffic routes that go through Ukraine even originate in Latin America and Africa. Ukraine's domestic market is increasingly fed by drugs trafficked from both Asia and Central and Eastern Europe (Poland, Romania, and the Baltic Republics). Domestic use of narcotics continued to grow, and the number of registered drug addicts in 2006 increased by 10 percent over 2005 to 156,509. Domestic drug abuse continues to be focused on drugs made from narcotic plants (hemp and poppy) but the use of synthetic drugs and psychotropic substances, especially amphetamines, has been rising over the past few years.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Ukraine has well-developed antidrug legislation that is consistent with international standards. In 2006, the GOU continued to implement a comprehensive antidrug policy entitled "The Program Implementing 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 in Ukraine and the lack of adequate education and public awareness campaigns, community prevention efforts, and treatment and rehabilitation facilities.

The Program consists of two stages, the first of which occurred in 2003-2005, and the second of which will take place in 2006-2010. Stage one included: improvement of legislation; monitoring and prevention of drug abuse and drug trafficking; interagency cooperation; creation of a modern interagency data bank; an increase in law enforcement capacity; scientific research; and setting up an interagency lab to research new drugs and discover new trends in drug trafficking. Stage two foresees integration into the European information space and exchange of information on drug trafficking; strengthening of drug abuse prevention centers; introduction of new treatment practices; an increase in public awareness and education, especially in schools; further strengthening of law enforcement capacity; and full achievement of international standards. To implement the plan for the second stage, these priorities were further split into 63 specific tasks and

assigned to the responsible agencies. The Program also provides estimates of future funding needed to support its implementation. The total estimate is over 300 million Ukrainian hryvnias (\$55 million). However, the GOU has not been able to ensure full allocation of these resources in previous years. For example, due to the lack of funds, the GOU has not provided funding for the Interagency Research Laboratory for Narcotics, Psychotropic Substances and Precursors proposed by the Ministry of Interior. As a result, Ukraine has no common database on illegal narcotics and the level of information sharing between Ukrainian government agencies is quite low.

The GOU has taken additional steps to update its antidrug laws, in particular strengthening control over the distribution of narcotic plants with the aim of preventing the “leakage” of this medical material onto the illegal market. The GOU has introduced amendments to make the non-prescribed use of strong and poisonous medications, like tramadol, illegal. In the last two years, the GOU drafted a framework law on the government policy for alcohol and narcotic drugs. The draft legislation was submitted to the parliament for review and adoption. The Narcotics Control Committee established in 2003 in the Ministry of Health continues to monitor the production and use of controlled substances by licensed companies and organizations. The rate of criminal offences in this sector, however, is insignificant.

The Ukrainian Government participates in several regional organizations, including the Organization of Black Sea Economic Cooperation, GUAM (Georgia, Ukraine, Azerbaijan, and Moldova), and the South East Europe Cooperative Initiative (SECI), which allows Ukraine to coordinate, among other things, its antidrug law enforcement activities with the organizations' member states. In the framework of GUAM, a virtual law enforcement center has been established in each member-state, including Ukraine, to share law enforcement information electronically, including information related to drug trafficking cases.

Accomplishments. In 2006, Ukraine continued to implement the BUMAD (Belarus, Ukraine, Moldova AntiDrug) Program sponsored by the European Union and designed to decrease drug traffic in these three EU border countries. As part of the BUMAD Program, Ukraine is strengthening its potential to collect process and disseminate information on drug trafficking at both the national and the regional level. The BUMAD Program funded the establishment of a National Drug Observatory at the Ministry of Health to help collect, analyze and disseminate data on drugs at the national level, and share and improve comparability of this data at the regional level through the harmonization of key epidemiological and drug supply indicators. The Observatory opened in December 2006. It will establish a permanent monitoring system for drug and drug abuse (non-confidential information) and will adhere to EU standards in the collection and compilation of the data.

Law Enforcement Efforts. In Ukraine, responsibility for counternarcotics enforcement is shared by the Ministry of Interior (MOI), with its domestic law enforcement function, and the Security Service of Ukraine (SBU), which deals with trans-border aspects of drug trafficking. The State Border Guard Service (SBGS) and the State Customs Service (SCS) carry out certain drug enforcement functions in their respective fields, mainly drug interdiction along the border and at ports of entry. According to official statistics for January-September 2006, the MOI conducted 51,413 narcotic investigations and the SBU 273. The bulk of the narcotics seized included marijuana (17.8 metric tons by MOI and 64.4 kg by SBU) and poppy straw (6. metric tons 6 by MOI and 20.7 kg by SBU). Hard drugs accounted for only a small percentage of the total volume of seized drugs: cocaine (1.2 kg by MOI and 8.2 kg by SBU), heroin (2.3 kg by MOI and 313 g by SBU), hashish (9.5 kg by MOI and 6.6 kg by SBU), amphetamine (15.9 kg by MOI) and various psychotropic substances (1.5 kg and 1700 pills by SBU), and opium (34.5 kg by MOI and 19.5 g by SBU). The annual consumption of hard drugs in Ukraine is estimated to be one ton of heroin, ten tons of amphetamine and its substitutes, and 300 tons of opium containing substances. In 2006, the law enforcement authorities uncovered and eliminated 200 illegal drug labs (197 by MOI and 3

by SBU) and 69 organized criminal groups (39 by MOI, 30 - including a transnational ring - by SBU).

The MOI continued to strengthen its Drug Enforcement Department by increasing the number of its agents assigned to investigate large criminal groups that operate in Ukraine. The MOI and SBU continued to build cooperative relationships with international counterpart agencies located in Western Europe and Eurasia. The SBU also established good working relations with the U.S. Drug Enforcement Administration (DEA) and conducted a joint operation with them in 2006, and participated in the automatic pre-export control information system (PEN) introduced by the International Narcotics Control Board (INCB) in 2006. This system was widely used in international operations, in particular Project Prism. Project Prism is an international effort to prevent diversion to illicit uses of the main precursor chemicals for amphetamine type stimulants.

Corruption. The GOU openly acknowledges that corruption remains a major problem in society; the existence of a bribe-tolerant mentality, and the lack of law enforcement capabilities to investigate and prosecute corruption suggest this will remain a problem for the foreseeable future. As a matter of government policy, however, the GOU does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

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 has also signed specific counternarcotics project agreements with the UN Office of Drugs and Crime (UNODC). Ukraine is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons. Ukraine has signed but has not yet ratified the UN Corruption Convention. The U.S. and Ukraine signed a Memorandum of Understanding on Law Enforcement Assistance in December 2002. This memo provided for State Department-funded assistance to Ukraine to improve its effort against narcotic drugs, and has been amended regularly since to add finding and projects as the Ukraine and U.S. agreed on areas for program emphasis.

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. The Cabinet of Ministers approved such cultivation in late 1997. Despite the prohibition on the cultivation of drug plants (poppy straw and hemp), many cases of illegal cultivation in small quantities by private households are regularly discovered.

Drug Flow/Transit. Ukraine continues to experience an increase in drug trafficking. Heroin is trafficked from Central Asia (primarily Afghanistan) and comes into Ukraine mostly through Russia, the Caucasus and Turkey. Shipments are usually destined for Western Europe, and arrive by road, rail, or sea, which is perceived as less risky than air or mail shipment. Lately, experts note an increase in heroin traffic from Turkey into Ukraine by sea and further by land across Ukraine's western border into Western Europe. Experts believe that traditional Balkan drug traffic routes have become saturated and criminals are looking for new traffic channels. Drug traffic from Asia is increasingly controlled by well-organized international criminal groups of Afghan, Pakistani, and Tajikistani origin that use citizens of the former Soviet republics as drug couriers. There is a steady increase in the use of minors and poor, aged or disabled individuals for moving large amounts of narcotics. As for local drug consumption, poppy straw and hemp continue to be the most popular illegal drug for Ukrainians. They are produced and consumed locally with the surplus exported to Russia. Conversely, these drugs are also trafficked into Ukraine from Russia. Poppy straw and hemp trafficked to or from Russia account for 49 percent of the drugs seized in Ukraine, with

traffic to and from Moldova accounting for 24 percent, and traffic to and from Belarus 22.4 percent.

Relative to 2005, the Border Guards reported that the number of drug-related offenses in 2006 increased on the Polish and Moldovan borders, but decreased somewhat on the Hungarian and Romanian borders. The trafficking of synthetic drugs and psychotropic substances from Poland and hard medical prescription drugs from Romania and Moldova is growing. Criminal groups of mixed origin (Ukrainians, Polish, Belarusians and Russians) that formed back in the 1990s and traditionally stayed away from drug trafficking are increasingly taking up this lucrative niche. The price of these drugs is lower than that of heroin and cocaine and therefore the drugs are attractive to young addicts. The spread of synthetic drug labs in Ukraine is exacerbating the problem. Labs shut down in Ukraine in 2006 were producing phentanyl, trimethylphentanyl, PCP (phencyclidine), amphetamine and MDMA. The Security Service seized 7 kg of an especially dangerous psychotropic drug hallucinogen, psilocin, which had been trafficked to Ukraine from the Netherlands disguised as chocolate. Other smuggling routes include cocaine from Latin America and hashish from Northern and Western Africa through Ukraine primarily en route to Europe. However, the quantity of these drugs is relatively small.

Domestic Programs/Demand Reduction. The estimate of the number of drug addicts in Ukraine in 2006 varied widely, from 156,509 officially registered drug addicts to 300,000 in official estimates and up to one million by non-government experts. Drug-related deaths over the last few years have averaged 1,000 per year, according to Ukrainian health authorities. Marijuana and hashish is growing in popularity with young people, but opium straw extract remains the drug of choice for Ukrainian 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. Despite major efforts against drug trafficking, the GOU estimates that narcotics intercepted in Ukraine while en route to other destinations account for less than 30 percent of the total volume transiting Ukraine. The GOU's capability to effectively combat narcotics trafficking and the illegal use of drugs continues to be hampered by inadequate law enforcement budgets. Ukrainian officials, however, are working to reduce the demand for illegal drugs by introducing preventive measures at all levels of the education system, since 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 funding assistance from international organizations are running a number of rehabilitation programs throughout the country. Ukrainian medical and law enforcement authorities conducted a series of conferences and seminars in 2006 to discuss, raise awareness of, and reduce drug abuse in Ukraine. An awareness campaign called "Life Without Narcotics" was unrolled at a series of public events sponsored jointly by the GOU and NGOs in an effort to reach vulnerable groups.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. objectives are to assist Ukrainian authorities to develop effective counternarcotics programs in interdiction (particularly of drugs transiting the country), investigation, and demand reduction, as well as to assist Ukraine in countering money laundering. Officers from the DEA have conducted a number of training courses funded by the Department of State in the areas of drug interdiction at seaports and advance drug investigation techniques. DEA has established a good working relationship with both the MOI and SBU, and the training programs have helped.

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 Western European customs and border controls. Synthetic drugs trafficked from countries of

Eastern Europe or produced locally is also a growing concern. Demand reduction and treatment of drug abusers remains a challenge requiring close attention. However, the largest challenge remains the limited budget resources to fund law enforcement efforts to investigate and interdict sophisticated, international trafficking rings that see Ukraine as a transit point to lucrative Western European markets.

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 ninth year of a 10-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 effectively being implemented. In part to improve counter drug efforts, a national law enforcement agency under a centralized command and control, the Serious Organized Crime Agency (SOCA) was created on April 3, 2006. The UK is party to the 1988 UN Drug Convention.

II. Status of Country

Home Office figures for England and Wales compiled as part of the 2005/06 British Crime Survey (BCS) indicate that there have been few changes in drug use between the 2004/05 and 2005/06. Cannabis remains the most-used illicit drug in the UK, predominantly in the 16-24 age group; cocaine is the next most commonly used drug, closely followed by Ecstasy and amphetamines. 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 in the 16-59 age group have dropped, but are still well over 700,000. Current estimates of opiate users increased marginally from 41,000 in 2004/05 to 47,000 in 2005/06. SOCA, a newly-created national law enforcement agency, 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 2006

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 2006, the British government continued its 10-year strategy program, launched in 1998, which 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. The UK's 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 and took 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 (ACMD) 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, that 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. At a May 2006 meeting the ACMD examined new evidence regarding the reclassification of methamphetamine from a Class B to a Class A drug. In light of the new evidence presented, the ACMD wrote an open letter to the Home Secretary recommending the higher classification. The Home Secretary has accepted this recommendation and reclassification is likely to come into effect at the beginning of 2007. Reclassification would put methamphetamine into the same category as cocaine and opiates. The change would also lengthen penalties for possession and distribution.

Direct annual government expenditures under the updated overall drug strategy increased five percent between 2005/06 and 2006/07, from \$2.78 billion (GBP 1.483 billion) to \$2.94 billion (GBP 1.567 billion). The most recent program specific data (from 2004) shows 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 (GBP 380 million). The largest increase will come in spending on community programs (24 percent).

In part to improve counterdrug efforts, the UK created SOCA, a national law enforcement agency under a centralized command and control on April 3, 2006. SOCA is the amalgamation of police officers, analysts and investigators from the National Crime Squad, (NCS), National Criminal Intelligence Service, (NCIS), HM Revenue and Customs (HMRC), High Tech Crime Unit, (HTCU), UK Immigration, and local police officers all that have chosen to serve under the SOCA banner. The NCS, NCIS and HTCU no longer exist, while HMRC continues with tax/revenue related tasks and issues.

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. Laws that took effect in 2000 required courts to weigh a positive Class A test result when deciding bail, which 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 (GBP 165 million). In 2005, a new "Community Order" replaced Drug Testing and Treatment Orders (DTTO) for adults. The new orders 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 have 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. Since 1999, the Home Office has had an initiative to reduce smuggling of drugs into prisons and a prison service drug rehabilitation program. Counseling, assessment, referral, advice, and treatment (CARAT) services are available in every prison in England and Wales. The program is linked to another initiative called "Prospects" that offers 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 expanded the number of programs available to 117 in 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. Similarly, the Overseas Territories of the UK in the Caribbean and elsewhere are operated along similar lines.

The UK is a member of the Dublin Group, a group of countries that coordinate the provision of counternarcotics assistance and is a UNODC Major Donor.

Law Enforcement Efforts. The UK gives a high priority to counternarcotics enforcement and the United States enjoys good law enforcement cooperation with 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 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 (GBP 54.5 million) in 2003/04 and \$149.6 million (GBP 84.4 million) in 2004/05. According to the Home Office, there were 107,360 drug seizures by police and HM Revenue and Customs in England and Wales in 2004 - down two per cent on the previous year (109,410). (Note that, as of 2004, Home Office statistics only include seizure data for England and Wales and 2004 represents the most recent detailed statistics.) Seventy-one percent of seizures in 2004 involved class C drugs, 98 percent of which were cannabis. Twenty-seven percent of all seizures involved Class A drugs. Seizures of cocaine and heroin rose by 14 and six percent to 7,895 and 11,074 respectively. Heroin was the most commonly seized Class A drug followed by cocaine. There were 105,570 drug offences recorded in England and Wales in 2004 (the latest full year data available), a 21 percent decline from the 133,970 offences recorded in 2003. Class A offences rose by two percent to 36,350. Heroin offenders were the largest group of known Class A drug offenders, accounting for 13 percent of all known offenders in 2004. The vast majority of persons convicted or cautioned for drug offenses were charged with possession. About 85 percent of persons dealt with in the courts for drug offenses were male. Possession offenses tend to be committed by younger people (53 percent committed by those under the age of 25) while 61 percent of the producing/exporting/importing offenses were committed by persons over age 30 and 60 percent of dealing offenses were committed by persons over age 25.

Corruption. As a matter of government policy, the UK 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 the UK have a Mutual Legal Assistance Treaty (MLAT), and a narcotics agreement, which the UK has extended to some of its dependencies. On September 30, 2006, the U.S. Senate ratified a new extradition treaty with the UK. The exchange of instruments of ratification will occur when the Parliament takes final action on domestic implementing legislation. The U.S. and the UK 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. On February 9, 2006, the UK ratified the UN Corruption Convention and the UN Convention against Transnational Organized crime and its protocols against trafficking in persons and migrant smuggling. In 2005, the UK signed an updated U.S. Coast Guard Law Enforcement Detachment (LEDET) Memorandum of Understanding with the USG. This includes 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 expanding the authorization to carry LEDETS in waters beyond the Caribbean and Bermuda areas of operations, subject to the consent of both parties. In 2006, USCG LEDETs deployed on British ships seized over 10,000 pounds of cocaine.

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 they are 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 the “date rape” drug GHB illegal in 2003, GBL remains uncontrolled. DEA has asked the UK to control GBL and the UK is active in EU-wide discussions on control of this substance. Methamphetamine is growing in notoriety and use within the UK. Several small clandestine methamphetamine laboratories have been seized in the UK with law enforcement starting to embrace awareness training and strategic planning.

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) comes from 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 directly from Pakistan, is destined for British cities with large South Asian populations. Caribbean criminals (primarily West Indians or British nationals of West Indian decent) 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, although there is also cultivation in Bolivia and Peru. 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 continental 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 organize 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 kg at a time. A synthetic drug supply originates from Western and Central Europe; amphetamines, Ecstasy, and LSD have been traced to sources in the Netherlands and Poland, although some originates in the UK. In a newly identified transit trend, khat (the plant’s fresh leaves and tops are chewed or, less frequently, dried and consumed as tea, in order to achieve a state of euphoria and stimulation) is being imported to the UK from East African nations. Khat is not controlled in the UK, but is a Class 1 controlled substance in the U.S. In the UK, 2006 estimates put the khat importation levels at approximately 120 tons per month. Several areas in the U.S. are increasingly seeing khat, and DEA has identified several links between U.S. khat seizures and 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 2003, the government launched a \$5.7 million (GBP 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 available 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 2005, the Department for Education and Skills linked FRANK to its "Every Child Matters" education programs to assure regularly 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. In January 2006, the program was 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 has met the target of doubling the number of drug users in treatment two years ahead of the target date; current figures show that over 180,000 people are now receiving treatment. The so-called "pooled treatment budget" administered by the Home Office and the Department of Health is targeted to increase from \$448 million (GBP 253 million) nationally in 2004/05 to \$847 million (GBP 478 million) by 2007/08. Also, a strategic capital bidding program from 2007/08 was announced on June, 21 2006. A total of GBP 54.9 million has been made available with a view to improving and expanding in-patient drug treatment and residential rehabilitation for drug abusers, while improving commissioning for these services. 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. According to the latest available figures, the number of deaths related to drug poisoning in England and Wales rose to 2,598 in 2004. This is an increase of 6 per cent compared with 2003. This figure is still lower than in 2000 - the year with the highest recorded number of deaths at 2,967. Among young people under the age of 20, drug-related deaths were static between 2003 and 2004.

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 front.

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 some steps to combat the narcotics trade, but still relies heavily on multilateral and bilateral financial and technical resources. Law enforcement officers seized approximately 1,019 kg of illegal narcotics in the first six months of 2006. 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 2005 fell approximately 30 percent from 2004. However, seizures for the first half of 2006 are more than double those from the same time period in 2005, according to official statistics. The GOU attributes the rise in seizures to an increase in narcotics production in Afghanistan and more effective counternarcotics operations by Uzbek law enforcement agencies. Precursor chemicals have in the past traveled the same routes in reverse on their way to laboratories in Afghanistan and Pakistan. Export of precursor chemicals, including acetic anhydride, has been controlled since 2000. There have been no reported seizures of precursor chemicals in Uzbekistan since 2001. According to official statistics, as of November 2006, only six export permits have been issued, none to Afghanistan, for chemicals that can be used in the manufacture of narcotics. Effective government eradication programs have eliminated nearly all the illicit production of opium poppies in Uzbekistan.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The United States and Uzbekistan continued counternarcotics cooperation in 2006 under the 2001 US-Uzbekistan Narcotics Control and Law Enforcement Agreement and its amendments. These types of agreements provide for U.S. assistance in the counternarcotics area, and are typically amended in the years following their first negotiation to increase assistance levels to fund ongoing programs, or to agree to begin new assistance programs. To date, the agreement has established a framework to support projects designed to enhance the capability of Uzbek law enforcement agencies in their efforts to fight narcotics trafficking and organized crime. No new amendments have been signed since 2004. However, implementation of various counternarcotics programs, including the provision of technical assistance in investigating and prosecuting narcotics trafficking cases and in the enhancement of border security continue under previous amendments to the 2001 agreement. The Uzbek criminal justice system is largely inherited from the Soviet Union, and continues to suffer from a lack of modernization and reform, mainly judicial and procedural reform, and standards remain below international norms. The Executive Branch and Prosecutor General's Office are powerful entities, and the judiciary is not independent. The outcomes of court cases are usually predetermined, 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. As of November 2006, the operation has eradicated less than 10 hectares of drug

production crops - reflecting success in past years in virtually eliminating illicit drug cultivation in Uzbekistan. Efforts to achieve other convention goals are hampered by the lack of effective laws, programs, money, appropriate international agreements, and coordination among law enforcement agencies. The UNODC is continuing its efforts to implement 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 2006, Uzbek law enforcement seized a total of 1019 kg of illicit drugs. Opium accounted for 50 percent of the total, heroin 32 percent, and cannabis 13 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 2006, training and equipment were provided to the State Customs Committee under U.S.-Uzbekistan counternarcotics Letter of Agreement (LOA). LOAs define agreement on a number of planned counternarcotics projects to be funded by the U.S. The LOAs set out what each government will do to realize the projects' goals. In addition, the U.S. DEA continues to support a Special Investigation Unit within the MVD, which became operational in 2003. According to National Center reports, most smuggling incidents involve one to two individuals, likely backed by a larger, organized group. Resource constraints 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 replacements for 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 2006 UNODC continued its cooperation with the GOU. However, since 2005, the GOU has increasingly stepped back from cooperating with the United States and some European Union-member countries. As a result, international counternarcotics assistance to Uzbekistan has become significantly more difficult.

Corruption. As a matter of policy the GOU 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 ignore 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 Europe and Central Asia Protocol. Uzbekistan is also a party to the UN Convention against Transnational Organized Crime. Uzbekistan signed the Central Asian Counternarcotics Memorandum of Understanding with the UNODC, and in 2006 formally agreed to the establishment of a Central Asian Regional Information and Coordination Center (CARICC) in Almaty, Kazakhstan to coordinate information sharing and joint counternarcotics efforts in Central

Asia. Kazakhstan, the 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. The GOU has also signed agreements on increased counternarcotics cooperation in 2006 in the context of its membership in the Shanghai Cooperation Organization. However, to date, these agreements appear to have resulted in only limited tangible results.

Cultivation/Production. As noted above, “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 remains a point of concern as, in the past, narcotics have been discovered in trucks returning to Uzbekistan after delivering humanitarian aid into Afghanistan, as well as on trains coming from Tajikistan. However, a UNODC-implemented border security project at the road and rail crossing has resulted in improved control over the border crossing with Afghanistan, and humanitarian aid and other cargo crossing the border from Uzbekistan to Afghanistan has dropped considerably since 2004. Uzbek officials report no significant drug seizures along the Afghan border in 2006. The National Center and UNODC report that trafficking also continues along traditional smuggling routes and by conventional methods, mainly from Afghanistan into Surkhandarya Province and from Afghanistan via Tajikistan and the Kyrgyz Republic into Uzbekistan. The primary regions in Uzbekistan for the transit of drugs are Tashkent, Termez, the Ferghana Valley, Samarkand and Syrdarya.

Domestic Programs/Demand Reduction. According to the National Drug Control Center, as of the end of 2005 there were approximately 19,574 registered drug addicts in Uzbekistan. Sixty-two percent of these were heroin users and 48 percent were injecting drug users. According to the National Center, approximately 1,700 new addicts have been registered in 2006. The number of registered addicts is believed to reflect only 10-15 percent of the actual drug addicts in Uzbekistan. Over the last few years, there has been an alarming growth in the number of persons who are HIV positive. Over 2,000 new HIV cases were registered in 2005, according to official GOU statistics. Approximately half of the 15,000-100,000 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 assistance focuses on the prevention of illicit drug activities in and through Uzbekistan, and the need to increase the capacity of Uzbek law enforcement agencies to combat these activities. This assistance is most often provided in the form of technical assistance, training, and limited equipment donations. Since early 2005, the GOU has significantly slowed the pace of bilateral cooperation with the United States. The government continues to accept some operational training conducted in Uzbekistan and equipment donations. However, it generally will not participate in activities held outside the country, or projects which it considers to be “non-operational,” (i.e., efforts to engage on legal and judicial reforms, promote increased adherence to international standards and norms, or to fight official corruption).

In spite of the GOU's continuing hesitance to engage in U.S.-sponsored training and programs in a variety of areas, including counternarcotics, some agencies participated in U.S.-sponsored training in 2006. The DEA continues to fully fund, train and equip the Special Investigative Unit (SIU) in

the MVD, which continues to conduct a number of undercover and international operations. Department of State-funded assistance programs provided additional specialized inspection equipment and drug test kits, along with associated training, at Customs posts throughout Uzbekistan, as well as at Tashkent International Airport. These programs are also providing infrastructure improvement assistance at some of the country's most remote border posts to promote better living conditions and increased control of the border. USAID's Drug Demand Reduction Project (DDRP) continues to work at key points along drug trafficking routes to prevent at-risk young people from becoming injecting drug users. DDRP cooperates with local organizations to deliver key messages on drug abuse prevention and offering alternative activities through innovative "Youth Power" centers. These programs serve as models for Uzbekistan's national HIV control strategy, since the HIV epidemic is fueled primarily by injection drug use. Department of Defense counternarcotics activities fell dramatically during FY 2006. Central Command withdrew counternarcotics funding for fiscal years 2006 and 2007, primarily because of the Government of Uzbekistan's lack of interest in participating in DOD-sponsored counternarcotics activities. The GOU participated in only one DOD-sponsored counternarcotics event in FY 2006, despite invitations to several other events sponsored by DOD or the Marshall Center, some of which included offers to fully fund Uzbek participation.

The Road Ahead. The U.S. remains committed to supporting appropriate Uzbek agencies to improve narcotics detection and drug interdiction capabilities. However, ultimately the effectiveness of U.S. assistance programs depends on the willingness of the Government of Uzbekistan to participate in these efforts.

AFRICA AND THE MIDDLE EAST

Angola

I. Summary

Although some cannabis is cultivated and consumed locally, Angola neither produces nor consumes significant quantities of drugs. Angola continues to be a transit point for drug trafficking, particularly cocaine brought in from Brazil or South Africa and destined for Europe. Angola is a member of the Southern African Development Community (SADC) Counternarcotics Protocol in 2003. Angola is a party to the 1988 UN Drug Convention.

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. Narcotics, mostly cocaine, enter from Brazil and are then transported to Europe and South Africa. Police continued to seize cocaine and cannabis in 2006. Increased intelligence sharing and the scanning of incoming containers improved the effectiveness of drug interdiction.

II. Country Actions Against Drugs in 2006

Law Enforcement Efforts. 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 SADC.

Corruption. Although cases of public corruption connected to narcotics trafficking are rare, in June 2005, three officials of the National Department for Criminal Investigation were charged with trafficking in cocaine. As a matter of government policy, Angola does not encourage illicit production or distribution of drugs or associated money laundering.

Agreement and Treaties. Angola 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. Angola ratified the UN Corruption Convention on August 29, 2006 and has signed, but has not yet ratified the UN Convention against Transnational Organized Crime.

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, but government resource constraints limit what the government can offer in modern drug treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2006, 24 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.

Benin

I. Summary

Benin is a low volume narcotics producer and remains a transit point for illegal narcotics. During 2006, no new counternarcotics laws or initiatives were introduced in Benin. Benin's drug enforcement police squad, the Central Office for Repression of Illicit Drug Trafficking (known by the French acronym OCERTID) operates with limited resources. The rate of illegal drug seizures, compared to the likely volume of drugs transiting Benin, was low in Benin during 2006, as were quantities seized. Benin is a party to the 1988 UN Drug Convention, and Benin's antinarcotics legislation adopted into law in 1997 is based on the UNODC model.

II. Status of Country

Benin produces illegal narcotics - but in very modest quantities for local consumption. Marijuana is the only drug produced in significant quantities. There is no production of chemical drugs such as methamphetamines. Marijuana is cultivated along the western and eastern borders with Nigeria and Togo. Marijuana is also cultivated in the central area of the country. During 2006, there were no new efforts by the government to eradicate in these areas. Benin's porous borders and lack of port security allow for the easy transshipment of narcotics by regional traffickers. All forms of narcotics are known to transit through Benin. The extent of the transit is uncertain, but seems to be growing, based on seizures.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In March 2006, Benin elected a new president in a generally fair democratic election. Within the severe limits imposed by the poverty of the country, the existing level of activity against narcotics continued, and a few new initiatives were proposed.

Law Enforcement Efforts. The total reported drug seizures in Benin during 2006 were: cannabis: 2.2 MT; cocaine: 28.2 kg.; and heroin: 25.2 kg. Total arrest and prosecution statistics are not available. Law enforcement resources continue to target small-scale couriers, users, and criminals involved in other forms of crime that are captured with various quantities of illegal drugs. 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 with limited implementation. Benin has no legal mechanism in place to seize narcotics-related assets. OCERTID has had a team assigned to the port of Cotonou since November 2005, but this team continues to be hampered by a lack of training in the area of seaport security and container search procedures. In general, Benin suffers from a lack of follow-up and focus on implementation in its counternarcotics efforts. The United States Millennium Challenge Compact, which was signed in February 2006 and entered into force in October, will help address these weaknesses over the next five years. The Compact includes the development and implementation of a port master plan that incorporates institutional security improvements in the areas of access, customs services, and cargo screening.

Corruption. There is no information that a senior Beninese government official or government entity engages in, encourages, or facilitates the illicit production or distribution of narcotic or psychotropic drugs. 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 2006. However, in May 2006, upon his election to the Presidency, Boni Yayi signed a

good governance charter with 22 of his ministers publicly, laying out clear code of conduct ground rules for all his ministers.

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.

Domestic Programs. Benin's drug enforcement coordination office called CILAS (Interdepartmental Committee to Fight Against Drugs and Narcotics Abuse) encompasses representatives from the Ministries of Health, Family, Social Protection, Finance, Economy, Environment, and Youth. CILAS is responsible for implementing Benin's domestic drug policy, but no results on the effectiveness of its programs are available.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. With the inauguration of the new Beninese Presidential administration in early 2006 and its new initiatives, which include efforts to address corruption, the GOB could improve its efforts in implementation of prior and new counternarcotics initiatives in response to increased drug-trafficking through the country. Efforts by the U.S. Government, such as improving port and border security through the Millennium Challenge Corporation agreement, will greatly enhance the GOB's capacity to address drug-trafficking.

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, indictment of three U.S. citizens, and a secondary ongoing investigation that has already identified more than two million dollars of drug related proceeds. In 2006, DEA conducted several major international joint investigations 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 poppy and cannabis plants are grown in Egypt. The substances that are most commonly abused are cannabis, which is known in Egypt 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 2006

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. Reversing a trend over the past several years, the amount of narcotics seized during 2005 was lower than that of the previous year.

According to the GOE, drug seizures in 2005 included cannabis (78.0 MT), hashish (1.5 MT), and smaller amounts of heroin, opium, psychotropic drugs, and cocaine. Significant amounts of prescription and “designer” drugs such as Ecstasy (10,683 tablets), amphetamines, and codeine were also seized. During the course of 2005, Egyptian law enforcement officials eradicated 380 hectares of cannabis and 106 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 synthetic 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 4,560,000 Egyptian Pounds (\$800,000). 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, 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 Corruption Convention. The 1988 UN Drug Convention, coupled with an 1874 extradition agreement with the former Ottoman Empire, provides the United States and Egypt with a basis to seek extradition of narcotics traffickers.

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 2007, 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, the amount of drugs transiting Ethiopia remains small. Small amounts of heroin transit 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. In addition, cannabis is grown throughout Ethiopia, but most is consumed in rural areas of Ethiopia itself. Khat, a chewable leaf with a mild narcotic effect, is legal in Ethiopia. Ethiopia now produces more khat than coffee for export. Seizures are up, and illegal exports from Ethiopia, through Europe to the U.S., are rising. Khat chewing is part of the culture of several countries bordering the Red Sea. The Illicit Drug Control Service (IDCS), formerly the Ethiopian Counternarcotics Unit (ECNU), has a small staff, limited training and equipment, and would like to partner with the international community to improve its capabilities. The IDCS 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. Cannabis is produced in rural areas throughout Ethiopia. Only 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. According to the IDCS, cannabis is primarily grown and used by the Rastafarian population, and that the highest volume was grown in and outside of the town of Shashemene, approximately 250 kilometers south of Addis Ababa. IDCS also believed that cannabis was likely sold side by side with khat. No seizures of opium have been reported since 2001, when opium poppy was seized at two locations where it was apparently being grown as an experimental crop.

III. Country Actions Against Drugs in 2006

The use of heroin and other hard drugs remains quite low, due primarily to the limited availability of such drugs, their 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 IDCS has a small staff and inadequate budget, which limit its capabilities. There is currently no training offered for officers in IDCS, and IDCS had no permanent programs. After changing its leadership in 2002, IDCS has been more proactive at the federal level, but is still hampered by financial constraints. IDCS is comprised of approximately 40 individuals, including federal police officers and administrative personnel. Its efforts include an

airport interdiction team comprised of 11 staff, a four-person surveillance team, and an educational unit with six staffers. At the airport, the interdiction team uses its one drug sniffer dog to examine, with a degree of randomness, cargo and luggage. The IDCS formerly had two dogs from the U.S., which have died. The current sniffer dog was a donation from Sudan; however, the dog could only detect cannabis. The IDCS routinely screens passengers, luggage and cargo on flights arriving from “high risk” origins, such as Dubai, Bangkok, Mumbai, New Delhi, Bombay, Karachi, and Islamabad. The interdiction unit continues to improve its ability to identify male Nigerian/Tanzanian drug “mules,” which typically swallow drugs to smuggle them. However, the airport interdiction unit relies heavily on tips from other countries to identify the drug mules. The Ethiopian government 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 1961 UN Single Convention as amended by the 1972 Protocol and the 1971 UN Convention against Psychotropic Substances. Ethiopia has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Cultivation/Production. Cannabis is produced in rural areas throughout Ethiopia, of which a small portion is for export, primarily to neighboring countries; the majority is consumed at home, but quantities in both cases are moderate. Khat is grown all over Ethiopia to accommodate traditional users in Ethiopia itself and increasingly for export.

Drug Flow/Transit. 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.

Domestic Programs. The only domestic program to combat narcotics in Ethiopia is the IDCS, which has both an enforcement and limited drug education role. The ICDS' education unit aims to increase public awareness by partnering with antidrug clubs in high schools. Further, the education unit educates domestic police on how to detect and control drugs in all areas of Ethiopia.

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. At present, the U.S. is not providing assistance to the IDCS.

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's goal is to partner with the international community to improve its detection capabilities.

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, corruption and a lack of resources remain problems. A national narcotics scandal in 2006 involving allegations of official complicity in narcotics trafficking complicated Ghana's efforts to combat the drug trade, but served to focus public attention on the growing problem. Ghana-U.S. law enforcement coordination strengthened in 2006, particularly at the policy level, but operational cooperation was strained by the narcotics scandal. Interagency coordination among Ghana's law enforcement remained a challenge. Ghana is a party to the 1988 UN Drug Convention.

II. Status of Country

Ghana has become a major transshipment point for illegal drugs, particularly cocaine from South America, as well as 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, Sekondi, and Takoradi are also used, and border posts at Aflao (Togo) and Elubo and Sampa (Cote d'Ivoire) see significant drug trafficking activity. In 2006, South American cocaine trafficking rings increased their foothold in Ghana, establishing well-developed distribution networks run by Nigerian and Ghanaian criminals. Ghana's interest in attracting investment provides good cover for foreign drug barons to enter the country under the guise of doing legitimate business. However, South American traffickers reduced their need to visit Ghana in person by increasing reliance on local partners, thus further insulating themselves from possible arrest by local authorities.

The year was marked by a series of cocaine scandals, including allegations of police complicity in cocaine trafficking. In May five kg of cocaine went missing from a police evidence locker. An ensuing investigation, which received extensive domestic media attention, quickly expanded to other cases. In the most prominent case, security agencies interdicted a ship, the MV Benjamin, thought to have been carrying as much as two tons of cocaine, of which authorities only seized thirty kg. The scandal intensified when a secret recording surfaced that caught an Assistant Commissioner of Police and known narcotics traffickers on tape discussing why they had not been alerted to the two ton cocaine shipment. In a separate case, a woman alleged that a different senior police official requested a \$200,000 bribe to drop a case against her boyfriend, a foreign cocaine trafficker. The ruling party and the opposition political parties used the scandal to accuse each other of allowing the country to become a transshipment point for cocaine and heroin bound for other countries. As a result of these scandals, a handful of law enforcement officials lost their jobs and the government renewed its focus on how to combat the narcotics trade.

Trafficking has also fueled increasing domestic drug consumption. Cannabis use is increasing in Ghana, as is local cultivation of cannabis. Law enforcement officials have repeatedly raised concerns that narcotics rings are growing in 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 2006

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 two top officials at the NCB were suspended at the outset of the 2006 narcotics scandal. The top official was ultimately replaced, but the NCB remained without an operations chief at year's end. The Ministry of Interior set up a fact-finding committee to investigate the loss of the two tons of cocaine apparently not seized by enforcement personnel, and related issues. Following the release of the committee's report in September, the UNDP funded a series of experts' meetings to develop a new national drug policy and make recommendations on improving the country's counternarcotics efforts. The series of meetings was ongoing at year's end.

Each year since 1999, the NCB has proposed to amend the 1990 narcotics law to fund NCB operations using a portion of seized proceeds, but the Attorney General's office has not acted on this proposal. In 2006, the Attorney General succeeded in amending the narcotics law to allow stricter application of the 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). 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. The government began drafting a Proceeds of Crime bill and a Money Laundering bill in 2006, and final drafts were reportedly near completion by year's end. The government reportedly plans to present the bills to parliament for consideration in early 2007.

Law Enforcement Efforts. In 2006, 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 total drug seizures of cocaine, heroin, and cannabis from January to September 2006 decreased by 17 percent compared to the same period in 2005, likely reflecting a temporary decrease in trafficking activity following the 2006 narcotics scandal. Projected fourth quarter data (based on data for the earlier part of the year) suggests that the number of cocaine arrests in 2006 dropped to roughly half that of 2005, while heroin and cannabis arrests both showed modest declines. 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.

Convictions in drug cases involving 100 grams or more increased in 2006. During the year, courts delivered 33 drug-related convictions in such cases, including 4 for arrests made in 2006 and 29 for arrests made in 2005. In addition to a number of Ghanaians, courts sentenced citizens of Nigeria, Cote d'Ivoire, Togo, Guinea, Belgium, and Germany in cases involving cocaine and heroin trafficking. Despite these positive trends, at year's end courts still had 96 cases pending that involved 100 grams or more. Of these, 52 were for 2006 arrests and 44 were for older cases. The NCB reported that the price of cannabis increased sharply in 2006, possibly as a result of eradication efforts. The price of a small parcel of cannabis (the size of a loaf of bread) in 2006 was approximately cedis 100,000-150,000 (\$10.86 - \$16.29), while a wrapper or joint sold for cedis 2,000-5,000 (\$0.22 - \$0.54), from two to five times the price in 2005. The NCB and other law enforcement agencies continued their successful cooperation with U.S. law enforcement agencies in 2006 until the eruption of the narcotics scandal, which forced U.S. agencies to reduce

cooperation until the NCB could reconstitute itself. There were no narcotics-related extraditions to or from the United States in 2006.

Corruption. Ghana 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, nor is any senior official known to engage in, encourage, or facilitate narcotics production or trafficking. Despite the regular arrests of suspected narcotics traffickers, Ghana has an extremely low rate of conviction, which law enforcement officials indicate is likely due primarily 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. In October 2005, a supervisor of KIA's cargo handling company was arrested attempting to smuggle cocaine using an airport tractor and his access to an airplane. Media outlets alleged that this occurred with either the approval or the involvement of ruling party officials.

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. Government officials hope that with the change to the bail bond system in 2006, this will cease to be a problem.

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 arrested 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.

Corruption among law enforcement officials remained a serious problem in 2006. In January, two officers from the Bureau of National Investigations were suspended for having inappropriate contact with Nigerian drug traffickers. An Assistant Commissioner of Police and five other officers were arrested for their alleged direct involvement in the trafficking of the cocaine, which went missing from the MV Benjamin. Though no charges of corruption were brought, the two top officials at the Narcotics Control Board were suspended for dereliction of duty in allowing five kg of seized cocaine to go missing from a police evidence locker. In a related development, a state prosecutor was asked to proceed on leave because he charged drug barons with a lesser crime than the charge sought by the Attorney General, allowing the criminals to be granted bail (they were re-arrested the next day and the prosecutor was dismissed). One of those re-arrested allegedly was later allowed by jail personnel to continue using his mobile phone from his jail cell and was reportedly escorted out of the jail some evenings by officers to attend social engagements. It was not until the story broke in a local newspaper that government officials allegedly insisted the trafficker be moved to a more secure facility.

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. In July 2006, Ghana ratified both the UN Convention against Corruption and the African Union Convention on Preventing and Combating Corruption. Ghana has not signed the UN Convention against Transnational Organized Crime.

Cultivation and Production. Cannabis (also known as Indian hemp) is widely cultivated in rural farmlands. The Volta, Brong-Ahafo, Eastern, Western, and Ashanti regions are principal growing areas. Most cannabis 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. Due to the shakeup relating to the narcotics scandal, NCB did not investigate cannabis production and distribution, or destroy cultivated cannabis farms and plants in 2006 as they had in years past. 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 the terms of this project, 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, but did not have funds to expand the program in 2006. NCB reports, however, that by 2006 cultivation in targeted areas had gone down. To provide alternative income to farmers growing cannabis, the Ministry of Women and Children's Affairs donated two cassava-processing plants to a community in Essam, Eastern Region in 2005.

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. Law enforcement officials report that traffickers are increasingly exploiting Ghana's relatively unguarded and porous maritime border, offloading large shipments at sea onto small fishing vessels which carry the drugs to shore undetected. Narcotics are often repackaged in Ghana for reshipment, hidden in shipping containers or secreted in air cargo. Large shipments are also often broken up into small amounts to be hidden on individuals traveling by passenger aircraft. The most common individual concealment methods utilize false bottom suitcases or body cavity concealment. Arrests in 2006 revealed a variety of creative concealment methods, including bricks of cocaine hidden inside women's ornate hair-dos, cans of soup and containers of yoghurt with hidden narcotics, and bricks of marijuana hidden in hollowed-out wooden handicrafts bound for Europe.

Officials at UK airports found that the total tonnage of trafficked narcotics seized from passengers on flights originating in Ghana eclipsed those from Nigeria in 2006. In partial response to this trend, the British Government launched a program deploying experienced U.K. customs officers and state of the art ion scan detection equipment to Kotoka International Airport. The program, which will last one or two years, will also involve training Ghanaian customs officers on how to use the equipment, as well as profiling, targeting, intelligence-gathering and other security techniques.

There is no hard evidence that drugs transiting Ghana contribute significantly to the supply of drugs to the U.S. market. However, there are indications that direct shipments to the United States--particularly of heroin--are on the rise, fueled by an increase in shipments of heroin to Ghana from Pakistan and Afghanistan in 2006. 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, and in 2006 a significant number of Ghanaians were arrested in the United States for trafficking heroin. 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. Direct air links were re-established in 2005, with a second airline adding non-stop service between Ghana and the United States in December 2006, in addition to multiple carriers providing connecting flights to the United States via Europe, which may result in increased attempts at smuggling by direct air links.

In 2006, the U.S. Embassy uncovered widespread visa fraud associated directly with drug trafficking organizations, further raising fears of highly organized smuggling rings attempting to carry drugs into the United States from Ghana by air. The NCB reported that in response to increased vigilance against West African drug mules arriving at foreign airports, a new trend appears to be use of Caucasians as carriers of narcotics to arouse less suspicion by customs and immigration officials at European and U.S. airports. Despite concerns with increased use of air travel for drug transshipment, however, the primary problem remains Ghana's long, relatively 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. 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 2006, 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. In partial response to the narcotics scandal, the NCB also began efforts to sensitize coastal fishermen on the dangers of getting involved in the drug trade and on the need to cooperate with law enforcement officials. The Regional Minister for the Central Region (where many fishing ports are located) met with local fishermen to discuss the problems of drug 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 ("Itemisers") 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. Ghana is still benefiting from police training funded in FY 2002, which helped suppress corruption and strengthen 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 undertaken in November 2004, focused on drug interdiction at Ghana's air and seaports.

In August 2005, the U.S. government signed an agreement to provide Ghana's law enforcement agencies with an additional \$200,000 to fight narcotics trafficking. Under this funding, DEA provided a two-week basic narcotics investigations skills course for NCB and other GOG counternarcotics staff in November 2006. At the end of the training, the U.S. Embassy donated 25 sets of new Smith & Wesson handcuffs, provided by the Department of Justice, to the NCB. Future assistance using these funds will focus on advanced narcotics investigation skills and financial crimes investigations. The USG is also working with the Customs, Excise and Preventive Service (CEPS), urging the agency to establish an internal affairs unit that would strengthen internal anticorruption efforts along Ghana's borders.

The Road Ahead. Ghana made progress in late 2006 addressing its legislative and enforcement deficiencies, brought into the public eye by the narcotics scandal, but there is a long road ahead. The NCB's plan to hire forty additional agents will be a good start. 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. Upgraded measures to combat corruption are also essential. Sea interdiction and surveillance capabilities need to be enhanced. These initiatives will require significant re-allocation of resources, and it remains to be seen whether Ghanaian officials have the political will to see them through.

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 (perhaps 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. There are some indications that opium poppy cultivation is making a comeback in Iran, after a long period during which poppy cultivation was negligible. 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. With record levels of opium production right next door in Afghanistan, the latest opiate seizure statistics from Iran continue to 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. Iran claims that more than 3500 Iranian law enforcement personnel have died in clashes with heavily armed drug traffickers over the last two decades, and Iran reports that another 56 died in 2005. Iran spends a significant amount on counter drug-related activities, 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. Iran claims to have invested upwards of \$1 billion in its elaborate series of earthworks, forts and deep trenches to channel potential drug smugglers to areas where they can be confronted and defeated by Iranian security forces. Nevertheless, traffickers from Afghanistan and Pakistan continue to cause major disruption along Iran's eastern border. Iranian security forces have had excellent seizure results for the last several 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. Although China is estimated to have the largest population of those who consume opiates, 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 between the ages of 15 to 64 used opiates in 1999 (latest complete survey data available). A 2005 Quick Assessment drug use survey conducted by Iranian authorities, confirmed the accuracy of the earlier 1999 survey on drug abuse. Many Iranian practitioners, especially in the treatment community, argue that the share of opiate abusers now is even higher than 2.8 percent of the population.

Nevertheless, 2.8 percent is very high. It is almost five times the rate of opiate abuse in the U.S. (.6 percent). A continuing sharp increase in the share of unrefined opium in total opiate seizures made

by Iranian enforcement in the first nine months of 2006 suggests that drug traffickers in Afghanistan have consciously decided to serve the growing opium market in Iran, while also continuing to ship refined or semi-refined opiates (heroin and morphine base) for ultimate consumption in Europe. This choice by traffickers and the record opium crops in Afghanistan over the last few years are contributing to what can only be termed an epidemic of opiate abuse in Iran.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Narcotics-related assistance projects emerging from last year's "Paris Pact" organized visit to Iran began to be implemented this year. Among these projects were interdiction projects focused on exit routes along the Iranian/Turkish border, and others designed to develop additional capacity for intelligence-led investigations of trafficking organizations. Projects focused on improved drug treatment and drug education, and to encourage more effective courts and decrease corruption also advanced towards implementation during 2006. Iran continues to spend at least 50 percent of its own budgeted counterdrug expenditures on demand reduction activities. This appears to be response to the growing social and health impact of more dangerous drug abuse in certain populations (e.g., heroin vice opium), and more intravenous heroin abuse, with certain addict populations (especially addicts in Iran's prisons) sharing needles. Sharing needles is known to contribute to the spread of HIV/AIDS. On the other hand, 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 head of Iran's Drug Control Headquarters received an important visit from UNODC Executive Director, Antonio Maria Costa in late 2006. Costa praised Iran's enforcement efforts and thanked Iran for preventing important quantities of opiates and other dangerous drugs from reaching markets in the West.

Iran pursues an aggressive border interdiction effort. A senior Iranian official told the UNODC that Iran had invested as much as \$1 billion 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, and 290 km of canals (depth-4 m, width-5 m), 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. Prior indications are, however, that Iran invested in this extensive barrier-type construction and fortification system on its eastern border region many years ago, well before the burgeoning drug problem started in the mid-1990's, as security protection against a general lawlessness along its eastern border.

Some villagers organized into self-defense forces (Basij) have received training from the Iranian government, and on occasion even launch offensive operations against traffickers, bandits and ethnic insurgents. Security forces also periodically clash with Baluch tribesmen who are seeking more autonomy from the central governments in Iran and Pakistan in a long simmering conflict. These tribesmen are also an important element in narcotics trafficking and have traditionally smuggled goods across regional borders. As a result, all three elements of lawlessness-narcotics trafficking, ethnic insurgency and smuggling occur simultaneously complicating the situation along Iran's eastern border.

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 365.7 metric tons of opiates (opium

equivalent) during just the first nine months of 2006. Opiate seizures were running at roughly 30 percent more than the same period of 2005. Opiate seizures in projected out for all of 2006 were on track to be almost 107 metric tons more than 2005, and set a new record for Iran's seizures of opiates. Seizures at rates like those claimed in Iran surely strike a blow at narcotics criminals and their financiers. Iran and Pakistan alternate as the countries with the highest volume of opiate seizures in the world.

Iranian opiate seizures in the first nine months of 2006 continued the same interesting trends highlighted in last year's INCSR chapter:

- Unrefined (raw) opium seizures continued to increase sharply; projected out for the year, they were on track to increase by almost 29 percent. This is somewhat less of an increase than that registered for seizures of refined opiates (morphine base and heroin). They are on a track to rise in excess of 33 percent ;
- The share of raw opium in total opiate seizures exceeded 63.4 percent, a level not seen in almost twenty years. 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 seizures were roughly 20 percent of all opiates seized (opium equivalent), sharply up from last year's roughly 15 percent share;
- The morphine base share of seized opiates fell to just 16.8 percent of the total. Refineries in Afghanistan seem to be turning out more heroin, as opposed to base.

NB. To compute shares of opiates seized in Iran accurately, we convert morphine base and heroin into opium equivalents by multiplying by a factor of ten.

One possible explanation for these seizure trends is a return of Iranian addicts to abuse of traditional raw opium, after a period when disruptions in supply from Afghanistan forced a temporary 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 nine months of 2006 were 48.4 metric tons. If hashish seizures are projected out for the whole of 2006 (60.4 metric tons), they would be down almost 11 percent from seizures of 67.3 metric tons during all of 2005.

Iran also reports a category of drug seizures which it labels simply "other". This category of seizures, which probably represents seizures of synthetic drugs, and perhaps destruction of opium poppies in place, has exploded in the last two years. In 2003, "other" seizures were reported at 1647 kg. Then in 2004 and 2005, seizures jumped to 12.4 metric tons and 13.5 MT, respectively. Seizures in this "other" category seem to have fallen sharply in the first nine months of 2006, and were running at only a 7.3 METRIC TONS annual rate. It is indicative of the overall drug problem in Iran that large quantities of synthetic drugs like Ecstasy and methamphetamine are seized there.

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 kg of opium. Those convicted of lesser offenses may be punished with imprisonment, fines, or lashings, although it is believed that lashings have been used less frequently in recent years. Offenders under the age of 18 are afforded some leniency. More than 60 percent of the inmates in Iranian prisons are incarcerated for drug offenses, ranging from use to trafficking. Narcotics-related

arrests in Iran during the first nine months of 2006 were running at an annual rate of almost 400,000, which is a typical level for the last several years. Twice as many drug abusers were detained as drug traffickers. Iran has executed more than 10,000 narcotics traffickers in the last two decades.

Corruption. Corruption plays an important role in narcotics trafficking in Iran. Corruption cases reached the courts in Iran, and were also featured in media reports. The election campaign in 2005 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 situation in Iran with that 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 is compelling that it is Iran's official policy to keep drugs from its people. A high-profile effort is currently under way in Iran to highlight corruption and discourage its spread, but some question its seriousness since some at the top appear to escape punishment. 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 begun to implement new assistance projects for Iran's courts and prosecutors after the recent Paris Pact review of Iran's counternarcotics efforts. The new 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. Iran is also a party to the 1971 UN Convention on Psychotropic Substances, 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 reports of opium refining near the Turkish/Iranian border. Recently, there have been more indications in Iran's press of opium poppy cultivation in remote areas. The Iranian Press reported government interdiction force operations targeted against opium poppy cultivation in isolated, mountainous regions of western Iran, northwest of Shiraz. These articles appeared in the spring and summer of 2006. The area planted to poppy does not seem to be large—news articles mention on the order of 100 acres. They quote Iranian government officials who link the cultivation to the poverty of communities living in these isolated regions. Most refining of the opiates moving through Iran is done elsewhere, either in Afghanistan or in Turkey.

Drug Flow/Transit. Shipments of opiates enter Iran overland from Pakistan and Afghanistan by camel, donkey, or truck caravans, often organized and protected by heavily armed ethnic Baluch tribesmen from either side of the frontier. Once inside Iran, large shipments are either concealed within ordinary commercial truck cargoes or broken down into smaller sub-shipments. 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 kg of drugs, in many cases either ingested for concealment or hidden in backpacks or hand luggage. 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 17 percent of all opiates seized in the first nine months of 2006, in Iran, is likely moving towards Turkey, as is some share of the much diminished 20 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. Widespread smuggling traditionally used to provide necessities and to escape high taxation facilitates trafficking through Iran. 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 for a few

years around 2001/02, 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, encouraged some addicts to switch from opium to heroin. That aberration now seems past, and large seizures of opium suggest that opium is now readily available in Iran. Some heroin is smoked or sniffed, but a growing share is injected. 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 (as much as 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. There have also been regular reports of a concentrated or “crack” heroin, which is reportedly more pure than other heroin available in Iran. Where the standard rule-of-thumb holds that 8.5 to 10 units of opium are necessary to make one unit of heroin, crack heroin reportedly requires 15-20 units of opium input. Because of its intensity, crack heroin is associated with increased emergency room visits, and overdose deaths. Typical of comments appearing in the Iranian press is one recent report, quoting the head of Tehran’s Specialist Treatment Addiction Center saying that “crack heroin” use in Tehran had doubled in the last year. Seventy-five percent of all drug addicts reporting to the Center are users of crack/crystal heroin. Due to its highly addictive properties and very high purity/intensity, many addicts had died after injecting crystal heroin, according to the Director.

Ninety-three percent of Iranian opiate addicts are male, with a mean age of 33.6 years, and 1.4 percent (about 21,000) are HIV positive. The scale of the drug abuse problem in Iran forces it into the public arena. Under the UNODC's NOROUZ narcotics assistance project, the GOI spent more than \$68 million dollars in the first year of project implementation 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. A total of 88 out-patient treatment centers spread throughout Iran 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, which 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 counternarcotics 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, and have won the praise of such knowledgeable observers of the international effort against narcotics as UNODC Director, Antonio Maria Costa. 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 recent

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 in 2006 the Israeli drug market continued to be characterized by a high demand in nearly all sectors of society, and a high availability of marijuana, hashish, Ecstasy, cocaine, heroin and LSD. The intense security presence and surveillance along Israel's borders generally make it difficult for smugglers to bring drugs into the country. Consequently, Israel is not a significant transit country for drugs, although Israeli citizens have been part of international drug trafficking networks in source, transit and distribution countries. In 2006, the INP seized less than half as much marijuana and Ecstasy as in 2005, and less than one third as much of each drug as in 2004. Hashish, heroin and cocaine seizures in 2006 remained consistent with seizures from the previous three years. Widespread use of Ecstasy by Israeli youths is a continuing concern for authorities. 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. The INP report that during the year 2006, the Israeli drug market was characterized by a high demand in nearly all sectors of society and a high availability of drugs, including marijuana, Ecstasy, cocaine, heroin, hashish and LSD. The INP estimates the annual scope of the Israeli market to be 100 metric tons of marijuana, 20 metric tons of hashish, 20 million tablets of Ecstasy, four metric tons of heroin, six metric tons of cocaine, and hundreds of thousand of LSD blotters. Officials are also concerned about the widespread use of Ecstasy and marijuana among Israeli youth, and say that juvenile usage mirrors trends in other Western countries.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2006, the INP continued its general policy of interdiction at Israel's borders and ports of entry. The INP concentrated specifically on the Jordanian and Egyptian borders, where the majority of heroin, cocaine and marijuana enter Israel.

Law Enforcement Efforts. In 2006, most of Israel's narcotics seizures occurred along its sparsely populated border with Egypt. Eighty-six percent (4,335 kg) of all marijuana, 59 per cent (531 kg) of all hashish, and 43 percent (30 kg) of all heroin seized this year were intercepted near the desert border. Although nearly all the seizures of drugs coming from Jordan occurred at the Arava/Negev border-crossing terminal, the Israeli military seized 17 kg of heroin from Palestinians attempting to bring the drugs across the Dead Sea in one-man boats. According to the INP, the Jordanian police also seized 45 kg of cocaine destined for the Israeli market on the Jordanian side of the Dead Sea from members of the same Palestinian crime ring. Within Israel, the INP shut down a major domestic smuggling operation that shipped liquid cocaine from South America to Israel in wine bottles under the guise of a legitimate wine-importing business. In other operations, the INP seized 41,000 Ecstasy tablets from a single distributor in Qiryat Gat. Finally, the INP reported an increase in the number of domestic marijuana hydroponic cultivating stations seized to ten.

Corruption. As a matter of government policy, Israel does not encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. In 2006, a number of public officials were

under investigation for corruption-related offenses. Israel has signed, but not ratified, the UN Convention against Corruption. Israel does not have specific legislation for public corruption related to narcotics, but narcotics-related corruption would be covered under its generic anticorruption legislation.

Agreements and Treaties. Israel is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and its 1972 Protocol. A customs mutual assistance agreement and a mutual legal assistance treaty are also in force between Israel and the U.S. Israel ratified the UN Convention against Transnational Organized Crime in December 2006. Israel is one of 36 parties to the COE European Treaty on Extradition and has separate extradition treaties with several other countries, including the U.S. On January 10, 2007, a new Protocol to the Convention on Extradition between the United States and Israel entered into force. Significantly updating the 1962 convention, the Protocol replaces the outdated list of extraditable offenses with a modern dual criminality approach and provides for the temporary surrender for trial in the Requesting State of fugitives serving a prison sentence in the Requested State. In combination with Israeli extradition law, the Protocol also provides a much-improved framework for dealing with fugitives who claim Israeli citizenship and permits the United States to include hearsay evidence in our extradition documents.

Cultivation/Production. Although the vast majority of drugs consumed in Israel are produced in other countries, the INP reported three significant patterns of production activity during 2006. The nomadic Bedouin tribes that inhabit the Negev desert bordering Jordan and Egypt have long been involved in international smuggling operations -- particularly facilitating the movement of heroin from Jordan to Egypt. However, this year the INP reported that the Bedouin have begun to add a substance, known locally as "nabat," in order to substantially increase the volume of the heroin before transporting it to Egypt for sale.

Next, a new domestically produced drug appeared on the streets of Israel in 2006. Marketed under the name "Orange," (even so far as using the logo of the telecommunications company of the same name), or "Sweet Dreams," the blue and white pills produced a similar effect to Ecstasy and were easily obtainable for about \$12 per pill at kiosks in the commercial districts of most major Israeli cities. The active ingredient in the drug is dimethyl cathinone, which is produced by extracting the cathinone from the "khat" plant. The plant itself is legal in Israel, and is widely cultivated within Israel's Yemenite and Ethiopian immigrant communities. However, it is against Israeli law to extract the cathinone from khat and use it to fabricate any other substances. Police moved against the kiosks openly selling the drug once it became clear that the drug was being produced illegally.

The INP also reported an increase in domestic cultivation of marijuana. Over ten marijuana hydroponics' greenhouses/incubators were discovered in otherwise uninhabited rental homes in the more affluent central region of Israel, and the homes had been converted for the purpose of full-time marijuana cultivation. The INP reported that the seized incubators demonstrated more sophistication than in previous years, including electronic switch timers for lamps and instruction manuals for increasing the THC content of the marijuana.

Drug Flow/Transit. Due to Israel's unique political situation, the intense security presence and surveillance along Israel's borders generally make it difficult for smugglers to bring drugs into the country. Thus, Israel is not a significant transit country for drugs, although Israeli citizens have been part of international drug trafficking networks in source, transit and distribution countries. In 2006, the Second Lebanese War of July/August, and its aftermath, had an unintended effect on drug smuggling into Israel. The increased military presence along Israel's northern border with Lebanon and Syria caused would-be smugglers to modify the routes by which they attempted to

bring drugs into Israel. As security was tightened in the north, more drugs began infiltrating Israel across the relatively peaceful borders with Jordan and Egypt, where Israel has fewer security resources deployed.

In 2006, Israel continued to be more of a transit country than a distribution country for heroin, with heroin primarily flowing from Jordan through Israel en route to the Egyptian market. The Negev Bedouin tribes, using their knowledge of the desert terrain and their familial connections with Jordanian and Egyptian Bedouin, continued to facilitate most of the heroin trafficking across Israel. The Israeli Bedouin trade the heroin in Egypt for cash, Moroccan hashish and marijuana, for which there is a large Israeli market. 60 per cent of the hashish and 86 per cent of the marijuana seized by INP in 2006 was interdicted at the Egyptian border. This year also saw an increase in the amount of cocaine being smuggled across the Jordanian border. While most of the drugs were discovered at the Arava/Negev border-crossing terminal, a Palestinian group also attempted to bring both cocaine and heroin from Jordan across the Dead Sea in one-man boats.

The greatest change in the flow of cocaine into Israel during 2006 was the introduction of liquid cocaine from South America. Cocaine in solid form brought \$70 - \$100 per gram in Israel, and approximately \$70,000 per kg. The Netherlands remained the primary source of Ecstasy for the Israeli market, where it is sold for \$12 - \$20 per pill.

Domestic Programs/Demand Reduction. The Israel Anti-Drug Authority (IADA) is the primary agency responsible for designing and implementing domestic programs to reduce the demand for drugs. In 2006, IADA again addressed the phenomenon of young Israelis developing substance abuse problems while vacationing in India and Southeast Asia. It is commonplace for 20 to 21 year-old Israelis to spend between six months and a year backpacking across Asia or South America after completing compulsory military service. Thousands of young Israelis flock to tourist "colonies" in the Goa region of India for the beaches, the inexpensive cost of living, and the easily accessible and inexpensive drugs -- mostly marijuana and hashish. This year, IADA publicly warned Israeli backpackers of dangers associated with drug activity in India.

IV. U.S. Policy Initiatives and Programs

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

Road Ahead. The DEA regional office in Nicosia, Cyprus looks forward to continued cooperation and coordination with its counterparts in the Israeli law enforcement community. The INP is seeking to strengthen relationships between law enforcement agencies in other countries, and has established an office of International Relations within the IADA to pursue this objective. Israel began its final year of a four-year membership term on the Commission on Narcotic Drugs (CND) in January 2007.

V. Statistical Tables

Drug Seizures*

Cocaine (kg)

2006 - 42

2005 - 169**

2004 - 32.4

Heroin (kg)

2006 - 70.3

2005 - 140

2004 - 68.5

Marijuana (kg)

2006 - 5,032

2005 - 10,000

2004 - 16,020

Hashish (kg)

2006 - 898

2005 - 1,022

2004 - 913

LSD (blotters)

2006 - 11,476

2005 - 2,880

2004 - 75,741

MDMA (Ecstasy) (tablets)

2006 - 112,985

2005 - 266,996

2004 - 313,802

Opium (kg)

2006 - 0.1

2005 - 8.4

2004 - 0.05

Cathinone (kg)

2006 - 8.7

2005 - 7.2

2004 - N/A

*2006 data represents seizures from January through October.

Source of data: Israel National Police, Research Department.

**Of the 160kg of cocaine seized in 2005, 120kg were seized aboard one merchant ship in the port of Haifa. The INP determined that this cocaine was destined for Europe, and not the Israeli market.

Jordan

I. Summary

Due to its geographical location between drug producing countries to the north and east, and drug consuming countries to the south and west, Jordan is a transit country for illicit drugs. Jordanians do not consume significant quantities of illicit drugs, and according to the PSD (Public Security Directorate) there are no known production operations in the Kingdom. The PSD believes that the amount of drugs transiting through Jordan continues to grow. According to statistics for the first 11 months of 2006, however, total drug seizures for the year will be slightly below those for 2005. There was a dramatic decrease in the number of persons charged in drug-related cases. There was also a large decrease in the authorities' estimates of the number of drug abusers in Jordan. The PSD attributes these decreases to Jordan's enhanced rehabilitation programs, increased border interdiction operations, better intelligence gathering, and stronger cooperation between Jordan and neighboring countries. 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 increased again this year. Jordan is a party to the 1988 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 PSD's Anti-Narcotics Department 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 significant.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Due to usage of cannabis and heroin among people predominantly between the ages of 18 and 35, Jordan continues its drug awareness campaign focused at educating people of the dangers of drug use. Authorities continue to provide educational presentations in schools and universities throughout the country. The PSD Anti-Narcotics Department (AND) has created a program they call "Friends of the AND". This program sends volunteer civilians into the schools, universities, and other community centers to speak out against drug usage. Jordan has also reached out to all of the country's religious institutions requesting their assistance in combating drug abuse. Jordan publishes a number of brochures and other materials, including antinarcotics cartoons designed for younger children that are aimed at educating Jordan's youth about the dangers of using narcotics. Jordanian authorities also plan to make antidrug abuse movies directed at Jordanian youths next year. This year, the PSD published the first edition of its antinarcotics magazine, and launched a website in English and Arabic for drug abuse awareness and prevention (<http://www.ant-inarcotics.psd.gov.jo/English>). Jordan has agreed to provide advanced training to Palestinian anti-narcotics officers in association with the UNODC, and hopes that this will help promote even more cooperation.

Law Enforcement Efforts. Jordan's PSD maintains an active antinarcotics bureau, and maintains excellent relations with the U.S. DEA- Country Office based in Nicosia, Cyprus. In 2004, GOJ authorities began utilizing x-ray equipment on larger vehicles at its major border crossings between Syria and Iraq. This equipment has proven to be effective and has netted numerous drug seizures in 2005 and increased seizures in 2006 at the border crossings where the equipment has been utilized.

Seizures of captagon tablets are about the same as last year, but PSD claims not to have observed any wide-spread use of the drug in Jordan. The PSD reports that 85 percent of all seized illicit drugs coming into Jordan are bound for export to other countries in the region. Jordan's general drug traffic trends continue to include cannabis entering from Lebanon and more now from Iraq, heroin from Turkey entering through Syria on its way to Israel, and captagon tablets from Bulgaria and Turkey 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 (Karama/Trebil border crossing) have risen significantly again compared to last year. For the last three years, the PSD has continued to observe an increase in trafficking of hashish and opium from Afghanistan through Iraq into Jordan.

Jordanian Drug Seizures

CY	2003	2004	2005	2006 (Jan-Nov.)
Cannabis	4,133	1,931	1,485	739
Heroin	105	186	174	130
Cocaine	9	33	0.5	5
Opium	1	22	36	20
Captagon	2,528,618	9,774,002	11,158,083	8,805,824
Total Drug				
Cases	1,277	1,691	2,041	1,700
Number of				
Arrests	2,119	2,514	4,792	2,724
Number of				
Abusers	1,723	2,158	4,027	2,179

Corruption. Jordanian officials report no narcotics-related corruption or investigations into corruption for the reporting period. There is currently no evidence to suggest that senior level officials are involved in narcotics trafficking. As a matter of government policy, Jordan 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. Jordan is a party to the UN Convention against Corruption.

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 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. The U.S. considers the extradition treaty between the U.S. and Jordan to be in force. A 1997 Jordanian court ruling held that the treaty had not been properly approved by the Jordanian Parliament. The extradition treaty has not been submitted to Parliament for approval.

Cultivation and Production. There are no known production operations. Existing laws prohibit the cultivation and production of narcotics in Jordan and are effectively enforced.

Drug Flow/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 outside of the ports of entry difficult. None of the narcotics transiting Jordan are believed to be destined for the United States.

Domestic Programs/Demand Reduction. Jordan increased the scope of its programs on drug abuse awareness, education, and rehabilitation in 2006. Education programs target high school and college-aged kids. Jordan's antinarcotics cartoon program aimed at younger children designed to dissuade youngsters from trying drugs has continued to flourish. Cultural and religious norms help to control drug use. In conjunction with the UNODC, this year Jordan has again strengthened its treatment and rehabilitation services for drug abusers in the country. The national treatment and rehabilitation strategy and coordination mechanism has proven effective, and Jordan looks to continued successes in this strategy. The PSD reports that it has treated over 150 patients at its drug rehabilitation center. The PSD has plans to construct a new, larger rehabilitation facility that will accommodate more patients. PSD also noted that another highlight of the center's success is the number of patients the Government of Lebanon has sent to Jordan for rehabilitation. The PSD notes that this is another indicator of the strong levels of cooperation between the Governments of Lebanon and Jordan in their antinarcotics efforts. The Jordanian Drug Information Network (JorDIN) was officially established in 2005 with help from the UNODC. Jordan continues to develop the network that will serve as an information sharing device for all of Jordan's treatment providers and the GOJ authorities that deal with antinarcotics programs. The network hopes to provide accurate statistics of Jordan's drug abusers and success levels of treatment.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The DEA and the interagency Export Control and Related Border Security (EXBS) Program anticipate to providing Jordan with some additional equipment to help Jordan's Border security operations. There are several miles of Jordan's borders that are patrolled only by the PSD's Anti-Narcotics Department. The equipment would include sensitive technologies such as night vision devices, portable thermal imaging units, and all-terrain vehicles. Some of these technologies will require licensing agreements, but would be extremely beneficial to Jordan's antinarcotics programs. Other ongoing GOJ and USG efforts to strengthen border security measures following the Iraq-based terrorist attacks in Amman and Aqaba in 2005 have served to enhance Jordan's detection capabilities and to disrupt the flow of illegal drugs transiting through Jordan.

The Road Ahead. U.S. Officials expect continued strong cooperation with Jordanian officials in counternarcotics related issues.

Kenya

I. Summary

Kenya is a significant transit country for cocaine and heroin bound for Europe, and, increasingly, the United States. 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 that 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 quality in recent years. There is a growing domestic heroin and cocaine market and use of cannabis or marijuana is becoming more widespread, particularly on the coast and in Nairobi. Although government officials profess strong support for antinarcotics 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 only modestly increased over 2005. 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 believe that the United States is at least as significant as Europe as a destination for heroin transiting Kenya. Cannabis is produced in commercial quantities primarily for the domestic market (including use by some elements among the large number of tourists vacationing in Kenya). While it is believed that small quantities of cannabis may be bound for export, 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 2006

Policy Initiatives. Counternarcotics agencies, notably the Anti-Narcotics Unit (ANU) within the Kenyan Police Service, continue to depend on the 1994 Narcotic Drugs and Psychotropic Substances Act for enforcement authorities and interdiction guidelines. Revisions to the Narcotics Act on the seizure, analysis, and disposal of narcotic drugs and psychotropic substances drafted by the government of Kenya and the United Nations Office for Drugs and Crime (UNODC) in 2005 were implemented in March 2006. The National Agency for the Campaign Against Drug Abuse (NACADA), the quasi-governmental organization charged with combating drug abuse in Kenya, has recently undergone significant reform to its governing structures and mechanisms, including the appointment of a new director and the creation of a board of directors. These changes are widely viewed as improvements that will lead to enhanced efficacy in the pursuit of its mandate. NACADA is leading recent inter-agency efforts to develop a National Drug Control Strategy for Kenya.

In September 2006, the 16th meeting of the Heads of National Drug Law Enforcement Agencies (HONLEA) in Africa was held in Nairobi. The HONLEA meeting brought together heads of law enforcement agencies from across Africa with representatives of international drug law

enforcement agencies and UNODC experts. The heads shared information on illicit trafficking of cocaine in Africa, cannabis cultivation, and effective control of precursor chemicals. Although these countries meet annually to discuss relevant issues, it is unknown how effectively and enthusiastically they cooperate on a day-to-day basis.

Kenya has no crop substitution or alternative development initiatives for progressive elimination of the cultivation of narcotics. The ANU remains the focus of Kenyan antinarcotics efforts.

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. Airport profiling has yielded good results in arrests for couriers but not major traffickers. Seaport profiling has proven difficult. Despite the official estimate that a significant portion of the narcotics trafficked through Kenya originates on international sea vessels, ANU maritime interdiction capabilities remain virtually nonexistent. Personnel turnover at the ports is high and Kenya currently has limited maritime interdiction capability.

Corruption continues to thwart the success of long-term port security training. Lack of resources, a problem throughout the Kenyan police force, significantly reduces the ANU's operational effectiveness.

Law Enforcement Efforts. Seizures of heroin and cannabis (and its derivatives) continued to decline from 2005 levels, while seizures of cocaine increased over 2005. Kenya seized almost 17 kg of heroin in 2006, a 14 kg decrease from the quantities seized in 2005 (all statistics on drug seizures in this section reflect the period from January to September 2006 as provided by the ANU), and arrested 76 people on heroin-related charges. The ANU concentrates its antiheroin operations at Kenya's two main international airports. There was a sharp decrease in cannabis seizures for 2006. Kenyan authorities seized 5,144 kg of cannabis and its derivatives in 2006 and arrested 2,584 suspects, down from 50,844 kg seized in 2005. The ANU was unable to provide information on cannabis crop cultivation and eradication efforts in 2006 in time for inclusion in this report. 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 increased. Kenya seized 23 kg of cocaine in 2006 and made 6 arrests, compared to 10 kg seized in 2005. Despite the high profile December 2004 record seizure of 1.1 tons of cocaine, Kenya has to date only achieved one successful prosecution related to the case. All but one of the seven defendants accused of trafficking the one-ton plus cocaine shipment seized in Malindi in 2004 were acquitted due to lack of evidence. One defendant, brother to another suspect held by Dutch authorities in connection to the case, was found guilty of drug trafficking in June and sentenced to thirty years imprisonment and fined approximately \$274,000,000. He is the only suspect to be convicted in connection with the seized drugs. It is generally agreed that "smaller fish" were arrested in connection with the case, while the principal culprits responsible for trafficking the cocaine to Kenya remain at large. With the assistance of U.S., U.K., and UNODC experts, Kenya finally tested and destroyed the one-ton cocaine seizure in March 2006. Tests results allayed concerns that the integrity of the one-ton cocaine seizure had been compromised.

Corruption. 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 failure to achieve significant success in the disruption of drug traffickers' networks through arrest and prosecution of those responsible for trafficking the one-ton of cocaine raises questions about the ability or willingness of legal and law enforcement authorities to combat drug trafficking. As in previous years, airport and airline collusion and outright involvement with narcotics traffickers continued to occur in the year covered by this report.

Agreements and Treaties. Kenya is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The 1931 U.S.-U.K. Extradition Treaty remains in force between the United States and Kenya through a 1965 exchange of notes. Kenya is a party to the UN Corruption Convention and to the UN Convention Against Transnational Organized Crime and its three protocols.

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. Officials continue to conduct aerial surveys to identify significant cannabis-producing areas in cooperation with the Kenya Wildlife Service. However, according to ANU officials, farmers are increasingly savvy about how to shield their crops from aerial detection and difficult terrain hampers eradication efforts. The ANU was unable to provide statistics on the success of their crop eradication efforts in time for inclusion in this report.

Drug Flow/Transit. Kenya is strategically located along a major transit route between Southwest Asian producers of heroin and markets in Europe and North America. Heroin normally transits Kenya by air, carried by individual couriers. A string of cocaine and heroin seizures at Jomo Kenyatta International Airport (JKIA) in spring 2006 (most from flights originating in West Africa) highlights the continuing drug trafficking problem in Kenya. While the arrests of drug "mules" may alert trafficking syndicates that enhanced profiling measures and counternarcotics efforts make JKIA an increasingly inconvenient entry/exit point for drugs, the arrests have achieved little in the way of assisting authorities to identify the individuals behind the drug trafficking networks. ANU officials continued to intercept couriers transiting land routes from Uganda and Tanzania, where it is believed the drugs arrive via air routes. 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. Officials have never identified any clandestine airstrips in Kenya used for drug deliveries and believe that no such airstrips exist.

Domestic Programs/Demand Reduction. The NACADA continues to combat drug abuse, although the quasi-governmental organization's budget remains negligible. Recognizing the dearth of reliable statistics on drug abuse in Kenyan, NACADA is developing plans to conduct a comprehensive survey of the problem in 2007. Kenya continues to make 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. 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 antidrug education into the

schools. NACADA continues to pursue demand reduction efforts via national public education programs on drug abuse. In 2006, NACADA provided e-training on drug awareness to school teachers throughout Kenya. Churches, mosques, and non-governmental organizations provide limited rehabilitation and treatment programs for heroin addicts and solvent-addicted street children. With the support of USAID, the Ministry of Health has developed two rehabilitation and drug abuse treatment facilities in Nairobi and Mombasa.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The principal U.S. antinarcotics 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 U.S. seeks to accomplish this objective through law enforcement cooperation, the encouragement of a strong Kenyan government commitment to narcotics interdiction, and strengthening Kenyan antinarcotics and overall judicial capabilities.

Bilateral Cooperation and Accomplishments. There was a modest expansion of USG bilateral cooperation with Kenya and surrounding countries on antinarcotics matters in 2006. The recent donation by ATA to the government of Kenya (GOK) of four boats (coupled with training) will enable GOK multi-agency shallow water patrols along Kenya's coastline, which should significantly improve the capacity of the GOK to patrol and secure Kenya's coastal waters and assist drug interdiction efforts on the coast. ATA is also assisting with building Kenya's capacity to patrol points of entry to and in the Port of Mombasa by providing training, refurbishing existing patrol boats, and providing two small new boats. USAID provides support to projects to develop addiction treatment services to heroin addicts in Nairobi and on the Kenyan coast. Additionally, a DOD-funded drug abuse awareness campaign raised public awareness of the growing rates of drug addiction in the coastal region.

The Road Ahead. The USG will continue to take advantage of its good relations with Kenyan law enforcement on enhancing its operational capacity, and information sharing. USG will actively seek ways to maximize antinarcotics 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. The USG will also continue to expand our public awareness outreach to assist demand reduction efforts in Kenya.

Lebanon

I. Summary

Lebanon is not a major illicit drug producing or drug-transit country; however, a history of opium cultivation and a central location make Lebanon a country that could revert to a more important role in illicit drug trafficking. Lebanon was once the world's leading cannabis resin (hashish) supplier, but continual eradication efforts have had a significant impact on that illicit industry. Serious actions by the Lebanese government have helped to prevent cannabis cultivation and to eradicate illicit crops before harvest in the Bekaa Valley. It appears that similar crop destruction operations will continue to be routine operations; however, illicit crop cultivation is likely to continue as an option for local farmers due to an increasingly difficult economic climate and a lack of investment in alternative crops.

There is no significant illicit drug refining in Lebanon, and any known production, trading, or transit of precursor chemicals. Drug trafficking across the Lebanese-Syrian border has diminished substantially as a result of cross-border efforts to deter drug smuggling activity, and the withdrawal of the Syrian Army from Lebanon. While the Syrian Army occupied Lebanon, there were regular reports that certain officers facilitated drug trafficking in the Bekka Valley. The Lebanese government continued its ongoing drug education 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 Lebanese government has increased its interest in fighting synthetic drugs, as the problem has grown in scope. Lebanon is not a major transit country for illicit drugs, and although a few major drug networks exist, most trafficking is done by less sophisticated dealers. Opium and cannabis derivatives are trafficked in small amounts in the region, but there is no evidence that the illicit narcotics that transit Lebanon reach the U.S. in significant amounts. Traffickers smuggle South American cocaine into Lebanon primarily via sea and air routes from Europe, Jordan, and Syria, or directly to Lebanon in operations that are often financed by Lebanese nationals living in South America who work with resident Lebanese traffickers. Synthetics are smuggled into Lebanon primarily for sale to high-income recreational users.

The slow economic growth in rural Lebanon and the lack of investment in alternative crops continues to make cultivation of illicit crops attractive to local farmers in the Bekaa Valley in eastern Lebanon. However, due to ongoing efforts by the government to eradicate illicit crops, a return to wide scale illicit cultivation is unlikely at the present time. The government also continues a counternarcotics public information campaign to discourage new planting.

There is no significant illicit drug refining in Lebanon. Such activity has essentially disappeared due to the attention paid to suppression by the Lebanese government. Nonetheless, small amounts of precursor chemicals shipped from Lebanon to Turkey via Syria, have been diverted recently 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 2006

Policy Initiatives. The Ministry of Interior again made counternarcotics a top priority. The government also continued its vigorous campaign to discourage drug use by expanding public awareness through media campaigns, written advertising and activities on university campuses.

Accomplishments. Lebanese law enforcement officers cooperated with law enforcement officials bilaterally and through Interpol on drug law enforcement. Lebanese law enforcement officers also maintain excellent relations with the U.S. Drug Enforcement Administration, Nicosia Country Office based in Cyprus. Several European and Persian Gulf countries have illicit drug enforcement offices in Beirut with which local law enforcement authorities cooperate. UNODC has provided the Government of Lebanon with 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. UNODC reported authorities seized over 900 kg of cannabis herb and resin, and significantly lesser quantities of other illicit drugs in the first nine months of 2006.

Corruption. Corruption remains a problem in Lebanon throughout the government and even up to senior levels. The U.S. is unaware that government corruption is connected with drug production or trafficking, or that corrupt government officials protect drug traffickers. As a matter of government policy, the GOM 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. While low-level corruption in the counternarcotics forces is possible, there is no evidence of wide-scale corruption within the Judiciary Police or the Internal Security Forces (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. The threat of eradication appears to be impacting farmers’ decisions not to cultivate 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. As a result, Lebanon is not believed to be a significant drug producing country, although the danger of some illicit cultivation is always present as promised alternative livelihoods for farmers engaged in illicit cultivation in the past have not been developed as promised.

Drug Flow/Transit. Narcotics trafficking through traditional smuggling routes has been curtailed by joint Lebanese-Syrian operations along their common border. Likewise, illicit drug trafficking along the Israel-Lebanon frontier has been insignificant since the Israeli withdrawal from Lebanon in May 2000 and the subsequent fighting with Hezbollah in Southern Lebanon. The primary route for smuggling hashish from Lebanon is 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 airport control and off shore patrols. The ISF has asserted that Lebanese hashish is not smuggled into the United States, which is consistent with U.S. information.

Domestic Programs (Demand Reduction). Lebanese leaders understand that they need to address the problem of illicit drug use in Lebanon. In 2002, the government launched a public awareness campaign to discourage drug use, which continues today, and textbooks approved for use in all public schools contain a chapter on narcotics to increase public awareness. Lebanon's current drug law requires that a National Council on Drugs (NCD) be established. The NCD's services and activities will include substance abuse prevention, awareness, treatment, and assistance to substance abusers and their families, in addition to developing and implementing a national action plan to counter drug abuse. 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, provides budgetary support to ON. 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. ON's client base under 24 years of age has increased more than ten-fold since 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 MDMA (Ecstasy) and methamphetamine is on the rise. 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 ward, which was funded by USAID and can accommodate up to 15 patients, was built in one of the men's centers and became operational in 2005. ON offers no outpatient drug withdrawal programs. ON also engages in drug prevention activities such as promoting drug awareness among the population through advertisements and education programs, as well as distributing educational materials on college campuses. The organization also has a center for statistical studies and a research office.

Another drug rehabilitation center for men operates in Zahleh in the Bekaa Valley in coordination with the Ministry of Health and Saint Charles Hospital. The center has the capacity to accommodate up to 16 patients, and the 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 recently in downtown Beirut. 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.

IV. U.S. Policy Initiatives and Programs

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 Bekaa Valley that would provide

impoverished residents with alternate sources of income. The USG has 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 annual net income of \$900 per hectare. USAID also helped increase the treatment capacity of one of Oum el Nour's rehabilitation centers (see above on Domestic Programs). In 2003, the State 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 treatment capacity at Oum el Nour centers.

The Road Ahead. The success of measures to combat narcotics trafficking and illicit cultivation depends largely on the will of the Government of Lebanon. Since the withdrawal of Syrian forces, the Lebanese government has renewed access to areas inside Lebanon where historically cultivation has been centered. However, Lebanon has not developed a successful socio-economic strategy to properly address the problem of crop substitution. The United States will continue to press the Government of Lebanon to maintain its commitment to combating narcotics production and transit and implementing anticorruption policies.

Morocco

I. Summary

Morocco achieved significant reductions in cannabis production and cultivation, although it remains one of the world's major producers and exporters of cannabis. According to the Agency for the Promotion of Economic and Social Development of the Northern Prefectures and Provinces of the Kingdom of Morocco (APDN), Morocco produced an estimated 53,400 metric tons (MT) of cannabis in 2005, representing a significant decrease from 2004 when it produced 98,000 MT. According to the combined study on cannabis conducted by the United Nations Office on Drugs and Crime (UNODC) and the APDN, Morocco's gross cannabis production in 2005 provided for potential cannabis resin (hashish) production of 1,067 MT. According to the UNODC report, in 2005, Morocco succeeded in decreasing its land dedicated to cannabis cultivation to 72,500 hectares, down from 120,500 hectares in 2004, a decrease of 40 percent, due in part to an aggressive Government of Morocco (GOM) eradication campaign. 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. Available information continues to indicate that Moroccan cannabis does not significantly impact the United States. Morocco is a party to the 1988 UN Drug Convention.

In 2006, the GOM in addition to its efforts against production, acted against drug-related corruption. In September, a GOM investigation into the network of a major drug baron arrested in the north resulted in the arrest of more than a dozen high-ranking government, judicial, military, and law enforcement officials linked to narcotics-related corruption.

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 2005 UNODC report, the illicit trade in Moroccan cannabis resin generates approximately \$13 billion a year in total revenues, but Morocco retains only a small share (approximately \$325 million) of total revenue from 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. EU law enforcement officials report that Moroccan cannabis is typically processed into cannabis resin or oil and exported predominately to Europe, as well as 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 continues to be a small but growing domestic market for harder drugs like heroin and cocaine, cannabis remains the most widely used illicit drug in Morocco. There is no substantial evidence of widespread trafficking in heroin or cocaine, but 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 2006

Policy Initiatives. The GOM's partnership with UNODC in conducting cannabis surveys the past three years (2003-2005) reflects Morocco's growing desire to compile accurate data on narcotics

production and address its narcotics problem. In 2004, Morocco launched an awareness campaign for cannabis growers alerting them to the adverse effects of cannabis cultivation for the land and informing them of alternatives 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, a cannabis producing province, as the site for the construction of the National Institute of Medicinal and Aromatic Plants (INPMA).

Law Enforcement Efforts. According to government statistics, Morocco in 2005 seized 116 tons of cannabis, down from the previous year's total of 318 MT. Seizures, however, were up for cocaine, heroin, and psychoactive drugs during the same period.

Since 1995, the GOM reports it has deployed up to 10,000 police personnel into the North and Rif mountains to interdict drug shipments and to maintain antinarcotics checkpoints, rotating personnel approximately every six months. 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. Morocco and France agreed in 2004 to reinforce bilateral counternarcotics cooperation by deploying liaison officers to Tangiers and Paris. According to both Moroccan and French police sources, controlled deliveries of drugs have proven to be a very successful interdiction technique as a result of that joint initiative.

The GOM in 2005 destroyed more than 7,000 ha of cannabis, primarily in Larache and Taounate Provinces. As part of its 2006 eradication campaign, which targeted more than 15,000 ha, the GOM claims to have completely eliminated cannabis production in Larache province. 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 to fifteen years' imprisonment remains the typical sentence for major drug traffickers convicted in Morocco. In 2004 (latest figures available), Morocco claims to have arrested 22,526 Moroccan nationals and 356 foreigners in connection with drug-related offenses.

Corruption. As a matter of government policy, the GOM does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. In September, a GOM investigation into the network of a major drug baron resulted in the arrest of more than a dozen high-ranking government, judicial, military, and law enforcement officials linked to narcotics-related corruption, including a senior security official and former chief of police in Tangiers. This investigation, as part of a larger government effort to combat corruption, led to further high-level shake ups in the law enforcement community, as well as the detention of other alleged drug traffickers. Although this investigation continues, the trials of some of the arrested individuals are moving forward. 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. Morocco and the United States cooperate in law enforcement matters under an MLAT.

Cultivation/Production. The center of cannabis production continues to be the province of Chefchaouen, where 56 percent of Morocco's cannabis is cultivated. Production, however, has expanded north in the last two decades to the outskirts of Tangiers and east toward Al Hoceima. According to a special 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 2005 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. An UNODC report warned that this agricultural monoculture represents an extreme danger to the ecosystem due to the extensive use of fertilizers. Moreover, forest removal continues to be the method 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 of illicit cannabis bound for Spain travel via fishing vessels or private yachts. Smaller “zodiac” speedboats, which can make roundtrips to Spain in one hour, are also reportedly being used to transport drugs. Drug shipments of up to two tons have been seized on these boats. 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 (54 percent of global seizures in 2004). 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. Due to the Schengen zone, once contraband reaches Spain it can normally pass to most of Western Europe, without fear of regular inspections.

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 antidrug use 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 antimoney-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 narcotics 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 U.S. 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 narcotics officials and by U.S. officials to Morocco. In September 2005, the U.S. Coast Guard sent a Mobile Training Team to provide training in maritime law enforcement boarding procedures.

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, and heroin consumed primarily in Europe, for mandrax (methaqualone) consumed primarily in South Africa.” Some illicit drug shipments passing through Mozambique may also find their way to the United States and Canada. Drug production mostly is limited to herbal cannabis cultivation and a few mandrax laboratories. Evidence suggests significant use of herbal cannabis and limited consumption of “club drugs” (Ecstasy/MDMA), prescription medicines, and heroin by the country's urban population. While the Mozambican government recognizes drug use and drug trafficking as serious issues, the country's porous borders, very poorly policed seacoast, and inadequately trained and equipped law enforcement agencies compound these problems. The United States, 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 in 2005 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, Sofala, and Cabo Delgado provinces. Limited amounts are trafficked to neighboring countries, primarily South Africa. There are indications that small quantities of a low quality Ecstasy are manufactured in southern Africa, with Mozambique as a possible producer. During the year, Mozambican authorities continued to raid mandrax facilities and seize production equipment. Mozambique's role as a drug-transit country and a favored point of disembarkation in Africa continues to grow, mostly because of general negligence with respect to airport and border security control mechanisms. 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 usually originate in Southeast Asia and typically transit India, Pakistan, the United Arab Emirates, and later Tanzania, before arriving by small ship or, occasionally, overland to Mozambique. Many traffickers are of Tanzanian or Pakistani origin. Increasing amounts of cocaine from Colombia and Brazil are sent with couriers on international flights from Brazil to Mozambique, sometimes via Lisbon, before being transported overland to South Africa. In the past, drug traffickers recruited young women in Maputo to work as couriers to and from Brazil, but because of growing suspicion concerning female passengers on these flights, traffickers are now also using men. Mozambique is not a producer of precursor chemicals.

Mozambique has seen growing abuse of heroin among all levels of urban populations. The abuse of mandrax, which is usually smoked in combination with cannabis, continues to be a matter of concern for countries in southern Africa. Shipments of mandrax continue to enter South Africa from India and China, sometimes after passing through Mozambique. The 2005 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 2006

Policy Initiatives. Mozambique's accomplishments in meeting its goals under the 1998 UN Drug Convention remain limited. Government resources devoted to the counternarcotics effort are meager, and only limited donor funds are available. The Mozambican government carries out drug education programs in local schools in cooperation with bilateral and multilateral donors as part of its demand reduction efforts.

Law Enforcement Efforts. Mozambique's antidrug brigade operates in Maputo and reports to the Chief of the Criminal Investigation Police in the Ministry of Interior. The brigade has few resources at its disposal. In 2003 UNODC donated vehicles, night vision binoculars, and drug detection equipment to the brigade, but most of this equipment is in need of repair. The brigade has not received training for several years. With assistance from UNODC, 24 customs officials at the ports of Beira and Nacala received training in 2006. Since July 2005, a 57-person specialized police unit designed to strengthen efforts to fight organized crime, including narcotics trafficking, has operated at airports in provincial capitals. In September 2006, Mozambican and Brazilian authorities signed a memorandum of understanding on principles, in preparation for an eventual extradition agreement for those convicted of trafficking drugs between the two countries. Mozambican authorities seized 4,500 kg of marijuana in Mozambique in 2005. As interdiction efforts improve at the Maputo airport, traffickers have used alternate airports, including those of Beira, Nampula, Quelimane and Vilankulos. Publicized seizures in 2006 include:

- The May seizure of one ton of hashish hidden in juice containers in a shipment arriving at Maputo port from Jamaica
- The May arrest of two Kenyan nationals at Maputo airport in possession of 100 capsules of cocaine.
- The June seizure of 99 capsules of cocaine carried by a Peruvian women arriving at Maputo airport from Brazil.
- The September arrest of a South African citizen arriving from Lisbon (whose flight originated in Suriname) with at least 70 capsules of cocaine in his stomach.
- The October destruction of 33 kg of cocaine, most of which had been seized at Maputo airport from drug traffickers arriving from Brazil via Lisbon.

Maputo police arrested 23 people (13 women and 10 men) in connection with cocaine trafficking in the first nine months of 2006. Some of the arrested received sentences of between 6 and 16 years. On several occasions during the year, Mozambican authorities highlighted a general lack of resources for destroying seized drugs, particularly hashish, cannabis, and 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 seized in 2000 began in February. On December 30, a court in Inhambane Province sentenced the four police officers to prison terms ranging from 16 to 19 years and ordered the confiscation of goods acquired

with money resulting from the sales. As official policy, Mozambique seeks to enforce its laws against narcotics trafficking, but as noted above, confronts difficulties in doing so 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. On September 20, 2006, Mozambique deposited at the UN its instrument of ratification on the UN Convention against Transnational Organized Crime. Mozambique has signed, but not yet ratified the UN Convention Against Corruption.

Cultivation/Production. Cannabis is cultivated primarily in Tete, Sofala, and Cabo Delgado provinces. Intercropping is the most common method of production. The Mozambican government has no reliable estimates of crop size. Authorities have made efforts in 2006 to eradicate cannabis crops through controlled burns.

Drug Flow/Transit. Assessments of drugs transiting Mozambique are based upon limited seizure data and the 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 to South Africa. 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 drug couriers trafficked cocaine from Colombia and Brazil to Mozambique, often through Lisbon, for onward shipment to South Africa. In addition, Nigerian and Tanzanian cocaine traffickers have targeted Mozambique as a gateway to the South African and European markets.

Domestic Program/Demand Reduction. The primary substances of abuse are alcohol, nicotine, and herbal cannabis. The Mozambican Office for the Prevention and Fight Against Drugs (GCPCD) reported in 2006 that there was also significant use of heroin, cocaine, and psychotropic “club drugs,” such as Ecstasy and mandrax, across Mozambique's urban population. GCPCD coordinates a drug prevention and 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. GCPCD has received some support from bilateral donors for community policing and demand reduction. Drug abuse and treatment options remain limited; according to the GCPCD, the main hospitals in Maputo and Beira, respectively, provide drug treatment assistance in partnership with a local NGO.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States continues to sponsor Mozambican law enforcement officials and prosecutors to attend regional training programs at the International Law Enforcement Academy (ILEA) for Africa in Botswana. Law enforcement officials have also received training at ILEA in New Mexico. The United States has supported the police sciences academy near Maputo, through training and technical assistance in the areas of drug identification and investigation, as well as other areas of criminal sciences. The assistance included construction of a forensic laboratory. Technical assistance programs at the police academy focus on methods to foster better

relations between the community and the police. Among other topics, courses provided by technical specialists include courses on drug interdiction. In 2006 the United States delivered 50 special purpose bicycles and trained bicycle patrol police for a pilot community policing program. USAID provides training support to the Attorney General's Central Office for the Combat of Corruption (GCCC), formerly the anticorruption unit.

The Road Ahead. U.S. assistance in support of the GCCC will continue in 2007, with plans to place a short-term regional legal advisor at the unit for a period of six months through the Department of Justice Overseas Prosecutorial Development Assistance and Training program. Additionally, plans are underway to improve Mozambique's border security capabilities. A Department of Homeland Security border assessment team visited Mozambique in October. This assessment visit is expected to be followed by the provision of mainly communication equipment, along with technical training, to boost Mozambican border control capabilities. Also, the U.S. military has provided shallow draft vessels for limited coastal security work. The GOM needs to continue its focus on the corrosive effects of corruption to assure continuing progress in its narcotics control efforts.

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 2006 showed a marked decrease compared to previous years' figures, with approximately \$220,000 worth of drugs (mostly marijuana and Mandrax (methaqualone), along with smaller amounts of cocaine and Ecstasy) seized between April 2005 and March 2006. 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 yet 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 2006.

III. Country Actions Against Drugs in 2006

Policy Initiatives. Namibia has requested United Nations (UNODC) assistance in completing a National Drug Master Plan, which is still being formulated. While Namibia has not said precisely when it will 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. The Combating of the Abuse of Drugs Bill was recently tabled in Parliament. If passed, it will ban the consumption, trafficking, sale and possession of dangerous, undesirable and dependence-inducing substances. Namibia is also a signatory to the International Convention for the Suppression of the Financing of Terrorism. 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 (SARPCCO). The Minister of Safety and Security and working level officials meet regularly with counterparts from neighboring countries, during which efforts to combat cross border contraband shipments (including narcotics trafficking) are discussed. In late 2006, Namibian Police arrested a man in Namibia after he and his wife allegedly attempted to smuggle cocaine in their stomachs via a flight from Brazil. The wife died of an overdose in the attempt.

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, it is a party to the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN

Convention on Psychotropic Substances. Namibia 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 or from Latin America for illicit purposes

The current maritime security posture does not allow the Namibian police, naval, and port authorities to monitor maritime activities outside the 5 km outer anchorage area of Namibia's major ports in Walvis Bay and Luderitz. It has been reported that drug traffickers have been able to exploit this weakness by using small crafts to meet larger vessels outside these controlled areas. The Namibian Navy is chartered with the responsibility to assist the police and customs officials with better patrolling of Namibia's Exclusive Economic Zones (EEZs) and expects to have a mission capable fleet starting mid-2008.

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). There is also increasing evidence of the problem of cocaine use in Namibia.

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. Representatives of several law enforcement agencies (Customs and Border Protection, Immigration and Customs Enforcement, Prison Service) and prosecutors have participated in ILEA training. The Namibian Police took part in USG-funded training for the first time in 2006. The 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 a September 2004 alien smuggling investigation.

The Road Ahead. The USG will coordinate with the newly formed Anti-Corruption Commission to allow them 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 and Europe in amounts sufficient to generate serious concern. In addition to being a transit hub for narcotics moving abroad, Nigeria also produces marijuana/cannabis, which is trafficked to 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 and growing in many cities throughout Nigeria.

Despite the improved performance of the National Drug Law Enforcement Agency (NDLEA) following the November 2005 appointment of Chairman Ahmadu Giade, government efforts to stop the transshipment of illicit drugs through Nigeria to other countries remain inadequate. At U.S. Government urging Giade established "Special" Commands at Kano and Port Harcourt airports and the Ministry of Aviation renovated and upgraded NDLEA facilities at Nnamdi Azikiwe International Airport, Abuja. After six years with one arrest at Kano Airport, the new command made 8 arrests in the first 6 months of 2006 and achieved 6 convictions. The NDLEA demonstrated significant progress in drug interdiction, especially at the airports, and Giade reinstated the Joint Task Force to work with the U.S. and other drug liaison officers, which his predecessor had disbanded. The National Drug Law Enforcement Agency (NDLEA) lacks adequate resources to handle even its most basic priorities. Staffing and support are uneven throughout the country. The agency currently lacks major equipment important to implement its mandate, such as functioning x-ray machines at the international airports and motors for the Lagos seaport unit's boats. In addition, most commands have insufficient motor vehicles and communications equipment. Many lack weapons and restraints such as handcuffs and/or flex-ties. The U.S. Government donated narcotics-detecting ion scanners located at three airports. However, when U.S.-donated consumable supplies for the machines were expended, the NDLEA did not purchase additional materials to allow for continued use of the ion scanners. The ion scanners have been idle for about two years. The Lagos airport command does continue to maintain and use the U.S. Government-donated x-ray machine, however, the machine is cumbersome to operate and only marginally effective. There is no indication that NDLEA utilizes narcotics sniffing dogs donated by the government of South Africa. Despite erratic performance, there have been some successes in drug interdiction, mostly at the airports. There have been credible allegations of drug-related corruption at NDLEA and several senior officials were suspended in 2006 pending investigation by the Economic and Financial Crimes Commission (EFCC). Nigeria is party to the 1988 UN Drug Convention.

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, including the Customs Department, Immigration Department, and the Nigeria Police Force (NPF), are also involved in narcotics law enforcement. Heroin and cocaine dominate seizures at the Murtala

Mohamed International Airport in Lagos, and other ports of entry to Nigeria. All arrests at Kano airport have involved cocaine destined for the Netherlands. Sale and local consumption of marijuana is on the increase. The rise in marijuana use domestically in Nigeria is evinced by the increased quantities seized, the number and size of illicit plots discovered and destroyed, and numbers of arrests made.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In addition to establishing the special commands at Kano and Port Harcourt airports, Chairman Giade effected a wholesale reassignment of senior NDLEA officers throughout the country. He also reinstated the Joint Task Force to work with the U.S. and other drug liaison officers which his predecessor had disbanded. The NDLEA has also proposed a new salary structure for the agency to improve performance and staff morale, but has provided no details.

Law Enforcement Efforts. In 2006, the NDLEA demonstrated significant progress in drug interdiction although it did not develop new policies aimed at eradicating illicit narcotics trafficking. In 2006 the NDLEA and DEA conducted several international operations. One such operation resulted in the seizure of 51 kg of heroin, which was shipped from Pakistan through Dubai, and then to Nigeria. The NDLEA also conducted international operations with UK officials in 2006. For the first time in five years the NDLEA, with DEA assistance, targeted and arrested two major drug kingpins who are presently being tried for drug trafficking and related money laundering offenses. The two kingpins are allegedly responsible for substantial quantities of heroin and cocaine transiting Nigeria to the U.S. and Europe. One of the kingpins is believed to be responsible for at least three drug-related murders on Lagos Island.

Corruption. Corruption is entrenched in Nigerian society, and remains a significant barrier to effective narcotics enforcement. To combat corruption 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 prosecuted any narcotics-related cases. Similarly, no narcotics-related cases have been prosecuted under the Money Laundering Act of 2004.

Although the NDLEA has excellent relations with the EFCC, relationships with the Independent and 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. There appears little appreciation for the interdisciplinary requirements of Nigeria's counternarcotics efforts at the highest levels of the Nigerian government and this failure to cooperate weakens those efforts at all levels.

To date, no senior government official has been arrested in connection with drug trafficking. 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 allegations of government officials using their positions 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 a certain level of corruption might be paid to protect those senior level traffickers. The NDLEA lacks adequate in-house mechanisms, such as an internal affairs section, to investigate corruption within the agency. As a result, Chairman Giade refers narcotics-related corruption cases to the EFCC for investigation in an effort to show transparency. 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 that arrange for large-scale movements of cocaine and heroin, but there have been no cases, which have proved this thesis.

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, Delta and Edo 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 South America. Interdictions are mainly at the Murtala Mohamed International Airport in Lagos, which has a U.S. Government – provided digital X-ray machine. The NDLEA also has sniffer dogs provided by the South African government, but they are seldom used. Port Harcourt Airport, normally operating more than eight international flights per week, is being utilized as a new smuggling route. Seaports are believed to be a significant point for drugs to enter and exit Nigeria, but, except in Lagos, 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. There are credible reports that many convicted for narcotics offenses never return after their trials to serve time in jail, but simply disappear back into the community. 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. Drug treatment is generally not available.

IV. U.S. Policy Initiatives and Programs

In 2006, the 2002 Letter of Agreement signed between the U.S. and Nigerian Governments for narcotics-related grant assistance was amended for the seventh time. The amendment provided financial assistance in the amount of \$550,000 to the NDLEA, EFCC, ICPC and NPF. Subsequently, an additional \$1,500,000 has been provided for counternarcotics. Personnel from all four agencies and Customs and Immigration also benefited from training at the ILEA in Botswana and/or the United States.

Bilateral Accomplishments. The controlled delivery operations and arrests mentioned above are significant accomplishments. In addition, in 2006 the NDLEA and DEA attended the annual International Drug Enforcement Conference (IDEC) in Canada. During the IDEC the NDLEA and DEA Lagos identified a Nigeria and U.S.-based major international heroin trafficking organization for dismantling.

The NDLEA Training Academy, established in 1993 and now located in Jos, sponsors 4, 6 and 9-month training sessions for up to 140 cadets. On occasion, the NDLEA Academy has hosted UN-sponsored training for other countries at the Academy. The U.S. Government has also provided assistance to the academy in the past, including two State Department counternarcotics assistance (INL)-funded training courses conducted by DEA: a one week airport interdiction seminar (20 students) and a two week regional basic interdiction course (30 students) in 2006.

There have been problems with some U.S. assistance equipment donated to Nigeria: 60 VHF radios and 2 Base stations donated through an INL assistance program to the National Police in August 2001 and unaccounted for in 2005 end-use monitoring remained missing in 2006. Ion scanners donated to the NDLEA and located at the Lagos, Abuja, and Kano airports were not used in 2006 due to the lack of consumables, although they reportedly remain in excellent working condition. The INL-provided x-ray machine at the Lagos airport remains in use but is only marginally effective as it was designed for medical application, not airport use. In addition, hand held radios were provided to the Kano airport command and two vehicles were restored to service. INL also provided evidence safes to NDLEA headquarters and Kano airport. INL, in close consultation with the U.S. Embassy in Abuja, is considering remedies to many of the equipment problems set out above.

The Road Ahead. The new leadership at NDLEA is making strides to combat institutionalized corruption that hinders effective counternarcotics enforcement. However, until the corruption situation at NDLEA, and in other enforcement agencies is seriously addressed by the Government of Nigeria, narcotics trafficking will continue to increase. The failure of the GON to support and adequately fund counternarcotics efforts has been a major disappointment. It remains crucial that the NDLEA make progress against high-level narcotics traffickers, lest the trafficking situation in Nigeria and all of West Africa drift completely out of control. Unless Chairman Giade gets and appropriately uses the resources, cooperation and support he needs, 2007 is likely to be more disappointing than 2006.

Saudi Arabia

I. Summary

Saudi Arabia has no appreciable drug production and is not a significant transit country. Saudi Arabia's conservative cultural and religious norms discourage drug abuse. The Saudi Government places a high priority on combating narcotics abuse and trafficking. Since 1988, the Government has imposed the death penalty for drug smuggling. Drug abuse and trafficking do not pose major social or law enforcement problems; however, Saudi officials acknowledge that illegal drug consumption and trafficking are on the rise. This rise has caused increased arrests and governmental suppression efforts over the past year. Saudi and U.S. counternarcotics officials maintain good relations. Saudi Arabia is a party to the 1988 UN Drug Convention.

II. Status of Country

Saudi Arabia has no significant drug production, and in keeping with its conservative religious values and 1988 UN Drug Convention obligations, it places a high priority on fighting narcotics abuse and trafficking. Narcotics-related crimes are punished harshly, and narcotics trafficking is a capital offense enforced against Saudis and foreigners alike. During 2006, approximately 20 executions for narcotics-related offenses were reported in the Saudi media. Saudi Arabia maintains a network of overseas drug enforcement liaison offices and state-of-the-art detection and training programs to combat trafficking. While Saudi officials are determined in their counter narcotics efforts, drug trafficking and abuse is a growing problem. Since the Saudi government provides no statistics on drug consumption, interdiction, or trafficking, it is difficult to substantiate this assessment with hard data. Newspaper reports indicated that there are approximately 150,000 drug addicts and users in the Kingdom. However, anecdotal evidence suggests that Saudi Arabia's relatively affluent population, large numbers of idle youth and high profit margins on smuggled narcotics make the country an attractive target for drug traffickers and dealers.

The Saudi Government undertakes widespread counternarcotics educational campaigns in the media, health institutes, and schools. The government also blocks internet sites that it deems to promote drug abuse. Government efforts to treat drug abuse are aimed solely at Saudi nationals, who are remanded to one of the nation's four drug treatment centers in Riyadh, Jeddah, Dammam and Qassim. Al-Amal hospital in Riyadh has an in-patient rehabilitation center for women. Additionally, media reports and Saudi officials noted that the Ministry of Health planned to open an in-patient rehabilitation center for female addicts in the Jeddah branch of Al-Amal hospital at the end of 2006. As of early 2007, the center had not yet been opened. The hospital currently treats female drug abusers as outpatients. The women's branch at the General Presidency for Fighting Narcotics, which was established in 1988 with only one female employee, currently it has 40 female staff members. Expatriate substance abusers are jailed and summarily deported. Health officials confirm anecdotal reports of an increase in drug abuse, but note that most addictions are not severe due to the scarcity of available narcotics and their diluted form. Saudi narcotics officials said that Captagon, heroin, hashish and Khat are the most heavily-consumed substances, but Saudi officials report that cocaine and amphetamines are also in demand. Paint/glue inhalation and abuse of prescription drugs are also reported.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The lead agency in Saudi Arabia's drug interdiction efforts is the Ministry of Interior, which has over 40 overseas offices in countries representing a trafficking threat. In addition, the Saudi Government continues to play a leading role in efforts to enhance intelligence sharing among the six nations of the Gulf Cooperation Council.

Accomplishments/Law Enforcement Efforts. Saudi and U.S. DEA officials exchange information on narcotics cases. Drug seizures, arrests, prosecutions and consumption trends are becoming more a matter of public record. Contrary to previous years, illegal narcotics seizures by Saudi officials appear frequently in local newspapers.

Corruption. As a matter of government policy, the Government of Saudi Arabia does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal transactions. There is no evidence of involvement by Saudi Government officials in the production, processing or shipment of narcotic and psychotropic drugs and other controlled substances. However, newspapers reported in August 2006 that one Saudi officer and two border guard policemen were beheaded for drug distribution and smuggling. Anecdotal evidence suggests that drugs are widely used in Saudi prisons in which certain officers are involved in selling and distribution. Saudi Arabia has signed, but not ratified, the UN Convention against Corruption.

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 is also party to the UN Convention against Transnational Organized Crime.

Cultivation/Production. Cultivation and production of narcotics in Saudi Arabia is negligible. However, one incident reported in the media indicated that the National Guard in Madina raided a house after cannabis was discovered in the yard.

Drug Flow/Transit. Saudi Arabia is not a major transshipment point. Officials say that stricter control measures practiced by the country have led to more seizures. Captagon and heroin are smuggled into the Kingdom from the northern border with Jordan. Hashish is smuggled into the Kingdom from its south-eastern borders with the United Arab Emirates, and Khat is smuggled into the Kingdom from its southern borders with Yemen.

Domestic Programs/Demand Reduction. In addition to widespread media campaigns against substance abuse, the Saudi Government sponsors drug eradication programs directed at school-age children, health care providers, and mothers. The Ministry of Civil service will begin requiring applicants for civil service positions to take a drug test as of January 2007. Executions of convicted traffickers (public beheadings, which are widely publicized) are believed by Saudi officials to serve as a deterrent to narcotics trafficking and abuse. The country's influential religious establishment actively preaches against narcotics use, and Government treatment facilities provide free counseling to Saudi addicts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Saudi officials actively seek and participate in U.S.-sponsored training programs and are receptive to enhanced official contacts with DEA. Saudi Arabia is part of the International Counternarcotics Office in Cairo that works closely with the U.S. counternarcotics agencies.

Road Ahead. The U.S. will continue to explore opportunities for additional bilateral training and cooperation with Saudi counternarcotics and demand reduction officials.

Senegal

I. Summary

Counternarcotics elements of the Senegalese government remain concerned about the production and trafficking of cannabis, and to a lesser degree, hashish. Increasingly, quantities of cocaine are being seized; heroin seizures are rare. Senegal's 2005 money laundering statute and the establishment of a financial intelligence unit has had a limited impact. Senegalese authorities have been under pressure from European nations to curtail illegal immigration to the EU and bilateral assistance to combat immigration may also have some positive effect on counternarcotics enforcement. Education and strict enforcement of drug laws remain cornerstones of Senegal's counternarcotics goals. Senegal is a party to the 1988 UN Drug Convention.

II. Status of Country

While trafficking of all types of drugs, including heroin, cocaine and psychotropic depressants, exists in Senegal, cannabis production and trafficking continued to survive most enforcement efforts. Southern Senegal's Casamance region is at the center of the cannabis trade. It is generally acknowledged that a significant portion of cultivated land in Casamance is devoted to illicit cannabis cultivation. Police are reluctant to undertake greater enforcement efforts against cannabis cultivation in the Casamance for fear of hampering the ongoing efforts to establish peace.

Senegal also serves as a transit country for traffickers due to its location, infrastructure and porous borders. During 2006, authorities interdicted a container of more than eight tons of hashish en route from Pakistan to Europe. Additionally, there is evidence that cocaine originating from South America is increasingly transiting Senegal en route to Europe. Senegalese, European and UN Office of Drugs and Crime (UNODC) efforts to tighten security at the maritime port are still in the development phase. In general, drug enforcement efforts remain under-funded and undermanned, allowing the illegal cannabis trade and trafficking to continue unabated.

III. Country Actions Against Drugs In 2006

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 among enforcement forces have been hampered because of insufficient funding. The Senegalese National Assembly in recent years passed a uniform common law and issued a decree against money laundering.

Accomplishments. The amount of hard drugs seized by police in Senegal is small by international standards. Due to weak enforcement efforts and inadequate record keeping, it is difficult 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 are constrained in their efforts to eradicate cannabis cultivation in the southern part of the country because of a long-term insurgency. Meetings have been organized with island populations in the south in accordance with the UNODC to promote substitution of cannabis cultivation with that of other crops.

Law Enforcement Efforts. Although no significant changes were made to law enforcement strategies, “L’Office central de repression du trafic-illicite de stupefiants” (OCRTIS) seized more than eight metric tons of hashish destined for Europe from Pakistan in a single seizure in mid-2006. Dakar’s position on the west coast of Africa makes it an enticing transit point for drug dealers. The Port of Dakar and the Leopold Sedar Senghor International Airport are the two primary points of entry/exit of drugs in Senegal. An increasing amount of narcotics, often cocaine, is being brought to Senegal by vehicle and boat from Guinea Bissau.

Given limitations on funding and training of staff there is only limited ability to guard Senegal’s points of entry from the transit of drugs. The international airport has drug enforcement agents present, but they lack the training and equipment to systematically detect illegal drugs. The airport authority’s efforts to attain Federal Aviation Administration (FAA) Category One certification have resulted in the tightening of security procedures and more thorough passenger luggage screening. UNODC is developing a multi-agency program (Customs, Gendarmes and Ministry of Interior Police) for screening and controlling container shipments. Although the USG sponsored the establishment of a Financial Intelligence Unit, with an in-country U.S. Treasury Department advisor, the unit has not been directed against narcotics traffickers. European efforts to combat illegal immigration, however, particularly to Spain, which has provided maritime patrol capabilities, appears to have the added benefit of inhibiting the trafficking of narcotics.

Corruption. In 2004, the Senegalese Government created the National Commission against Non-Transparency, Corruption and Misappropriation of Funds, an autonomous investigative panel. The Commission has been slow to start up, and its effectiveness has, as a result, yet to be demonstrated. The GOS does not, as a matter of government policy, encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior GOS officials engage in, encourage or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Senegal has several bilateral agreements with neighboring countries to combat narcotics trafficking, and has signed mutual legal assistance agreements with the United Kingdom and France. Senegal 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. Senegal is a party to the UN Corruption Convention and to the UN Convention against Transnational Organized Crime and its three protocols.

Cultivation/Production. Although cannabis cultivation in Senegal is not a large problem in relation to global rates of cultivation, it could become a serious internal drug problem for Senegal. Efforts to eradicate cannabis cultivation in the Casamance region have improved slightly as military forces increased their presence and activities during the year, but they remain marginal.

Drug Flow/Transit. According to the Chief of OCRTIS, the trend in the amount of illicit drugs transiting through Senegal continues to increase. Senegal is a transit point for Asian heroin being smuggled to the United States.

Domestic Programs. The GOS does not have a comprehensive policy for systematic destruction of domestic cannabis or prevention of transshipment of harder drugs. Enforcement efforts are sporadic and uncoordinated. NGOs, such as the Observatoire Geostrategique des Drogues et de la Deviance (OGDD), have taken the lead in public education efforts. OGDD continued a program that began in 2001. The first phase involved a campaign of information targeted at cannabis cultivators, arguing that the land had greater potential if it were used for 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.

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 of 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 sixth 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 Service (SAPS) for the period March 2005 to March 2006, 273 organized crime groups operate in South Africa. Unlike previous SAPS reports, the latest did not list the number of criminal groups involved in drug trafficking. (Note: Last year's report stated that 132 of these crime groups are involved in drug trafficking.) Most of the organized crime syndicates in South Africa are foreign-led—primarily Nigerian, followed by 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 cellular 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 who have become heavily involved in stealing vehicles and trading them across South Africa's land borders for narcotics. According to the latest SAPS report, theft of motor vehicles and motorcycles rose by 2.9 percent; stolen/hijacked vehicles seized at border posts rose from 1,065 to 1,520, an increase of almost 43 percent.

South Africa is both an importer and an exporter of drugs (marijuana produced on its own territory). Despite the progress it has made coping with organized crime, South Africa is the origin, transit point or terminus of many major drug smuggling routes. Cannabis, for instance, is cultivated in South Africa, imported from neighboring countries (Swaziland, Lesotho, Mozambique, Zimbabwe), exported to neighboring countries (e.g. Namibia) and Europe (mainly Holland, UK)

and consumed in South Africa. LSD is imported from Holland. Methamphetamine is manufactured in South Africa for local consumption, and there has been an explosion in usage, especially in Cape Town. 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 increased international cooperation and assistance in the effective use of international controlled deliveries and training.

South Africa ranks among the world's largest producers of cannabis, and unlike previous years, this year local law enforcement officials have detected shipments destined for Canada and possibly the United States. 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 Medical Research Council has reported that heroin abuse is increasing in Gauteng, Mpumalanga and the Western Cape. According to press reports, heroin is reportedly the most popular drug in Pretoria.

South Africa is becoming a larger producer of synthetic drugs, mainly mandrax, with precursor chemicals smuggled in and labs established domestically. As in previous years, a number of clandestine narcotics laboratories were dismantled from March 2005 to March 2006, with the SAPS reporting 52 detected and dismantled during this period. 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.

The "South African Community Epidemiology Network on Drug Use" (SACENDU) reported that although alcohol remains the dominant substance of abuse in South Africa, cannabis and mandrax alone or in combination continue to be significant drugs of abuse. "Club drugs" and methamphetamine abuse has not emerged as a problem except in Cape Town where the increase in treatment demand for methamphetamine is 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. A recent study of SACENDU data from January 2002 to December 2005 showed a sharp increase in the proportion of patients reporting methamphetamine as a primary or secondary substance of abuse over time. The majority of patients who reported methamphetamine as their primary drug of abuse during 2004 and 2005 were male (72 percent-76 percent), Colored (NB.: a South African classification indicating South Asian and mixed race persons) (81 percent-92 percent), students or unemployed (69 percent-78 percent), and attending a treatment center for the first time (85 percent-88 percent). The mean age of these patients was 19.7 years in the first half of 2004 and 21.0 years in the second half of 2005. The study also showed that while the mean age of methamphetamine patients has increased slightly over time, the age structure of methamphetamine patients in treatment has remained fairly similar with over 70 percent of patients falling between 15 and 24 years of age. However, since the first half of 2004 the proportion of patients under 20 having methamphetamine as a primary or secondary substance of abuse has been substantially greater than for older patients. The study noted that the increase in treatment admissions for methamphetamine-related problems in Cape Town represented the fastest increase in admissions for a particular drug ever noted in the country, and that of particular concern is the large number of adolescent users. A March 29 press report claims that this increased use of methamphetamine is "strongly linked to gang culture on the Cape Flats."

III. Country Actions Against Drugs in 2006

Policy Initiatives. Combating the use of, production of, and trafficking in illicit narcotics is an important component of the anticrime agenda of the South African Government (SAG). As a practical matter, however, the SAG tends to target its limited anticrime resources on serious, violent and domestic crime. South Africa has one of the world's highest rates of murder and rape. 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 counter narcotics efforts include--in varying degrees--the Home Affairs Department, the National Prosecuting Authority and its Directorate of Special Operations (DSO) (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 2005/2006 Annual Report noted that an analysis of threats from organized crime groups over the past decade identified drug threats as accounting for the largest proportion of the known threats. The report noted that drug smuggling as an organized crime activity usually ties in with other aspects of organized crime, such as diamond smuggling, gold smuggling, abalone pirating and vehicle hijacking.

Law Enforcement Efforts. SAPs reported that between March 2005 and March 2006 the following quantities of drugs were seized:

Cannabis (excluding plants): 290,117 kg, 108 gram (street value in Rands: 377,152,240), as against 252,643 kg, 345 gram during 2004/2005. In addition, 170.5 hectares of cannabis fields were sprayed in the Eastern Cape, estimated at 1,123, 651 plants. One U.S. dollar equals about seven South African Rands.

Methaqualone: 327, 272 dosage units or in grams: 45, 953

Cocaine: 294, 894 grams

Heroin: 17, 307 grams

LSD: 658 dosage units

Amphetamine-type stimulants (ATS): 192,036 dosage units or in grams: 957,864.

The number of detected drug-related crimes, according to the annual SAPS Report, grew in 2006 to 204 per 100,000 of population (from 180.3 in the previous year, or, a 13.2 percent increase over 2005.) The number of arrests at the border for this period was 383, as against 401 in 2004/2005. The value of drugs seized at the country's borders also dropped from Rand 37,921, 326 as against Rand 675,280,027 in the previous period. The total number of reported drug cases during

2005/2006 were 95,675 (as against 83,995 the previous year); the total number of drug cases reported to court were 90,208 (includes cases carried over from the previous year). There was no information on the conviction rate for 2005/2006.

Additional enforcement successes were reported in the press. For instance: On February 2, South Africa press reported that Russian police dismantled a South African drug smuggling network, arrested 14 people and seized 75 kg of ephedrine. On April 18, crime intelligence police officers seized a box (marked as spare parts) containing more than 110 kg of cocaine at Johannesburg International Airport. On April 19, the police found another quantity of cocaine, originating from South America, of 20 kg concealed in the wooden handles of women's bags. A 36-year-old Nigerian man was arrested. In April, the Deputy Foreign Minister of South Africa informed Parliament that more than 150 South Africans were in foreign jails for drug-trafficking. The Minister explained that the South African Government stopped negotiating with foreign governments regarding the possibility of South Africans serving their jail sentences in South Africa for fear that such an agreement would "send the wrong signal" and encourage other South Africans to get involved in carrying drugs. South Africans are serving sentences mainly in Thailand and Latin American countries.

Corruption. 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.

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 on the same piece of land 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 top-end estimates are that 20,000 to 30,000 hectares of arable land are used to grow cannabis, although most observers estimate the area dedicated to illicit cannabis to be about 1,500-2,000 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 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, although there are cases of people injecting heroin. An additional risk in terms of intravenous drug abuse is 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. SAPS reports that between January and October 2006, the chemical monitoring program to prevent the diversion of chemicals for the manufacture of illicit drugs checked 230 import notifications of precursors to South Africa. Approximately 896 export notifications of precursors were forwarded to relevant foreign authorities. The significant increase in exports is partially due to the SAPS’ increased reporting and South Africa’s lead role in the production of pharmaceuticals in Africa. 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 large increases in the number of patients seeking treatment for crack and heroin addiction in the past two to five years. SAG treatment facilities and non-government drug rehabilitation agencies have seen their budgets 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 schools with assistance from the Department of Education and NGOs. The objective is to curb the influence of illegal drugs among children. 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 the 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 program organizers are KHULISA, the Center for Socio-Legal Studies, Creative Education with Youth at Risk, the President’s Award for Youth Empowerment, and the National Institute for Crime Prevention and the Reintegration of Offenders (NICRO). These NGOs are 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.

V. 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.

Swaziland

I. Summary

Swaziland is a transit country for drug trafficking within the Southern Africa region and also produces high-quality marijuana (known locally as dagga). Swaziland is a party to the 1988 UN Drug Convention.

II. Status of Country

Marijuana is the main illegal drug cultivated in Swaziland. The Royal Swaziland Police Service (RSPS) does its best to eradicate marijuana crops and combat trafficking, but is limited by resources. Most of Swaziland's illegal drug crop is consumed in the country. The majority of the resources of the Government of the Kingdom of Swaziland (GKOS) are earmarked for employee salaries and to fight HIV/AIDS; Swaziland's HIV prevalence rate according to the latest (2006) figures is 39.2 percent, one of the highest prevalence rates for HIV/AIDS in the world.

III. Country Actions Against Drugs in 2006

The RSPS has a Drug Enforcement division responsible for investigating illegal drug activities and eradicating marijuana fields. RSPS Officers not associated with the Anti-Drug Unit receive little training in identifying, seizing or assessing illegal drugs.

Policy Initiatives. Weak legislation and limited resources have prevented the GKOS from making more progress in combating the trafficking of illegal drugs. For example, under Swaziland's outdated criminal code (enacted in the year 1899), Ecstasy is not an illegal substance. Police can seize Ecstasy, but cannot arrest for possession. Furthermore, because prosecution for listed narcotic drug offenses is limited to possession, organizers and conspirators cannot be prosecuted unless they also possess drugs.

Law Enforcement Efforts: From January through September 2006, RSPS Drug Units seized 2689 kg of marijuana. Approximately one-third of the seizures were associated with arrests for other non-drug related crimes. During the same time period, RSPS Drug Units destroyed 437.5 hectares of marijuana using a manually sprayed chemical. Nearly all of the eradication efforts were conducted in areas around Piggs Peak and Nhlangano. Due to the mountainous terrain and the remote location, it is extremely difficult to locate marijuana fields without informants. The RSPS does not have airplanes. On two separate occasions, RSPS officers seized small amounts of heroin at Mozambican border crossings. The RSPS did not report any seizures of cocaine or Ecstasy during 2006.

Corruption: The GKOS does not, as a matter of government policy, 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. There is no evidence that senior officials of the GKOS 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. Swaziland is a party to the 1988 UN Drug Convention and the 1971 UN Convention on Psychotropic Substances. Swaziland has also signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. Swaziland is covered under the 1931 Multilateral Convention on Extradition.

Cultivation/production. Swaziland marijuana is grown mostly in mountainous areas. Remote mountainous areas and fertile soil in Swaziland are ideal for cultivating marijuana. Unlike most areas that have specific harvest seasons, Swaziland does not. The Swaziland climate allows marijuana cultivators to rotate the crops so that there is continually a crop that can be harvested. Marijuana is grown heavily around the Nkomaza River, the Mozne River, and the Mkaomevo River. Swaziland produces high-quality marijuana, some of which is grown for export. The highest quality marijuana is grown in the Piggs Peak area, in the northern part of the kingdom. Marijuana grown in the South West portion of the kingdom is viewed as lower quality. RSPS has reported eradication efforts primarily in the northwest section of the country. As for production of “designer drugs”, there is no indication that these are manufactured in Swaziland, as no labs have been identified or arrests made, and, in any case, the market for them would be quite small.

Drug Flow/Transit. Due to the porousness of Swaziland’s borders, it is assumed that drugs transit to Swaziland from neighboring South Africa and Mozambique. Swaziland is ill equipped to monitor or inspect people or vehicles entering or exiting the country.

Domestic Programs/Demand Reduction. Marijuana use is widespread. Methaqualone is commonly smoked with marijuana, known as white pipe, which represents a serious addiction problem. Cocaine and heroin are too expensive for most of the population in the area.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Swazi enforcement officers attend courses at the ILEA in Botswana regularly, and consult periodically with DEA staff, visiting from South Africa.

Road Ahead. USG-sponsored training at the International Law Enforcement Academy (ILEA) helps professionalize the RSPS, making it a better law enforcement entity. Training opportunities will continue to be available in the future and should help institutionalize enforcement efforts in Swaziland.

Syria

I. Summary

In 2006, the government of the Syrian Arab Republic (SARG) continued to devote resources to combating the drug trade. Although drug seizures increased, domestic usage was negligible. Syria remains a transit country, with a more pronounced increase of illegal narcotics passing through the country than in years past. Since July 2006 and the onset of the Israeli-Hezbollah conflict in Lebanon, drug traffickers began rerouting narcotics through Syria, increasing the total number of illegal narcotics being transited through the country. Jordan and the Gulf States remain the primary destinations for drugs transiting from Lebanon and Turkey. Syria continues to have a working antinarcotics relationship with Saudi Arabia and Jordan, but counternarcotics cooperation with Lebanon has diminished since Syrian forces withdrew from Lebanon in 2005. Syria's domestic drug abuse problem remains small, due largely to cultural and religious norms that stigmatize substance abuse. Syria is a party to the 1988 UN Drug Convention.

II. Status of Country

Most narcotics that enter Syria go to other countries in the region and to Europe. Syria is a transit country for hashish, cocaine, and heroin, particularly from Turkey, but also from Lebanon. With the closure of the Rafiq Hariri International Airport in Beirut during the Hezbollah - Israel conflict in July and August 2006, drug traffickers were forced to seek alternate routes, and because of its proximity to Lebanon, the amount of drugs flowing through Syria increased. Cooperation between Lebanon and Syria on drug trafficking began to decrease with the withdrawal of Syrian troops from Lebanon in 2005, and the recent conflict in Lebanon worsened this downward trend. Syria is also a transit country for Captagon (fenethylamine), a synthetic amphetamine-type stimulant. Captagon originates in Eastern Europe, primarily Romania and Bulgaria. It is trafficked to Syria of, and then onwards to the Persian Gulf countries, including Saudi Arabia, where it is consumed. The production of hashish and opium remained virtually the same as in 2005, according to law enforcement sources.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2002, Syria upgraded its 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, with eventual plans to open offices in the remaining provinces. A new police facility for the Syrian Anti-Narcotics Department was opened in Damascus during the early part of 2006. With the opening of the new facility came the arrival of new and updated equipment that will be used to enhance Syria's drug investigation capabilities. This facility also houses the country's newest drug lab. In 2005, Syrian officials implemented its 2002 draft decree of providing financial incentives of up to several million Syrian pounds (\$1 = 51.60 Syrian Pounds) to anyone providing information about drug trafficking and/or cultivation in Syria. In 2006, hashish and opium seizures decreased slightly, while the seizures of heroin and cocaine increased slightly. The seizures of Captagon tablets have again increased drastically, according to Syrian officials.

Law Enforcement Efforts. Syrian officials characterized cooperation on drug issues with neighboring Saudi Arabia and Jordan as excellent, but say that counternarcotics cooperation with

Lebanese and Iraqi officials has diminished. Syria has strict sentencing guidelines and offers the death penalty for distribution-type drug offenses. Syria has legislation that has provided for seizure of assets financed by profits from the drug trade. Turkey is providing some technical assistance to Syria, primarily training courses, as part of their joint efforts to combat trafficking of narcotics, according to Turkish officials based in Damascus. In 2006, the Syrian government confiscated 144 kg of hashish, more than 5 million Captagon tablets, and 1.64 kg of heroin.

Corruption. The Syrian government has an Investigations Administration (Internal Affairs Division) responsible for weeding out corrupt officers in the counternarcotics unit and the national police force. The Investigations Administration is independent of both the counternarcotics unit and the national police and reports directly to the Minister of the Interior. According to Syrian authorities, there were no arrests or prosecutions of officers in the counternarcotics unit for corruption in 2006. The Syrian government did not provide information whether any investigations into corruption were conducted, and the SARG has been reluctant to discuss this issue further. Generally speaking, corruption is a daily fact of life in Syria, however, cultural and religious norms about narcotics somewhat dampens the prevalence of drug-related corruption within the police. Syria has signed, but not ratified, the UN Convention against Corruption. As a matter of government policy, the Government of Syria 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.

Agreements and Treaties. Syria is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs and its 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Syria has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Syria and the United States do not have a counternarcotics agreement, nor is there an extradition treaty between the two countries.

Cultivation/Production. The SARG counternarcotics system has reduced cultivation and production in Syria. Never very high, cultivation and production are currently at negligible levels in Syria. During one 2006 investigation, the Syrian Anti-Narcotics Department seized one manual compressor that was being utilized to manufacture Captagon tablets in a city east of Homs.

Drug flow/transit. Drug interdiction remains the focus of the Syrian counternarcotics effort. Syrian officials estimate that in 2006, the overall flow of illegal narcotics transiting Syria and destined for other countries had increased. As mentioned above, this is assumed to be significantly due to Syria being used as an alternate route for drug trafficking during the conflict in Lebanon in July and August 2006. Transshipment of narcotics from Turkey continues to represent the major challenge to Syria's counternarcotics efforts, as the porous Turkish/Syrian border provides easy entry points for drug smuggling into Syria. Narcotics coming from Iraq are transported into Syria either directly or via Jordan. The SARG's reported seizure statistics suggest that SARG counternarcotics efforts have been more effective, or more likely, the overall flow of narcotics has increased. Main shipment routes include the transit of hashish and cocaine through Syria to Europe and other countries in the region; opium transiting from Pakistan and Afghanistan through Syria to Turkey; and Captagon pills transiting from Turkey through Syria to Saudi Arabia. There were also reports of a moderate increase in drug transiting from Iraq.

Domestic Programs. Due to the social stigma attached to drug use and to stiff penalties under Syria's strict antitrafficking law, the incidence of drug abuse in Syria remains low. The Syrian government's counternarcotics strategy, which is coordinated by the Ministry of the Interior, uses the media to educate the public on the dangers of drug use. Drug awareness is also part of the national curriculum for schoolchildren. The ministry also conducts awareness campaigns through

university student unions and trade unions. The SARG has increased the coverage in the government-owned press of its efforts to combat narcotics in 2006.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In discussions 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.

The Road Ahead. The United States will continue to encourage the Syrian government to maintain its commitment to combating drug transit and production in the region; to strengthen anti-money-laundering legislation; and to continue to encourage Syria to improve its counternarcotics cooperation with neighboring countries.

Tanzania

I. Summary

Tanzania is located along trafficking routes linking Latin America, the Middle East and Asia as well South Africa, Europe and, to a lesser extent, the United States. Drugs like hashish, cocaine, heroin, mandrax, and opium have found their way into and through Tanzania's porous borders. In addition, the domestic production of cannabis is a significant problem, with cultivation in many regions of Tanzania. As a result, drug abuse, particularly involving cannabis and, to a lesser extent, cocaine and heroin, is gradually increasing, especially among younger people and in tourist areas. Tanzanian institutions have minimal capacity to combat drug trafficking; corruption reduces that capacity still further. Tanzania is a party to the 1988 UN Drug Convention.

II. Status of Country

Recent economic liberalization has brought increased affluence to the expatriate community and some urban Tanzanians. This affluence has driven demand for new drugs like cocaine, heroin, mandrax and opium, which have found their way through Tanzania's porous borders. Domestic production of cannabis is growing. Drug abuse among the youth is also increasing, particularly abuse of the more affordable substances like cannabis. Hard drugs, like cocaine and heroin, are used in small quantities, primarily within affluent urban areas; however, domestic use of these drugs appears to be on the rise. The growth of the tourism industry, particularly in Zanzibar, has created a larger demand for narcotics there. Tanzania is located along trafficking routes with numerous possible illegal points of entry in its eight land borders and 600 kilometer coastline.

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, Mtwara and Bagamoyo. It is widely believed that traffickers conduct a significant amount of narcotics smuggling off-shore in small "dhow" boats that never stop in ports. Anecdotal evidence suggests surveillance at the airports has improved, which may have the effect of driving trafficking to minor sea ports and unofficial entry points. During the year, there were reports of "mules" or "swallowers" carrying hard drugs into and out of Tanzania. The Anti-Narcotics Unit of the Ministry of Public Safety and Security reportedly apprehended 8 "swallowers" in 2005 and 16 in 2006. An increasing trend is the use of Tanzanian land borders to enter neighboring countries, especially Kenya and Malawi, to catch international and regional flights.

III. Country Actions Against Drugs in 2006

Policy Initiatives. In 2005, the Drug Control Commission (DCC) finalized a set of amendments strengthening existing narcotics legislation and submitted the amendments to the Prime Minister's Office. The amendments have been passed to the President's Cabinet for approval and are expected to be read in Parliament in February 2007. According to both the DCC and the Anti-Narcotics Unit (ANU), which provided recommendations for the amendments, the revised legislation will increase the penalty for drug traffickers from monetary fines to include at least some jail time. The amendments also are aimed at expanding the mandate of the DCC to include enforcement. In 2003, the House of Representatives of semi-autonomous Zanzibar passed its own Prevention of Illicit Traffic and Drugs Act, which put Zanzibar narcotics law and sentencing in line with that on the mainland. Amendments to Zanzibar's narcotics legislation are expected to be tabled in the House of Representatives only after the Union Parliament passes the revised narcotics legislation for the

mainland. While Zanzibar does have its own ANU, according to Zanzibar's constitution, the Unit operates under the authority of the Mainland's Ministry of Public Safety and Security.

Accomplishments. Tanzania's judiciary convicted four individuals on drug-related crimes in 2005. Two persons were convicted in a case involving the smuggling of cannabis resin (hashish) in logs shipped from Zambia to Tanzania and two other individuals were convicted in a case involving a clandestine laboratory identified in 2001 producing mandrax in Dar es Salaam. All of these convictions led to jail sentences and fines for the four guilty defendants.

Law Enforcement Efforts. Tanzania has a counternarcotics police force of about 150, located in three branches: Dar es Salaam, Zanzibar, and Moshi. However, because of the still-limited training and operational capabilities of its counternarcotics officers, Tanzania's efforts are primarily focused on street pushers and individual "mule-carriers" or "swallowers." To date, Tanzania's law enforcement efforts have not yet proved successful in limiting narcotics trafficking by moving "up the chain" to kingpins. Although the number of smugglers apprehended has increased, Tanzanian law enforcement has not yet been able to translate small seizures into the prosecution of top leaders of organized rings.

While law enforcement officials have increased their efforts to combat narcotics trafficking, law enforcement has only sporadic seizures were made during 2005. According to the data from the police force's Anti-Narcotics Unit, the following seizures of hard drugs were made in 2005: almost 10 kg of heroin; 78.8kg of Cannabis Resin; 1.4kg of Morphine; and 361.5 grams of cocaine. In 2004, Tanzanian law enforcement engaged in widespread cannabis eradication efforts, seizing or destroying 964,000 kg of cannabis. Due to budget constraints in 2005, however, the police did not engage in widespread eradication efforts, seizing only 150,450 kg in small cases within urban areas. In 2005, law enforcement also seized 2kg of Khat.

Senior Tanzanian counternarcotics officials acknowledge that their officers are under-trained and under-resourced to effectively monitor Tanzania's eight land borders and long coast line. For example, the harbor antinarcotics 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 are not able to 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 encourage corrupt behavior. On the positive side, formal cooperation between counternarcotics police in Kenya, Uganda, Rwanda and Tanzania is well established, with bi-annual meetings to discuss regional narcotics issues. This cooperation has resulted in significant increases in effectiveness in each nation's narcotics control efforts. Tanzania also cooperates formally with countries from the Southern African Development Community, including Zambia and South Africa. In 2005, 40 Tanzanian officers from Immigration, Customs and Police received counternarcotics training with 40 officers from Zambia.

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 police 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. In June 2006, two police officers were prosecuted following the disappearance of approximately 80 kg of cocaine and heroin from police custody. The case is still pending in court. 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. This option would close if new legislation passes as proposed.

Agreements and Treaties. Tanzania is a party to the 1988 UN Drug Convention. The 1931 U.S.-U.K. Extradition Treaty is applicable to Tanzania. The U.S. has one non-drug related request for extradition pending in Tanzania.

Cultivation and Production. Traditional cultivation of cannabis takes place in remote parts of the country, mainly for domestic use. It is estimated that an acre of land can produce up to \$1000 worth of cannabis crop as opposed to \$100 worth of maize. The Ministry of Public Safety and Security identified the following eight regions as the primary production areas for cannabis: Iringa, Tabora, Shinyanga, Mara, Arusha, Mwanza, Mbeya and Tanga. No figures on total production exist, but police and government officials report that production continues and has spread to different regions in response to eradication efforts. Given the availability of raw materials, and the simplicity of the process, it is possible that some hashish is also produced domestically. In 2001, police seized equipment used to manufacture mandrax from clandestine laboratories in Dar es Salaam, suggesting 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. Traffickers from landlocked countries of Southern Africa, including Zambia and Malawi, use Tanzania for transit. Control at the ports, especially on Zanzibar, is difficult as sophisticated methods of forging documents, and concealment are combined with poor controls and untrained and corrupt officials. According to the Anti-Narcotics Unit, heroin entering Tanzania from Iran and Pakistan is being smuggled to the U.S., China and Australia in small quantities by traffickers from Nigeria, Tanzania (with a significant number of traffickers from Zanzibar) and other countries in East Africa. Cocaine enters Tanzania from Brazil, Colombia, Peru, Venezuela, and Curacao in transit to South Africa, Europe, Australia and North America. Cannabis Resin, a drug that is not known to be consumed in Tanzania, enters Tanzania mainly by sea from Pakistan and Afghanistan and is often concealed with local goods such as tea and coffee and smuggled to Europe, North America and the Seychelles. The port of Dar es Salaam is also a major point of entry for mandrax from India, Nepal and Kenya headed toward South Africa. Tanzanians continue to be recruited for trafficking. In 2005, 19 Tanzanians were arrested abroad (mostly in East Africa and Pakistan) for smuggling drugs. Of these 19 cases, 18 were smuggling heroin while one was smuggling cocaine. From January to September 2006, 13 Tanzanians were arrested abroad, 11 trafficking heroin and two trafficking cocaine. In Tanzania, police forces apprehended 14 “swallowers,” in 2005, eight of whom had swallowed heroin; six of whom had swallowed cocaine. Recently, Tanzanian smugglers have been arrested coming into Tanzania through the land borders with Kenya and Malawi, after having arrived at international airports from Brazil, Iran, Pakistan and 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. Police reports confirm that cocaine and heroin is available locally and the tourist industry has brought Ecstasy (MDMA) to Zanzibar. The documented number of drug addicts seeking rehabilitation increased from 541 in 2000 to 1,306 in 2005 on the mainland, from 21 in 2000 to 69 in 2005 on Zanzibar. The spillover from trafficking and increased tourism have contributed to this increase in domestic demand. The abuse of marijuana is widespread. Khat is also widely used. The Tanzanian government has taken proactive measures to reduce demand and increase awareness about drug use and drug trafficking. The DCC,

under the Prime Minister's Office, manages a small demand reduction program. In 2005, the DCC trained over 200 nurses, counselors and teachers and organized five awareness campaigns in different urban centers. Without rehabilitation hospitals and sufficient capacity in regular hospitals, addicts are typically placed in psychiatric wards or mental hospitals. In 2006, the DCC completed an assessment of the capacity of urban hospitals to receive and treat drug addicts and found capacity lacking. The police also have a public sensitization program on the dangers of drug trafficking but lack funding for significant outreach.

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. For example, in June 2006, DHS ICE officials conducted financial crimes and bulk cash smuggling training in Dar es Salaam. The training course offered was entitled: “Detecting and Investigating the Smuggling of Currency by Cash Couriers” and it was presented to officials from the Tanzanian prosecutor’s office, Customs and Immigration Services, and local police. State Department law enforcement assistance includes funding the establishment of a forensics lab and training in its use. At the Tanzanian Government's request these facilities will include narcotics analysis capabilities. The State Department's counterterrorism bureau is funding the “PISCES” program to improve interdiction capabilities at major border crossings. While the program targets terrorist activities, it has implications for narcotics and other **smuggling as well.**

The Road Ahead. U.S.-Tanzanian cooperation is expected to continue, with a focus on improving Tanzania's capacity to enforce its counternarcotics laws.

Togo

I. Summary

Togo is not a significant producer of drugs and its role in the transport of drugs is primarily regional. During 2006, however, the drug trade (particularly of hard drugs) continued to increase. Nigerian traffickers dominate the Togolese drug trade. 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 fragile 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 is relatively rare, and there are few crimes resulting from drug abuse. There are three agencies responsible for drug law enforcement -- the police, the gendarmerie, and customs. The only locally produced drug is cannabis. Approximately two metric tons of cannabis are seized in Togo each year. Heroin and cocaine, while not produced in Togo, are also available. Heroin is smuggled from Afghanistan, while cocaine is transported from South America. Lome serves as a transit point for drugs on their way to Benin, Nigeria, Burkina Faso, northern Ghana, and Niger. Togolese are not significant consumers. Most smugglers are long-term Lebanese residents or Nigerians. Togolese typically purchase small amounts of drugs and then resell them to expatriates living in Lome. Togo's long and relatively porous borders permit narcotics traffickers easy access/egress. This 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 drug trafficking.

III. Country Actions Against Drugs in 2006

Policy Initiatives. The Central Office Against Drugs and Money Laundering is responsible for investigating and arresting all persons involved in drug-related crimes. The 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 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 in 2006. 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 most 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, in practice there is no effective reporting, record keeping, or cross-agency communication process.

Corruption. The Anti-Corruption Commission made no drug-related arrests of government officials. Togo's chief narcotics officer was held under house arrest for several months under suspicion that he had diverted a quantity of captured drugs being held as evidence for resale. He was released in September, but has not yet resumed his duties. Reports continue to 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. If these reports are true, they would help explain the growing transit of drugs through Togo.

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 is a party to the UN Corruption Convention, and is also a party to the UN Convention against Transnational Organized Crime.

Cultivation/Production. The only drug cultivated in quantity in Togo is cannabis. 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 Togo's 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 sent to final consumption markets.

Domestic Programs (Demand Reduction). The National Anti-Drug Committee (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 government improve its ability to interdict illicit narcotics entering Togo and to prosecute those traffickers who are caught.

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. Togo's emerging willingness to confront the issue of illicit drugs is hampered by the country's fragile democratic transition and the weak state of GOT finances.

Uganda

I. Summary

Uganda is not a major hub for narcotics trafficking. Government of Uganda (GOU) 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. Because of financial pressures and the continuing impact of war and disorder, the GOU Anti-Narcotics Unit (ANU) has experienced a decrease in total personnel from 126 to 80, with the number at the airport reduced from 15 to 7. The GOU is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug production and trafficking within Uganda is not significant in comparison to other countries. Uganda offers more potential as a transit route (Entebbe Airport and porous borders). Drug production in Uganda is limited to growing of cannabis. Local authorities believe cannabis production will increase due to increased demand from Kenya and lack of more profitable crops.

III. Country Actions Against Drugs in 2006

Policy Initiatives. New comprehensive national drug legislation, pending enactment by Parliament, would lay the foundation for the establishment of a national coordinating body for drug control, treatment and rehabilitation of abusers, foster regional and international cooperation, and establish stiffer punishment for traffickers and authority for confiscation and forfeiture of assets.

Law Enforcement Efforts. The ANU reported that in 2006 there were eight heroin cases, leading to 6 arrests and convictions and 2.08 kg seized. There were 489 cannabis cases, leading to 499 involved individuals being arrested, 12,000 kg seized and the destruction of 402,674 cannabis plants. There were no cocaine-related cases.

There were no major traffickers among those arrested. The overwhelming majority of those arrested were drug couriers. The GOU is striving to combat illicit drugs, but there are few resources to support the campaign. Specifically, the ANU has experienced a decrease in total personnel from 126 to 80, with the number at the airport reduced from 15 to 7. The ANU has only 2 trained drug sniffing dogs whose ability to detect drugs has decreased due to lack of in-service refresher training. There is no x-ray machine available at the airport to assist the ANU in detecting drugs that might have been swallowed. The ANU has no reliable drug test kits to determine if suspected drugs are in fact prohibited substances. Uganda and United Arab Emirates cooperated regarding a controlled delivery of a heroin shipment.

Corruption. GOU addresses public corruption generally through the offices of the Ethics and Integrity Ministry. The Ugandan Police Criminal Investigative Division will also handle these types of cases from time to time. As a matter of government policy, the GOU does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. 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.

Demand Reduction. GOU has sensitized the public regarding dangers of drug abuse and trafficking. GOU has attempted to provide treatment and rehabilitation to users. GOU's interactions with the UNODC have been limited to information exchange, arrangements for training, and conference participation.

Cultivation/Production. There is domestic cannabis cultivation in Eastern Uganda, particularly in the Districts of Busia, Bugiri, Kabarole and Rakai. ANU Police operations against cannabis cultivation were initiated and results achieved, especially near the border with Kenya. Ultimately, 402,674 cannabis plants were destroyed. Instructions were sent to all regional and district police commanders to arrange operations for destruction of cannabis in their areas.

Drug Flow/Transit. The most common drug transited through Uganda is heroin. Most couriers travel by air via Entebbe airport smuggling drugs from Pakistan, Afghanistan, Iran, and India. There has been a relatively slight increase in number of traffickers/mules, especially those headed for Europe. Ugandan cannabis is trafficked to Kenya. Finally, the manufacturing and distribution of synthetic drugs is not a common practice in Uganda.

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 major drug production and transit 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 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. There are numerous reports that drugs leave Iran and Pakistan by dhow and move to the UAE, among other destinations, in the Persian Gulf. 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 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, as well as a key location for narcotics money laundering by international drug traffickers in the Gulf region. 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 easily accessible commercial banking system, 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 2006

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 Crime 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 2005, UAE counternarcotics forces reported 862 drug cases and a total of 529 arrests. This marked a decrease from 2004, when officials arrested 1,419 people in 901 cases. The largest number of arrestees were Emirati nationals (217) followed by Iranians and Pakistanis. In 2005, UAE officials seized 6 kg of opium, 185 kg of heroin, and 242 kg of hashish.

In the first four months of 2006, UAE officials seized 94 kg of hashish, 46 kg of heroin, 9 kg of opium and 85,040 narcotic tablets. 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 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 kg 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. In November 2006, the Dubai Criminal Court sentenced two Pakistanis and one African to life imprisonment for smuggling heroin into the UAE with the intent of trafficking. One of the Pakistani drug smugglers was caught at the Dubai International Airport with 40 capsules of heroin each weighing 9 grams, which he had swallowed.

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. There is no evidence that corruption—including narcotics related corruption—of public officials is a systemic problem.

Agreements and Treaties. The UAE is party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol and the 1988 UN Convention on Psychotropic Substances. The UAE has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. The UAE is a party to 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 and investment development opportunities render the UAE vulnerable to exploitation by narcotics traffickers and narcotics money laundering. The UAE—Dubai, in particular—is a major regional transportation, financial, 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 non-UAE nationals arrested in drug cases in 2005. 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.



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

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 2007 INCSR is the 24th annual report prepared pursuant to the FAA.

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 2007 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

The 2007 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 2007 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; and 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.

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 2006

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, India, Indonesia, Iran, Isle of Man, Israel, Italy, Japan, Jersey, Kenya, 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

The January 2007 seizure of a staggering \$80 million worth of drug trafficking cash and gold in one law enforcement operation in Colombia points to much of what remains dangerous about the global drug and crime trades as well as improving international efforts to combat them. In an age where much of the world's anti-money laundering effort has understandably become focused on countering the terrorist financing threat, this seizure underscores the enormity of funds and profits wrapped up in transnational crime and the potential power that crime syndicates have with this money to inflict substantial political, economic, and social damage on governments and societies around the world. This \$80 million seems to be the product of an extraordinarily complex international criminal enterprise. Now that the money and gold are in the hands of the Government of Colombia, it also shows how vulnerable crime syndicates are becoming to global anti-money laundering measures, improved international cooperation, and better law enforcement operations. This success is due in significant part to years of training, technical assistance, and experience.

This case—like any criminal money laundering or terrorist financing seizure—should not, however, stop with the confiscation. Indeed, the confiscation itself should provide valuable intelligence and clues for identifying the individuals most responsible for this trade and enhancing the wherewithal of authorities to find, prosecute, convict, and incarcerate them. Establishing international anti-money laundering and counterterrorist financing norms and standards do much to impede these crimes, but making the masterminds of these operations pay with their freedom is a powerful deterrent for stopping them. The seizure of the money also takes away the primary motivation of these criminal groups—greed.

The Colombian National Police, in this instance, are believed to have made the largest cash seizure ever from a narcotics case. The seizure consisted of U.S. currency, euros, and gold. The money belonged to one criminal organization and was seized at five different locations during one enforcement operation. The Colombian National Police carried out the raids with intelligence and some operational planning assistance from the U.S. Drug Enforcement Administration. Reportedly, no suspects were apprehended at the time of the raids, but several were known ahead of time, and several more have been identified as a result of intelligence gleaned from the seizure.

Money Laundering and Financial Crimes

An \$80 million seizure attracts serious attention. In the hands of the Colombian traffickers, it represents the proceeds of criminal operations on a massive scale. It could reflect the wholesale proceeds of exporting more than five metric tons of cocaine to the United States or Europe. This much money in the hands of Asian or Latin America traffickers could also represent the profits from smuggling approximately 1,600 Chinese into the United States or 32,000 illegal aliens from Mexico or Central America across our southwestern border. The circulation of massive amounts of drug money on this scale can create huge, adverse distortions in a weak or small economy.

There is no social or economic “Robin Hood” effect when criminals are in possession of such sums. Their investments tend to be conspicuous, not productive. Moreover, dirty money crowds out legitimate economic activity, creates unfair competition for legitimate businesses, erodes good business practices and ethics, and interferes with the development of sound economic policies. It is almost a bottomless reservoir for corruption that can impede enforcement efforts from front line police officers, to swaying legislators, judges, regulators, or senior executives charged with writing, enforcing, and upholding laws in a rule of law society. \$80 million dollars in the hands of terrorists could have funded countless attacks in the United States and around the world. The 9/11 Commission reported that al-Qaida likely spent some \$400,000-\$500,000 to carry out its 2001 attacks on the United States. While the Colombian seizure is a record amount, it may not be uncharacteristic of similarly large amounts of crime profits lying about in criminal safe havens in the Middle East, Africa, South or Southeast Asia, or Europe.

Dollars, euros, and gold—the three instruments seized in this raid—constitute the face of modern day crime transactions and further highlight the complexity of the money laundering challenge. It suggests large-scale criminal proceeds in the U.S. and European markets, as well as nearly anywhere else in the world. In this respect, the seizure epitomizes the transnational nature of the trade and the dark side of globalization, where national boundaries are no barrier to criminal enterprises, and where most instruments to blur these boundaries—such as rapid and far reaching cyber communications or internationally-recognized currencies—work as much to the benefit of crime syndicates, by easing associations and transfers and providing rapid movement, as they do for legitimate enterprises. The seized gold is especially telling. Historically, the largest value money laundering investigations have involved gold. Gold is both a commodity and a de facto bearer instrument. The form of gold can be readily altered. There is a large cultural demand for gold in Colombian society and elsewhere around the world. Moreover, gold is immune from traditional financial transparency reporting requirements.

The seizure also underscores a likely growing worldwide reluctance of syndicates to place their money in banks where it is increasingly likely to be detected—owing to the steadily improving scrutiny and tracking abilities of the formal financial system. Authorities discovered the dollars, euros, and gold in private residences and businesses, buried in the ground, stashed in private safes, or hidden elsewhere. For any law-abiding entity, this would be an extraordinarily risky way to safeguard and account for such sums. But this example shows how formal financial institutions have become such a significant threat to the operations of crime syndicates and terrorist financiers—that they are willing to take high risks to avoid them.

Since the G-7 created the Financial Action Task Force (FATF) nearly two decades ago in 1989, the international community has been working determinedly to develop the procedures and practices necessary to expose criminal proceeds and take them out of the hands of the syndicates. Since its original seven-country membership (the U.S., Canada, the UK, France, Germany, Italy, and Japan), FATF has grown to include 31 countries and two multilateral organizations (the European Commission and the Gulf Cooperation Council). Its “40 recommendations” to guard against money laundering and nine additional “special recommendations” on terrorist financing contain several provisions aimed specifically at identifying “suspicious transactions,” the true owner of such transactions or abnormally large deposits, and tracking them through the system of banks and nonbank financial institutions—such as brokerage houses, money exchangers, or money service businesses. The

provisions include “whistle-blower” type protection for tellers, bankers, and others who are on the front lines of receiving and detecting such deposits to help guard against corruption, intimidation, or retaliation.

FATF “recommendations” carry significant international clout. Both the 2001 UN Convention against Transnational Organized Crime and the 2005 UN Convention against Corruption contain extensive anti-money laundering provisions that are drawn from the FATF recommendations. In addition, recent UN Security Council Resolutions, which member states must abide by, have incorporated the FATF recommendations by direct reference. For instance, in July 2005, UN Security Resolution 1617 “strongly urges all Member States to implement the comprehensive international standards enacted in the FATF Forty recommendations and the Nine Special Recommendations on terrorist financing.” This resolution further reinforces the commitment of the 169 members of FATF and the nine FATF-style regional bodies (FSRBs) to criminalize the financing of terrorism and enumerates actions that all UN Member States are legally bound to undertake by virtue of being a party to the UN International Convention for the Suppression of the Financing of Terrorism. It is against this background of growing international acceptance of these norms and standards, and hard work and investment by financial institutions and their compliance officers, that criminals and terrorist financiers, much like these Colombian traffickers, increasingly realize the growing risks they run of having their large or suspicious transactions recorded by banks, shared with the police, and their criminal activities exposed.

A willingness to codify the FATF recommendations into laws and regulations means little if a country is unable, through lack of resources or skill, or unwilling, through lack of political commitment, to implement them. FATF has backed or imposed a wide-ranging set of measures to assist and motivate countries to adopt the “40+9” recommendations. This has included conducting mutual evaluations among its own members to assess their compliance with the recommendations and suggest actions to remedy identified shortfalls. FATF, with bilateral assistance from the U.S. and other donors, has fostered the creation of FATF-style regional bodies around the world so jurisdictions that do not belong to FATF can join and form regionally-tailored organizations to accomplish FATF’s objectives. Currently, 138 countries and territories belong to nine such organizations around the world. FATF—and the cooperating donors—have sponsored seminars and provided training and technical experts to help start and sustain these FSRBs. They too have a major responsibility to conduct mutual evaluations among their members.

FATF has also acted in a united, multilateral front to deal with the most incorrigible states, and ones whose weak anti-money laundering regimes or lack of international cooperation pose the most serious risk to anti-money laundering efforts. FATF works internally to identify those countries and will approach them to elicit improvements and better cooperation. If quiet diplomacy fails, FATF can—and has in 23 cases—“named and shamed” noncooperating jurisdictions to focus international attention on them. When FATF identifies problematic countries, it expects its members to respond by invoking any number of countermeasures ranging from issuing advisories that warn their financial institutions about the risks associated with dealing with such jurisdictions, to more drastic measures, such as those taken under Section 311 of the USA PATRIOT Act, to prohibit financial transactions with banks in these countries—or even with the countries themselves.

Many countries come into compliance with global norms and standards and avoid the risk of countermeasures by passing the laws and writing the regulations called for in the FATF recommendations. The laws and regulations, however, need credible enforcement to be dissuasive and effective. This is a tough assignment for many countries, often requiring them to seek and/or accept training and technical assistance from foreign donors. U.S.-provided assistance in this regard can be valuable as the performance by the Colombian National Police in this \$80 million seizure attests. The U.S. has provided substantial anti-money laundering assistance to Colombia over the years, making our program there a model for what we are achieving in strategic countries elsewhere. With regard to

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the \$80 million seizure, the Colombian National Police, who have directly benefited from U.S. assistance, performed with initiative and professionalism. Indeed, aspects of the Colombia program are so strong that today Colombian anti-money laundering experts and officials are sought to provide advice, training, and assistance elsewhere in the region.

The State Department's anti-money laundering/counterterrorist financing training and technical assistance goal is to strengthen regional anti-money laundering organizations and build comprehensive anti-money laundering regimes, with no weak links, in strategic countries. We seek to maximize the institution-building benefits of our assistance by delivering it in both sequential and parallel steps. The steps, while tailored to each country's unique needs as determined by needs and threat assessments, include help in the following areas:

- Drafting and enacting comprehensive anti-money laundering and terrorist financing laws that have measures to enable states to freeze and seize assets as well as comply with the FATF's "40+9" recommendations on money laundering and terrorist financing;
- Establishing a regulatory regime to oversee the financial sector, including to guard against corruption and intimidation;
- Training law enforcement agencies, prosecutors, and judges so that they have the skills to successfully investigate and prosecute financial crimes; and
- Creating and equipping financial intelligence units (FIUs) so that they can collect, analyze, 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.

The crowning achievements in money laundering cases, however, reach beyond the asset seizures and forfeitures. Authorities can, and must, glean from pre-and post-raid intelligence strong evidence to indict the financial and operational masterminds and foot soldiers behind these operations. The international community is underachieving on this front. Despite now nearly unanimous compliance with the FATF recommendation to criminalize money laundering, and acceptance of various UN conventions and Security Council resolutions that make this mandatory, few criminals are being prosecuted or convicted for money laundering. The United Arab Emirates, where the threats of money laundering and terrorist finance are particularly acute, is one example of many strategic countries that are on the right track, but still need to get over this hurdle. The UAE has worked hard, particularly since 9/11, to establish anti-money laundering and counterterrorist finance regimes and countermeasures that adhere to current world standards, yet it is still working to achieve its first money laundering or terrorist financing conviction. The UAE is not alone in this regard as a review of this year's INCSR country reports reveals a similar, unfortunate lack of implementation and enforcement around the world, including even in a number of the most advanced and developed economies on six continents.

The Colombia seizure highlights other key anti-money laundering challenges ahead: the use of cash couriers and trade based money laundering. The cash courier threat is also linked with the misuse of charities to finance terrorism. FATF, for instance, has issued special recommendations and published associated interpretive notes and best practices to address the misuse of charities for terrorist financing. Some charities have been designated under various UN Security Council Resolutions for their roles in financing terrorism resulting in having their assets frozen and/or financial transactions with them prohibited. As this terrorist financing avenue has become more constricted and risky, terrorists have had to rely increasingly on cash couriers for their funds. FATF has a special recommendation, interpretive notes, and best practices papers to help countries address this threat also. Meanwhile, the United States has developed a course focused specifically on cash couriers, including

how to find and stop them at borders, and inserted it as a feature in our anti-money laundering/counterterrorist training and technical assistance program.

The Department of State, in collaboration with the Departments of Homeland Security (DHS) and Treasury, began making combating trade based money laundering a key part of its anti-money laundering effort several years ago. Since then, others have picked up on this urgency, including FATF which last year issued a special paper on trade-based money laundering. Trade is the common denominator in many entrenched underground or alternative remittance systems such as hawala, the black market peso exchange, the misuse of the international gold and gem trades, and other value transfer systems. To help address these vulnerabilities, the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) began providing funding to the Department of Homeland Security in 2005 to establish prototype Trade Transparency Units (TTUs) in the Triborder Area countries of Argentina, Paraguay, and Brazil.

TTUs examine anomalies in trade data that could be indicative of customs fraud and trade-based money laundering. As a result of the 2005 INL/DHS initiative, DHS Immigration and Customs Enforcement (ICE) agents teamed with Brazilian authorities in 2006 to target a scheme involving the under-valuation of U.S. exports to Brazil to evade more than \$200 million in Brazilian customs duties over the past five years. The scheme involved tax evasion, document fraud, public corruption and other illegal activities in Brazil and the United States. In an excellent example of the long reach of law enforcement, more than 128 arrest warrants and numerous search warrants were simultaneously served in 238 locations in Brazil.

The State Department is working with DHS to expand the TTU concept to Southeast Asia. An international TTU network may eventually develop that will promote trade-transparency, combat customs fraud, and be the back door to entrenched informal underground value transfer systems.

Despite the increased awareness and significant progress that has been made on several fronts, much remains to be done in the global effort to combat money laundering. It will remain 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: it can be applied equally effectively to a wide variety of crimes, to any crime that must be financed or is committed for profit. Once in place, anti-money laundering measures can be used without any special tailoring to attack such threats as narcotics trafficking, alien smuggling, intellectual property theft, corruption, terrorism, and more.

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 criminality remains in the underground of aliases, coded messages, false documents, bearer instruments, and clandestine operations, it is often undetectable to even seasoned investigators. 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 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. This is happening in Colombia, as the \$80 million seizure demonstrates. But getting to this desirable outcome in many countries around the world still requires a great deal of training, equipping, and political will.

Bilateral Activities

Training and Technical Assistance

During 2006, 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 2006, 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 nongovernmental 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 Brazilian Trade Transparency Unit (TTU) less than nine months after being established in late 2005 augurs well for the nascent TTUs of Argentina and Paraguay. In 2006, INL obligated funds to DHS to establish a TTU in Southeast Asia and will continue to provide funding to DHS for the development of TTUs globally. Similar to the Egmont Group of Financial Intelligence Units that examines and exchanges information gathered through financial transparency reporting requirements, an international network of TTUs would foster the sharing of disparities in trade data between countries and be a potent weapon in combating customs fraud and trade-based money laundering. Trade is the common denominator in most of the world's alternative remittance systems and underground banking systems. Trade-based value transfer systems have also been used in terrorist finance.

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 provides regional and bilateral mentoring, training; and technical assistance to the Pacific Islands Forum's fourteen non-FATF member states for the purpose of developing viable regimes that comport with international standards.

In 2005, INL reserved \$900,000 for the United Nations Global Programme against Money Laundering (GPML). In addition to sponsoring money laundering conferences and providing short-term training courses, the GPML instituted a unique longer-term technical assistance initiative through its mentoring program. The mentoring program provides advisors on a yearlong basis to specific countries or regions. 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. GPML resident mentors provided country-specific assistance to the Philippine FIU and asset forfeiture assistance to Namibia. Regional assistance to Central and Southeast Asia and the Pacific was also provided by other GPML mentors.

INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2006, INL supported FATF, the international standard setting organization. INL continued to be the sole U.S. Government financial supporter of the FATF-style regional bodies, 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) Experts Group to Control 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 capabilities, 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.

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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. 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 18,000 officials from over 75 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, Cameroon, Comoros, Congo, the Democratic Republic of Congo, Djibouti, Ethiopia, Gabon, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Swaziland, Tanzania, Uganda, and Zambia.

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 the DHS 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 approximately 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), East Timor and China (including Hong Kong and Macau), 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, East Timor, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand and Vietnam. Subject matter experts from the United States, Hong Kong, Japan, Netherlands, Philippines, and Thailand 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). Approximately 600 students participate annually.

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 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. ILEA San Salvador was established in 2005. The training program for the newest ILEA is 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 2007, ILEA San Salvador will deliver three LEMDP sessions 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) 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 anti-money laundering training (presented by IRS). Instruction is provided to participants from: Argentina, Barbados, Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.

The ILEA Regional Training Center located in Peru will officially open in 2007. The center will augment the delivery of region-specific training for Latin America and will concentrate on specialized courses on critical topics for countries in the Southern Cone and Andean Regions.

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, examines banking organizations under its supervision for compliance with these statutes. This task was advanced in 2005 with the issuance of the Federal Financial Institutions Examination Council (FFIEC) Bank Secrecy Act/Anti-Money Laundering Examination Manual, which was revised in 2006.

Internationally, the FRB conducted training and provided technical assistance to bank supervisors and law enforcement officials in anti-money laundering and counterterrorism financing tactics in partnership with regional supervisory groups or multilateral institutions. In 2006, the FRB provided training and/or technical assistance to regulators and bankers in Argentina and Mexico. In addition, the FRB hosted an Anti-Money Laundering Examination Seminar in Washington D.C. for bank supervisors from sixteen 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 to 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.

The FRB also presented training courses on International Money Movements 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, and the Drug Enforcement Administration, as well as at the Federal Law Enforcement Training Center.

Drug Enforcement Administration (DEA), Department of Justice

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 2006, more than two hundred participants from The Netherlands, Brazil, South Korea, Spain, People's Republic of China, Singapore, and Russia received this training.

A wide range of DEA international courses contain training elements related to countering money laundering and other financial crimes. The basic course curriculum, which was conducted in Brazil, South Korea, China, and Russia addresses money laundering and its relation to asset identification, seizure and forfeiture techniques, financial investigations, the role of intelligence in financial investigations, document exploitation, and case studies with a practical exercise. The curriculum also includes overviews of U.S. asset forfeiture law, country specific forfeiture and customs law, and prosecutorial perspectives. The advanced course, conducted in The Netherlands, Spain, and Singapore included tracing the origin of financial assets, internet/cyber banking, terrorist financing, reverse undercover operations, electronic evidence and data exploitation, role of intelligence in money laundering investigations, and case studies. Additionally, a legal overview of U.S. methods of administrative, civil, and criminal forfeiture, along with asset sharing, liability, and ethical issues was presented.

The DEA training division also delivers training at the International Law Enforcement Academies in Bangkok, Budapest, Gaborone, and San Salvador. In addition, DEA presented a three-week International Narcotics Enforcement Management Seminar for officials from China, Laos, Philippines, New Zealand, Thailand, Indonesia, Fiji, South Korea, Vietnam, Malaysia, Singapore, Japan, Cambodia, Macau, Hong Kong, and Australia. The DEA Chief of Financial Operations presented a

block of training related to the Office of Financial Operations Mission; the stages of drug money flow; the role of U.S. based Financial Investigative Teams; and financial investigative initiatives.

In addition to the financial training described above, the DEA Office of Financial Operations provided anti-money laundering and/or asset forfeiture training in 2006 to officials from Ecuador, the People's Republic of China, Costa Rica, Spain, Mexico, Nicaragua, Latvia, and Canada.

Federal Bureau of Investigation (FBI), Department of Justice

During 2006, 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, the International Training and Assistance Unit (ITAU), 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 intelligence analysts, 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; Gaborone, Botswana; and San Salvador, El Salvador. In 2006, the FBI delivered training in white collar crime investigations to 240 students from 15 countries at ILEA Budapest. At the ILEA in Bangkok, for the Supervisory Criminal Investigators Course, the FBI trained 45 students from Thailand. Similarly, at the ILEA San Salvador, the FBI provided terrorist financing training to 40 students from El Salvador, Panama, Costa Rica, and Ecuador.

The FBI also provided training to officials in the Bahamas, Thailand, Nigeria, Moldova, Suriname, Bulgaria, Tanzania, Indonesia, Jordan, Chile, Egypt, Czech Republic, Philippines, Pakistan, Malaysia, Bangladesh, Kuwait, and the United Arab Emirates. This training includes FBI participation in financial investigation and organized crime seminars that DOJ's Office of Overseas Prosecutorial Development delivered to 59 students in Suriname and Bulgaria. The FBI also delivered 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 was provided to 326 international students in 2006. For the first time, the FBI participated in IRS sponsored Financial Investigations Techniques/Money Laundering courses in Malaysia, Philippines, Bangladesh and Kuwait to 138 participants.

In other FBI training programs, the FBI included blocks of instruction on terrorist financing and/or money laundering for 38 students from 18 Latin American countries participating in the Latin American Law Enforcement Executive Development Seminar and for 24 students from 11 Middle Eastern and Northern African countries participating in the first Arabic Language Law Enforcement Executive Development Seminar. Both seminars were conducted at the FBI Academy. Terrorist Financing instruction was also included in the FBI's Pacific Training Initiative, which served 50 participants from 10 countries, to include Australia, Cambodia, China, Japan, Korea, Micronesia, Pakistan, Philippines, Singapore, and Thailand.

Federal Deposit Insurance Corporation (FDIC)

In 2006, 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 accomplish that objective, the FDIC has 37 individuals available to participate in foreign missions. Periodically, FDIC management and staff meet 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 2006, the FDIC gave such presentations to representatives from Malaysia, Australia, Armenia and India.

In September 2006, in partnership with the Department of State, the FDIC hosted 20 individuals from Iraq, Afghanistan, Yemen, Kenya, and South Africa. The session focused on AML and counter terrorist financing, including the examination process, customer due diligence, and foreign correspondent banking. In December 2006, the FDIC participated in an interagency Financial Systems Assessment Team (FSAT) to Bosnia. The group reviewed the country's AML law and provided information in the areas of customer identification programs, financial intelligence units and the monitoring of nonbank financial institutions.

In December 2006, the FDIC partnered with the Financial Services Volunteer Corp to provide technical assistance to the government of Russia by reviewing its AML legislation and delivering a presentation on the U. S. AML regime from a financial regulatory perspective. FDIC staff reviewed and advised the Russian central bank, financial intelligence unit, and legislature regarding amendments to their AML law. FDIC staff also delivered a presentation at the Eurasian Group seminar in Moscow, Russia in 2006. During 2006, the FDIC also assisted in an interagency assessment of identifying AML/CFT vulnerabilities in South Africa's financial, legal, and law enforcement systems. Additionally FDIC reviewed draft AML legislation for Paraguay in 2006.

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 is the creation and strengthening of FIUs—a valuable component of a country's anti-money laundering/counterterrorism financing (AML/CTF) regime. FinCEN's international training program has two primary focuses: (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) specific training to FIU counterparts regarding FIU operations and analysis training via personnel exchanges and FIU development seminars. 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.

In 2006, 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.

Regarding assistance to nascent FIUs that are not yet members of Egmont, FinCEN hosts FIU-orientation visits and provides training and mentoring on FIU development. In 2006, at the invitation of FinCEN's Director, a delegation from India's nascent Financial Intelligence Unit (FIU-IND) and representatives from Jordan's Central Bank were hosted by FinCEN for week-long seminars that included an overview of FinCEN's operations and programs and briefings from various other U.S. agencies brought in by FinCEN (OFAC, IRS-CI, FDIC, Secret Service, and FBI) to discuss the U.S. AML/CFT regime.

For those FIUs that are fully operational, FinCEN's goal is to assist the unit in increasing effectiveness, improving information sharing capabilities, and better understanding the phenomena of money laundering and terrorist financing. As a member of the Egmont Group of FIUs, FinCEN works closely with other member FIUs to provide training and technical assistance to countries and jurisdictions interested in establishing their own FIUs and having those units become candidates for membership in the Egmont Group. Additionally, FinCEN works multilaterally through its representative on the Egmont Technical Assistance Working Group to design, implement, and co-teach Egmont-sponsored regional training programs to both Egmont-FIUs and Egmont candidates.

In addition to hosting delegations for training on FinCEN premises, FinCEN conducts training courses and seminars abroad, both independently and in conjunction with other domestic and foreign agencies, counterpart FIUs, and international organizations. 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. Topics such as FIU primary and secondary functions; regulatory issues; international case processing procedures; technology infrastructure and security; and terrorist financing and money laundering trends and typologies provide trainees with broader knowledge and a better understanding of the topics of money laundering and terrorism financing. By way of example, as a follow-up to Romania's visit to FinCEN in 2005, FinCEN at the invitation of U.S. Embassy in Bucharest participated in a financial investigations seminar co-sponsored by the Romanian FIU and the Romanian National Anti-Corruption Department. FinCEN also prepared and delivered a training module on money laundering, FIUs and international cooperation in Spanish which was given at the ILEA in San Salvador., involving participants from Ecuador, Costa Rica, El Salvador and Panama.

Core analytical training to counterpart FIUs is conducted both on FinCEN premises and abroad, often in conjunction with other U.S. agencies. FinCEN's analytical training program, typically delivered over the course of one to two weeks, provides foreign analysts with basic skills in critical thinking and analysis; data collection; database research; suspicious transactions analysis; the intelligence cycle; charting; data mining; and case presentation. As Nigeria's sponsor for Egmont membership, FinCEN devoted three analysts to provide two weeks of analytical training to the newly formed FIU in Abuja in August 2006. The training, which consisted of basic analysis theory and charting techniques, was delivered to the FIU as well as other agencies, from intelligence to regulatory to enforcement.

Over the last twelve months, in an effort to reinforce the sharing of information among established Egmont-member FIUs, FinCEN conducted personnel exchanges with a number of Egmont Group members: Albania, Canada, and Chile. These exchanges offer the opportunity for FIU personnel to see first-hand how another FIU operates; develop joint analytical projects and other strategic initiatives; and also to work jointly on on-going financial crimes cases. The participants in these exchanges share ideas, innovations, and insights that lead to improvements in such areas as analysis, information flow, and information security at their home FIUs, in addition to deeper and more sustained operational collaboration.

Immigration and Customs Enforcement, Department of Homeland Security (DHS)

During 2006, U.S. Immigration and Customs Enforcement (ICE), Financial Investigations Division and the Office of International Affairs delivered money laundering/terrorist financing, and financial investigations training to law enforcement, regulatory, banking and trade officials from more than 100 foreign countries. The training was conducted in both multilateral and bilateral engagements. 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.

Using State Department INL funding, ICE provided bilateral training and technical assistance on the interdiction and investigation of bulk cash smuggling, for more than 200 officials in the Philippines, Paraguay, Pakistan, Tanzania, Malaysia, and Indonesia. The training was conducted in furtherance of the Financial Action Task Force (FATF) on Money Laundering, Special Recommendation IX on Cash Couriers.

ICE conducted financial investigation/money laundering training programs for more than 300 participants at the State Department sponsored International Law Enforcement Academy (ILEA) locations in El Salvador, Thailand, and Botswana. The specialized training was given three times each at the ILEAs in El Salvador and Botswana, and once in Thailand.

ICE also provided training to foreign police, judicial, banking and public sector officials at seminars and conferences sponsored by the FATF, the Caribbean Financial Action Task Force and the Asia/Pacific Group on Money Laundering Under the auspices of these multinational organizations, ICE delivered training on money laundering, financial investigations, bulk cash smuggling, and trade based money laundering to officials from more than 100 countries.

With INL funding, ICE worked to expand the network of foreign Trade Transparency Units (TTU) beyond Colombia. With ICE established TTU's in the Tri-border area countries of Brazil and Argentina. ICE also exchanged trade data with the Government of Paraguay and ICE is in the process of establishing a TTU for that nation.

ICE updated the technical capabilities of Colombia's TTU and trained new TTU personnel, to include members of the Financial Intelligence Unit (FIU). Additionally, ICE strengthened its relationship with the Colombian TTU by deploying temporary duty personnel to work onsite and provide training. This action had an immediate, positive impact on information sharing between the U.S. and Colombia and resulted in ongoing joint criminal investigations.

TTUs identify anomalies related to cross-border trade that are indicative of international trade-based money laundering. TTUs generate, initiate and support investigations and prosecutions related to trade-based money laundering, the illegal movement of criminal proceeds across international borders, alternative money remittance systems, and other financial crimes. By sharing trade data, ICE and participating foreign governments are able to see both sides of import and export transactions for commodities entering or exiting their countries. This makes trade transparent and assists in the investigation of international money launderers and money laundering organizations.

Internal Revenue Service (IRS), Criminal Investigative Division (CID) Department of Treasury

In 2006, the IRS Criminal Investigative Division (IRS-CID) continued its involvement in international training and technical assistance efforts designed to assist international law enforcement officers in

detecting criminal tax, money laundering and terrorism financing. With funding provided by the Department of State, IRS-CID delivered training through agency and multi-agency technical assistance programs to international law enforcement agencies. Training consisted of basic and advanced financial investigative techniques as needed. IRS-CID provided instructor and course delivery support to the International Law Enforcement Academies (ILEAs) in Bangkok, Thailand; Budapest, Hungary; Gaborone, Botswana; and San Salvador, El Salvador.

At ILEA Bangkok, IRS-CID participated in one Supervisory Criminal Investigator Course (SCIC) and was the coordinating agency of the Complex Financial Investigations (CFI) course. CFI is provided to senior, mid-level, and first-line law enforcement supervisors and officers from the countries of Cambodia, Hong Kong, Indonesia, Macau, Malaysia, Republic of China, Philippines, Singapore, Thailand, Timore-Leste, and Vietnam.

At ILEA Budapest, IRS-CID participated in six sessions, ILEA 53-58. For ILEA 58 IRS-CID provided a class coordinator to coordinate and supervise the daily duties and activities of the participants. The countries that participated in these classes are Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Macedonia, Montenegro, Moldova, Romania, Russia, Serbia, Tajikistan, and Ukraine.

IRS-CID participated in five Law Enforcement Executive Development (LEED) programs LEED 17-21 at ILEA Gaborone. Countries that participated in these classes are Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Djibouti, Ethiopia, Kenya, Seychelles, Uganda, Nigeria, Cameroon, Comoros, Republic of the Congo, Democratic Republic of Congo (DRC), Gabon, and Madagascar. IRS-CID participated in two Latin America's Law Enforcement Development (LEMDP) programs, LEMDP 002 and 003 at ILEA San Salvador. LEMDP stresses the importance of conducting a financial investigation to further develop a large scale, criminal investigation.

IRS-CID conducted Financial Investigative Techniques (FIT) courses in Malaysia, Peru, and Philippines. These programs focused on Financial Investigative Techniques while investigating criminal tax, money laundering and terrorism financing investigations. The twenty-four participants that attended the week long course included members of the Royal Malaysian Police, Inland Revenue Board, members of the Intelligence and Special Investigative Unit, Central Bank of Malaysia, Ministry of Finance, and Customs. Two one-week classes were presented in Lima, Peru, to forty (40) law enforcement officials, prosecutors and judges from Peru and Brazil. The curriculum was designed to parallel the progress of a simulated case exercise. The week-long course in Manila, Philippines attended by forty-three (43) participants from twenty-five (25) different organizations completed FIT training. The curriculum consisted of techniques focusing on money laundering with attention called to the unlawful activities of drug trafficking, public corruption, terrorism financing and kidnapping for ransom.

In Kuwait, IRS-CID presented a one-week conference with a total of forty seven participants from seventeen different federal agencies and banks. In Dhaka, Bangladesh IRS-CID conducted both a one-week basic and a one-week advanced course, which provided a more in-depth, and comprehensive look at financial investigations. In accordance with the International Criminal Investigative Training Assistance Program (ICITAP) IRS-CID conducted six advanced money laundering classes in Bogotá, Colombia. This training provided along with the Federal Law Enforcement Training Center (FLETC), was the first multi-agency joint effort to develop, coordinate and instruct an advanced money laundering course based on the new accusatory judicial system in Colombia. Along with the participation of the Attaché in Bogotá, approximately 144 judges, magistrates, government attorneys, and law enforcement officers received instruction on financial investigative techniques focusing on working a case from start to completion.

IRS-CID continued to assist the FBI in delivering multiple one-week courses on anti-money laundering and antiterrorism financing. During 2006, the course was successfully delivered to participants in Tanzania, Indonesia, United Arab Emirates, Jordan, Egypt, Philippines, and Pakistan. In conjunction with the Office of Overseas Prosecutorial Development Assistance and Training (OPDAT), IRS-CID presented an Asset Forfeiture Unit course. Participants included 140 participants composed of advocates, investigators and administrative personnel of the National Prosecuting Authority of South Africa.

The National Criminal Investigation Training Academy (NCITA) hosted a delegation of four investigators from Her Majesty's Revenue & Customs (HMRC) of the United Kingdom for a week long Money Laundering Investigations Workshop. The delegates received presentations on money laundering investigative methods. The HMRC delegation also visited the Savannah CID Field Office and met with prosecutors at the U.S. Attorneys Office in Savannah (Southern Judicial District of Georgia).

The IRS-CID Mexico Attaché assisted with the coordination and served as a liaison between Treasury Office of Technical Assistance Representatives and the Mexican Government Attorney Generals Office's (PGR) Money Laundering Unit Director during an Advanced Money Laundering training session for various Mexican Officials, to include prosecutors, judges, attorneys and investigators. In addition, the IRS-CID Mexico Attaché participated in a Money Laundering/Terrorist Financing Awareness Conference sponsored by the Panama Financial Investigative Unit before an audience of approximately 230 law enforcement officials from that country. This conference was sponsored by the Narcotics Affairs Section (NAS) of the U.S. Embassy and the Drug Enforcement Agency (DEA) Office in Panama. IRS-CID Hong Kong Attaché coordinated and supported a Financial Investigative Techniques/Anti-Money Laundering course in Macau in 2006. It was a week long course for approximately 45 law enforcement and regulatory participants from Macau, China.

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. They review, among other things, the bank's internal controls, internal and external audit and compliance with law, including Bank Secrecy Act (BSA) and anti-money laundering (AML) compliance.

The OCC offers three internal courses for examiners that have significant BSA/AML components; these are the Basic Consumer Compliance School, Bank Supervision School and FinCEN Database Training. The OCC also periodically develops and provides other BSA/AML training to examiners as needed, such as the Federal Financial Institutions Examination Council BSA/AML Examination Manual.

In addition to hosting BSA/AML Schools for OCC examiners, the OCC offers its AML School to foreign bank supervisors. The OCC conducted and sponsored a number of anti-money laundering (AML) training initiatives for foreign banking supervisors during 2006. In August 2006, 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-two banking supervisors from the following countries were in attendance: Argentina, Bahrain, Canada, Cayman Islands, Croatia, Czech Republic, Mexico, Netherlands, Nigeria, Panama, Philippines, Singapore, Slovenia, Turkey, and United Kingdom.

In October 2006, the OCC provided an instructor to the IMF sponsored Anti-Money Laundering/Combating Terrorist Financing Workshop for the Eastern Caribbean Central Bank in St. Kitts, W.I. The workshop was designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorist financing activities and how these acts are perpetrated. The course provided a basic overview of AML examination techniques, tools and case studies. Twenty-one banking supervisors from the Eastern Caribbean Central Bank and off-shore bank regulators attended the workshop. The ECCB is the monetary authority for a group of eight islands—Anguilla, Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia, and St Vincent and the Grenadines.

OCC officials participated in numerous international conferences on combating money laundering. For example, in February and March of 2006, OCC officials were part of a body of U.S. regulators presenting to the international audiences at the Florida International Bankers Association and the Money Laundering Alert's International Conference on Combating Money Laundering. In addition, the OCC's senior compliance official was a guest speaker at the Inaugural Conference on Combating Money Laundering and Terrorist Financing by the U.S.-Middle East/North Africa Private Sector Dialogue group that was held in Cairo Egypt with over 300 participants from 23 countries.

Office of Overseas Prosecutorial Development, Assistance and Training, the Asset Forfeiture and Money Laundering Section, & Counterterrorism Section (OPDAT, AFMLS, and CTS)), Department of Justice

Training and Technical Assistance

The Office of 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 (CTS), 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 2006, OPDAT provided technical assistance in the areas outlined below. In addition to programs that are targeted to each country's specific 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 normally 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 criminal justice sector components. For all programs, OPDAT draws on the expertise of the Department of Justice's Criminal Division, National Security 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 2006, 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 2006 included developments in money laundering legislation and investigations, complying with international standards for anti-money laundering/counterterrorist financing regimes, 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.

AFMLS provides technical assistance directly in connection with legislative drafting on all matters involving money laundering, asset forfeiture and the financing of terrorism. During 2006, AFMLS provided such assistance to 16 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 nonconviction based asset forfeiture law and the G-8 working groups on corruption and asset sharing and the CARIN Group on asset recovery.

AFMLS provided training to government officials concerned with money laundering and asset forfeiture issues in Azerbaijan, Andorra; Bangladesh, Brazil; Bulgaria; Estonia; Kosovo, Macedonia, Peru, the Republic of Korea, Sri Lanka, and Turkey. These officials attended in-depth sessions on money laundering and international asset forfeiture. Additionally, in 2006, AFMLS provided technical assistance to Afghanistan, Albania, Bangladesh, Brazil, Bulgaria, Pakistan, Indonesia, Iraq, Kenya, Kosovo, Malawi; Sri Lanka, the Republic of Korea, Tanzania, Thailand, and Turkey.

In an effort to improve international cooperation, AFMLS, in conjunction with the Italian Ministry of Justice, co-hosted a conference in Rome, Italy, April 4-6, 2006, on International Forfeiture Cooperation for prosecutors and investigators to discuss "What Works? What doesn't and Why?" Practitioners and other experienced government officials from Austria, Brazil, Canada, Denmark, Estonia, France, Guernsey, Hong Kong, Isle of Man, Ireland, Israel, Luxembourg, the Netherlands, South Africa, Sweden, United Kingdom and the United States participated. This conference brought practitioners and international experts, including representatives from Egmont, Eurojust and the private sector, together to share experiences and ideas to provide practical tools to further international cooperation in forfeiture.

With the assistance of Department of State funding, in 2006 OPDAT provided training to government officials on money laundering and financial crime related issues in more than eleven countries, including Romania, Slovenia, Nigeria, South Africa, Suriname, Malawi, Azerbaijan, and Albania. OPDAT RLAs in these countries organized in-country seminars on money laundering, asset forfeiture, terrorist financing and financial crime investigations and prosecutions.

In February 2006, OPDAT conducted a three-day conference on financial crimes, asset forfeiture and money laundering in Abuja, Nigeria, for approximately 50 Nigerian prosecutors and police. Topics included money laundering, asset forfeiture, financial investigations, prosecuting complex financial cases, and offshore banking and electronic funds transfer systems.

In February and March 2006, OPDAT organized a series of three anti-money laundering/counterterrorist financing workshops conducted by AFMLS in Ankara, Antalya, and Istanbul, Turkey, for approximately 100 Turkish prosecutors and investigators. The workshops focused on providing an interactive platform for participants to examine the tools (legislative, investigative, prosecutorial) available in financial crime cases.

In April 2006, OPDAT RLA to Bosnia and Herzegovina organized two financial crimes training seminars in Sarajevo, Bosnia and Herzegovina. Each of the two-day sessions included an in depth examination of current issues regarding financial and transnational crimes. The seminars explored various investigative techniques (money laundering detection, asset forfeiture) and the roles of different agencies (prosecutors, finance police, financial intelligence units, bank regulators).

In May 2006, OPDAT conducted an intensive three-day workshop in Paramaribo, Suriname, on best practices for financial investigations and prosecutions. The OPDAT training team, consisting of a U.S. federal prosecutor and an FBI special agent, presented the course to an audience of Surinamese prosecutors, investigators, and a legislative expert.

In July 2006, OPDAT deployed its new RLA to Azerbaijan. The RLA placed renewed emphasis on establishing a legal framework in Azerbaijan to investigate and prosecute money laundering, terrorist financing and financial crimes, including pushing for the passage of the draft AML/CFT law and the creation of a financial intelligence unit (FIU). Passage of a comprehensive AML/CFT (Anti-Money Laundering/Counter-Financing Terrorism) law and the development of an FIU that complies with international standards are significant USG priorities for Azerbaijan. OPDAT and AFMLS have provided detailed technical assistance on the draft AML/CFT law for the last year, but the draft appeared stalled. In late 2006, the RLA identified several specific obstacles to passage of this law and strategies to overcome them, with the goal of seeing the AML/CFT law passed by the end of the first quarter of 2007. These steps included engaging the government of Azerbaijan (GOAJ) at multiple levels, and creating opportunities to substantively assist the GOAJ in areas that were holding up the passage of the law. In furtherance of this strategy, the RLA took a delegation of Azerbaijani officials to an anti-money laundering conference sponsored by the SECI Center held in Moldova in September 2006. This conference impressed the Azerbaijani delegation with the progress being made by many other countries in the region and stressed the need to move forward with their own legislation in a timely manner. The RLA also coordinated with the President's Office and the Council of Europe to organize a comprehensive conference on the creation of a FIU in Azerbaijan—an issue that is significantly delaying the passage of the AML/CFT. In October 2006, the OPDAT RLA, in collaboration with AFMLS, organized the aforementioned FIU conference in Baku, Azerbaijan, for an audience of over 50 participants from a dozen different ministries and agencies, including the National Bank, the Prosecutors Office and the President's Office.

In July 2006, OPDAT RLA to South Africa coordinated a training session with participation by AFMLS for all the members of the South African Asset Forfeiture Unit (AFU). In August 2006, the RLA also arranged for three financial investigators from the AFU to attend a U.S.-based financial investigation training in New York City provided by AFMLS. All reports point to the fact that the training was substantive and very relevant to the work of an AFU investigator. These three talented investigators are now positioned as resources on financial investigation techniques for the rest of the AFU investigators and the core financial investigation competency of the AFU has increased. Of particular note during this period was the OPDAT conference on organized crime (August 28-September 1) that was attended by the National Prosecution Service and the Scorpions. For the first time and at the direction of the OPDAT RLA, attorneys from the AFU helped plan the conference and participated in the program. As a result, the conference educated South African prosecutors on the importance of prosecution components (National Prosecution Service and the Scorpions) calling upon the expertise and involvement of the AFU in the early stages of important investigations. This will help meet the AFU goal of increasing the amount of illicit proceeds that are recovered by the AFU in conjunction with significant criminal prosecutions. According to the Chief of the Pretoria Division of the AFU, the OPDAT program finally made the AFU a full law enforcement partner.

As part of Plan Colombia, in 2006, 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

In October-November 2006, OPDAT in cooperation with the Federal Bureau of Investigation organized a week-long anti-money laundering U.S.-based study tour in Washington, DC, for a 15-person, senior-level Malaysian delegation headed by the Solicitor General of Malaysia and the Inspector General of the Royal Malaysia Police. The delegation consisted of officials from the Attorney General's Chambers, Royal Malaysia Police, Anti-Corruption Agency, Central Bank of Malaysia, Ministry of Finance, as well as representatives from other law enforcement and legal agencies. The program focused on the legal aspects surrounding money laundering investigations and prosecutions, as well as asset forfeiture and the management and disposal of forfeited properties.

Organized Crime

During 2006, 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 the Strike Force's working relationship with officials in Albania, Bulgaria, Kosovo, Macedonia, Montenegro, and Serbia—through mentoring and training programs on investigating and developing organized crime case strategies.

In February 2006, OPDAT RLA to Albania organized training for 40 prosecutors on the organized crime amendments to the Albanian Criminal Procedure Code. This training was part of a series of trainings for all 250 prosecutors in the nation, addressing the host of new anti-organized crime laws and Code amendments that were enacted in 2004.

Also in February 2006, OPDAT conducted a three-day conference on investigating and prosecuting terrorism and other organized crimes in Manila, Philippines. The program focused on familiarizing 22 Filipino judges, prosecutors, and investigators with methods of combating transnational organized crime and terrorism offenses, including effective investigative and prosecutorial techniques.

In March 2006, an OPDAT RLA to Macedonia organized a two-week U.S.-based study tour program on combating organized crime for a ten-member delegation from Macedonia, which consisted of seven prosecutors and three judges. The program focused on familiarizing the Macedonians with collecting evidence and building organized crime cases, especially in cases relating to trafficking in persons, corruption, narcotics, financial crime and money laundering, as well as related asset forfeiture.

In June 2006, OPDAT conducted a week-long program on combating prosecuting organized crime in Hanoi, Vietnam, for an audience of 35 Vietnamese judges, prosecutors and investigators. The program focused on the methods of combating transnational organized crime, including effective investigative and prosecutorial techniques.

In July 2006, OPDAT's RLA to Serbia organized a three-day seminar for 30 Serbian prosecutors and police officials focused on the task force approach to combating organized crime and corruption.

In September 2006, OPDAT deployed an Intermittent Legal Advisor (ILA) to Pretoria, South Africa, for a three-month assignment that focuses on assisting the South African prosecution authority in its efforts to combat organized crime. The same ILA has already completed several previous three to six-month tours of duty in South Africa. Throughout these tours of duty, the ILA developed and began implementing several iterations of a training program for prosecutors on combating organized crime and racketeering. The ILA has already trained nearly 500 prosecutors at several sessions all over the

country. In addition, the ILA is meeting with prosecutors and investigators throughout the country and conducting case audits. During this process the potential use of the South African racketeering statute is discussed. The statute is the South African equivalent of the U.S. RICO statute that has been so effective in combating organized crime in the U.S. As a result of these consultations the prosecutorial use of the racketeering statute in charging crimes has increased dramatically. Much of this increase can be attributed directly to the ILA's work in South Africa.

Fraud/Anticorruption

In 2005, OPDAT placed two RLAs overseas in Indonesia and Nicaragua to provide technical assistance on a long-term basis specifically on corruption cases. In 2006, both RLAs continued to provide technical assistance on anticorruption matters for prosecutors and investigators to improve their investigative and prosecutorial abilities to combat public corruption. In Nicaragua, OPDAT RLA supported the creation of a vetted Anti-Corruption and Money Laundering Unit ("Task Force") that consists of members of the Nicaraguan National Police and the Attorney General's Office who are tasked with investigating money laundering and other corruption-related crimes. The RLA is helping train the Nicaraguan anticorruption specialists, making the Task Force a cornerstone in the U.S.-Nicaragua cooperation in the fight against corruption. The RLA is providing technical assistance and training to the Task Force and serves as a conduit of information between the unit and U.S. law enforcement agencies.

In May 2006, OPDAT in collaboration with AFMLS and the General Secretariat of the Organization of American States (OAS), held a seminar on the recovery of the proceeds of the acts of corruption in Miami, Florida. The workshop was in line with the G-8 and Summit of the Americas commitments to deny safe haven and assets to those who are corrupt and to those who corrupt them.

Also in May 2006, the OPDAT RLA to Indonesia organized a one-day workshop on investigating and prosecuting corruption cases in Bogor, Indonesia. The assembled 59 participants included police investigators, prosecutors, and auditors from the state auditing agency. The one-day workshop focused on familiarizing the participants with investigative and prosecutorial strategies for public corruption cases, which are not commonly used in Indonesia.

In May-June 2006, the OPDAT RLA to Bosnia and Herzegovina sponsored a three-day seminar on tax fraud cases for prosecutors and tax administrators in Sarajevo, Bosnia & Herzegovina. The 60 participants in the program included prosecutors and tax administrators from the various districts and regions of the country. The seminar taught the participants the basics of investigating and prosecuting tax fraud cases. In addition, it promoted cooperation and communication between the two groups.

Terrorism/Terrorist Financing

Since 2001 OPDAT, the DOJ's 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 seven RLAs assigned overseas who are supported by the interagency Terrorist Financing Working Group (TFWG), co-chaired by State INL and S/CT. The RLAs are located in Bangladesh, Indonesia, Kenya, Pakistan, Paraguay, Turkey, and the United Arab Emirates. Working in countries where governments are vulnerable to or may even be complicit in terrorist financing, these

Money Laundering and Financial Crimes

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 anti-money laundering and counterterrorist financing procedures.

In August 2003, OPDAT dispatched its first counterterrorism RLA to Asuncion, Paraguay, part of the Tri-Border area (with Brazil and Argentina) where the 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 Paraguay RLA in 2006 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.

In January 2006, OPDAT organized a trial advocacy course in Nairobi, Kenya, following the successful trial advocacy training provided by the OPDAT RLA in August 2005. In addition to U.S. prosecutors, U.S. judges and FBI agents, presenters included two prosecutorial trainers from the U.K. Crown Prosecution Service who provided a British perspective on Kenyan legal practice. After the first OPDAT RLA to Kenya departed Nairobi in November 2005, OPDAT sent out its second RLA to Kenya in May 2006. During his first few months in country, the RLA met with all the regional offices of the Department of Public Prosecutions, setting the stage for a country-wide prosecutorial training program. The RLA also monitored the progress of the pending Kenyan counterterrorism legislation, offering DOJ expertise in guiding the development of the counterterrorism strategy for Kenya and the region as needed.

In July 2006, OPDAT sent a new counterterrorism RLA to the United Arab Emirates (UAE) to work on financial crimes, terrorist financing, and money laundering issues. The RLA immediately engaged local officials responsible for money laundering and terror finance issues. The RLA held meetings with the Anti-Money Laundering and Financial Crimes Unit (AMLFCU) of the Dubai Police Department, Criminal Investigation Division, to discuss future training and collaboration. OPDAT expanded the UAE RLA portfolio to include assistance to other states in the Gulf Region in combating money laundering and terrorist financing. In September 2006, the RLA traveled to Kuwait and Jordan to meet with the key players in the Anti-Money Laundering/Terrorist Financing (AML/TF) field in the Kuwaiti and Jordanian governments. In November 2006, the RLA again traveled to Kuwait to discuss the possibility of providing training that would strengthen the Kuwaiti FIU and the capacity of Kuwaiti prosecutors and judges to combat financial crimes. As a result, the RLA is currently in the process of planning AML/CTF trainings in both Kuwait and Jordan, set to take place in early 2007.

In December 2006, OPDAT's RLA to the UAE also engaged with Saudi Arabian officials. The RLA was a member of the U.S. delegation to the U.S.-Saudi Arabia Strategic Dialogue Working Group sessions that took place December 3-5, 2006, in Riyadh. These consultations were focused on a bilateral exchange of ideas regarding possible future technical assistance programs involving the Saudi justice sector. The results were positive and future programs in Saudi Arabia on money laundering/counter terrorism financing (including perhaps charities regulation) are anticipated.

In March 2005, OPDAT placed its first RLA in South Asia at Embassy Dhaka with the goal of assisting the Government of Bangladesh in strengthening its anti-money laundering/terrorist financing regime, and improving the capability of Bangladeshi law enforcement to investigate and prosecute complex financial and organized crimes. During 2006, the RLA continued to provide assistance to Bangladeshi officials in their efforts to establish an effective anti-money laundering and terrorist financing regime. Specifically, the RLA continued her work on forming a financial crimes task force

and a Financial Intelligence Unit (FIU) to be housed in the central bank. The RLA achieved a major step forward on task force development when she facilitated the signing, by five relevant government agencies, of an inter-agency agreement promoting the creation of a task force for money laundering and terrorist financing cases. The signing came at the end of a two day retreat organized in September for just this purpose, bringing together the key figures at each relevant agency. The group consisted of the Bank of Bangladesh (the central bank), the Attorney General's Office, the Finance Ministry (the tax authority), Criminal Investigation Division CID), and the Home Affairs Ministry. The agreement sets forth the process by which anti-money laundering cases initiated by the central bank will be investigated and prepared for trial. Among the critically important agreed upon provisos: CID will designate 6 officers to work anti-money laundering/terrorist financing (AML/TF) cases and will also work with prosecutors throughout the investigation. The September retreat represented the culmination of six months of work by the RLA.

In October 2006, the Bangladeshi Law Minister (the country's lead prosecutor) designated four attorneys to handle money laundering and terrorist financing cases on the task force. The first money laundering investigations by the task force commenced in November, based on Bank of Bangladesh referrals to the CID of suspicious transaction reports. Training for the task force members continued throughout the quarter and into the second quarter of FY2007. In November, the RLA worked with a team from the IRS to provide two weeks of interactive training for officials from four agencies on accounting methods used to detect money laundering. In December, the prosecutors dedicated to the task force participated in a workshop with DOJ Asset Forfeiture and Money Laundering Section (AFMLS) Deputy Chief Linda Samuel; particular emphasis was given to working with these prosecutors on how to anticipate defense arguments in pre-trial and trial proceedings and prepare counter arguments.

OPDAT placed its first RLA in Indonesia in June 2005. In 2006, the RLA continued his work in providing 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. He also assisted the general prosecutors with skill-building and integrity development to ultimately enlarge the cadre of counterterrorism prosecutors. The RLA provided legislative drafting assistance and skills development seminars, and invited experts from other components of DOJ to demonstrate techniques for effective mutual legal assistance. Upon the departure of the first RLA in June 2006, OPDAT deployed its second Indonesia RLA to Jakarta in July 2006. The new RLA helped establish the Attorney General's Terrorism and Transnational Crime Task Force as an operational unit. He negotiated and arranged for the procurement and delivery approximately \$80,000 in office supplies and computers to the Task Force. As a result, the Task Force is now actively supervising cases against 21 defendants. The RLA also spoke at a regional counterterrorism conference in Makassar, Indonesia, on police/prosecutor cooperation—a major obstacle in Indonesia.

In September 2006, OPDAT deployed its first-ever RLA to Ankara, Turkey, with the goal of assisting Turkey to amend and implement effective money laundering legislation, and other related and potentially affected criminal statutes, codes, laws and regulations. In the same month, OPDAT also deployed its first ever RLA to Pakistan. The RLA spent his first month in country appraising the capacity of Pakistan's criminal justice system to function effectively. Since then, the Ambassador asked the RLA to place a heavy emphasis on laying the foundation with Pakistani prosecutors and investigators for future trainings on financial crimes.

In addition to the programs organized by the seven counterterrorism RLAs, in 2006 OPDAT conducted both bilateral and regional counterterrorism training programs. In June-July 2006, OPDAT RLA to Bosnia and Herzegovina conducted a nine-day study tour to the United States for thirteen members of the Counter-Terrorism Task Force (CTTF) of Bosnia and Herzegovina. The program introduced the delegation to the working procedures of U.S. inter-agency task forces, thereby

promoting cooperation and information sharing between and among Bosnian prosecutors and police agencies.

In April 2006, OPDAT conducted a South Asia regional seminar in Colombo, Sri Lanka, on safeguarding charities from abuse. Law enforcement officers, prosecutors, and financial sector officials from Sri Lanka, Afghanistan, Bangladesh, the Maldives, and Pakistan participated in the event. The conference stressed the importance of mutual cooperation in preventing the ability of terrorists to generate and disperse terrorist funds.

Justice Sector Reform

In 2006 DOJ's Justice Sector Reform Program in Colombia focused on four specific areas: (1) continued assistance in implementation of accusatory system, (2) assistance in specialized areas of criminal law, (3) implementation of justice and peace law, and (4) security and protection programs. In 2006, DOJ trained over 1,000 prosecutors; 6,000 police; 300 judges; and 100 forensic scientists in the accusatory system and implementation of the new Colombian Criminal Procedure Code, most of who will be implementing the new Code in their respective judicial districts in 2007 as part of the gradual, region by region implementation of the new law. This training involved intensive, practical training in the concepts and legal underpinnings of an accusatory system and the new Code, as well as the technical skills and practical application necessary for implementation—crime scene management, forensic development and presentation of forensic evidence, witness interview, trial preparation, chain of custody and presentation of evidence at trial, trial techniques, investigation and prosecution strategy, police/prosecutor cooperation. DOJ also provided equipment to facilitate the implementation of the new Code. DOJ's assistance in specialized areas of criminal law included training for prosecutors, investigators, and forensic scientists in money laundering, antiskidnapping, sex crimes, anticorruption, forensic anthropology, intellectual property, and human rights. DOJ also provided equipment and operational funds to specialized units within the Prosecutor General's Office. DOJ initiated training and technical assistance as well as providing equipment, office and court facilities development, and operational funds for the Prosecutor General's Justice and Peace Unit tasked with the investigation, interviewing and prosecution of demobilized paramilitary members under the Justice and Peace law. DOJ also provided similar assistance to the Colombian magistrates who will be involved in the court proceedings under this law. In the area of protection, DOJ continued to provide judicial protection training to Colombian protection details and began a shift in this protection training and assistance to courtroom and courthouse security. Over 200 protection personnel were trained in 2006. In addition, DOJ placed a U.S. Marshals Service (USMS) official in the Embassy in Bogota to assist the Colombian Prosecutor General's Office to develop a viable witness protection program. The goal is to train over 100 protection personnel as well as to enhance the structure for a protection program.

OPDAT currently has eight Resident Legal Advisors (RLAs) in Iraq assisting the Iraqi justice sector in enhancing sustainable institutions built on rule of law principles, with plans to expand the program in the near future. Presently, two RLAs are stationed at the Embassy in Baghdad and six RLAs are deployed as Rule of Law Coordinators to Provincial Reconstruction Teams (PRTs) in Iraqi provinces, one each in Ninewa (Mosul), Tamim (Kirkuk), Babil (Hillah), Salah ad Din (Tikrit), and Baghdad. As members of the interdisciplinary reconstruction effort, OPDAT RLAs work with local police and judges to identify and overcome obstacles to effective, fair prosecutions. The RLAs stationed at the Embassy in Baghdad advise the Multi-National Corps—Iraq, the U.S. Embassy, the Central Criminal Court of Iraq, the Iraq Ministry of Justice, and the Iraqi Higher Juridical Council on criminal justice, rule of law, and judicial capacity building.

Office of Technical Assistance (OTA), Treasury Department

The Treasury Department's Office of Technical Assistance 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 reform related to money laundering, and other financial crimes.

Sixty-three highly experienced intermittent and resident advisors comprise the Financial Enforcement Team. These advisors provide diverse expertise in the 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: Europe and Asia; Africa and the Middle East; and the Americas. Each region is managed by a full-time regional director.

OTA receives funding from USAID country missions and direct appropriations from the U.S. Congress. 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.

Assessing Training and Technical Assistance Needs

The goal of OTA's Financial Enforcement program is to build the capacity of host countries to prevent, detect, investigate, and prosecute complex international financial crimes by 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 assessment to identify needs and to formulate a responsive assistance program. These needs 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 2006, such assessments were carried out in Ethiopia, Nigeria, Namibia, Mauritius, Seychelles, Kuwait, and Maldives.

Anti-Money Laundering and Antiterrorism Financing Training

OTA specialists delivered anti-money laundering and antiterrorism financing courses to government and private sector stakeholders in a number of countries. These course components, included an overview of money laundering and financial crimes investigations; identifying and developing local and international sources of information; how banks and nonbank financial institutions operate, how they are regulated, and what records they keep and in what form; investigative techniques, including electronic surveillance and undercover operations; forensic evidence, including fingerprints, and ink and paper analysis; computer assistance; interviewing; 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 and forfeiture procedures. OTA delivered such courses in several African countries, including Ethiopia, Lesotho, Malawi, Namibia, Senegal and Zambia. In Asia, OTA conducted financial investigative techniques training in Macau. OTA has also conducted several training sessions for Philippine border control agencies on bulk cash smuggling.

In Europe, OTA teams delivered a variety of technical assistance products, including financial investigation training programs in Bulgaria; anti-money laundering and antifraud training for the insurance and gaming industries in Romania; a "train-the-trainer" program on auditing techniques for

concerned officials in Armenia; assistance to develop the criminal tax enforcement capability of Croatia; investigative training for the financial police in Georgia; and anti-money laundering seminars for investigative agencies in Montenegro.

In the Caribbean, OTA delivered Phases II and III of a train-the-trainers initiative, begun in 2005 and centered on the Financial Investigative Techniques (FIT) course. Advisors presented the Phase I two-week course, comprising state-of-the-art techniques, 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 and Tobago, and Turks and Caicos. Brazil also attended this first phase training course at the REDTRAC training facility in New Kingston, Jamaica. In 2006, OTA met again with students it trained at REDTRAC in 2005, and provided them with Basic Instructor Training (BIT) to prepare them to teach the FIT course on their own. Following this training, OTA advisors mentored REDTRAC trainers as they delivered the FIT course to students drawn from Caribbean law enforcement agencies charged with the investigation and prosecution of financial crimes. To ensure continued sustainability of this training effort, OTA will meet periodically with REDTRAC trainers to provide them with updates to FIT materials, thus ensuring REDTRAC's continued ability to provide the latest FIT training to Caribbean law enforcement authorities.

Support for Financial Intelligence Units

In Afghanistan, OTA assisted in the establishment and development of a FIU as a semi-autonomous unit within Da Afghanistan Bank. In Sri Lanka, OTA's resident advisor helped to stand up an operational FIU. Resident advisors in Albania, Bulgaria, Montenegro, and Serbia continued efforts to streamline and enhance host governments' FIU's. In Senegal, OTA continued to assist the FIU in achieving operational status and begin receiving suspicious transaction reports and training its staff. In Namibia and Jordan, advisors were engaged to the respective Central Banks. In Malawi, OTA assigned a resident advisor under the Millennium Challenge Corporation Threshold Program to assist in the passage of AML/CFT laws, establish an FIU, and work to improve the capacity of the government to combat financial crimes.

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, including FIU personnel, to provide the capacity for auditing and inspecting casino operations and all games of chance. In addition, advanced technical workshops have been conducted 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. They also view the assistance as very beneficial in fostering the host country's compliance efforts with the FATF 40 Recommendations as they relate to casinos. In 2006, the OTA Casino Gaming Group conducted an assessment in the Philippines, a follow-up assessment in Panama, and conducted technical assistance and training as described above in Antigua and Barbuda, El Salvador, Panama, Nicaragua, Chile, Montenegro and Romania. Also during 2006, the Casino Gaming Group participated in conferences in Macau and Argentina to highlight the FATF 40 Recommendations for casinos, and their obligations pursuant to the specific FATF Recommendations.

Money Services Businesses

Money services businesses (MSB's) offer several types of services (check cashing, money transmissions, currency exchange, etc.). Because of the high volume of their cash transactions, and because account relationships with related customer identification procedures are absent, resulting in an uncertain audit trail, MSB's are vulnerable to abuse for the purpose of money laundering and terrorist financing. FATF Recommendations call upon governments to regulate MSB's.

OTA collaborated with the Caribbean Group and the Central American Council of Bank Supervisors in the organization and presentation of two workshops for the oversight, regulation, and examination of MSB's. The first, in June 2006, was a workshop hosted by the Bank of Jamaica and was presented to regulators from fifteen of its English speaking member countries. The second workshop, presented in October, was hosted by the Superintendent of Banks, Santo Domingo, Dominican Republic, in collaboration with the Central American Council of Bank Supervisors for regulators from its seven member countries.

Insurance

In May 2006, OTA began its program to provide technical assistance relating to insurance enforcement. Compromise of an insurance system weakens an economy and provides avenues for money laundering. Since inception of the program, insurance assistance has been provided in all three OTA geographic regions. In Paraguay, OTA completed an assessment for AML assistance to establish regulation, inspection procedures, and manuals and training. In Jordan, assessment for fraud and AML purposes has been completed to establish an antifraud investigation unit; amend legislation; and establish electronic reporting and case management systems, public awareness campaigns, training and other related activities. Internal company fraud inspection procedures have been prepared for Romania. Participation in training covering both AML and fraud subjects was provided for a number of countries including Romania, Ukraine, Jordan, Jamaica, Turks and Caicos, and Anguilla. OTA also gave assistance to the National Association of Insurance Commissioners relative to international AML programs for its training efforts.

Regional and Resident Advisors

OTA resident advisors continued international support in the areas of money laundering and terrorist financing. In April 2006, OTA placed a regional advisor in Pretoria, South Africa with regional responsibilities for Africa and the Middle East. In September 2006, OTA posted an advisor to the Africa Development Bank in Tunis, Tunisia to provide assistance in the development and implementation of an anticorruption strategy for the Bank and its member countries.

As noted, the resident advisors in Albania, Bulgaria, Montenegro, and Serbia continued efforts to streamline and enhance host governments' FIU's. Supporting national efforts against financial crimes was the focus of the resident advisors in Albania and Zambia. Resident advisors for the Caribbean focused on national efforts against financial crimes as well as on bank regulatory compliance. OTA resident advisors in Armenia and Albania provided technical assistance on internal audit. OTA continued to work with the Secretariat of the Eurasian Group to Combat Money Laundering and Terrorist Financing. OTA placed a resident advisor in Kabul, Afghanistan, in March 2006, and assisted in the establishment and development of a FIU as a semi-autonomous unit within Da Afghanistan Bank. OTA also placed a resident advisor in Colombo, Sri Lanka in August 2006. This advisor has been assisting in the development of an effective anti-money laundering and counterterrorism financing regime, to include the establishment of an FIU that meets international standards. 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 relative to anti-money laundering and border controls, including the use of wireless value transfers. The advisor also provided assistance to the Philippines' Anti-Money Laundering Council that resulted in charges being filed in several high-profile money laundering cases.

Under the auspices of the Millennium Challenge Corporation Threshold Program established for Paraguay, OTA placed a resident advisor there to continue work begun in 2003 that culminated in the establishment, by Presidential Decrees, of an internal affairs unit within the Ministry of Finance, and criminal investigation units in the Customs and Tax Administrations. OTA worked with counterparts in the Ministry of Finance towards the establishment of these units; the identification, vetting, and training of personnel; and the provision of workplaces. Each of these units has made significant progress in identifying and investigating matters under its jurisdiction.

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, Japan, 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. In addition, the United States recently ratified the United Nations Convention against Corruption (UNCAC).

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.

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, Cayman Islands, 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, Luxembourg, Switzerland, and the United Kingdom have shared forfeited assets with the United States.

From 1989 through December 2006, the international asset sharing program, administered by the Department of Justice, shared \$228,371,464.04 with foreign governments which cooperated and assisted in the investigations. In 2006, the Department of Justice transferred \$26,921.94 to the Dominican Republic. 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, Indonesia, Isle of Man, Israel, Jordan, Liechtenstein, Luxembourg, Netherlands Antilles, Paraguay, Peru, Romania, South Africa, Switzerland, Thailand, Turkey, the United Kingdom, and Venezuela.

From Fiscal Year (FY) 1994 through FY 2006, the international asset-sharing program administered by the Department of Treasury shared \$27,493,927.00 with foreign governments which cooperated and assisted in successful forfeiture investigations. In FY 2006, the Department of Treasury transferred \$85,895 in forfeited proceeds to Canada (\$8,850) and St. Vincent & the Grenadines (\$77,045). 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 Financial Action Task Force (FATF) and FATF-Style Regional Bodies (FSRBs)

The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF was created in 1989 and works to generate legislative and regulatory reforms in these areas. The FATF currently has 33 members, comprising 31 member countries and territories and two regional organizations, as follows: Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Italy, Japan,

Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, the United States, the European Commission and the Gulf Cooperation Council.

There are also a number of FATF-style regional bodies, which, in conjunction with the FATF, constitute an affiliated global network to combat money laundering and the financing of terrorism.

The Asia Pacific Group (APG) was officially established in February 1997 at the Fourth (and last) Asia/Pacific Money Laundering Symposium in Bangkok as an autonomous regional anti-money laundering body. The 32 APG members are as follows: Afghanistan, Australia, Bangladesh, Brunei Darussalam, Burma, Cambodia, Canada Chinese Taipei, Cook Islands, Fiji, Hong Kong India, Indonesia, Japan, Macau Malaysia, Marshall Islands, Mongolia, Nepal, New Zealand, Niue, Pakistan, Republic of Korea, Palau, Philippines, Samoa, Singapore, Sri Lanka, Thailand, Tonga, United States, and Vanuatu. Afghanistan, Burma and Canada became members at the APG July 2006 plenary in Manila.

The Caribbean Financial Action Task Force (CFATF) was established in 1992. CFATF has thirty members: Anguilla, Antigua & Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago, Turks & Caicos Islands, and Venezuela.

The Eastern and South African Anti Money Laundering Group (ESAAMLG) was established in 1999. Fourteen countries comprise its membership: Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

The Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) was established on October 6, 2004 and has seven members: Belarus, China, Kazakhstan, Kyrgyzstan, the Russian Federation, Uzbekistan, and Tajikistan.

The Financial Action Task Force on Money Laundering in South America (GAFISUD) was formally established on 8 December 2000 by the nine member states of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay. Mexico became the tenth member of GAFISUD in July, 2006.

The Groupe Inter-gouvernemental d'Action contre le Blanchiment en Afrique (GIABA) consists of 15 countries: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea Bissau, Guinea Conakry, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

The Middle East and North Africa Financial Action Task Force (MENAFATF) consists of 16 members: Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

The Egmont Group of Financial Intelligence Units

The Egmont Group began in 1995 as a collection of a small handful of entities, today referred to as financial intelligence units (FIUs), seeking to explore ways of cooperation among themselves. The FIU concept has grown over the years and is now an important component of the international community's approach to combating money laundering and terrorist financing. To meet the standards of Egmont membership an FIU must be a centralized unit within a nation or jurisdiction to detect criminal financial activity and ensure adherence to laws against financial crimes, including terrorist financing and money laundering. Since its inception in 1995 the Egmont Group has grown dramatically from 14 units to a recognized membership of 100 FIUs. The Egmont Group now has

passed its first decade, and it is evolving toward a structure of independent units working closely together to strengthen not only their own countries' AML/CFT regime, but to strengthen the global firewall of economic resistance to money launderers and terrorist financiers.

The Egmont Group is an international network designed to improve interaction among FIUs in the areas of communications, information sharing, and training coordination. The goal of the Egmont Group is to provide a forum for FIUs around the world to improve support to their respective governments in the fight against money laundering, terrorist financing and other financial crimes. This support includes expanding and systematizing the exchange of financial intelligence information, improving expertise and capabilities of personnel employed by such organizations, and fostering better and more secure communication among FIUs through the application of technology. The Egmont Group's secure Internet system permits members to communicate with one another via secure e-mail, requesting and sharing case information as well as posting and assessing information regarding trends, analytical tools and technological developments. FinCEN, on behalf of the Egmont Group, maintains the Egmont Secure Web (ESW). Currently, there are 98 FIUs connected to the ESW.

The Egmont Group is organizationally structured to meet the challenges of the volume of membership and its workload. The Egmont Committee, a group of 14 members, is an intermediary group between the 100 Heads of member FIUs and the five Egmont Working Groups. This Committee addresses the administrative and operational issues facing Egmont and is comprised of seven permanent members and seven regional representatives based on continental groupings (i.e., Asia, Europe, the Americas, Africa and Oceania). In addition to the Committee there are five Working Groups: Legal, Operational, Training, Information Technology and Outreach. The Legal Working Group reviews the candidacy of potential members and handles all legal aspects and matters of principle within the Egmont Group. The Training Working Group looks at ways to communicate more effectively, identifies training opportunities for FIU personnel and examines new software applications that might facilitate analytical work. The Outreach Working Group concentrates on expanding and developing the FIU global network by identifying countries that have established or are establishing FIUs. Outreach is responsible for making initial contact with potential candidate FIUs, and conducts assessments to determine if an FIU is ready for Egmont membership. The Operational Working Group is designed to foster increased cooperation among the operational divisions of the member FIUs and coordinate the development of studies and typologies—using data collected by the FIUs—on a variety of subjects useful to law enforcement. The Information Technology (IT) Working Group promotes collaboration and information sharing on IT matters among the Egmont membership, in particular looking to increase the efficiency in the allocation of resources and technical assistance regarding IT systems. The Committee and the Working Groups meet at a minimum three times per year, including the annual plenary session.

To meet an ever-growing demand in terms of volume and complexity, the Egmont Group decided in June 2005 that a change was necessary to allow Egmont to meet its objectives and continue to grow and adapt to emerging trends. Consensual agreement by all Egmont members was reached for the creation of an Egmont Secretariat, the first step for Egmont to sustain, and more importantly enhance, its role in the global fight against money laundering and terrorist financing. With Egmont's input and expertise in increasing demand by other players on the global stage, the creation of the Secretariat will allow for consistent and active collaboration with other international organizations. The new Egmont Secretariat, to be located in Toronto, Canada, will begin setup and staffing by mid-2007, and is expected to be fully operational by 2008.

As of December 2006, the 100 members of the Egmont Group are Albania, Andorra, Anguilla, Antigua and Barbuda, Argentina, Aruba, Australia, Austria, Bahamas, Bahrain, Barbados, Belgium, Belize, Bermuda, Bolivia, Bosnia and Herzegovina, Brazil, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Chile, Colombia, Cook Islands, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominica, Egypt, El Salvador, Estonia, Finland, France, Georgia, Germany, Gibraltar,

Greece, Grenada, Guatemala, Guernsey, Honduras, Hong Kong, Hungary, Iceland, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Marshall Islands, Mauritius, Mexico, Monaco, Montenegro, Netherlands, Netherlands Antilles, New Zealand, Norway, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, San Marino, Serbia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, St. Kitts & Nevis, St. Vincent & the Grenadines, Sweden, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Vanuatu and Venezuela.

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 2006, the commission carried out a variety of anti-money laundering and counterterrorist financing initiatives. These included amending model regulations for the hemisphere to include techniques to combat terrorist financing, developing a variety of associated training initiatives, and participating in a number of anti-money laundering/counterterrorism meetings. This work in the area of money laundering and financial crimes also figures prominently in CICAD's Multilateral Evaluation Mechanism (MEM), which involves the participation of all 34 member states; beginning this year, however, the mechanism will use reports from the Financial Action Task Force (FATF), Caribbean Action Task Force (CFATF), and Financial Action Task Force of South America (GAFISUD) to prepare its evaluation.

CICAD's Group of Experts on Money Laundering met twice in 2006, first in Washington in May and later in El Salvador in November. This year's agenda included three primary themes—seizures, international funds, and financial remittances—and included special presentations by the OAS Secretary General, as well as by representatives of the United Nations, the Inter-American Development Bank (IDB), GAFISUD, the Government of Spain, the OAS Office of Legal Cooperation, and the Inter-American Committee against Terrorism (CICTE).

In his opening remarks during the first meeting the Secretary General proposed a CICAD assistance program to help member states provide funds to the Commission by each member state setting aside a small percentage (less than one percent) of revenue from seized assets. This revenue would support CICAD activities, such as specialized training. He reiterated the proposal at the OAS General Assembly in the Dominican Republic. The proposal will need to be considered further in terms of its voluntary nature and member states will need to consider whether they have legal authority to use seized assets in this manner.

Training and Technical Assistance

The Department of State Bureau of International Narcotics and Law Enforcement provided full or partial funding for many of the CICAD training programs conducted in 2006. Training efforts in money laundering control focused on judges, prosecutors, police officers, customs agents, the financial analysts and computer specialists of the financial intelligence units (FIUs), and compliance officers of financial institutions. Workshops for judges and prosecutors were held in the Dominican Republic, Honduras, Panama, Guatemala and Nicaragua. The courses were led by four international specialists (from Spain and Chile) as well as national experts. Subjects included, among others, money laundering doctrine, proof, international cooperation and special investigative techniques.

In a joint initiative with the United Nations and recently the IDB, mock trials were held in the Dominican Republic, El Salvador, Costa Rica and Chile. These exercises are based on real cases of money laundering and are aimed at judges, prosecutors and public defenders, as well as experts from financial intelligence units and the police who participated as witnesses in many cases.

“Train the trainer” training was also provided to law enforcement agents (police, customs, prosecutors) from Honduras, El Salvador, Nicaragua, Guatemala, Costa Rica, Panama, the Dominican Republic and Brazil. As part of the follow-up to the program, memoranda of understanding were signed with Uruguay, Bolivia, Paraguay and Peru, through which computer hardware was acquired so that the course could be replicated in each country.

With the assistance of the government of Spain and the participation of the United Nations Office on Drugs and Crime, CICAD carried out a pilot project to promote operations coordination among the police, financial intelligence units and prosecutors. A workshop, attended by Honduras, El Salvador, Nicaragua, Guatemala, Costa Rica, Panama, and the Dominican Republic, consisted of a mock investigation, based on real cases, during which agents from the institutions involved resolved a case of money laundering, and prepared the case for trial.

Technical assistance was focused on the establishment and development of financial intelligence units (FIUs) project. Beneficiaries were Costa Rica, El Salvador, Nicaragua, Panama, Honduras, the Dominican Republic, Uruguay, Ecuador and Colombia. The program, which was completed in December, provided assistance in the areas of staff training, organizational design, information system design, and technology acquisition. Staff participated in two regional workshops on basic tools for the analysis of financial information. In each of the countries, workshops included practical exercises in information analysis using computer software. In one of the sessions of these workshops, compliance officers from national financial institutions received special training to improve reports they submit to FIUs.

In the second half of 2006, the CICAD Anti-Money Laundering section began an ambitious new project for law enforcement agencies and prosecutors to develop a database classifying the many different types of money laundering, standardizing the terminology for describing each and cataloguing the real and potential law enforcement responses to detect, investigate and prosecute each type of money laundering. The database is being tested in workshops to explain its application. The first of these was held in Mexico on November 21-23, 2006

Other Activities

Representatives participated in the following seminars, conferences and forums: GAFISUD, the first Meeting on Information Technology of the Financial Intelligence Units of South America, and the INTERPOL Group of Experts on Money Laundering. At the same time, contact was maintained with GAFISUD, CFATF, and the IMF to establish coordination for the programs and projects administered by these organizations.

Pacific Anti-Money Laundering Program (PALP)

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 United States cooperates closely with the PIF and participates in the annual Post-Forum Dialogue with the PIF and member-states.

The U.S. State Department’s Bureau for International Narcotics and Law Enforcement Affairs contributed \$1.5 million to the PIF to fund the first year of the Pacific Anti-Money Laundering

Program (PALP)- a four-year program designed to develop viable anti-money laundering/counterterrorist finance regimes in the fourteen non-FATF member states of the PIF. Full-time and intermittent residential mentors provide regional and bilateral training in all elements required to establish viable anti-money laundering/counterterrorist financing regimes that comport with international standards. PALP is committed to maximizing 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, include assistance in the following areas:

- Drafting and enacting comprehensive anti-money laundering and counterterrorist financing laws that have measures that enable states to freeze and seize assets and comply with the FATF's "40+9" recommendations on money laundering and terrorist financing;
- Establishing a regulatory regime to oversee compliance of the formal and informal financial sectors with international standards;
- Creating, equipping, and enhancing existing FIUs 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; and
- Training law enforcement agents, prosecutors, and judges so that they have the skills to successfully investigate and prosecute financial crimes including the financing of terrorism.

United Nations Global Programme Against Money Laundering

The United Nations is one of the most experienced global providers of anti-money laundering (AML) training and technical assistance and, since 9-11, counterterrorist financing, training, and technical assistance. The United Nations Global Programme against Money Laundering (GPML), part of the United Nations Office on Drugs and Crime (UNODC), was established in 1997 to assist Member States to comply with the UN Conventions and other instruments that deal with money laundering 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). On September 2006, the UN General Assembly adopted the United Nations Global Counter-Terrorism Strategy. The Plan of Action contained in the Strategy encourages the UNODC to help countries comply with international norms and standards and to enhance international cooperation in these areas. The GPML is the focal point for anti-money laundering within the UN system and a key player in strengthening efforts to counter the financing of terrorism efforts. The Programme 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, GPML's technical assistance work on countering the financing of terrorism has in fact also received priority. The GPML now incorporates a focus on counterterrorist financing (CTF) in all its technical assistance work. In 2006, the GPML provided training and long-term assistance in the development of viable anti-money laundering/counterterrorism regimes to more than fifty countries.

The Mentoring Programme

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. The GPML's Mentor Programme has key advantages over more traditional forms of technical assistance. First, Mentors serve as residential advisors in a country or region for as long as one to four years and offer 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 Mentoring Programme provides targeted on-the-job training that adapts international standards to specific local/national situations, rather than the traditional training seminar. The concept originated in response to repeated requests from Member States for longer-term international assistance in this technically demanding and rapidly evolving field. The GPML provides experienced prosecutors and law enforcement personnel who work side-by-side with their counterparts in a target country for several months at a time on daily operational matters to help develop capacity. Some advise governments on legislation and policy, while others focus on operating procedures, either with law enforcement or with issues relating to country's FIU. 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.

In 2006, a GPML prosecutorial mentor was placed in the Prosecutor General's Office of Namibia, providing assistance for the development of asset forfeiture mechanisms in Botswana, Namibia, Zambia and Zimbabwe. The Mentor provided legal inputs to amend relevant legislation in each country, specifically the AML regulations pursuant to the Proceeds of Crime Act of Namibia and the Proceeds of Serious Crime Act 1990 in Botswana. He also completed analysis of respective asset confiscation programmes.

The UN mentor based in Tanzania with the Secretariat of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) delivered training to 14 countries and assisted the ESAAMLG Secretariat in conducting the first ESAAMLG Developmental Strategic Implementation (DSI), a technical assistance needs analysis exercise in Lesotho in July. GPML placed a dedicated law enforcement advisor in Kenya to assist building financial investigation capacity for Ethiopia, Eritrea, Kenya, Tanzania and Uganda. A capacity enhancement workshop on financial investigations techniques for Kenyan law enforcement officials was conducted in November 2006. The Advisor together with the UN Mentor to ESAAMLG also delivered an AML/CFT awareness-raising seminar for the financial sector in Ethiopia and completed an AML/CFT needs assessment mission in that country. In collaboration with the World Bank and the U.S. Department of State, the GPML extended the appointment for a regional mentor for Central Asia in Almaty, Kazakhstan focusing on legislative assistance and FIU development, as well as an AML/CFT mentor in Hanoi, Vietnam to provide assistance to Vietnam, Lao PDR and Cambodia in the field of financial investigations and the overall development of viable AML/CTF regimes. In January, a law enforcement advisor for the Middle East and North Africa based in UNODC Field Office in Cairo started to provide technical assistance including legislative drafting and to conduct needs assessment missions. 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 many countries, including Yemen, Ghana, Kazakhstan, Kyrgyzstan Tajikistan and the countries of the

West African Economic and Monetary Union. The GPML conducted a workshop on AML/CTF for prosecutors in Central and Eastern Europe, jointly organized with the OSCE in September.

Mentoring & Financial Intelligence Units

The GPML was among the first technical assistance providers to recognize the importance of countries' creating a financial intelligence capacity, and GPML mentors worked extensively with the development and the implementation phases of FIUs in several countries in the Eastern Caribbean, the Pacific and, most recently southeast Asia. Mentors working with FIUs, upon request of a Member State, will return to provide additional assistance to a country's FIU, as will likely occur for a six-month period in 2007 or 2008 with the FIU in Manila. The development of FIUs in the Eastern Caribbean played a key role in the removal of many of the jurisdictions being removed from the FATF Non-Cooperative and Countries and Territories list.

An FIU intermittent mentor provided assistance to emerging FIUs in Africa and the Caucasus, including a "train-the-trainers" program for law enforcement, the FIU, and prosecutors in Armenia.

A major initiative that may have global implications for many FIUs, is an ongoing initiative with UNODC IT Section that with the GPML has been working towards the development of a suspicious transactions reporting software package, GoAML, for potential deployment in FIUs that will soon be field-tested with the Nigerian FIU.

Computer Based Training

Other highlights of GPML's work in 2006 included the ongoing development of its global computer-based training (CBT) initiative. The program provides 12 hours of interactive basic AML training for global delivery. Delivery continued in the Pacific, Central American, and Western Africa regions. CBT training classrooms were established in Dakar, Senegal at the financial intelligence unit (CENTIF) and the Police College as well as in classrooms in ten Caribbean jurisdictions. The GPML piloted CBT in multiple locations throughout Africa, Middle East and North Africa, Central Asia, and Latin America, and developed and piloted new language versions including Spanish, Amharic, Arabic and Russian.

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.

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/CFT requirements in a cash-based context.

Other GPML Initiatives

GPML contributed to the delivery of mock trials in Central and South America. This tailor-made activity was developed in response to repeated requests from Member States for practical realistic AML training. It combines training and practical aspects of the judicial work into one capacity building exercise. In 2006, the GPML, in a collaborative effort with the IMF, completed the revision of a model law on AML/CFT for civil law countries, encompassing worldwide AML/CFT standards and taking into account best legal practices. The GPML continued to work closely with the U.S. Department of Justice, U.S Treasury's Office of Technical Assistance (OTA) and the Organization for Security and Cooperation in Europe (OSCE) to deliver CTF training, particularly in the regions of Central Asia region, Southern Europe and Africa.

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/CFT 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 ten major international partners in the field of anti-money laundering/countering the financing of terrorism: the Asia/Pacific Group on Money Laundering (APG), the Caribbean Financial Action Task Force (CFATF), the Commonwealth Secretariat, the Council of Europe-MONEYVAL- the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the Eurasian Group (EAG), the Financial Action Task Force (FATF), Interpol, The Financial Action Task Force of South America (GAFISUD) and the Organization of American States (OAS). In February 2006, the GPML launched the second round of legal analysis utilizing the recently revised AMLID questionnaire. In this regard, the database currently reflects thirty-six revised questionnaires under the second round of legal analysis and an additional fifteen questionnaires are in various stages of being finalized. 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 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 2007 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 may 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 certain circumstances, virtually any jurisdiction of any size can develop into a significant money laundering center.

Vulnerability Factors

The current ability of money launderers to penetrate virtually any financial system makes every jurisdiction a potential money laundering center. There is no precise measure of vulnerability for any financial system, and not every vulnerable financial system will, in fact, be host to large volumes of laundered proceeds, but a checklist of what drug money managers reportedly look for provides a basic guide. The checklist includes:

- Failure to criminalize money laundering for all serious crimes or limiting the offense to narrow predicates.
- Rigid bank secrecy rules that obstruct law enforcement investigations or that prohibit or inhibit large value and/or suspicious or unusual transaction reporting by both banks and nonbank financial institutions.
- Lack of or inadequate "know-your-client" requirements to open accounts or conduct financial transactions, including the permitted use of anonymous, nominee, numbered or trustee accounts.
- No requirement to disclose the beneficial owner of an account or the true beneficiary of a transaction.
- Lack of effective monitoring of cross-border currency movements.
- No reporting requirements for large cash transactions.
- No requirement to maintain financial records over a specific period of time.

- No mandatory requirement to report suspicious transactions or a pattern of inconsistent reporting under a voluntary system; lack of uniform guidelines for identifying suspicious transactions.
- Use of bearer monetary instruments.
- Well-established nonbank financial systems, especially where regulation, supervision, and monitoring are absent or lax.
- Patterns of evasion of exchange controls by legitimate businesses.
- Ease of incorporation, in particular where ownership can be held through nominees or bearer shares, or where off-the-shelf corporations can be acquired.
- No central reporting unit for receiving, analyzing and disseminating to the competent authorities information on large value, suspicious or unusual financial transactions that might identify possible money laundering activity.
- Lack of or weak bank regulatory controls, or failure to adopt or adhere to Basel Committee's "Core Principles for Effective Banking Supervision", especially in jurisdictions where the monetary or bank supervisory authority is understaffed, under-skilled or uncommitted.
- Well-established offshore financial centers or tax-haven banking systems, especially jurisdictions where such banks and accounts can be readily established with minimal background investigations.
- Extensive foreign banking operations, especially where there is significant wire transfer activity or multiple branches of foreign banks, or limited audit authority over foreign-owned banks or institutions.
- Jurisdictions where charitable organizations or alternate remittance systems, because of their unregulated and unsupervised nature, are used as avenues for money laundering or terrorist financing.
- Limited asset seizure or confiscation authority.
- Limited narcotics, money laundering, and financial crime enforcement and lack of trained investigators or regulators.
- Jurisdictions with free trade zones where there is little government presence or other supervisory authority.
- Patterns of official corruption or a laissez-faire attitude toward the business and banking communities.
- Jurisdictions where the U.S. dollar is readily accepted, especially jurisdictions where banks and other financial institutions allow dollar deposits.
- Well-established access to international bullion trading centers in New York, Istanbul, Zurich, Dubai and Mumbai.
- Jurisdictions where there is significant trade in or export of gold, diamonds and other gems.
- Jurisdictions with large parallel or black market economies.
- Limited or no ability to share financial information with foreign law enforcement authorities.

Changes in INCSR Priorities for 2006

Jurisdiction moving from the Primary Concern Column to the Concern column: *Hungary*.

Jurisdictions moving from the Concern Column to the Primary Concern Column: *Iran, Kenya*.

Jurisdictions moving from the Other Column to the Concern Column: *Iraq, Moldova, Senegal*.

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. This year, the movement of Iraq from the Other Column to the Concern Column was based on its vulnerability to terrorist financing.

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 2006. A report on Kosovo and the newly independent country of Montenegro also appears in this year’s INCSR but a decision regarding their placement on the County/Jurisdiction Table has been postponed until next year.

Country/Jurisdiction Table

Countries/Jurisdictions of Primary Concern		Countries/Jurisdictions of Concern		Other Countries/Jurisdictions Monitored	
Afghanistan	Paraguay	Albania	Poland	Andorra	Mali
Antigua and Barbuda	Philippines	Algeria	Portugal	Anguilla	Malta
Australia	Russia	Angola	Qatar	Armenia	Marshall Islands
Austria	Singapore	Argentina	Romania	Azerbaijan	Mauritania
Bahamas	Spain	Aruba	Samoa	Benin	Mauritius
Belize	St. Kitts & Nevis	Bahrain	Saudi Arabia	Bermuda	Micronesia FS
Bosnia and Herzegovina	Switzerland	Bangladesh	Senegal	Botswana	Mongolia
Brazil	Taiwan	Barbados	Serbia	Brunei	Montserrat
Burma	Thailand	Belarus	Seychelles	Burkina Faso	Mozambique
Cambodia	Turkey	Belgium	Sierra Leone	Burundi	Namibia
Canada	Ukraine	Bolivia	Slovakia	Cameroon	Nauru
Cayman Islands	United Arab Emirates	British Virgin Islands	South Africa	Cape Verde	Nepal
China, People Rep	United Kingdom	Bulgaria	St. Lucia	Central African Republic	New Zealand
Colombia	United States	Chile	St. Vincent	Chad	Niger
Costa Rica	Uruguay	Comoros	Syria	Congo, Dem Rep of	Niue
Cyprus	Venezuela	Cook Islands	Tanzania	Congo, Rep of	Norway
Dominican Republic		Cote d'Ivoire	Turks and Caicos	Croatia	Oman
France		Czech Rep	Uzbekistan	Cuba	Papua New Guinea
Germany		Dominica	Vanuatu	Denmark	Rwanda
Greece		Ecuador	Vietnam	Djibouti	San Marino
Guatemala		Egypt	Yemen	East Timor	Sao Tome & Principe
Guernsey		El Salvador	Zimbabwe	Equatorial Guinea	Slovenia
Haiti		Gibraltar		Eritrea	Solomon Islands
Hong Kong		Grenada		Estonia	Sri Lanka
India		Guyana		Ethiopia	Suriname
Indonesia		Honduras		Fiji	Swaziland
Iran		Hungary		Finland	Sweden
Isle of Man		Iraq		Gabon	Tajikistan
Israel		Ireland		Gambia	Togo
Italy		Jamaica		Georgia	Tonga
Japan		Jordan		Ghana	Trinida and Tobago
Jersey		Korea, North		Guinea	Tunisia
Kenya		Korea, South		Guinea-Bissau	Turkmenistan
Latvia		Kuwait		Iceland	Uganda
Lebanon		Laos		Kazakhstan	Zambia
Liechtenstein		Malaysia		Kyrgyz Republic	
Luxembourg		Moldova		Lesotho	
Macau		Monaco		Liberia	
Mexico		Morocco		Lithuania	
Netherlands		Netherlands Antilles		Macedonia	
Nigeria		Nicaragua		Madagascar	
Pakistan		Palau		Malawi	
Panama		Peru		Maldives	

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, 2006 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 nonbank financial institutions to meet the same customer identification standards and adhere to the same reporting requirements that it imposes on banks.

13. “Disclosure Protection Safe Harbor”: By law, the jurisdiction provides a “safe harbor” defense to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.
14. “States Parties to 1988 UN Drug Convention”: As of December 31, 2006, 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, 2006, 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	Y	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	Y	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	Y	Y	Y	Y	Y	Y	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	Y	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.

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	N	
Bolivia	Y	Y	N	Y	M	Y	Y	N	N	N	Y	N	Y	Y	Y	
Bosnia & Herzegovina	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Botswana	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	N	Y	Y	Y	
Brazil	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	
British Virgin Islands ¹	Y	Y	Y	Y	M	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	
Bulgaria	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Burkina Faso	N	N	Y	N	N	N	N	N	N	N	N	N	N	Y	N	
Burma	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	
Burundi	N	N	N	Y	N	N	N	N	Y	N	N	N	N	Y	N	
Cambodia	Y	N	Y	Y	M	N	N	N	Y	Y	N	N	N	Y	N	
Cameroon	Y	Y	Y	Y	M	N	Y	N	N	N	N	N	N	Y	N	
Canada	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
Cape Verde	Y	Y		Y	M	N	Y	N	Y		Y			Y	N	
Cayman Islands ¹	Y	Y	Y	Y	M	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	
Chile	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y		Y	Y	
China (PRC)	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	N	Y	Y	
Colombia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Comoros	Y	Y	N	Y	M	N	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	N	N	
Congo (Republic)	Y	Y	Y	Y	M	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.

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
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	N	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	Y	Y	N	Y	Y	Y	N	Y	N	Y
Egypt	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
El Salvador	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Equatorial Guinea	Y	Y	Y	Y	M	N	N	N	N	N	N	N	N	N	N	Y
Eritrea	Y	Y	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	Y	N	N	N	N	N	N	Y	N	N
Fiji	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	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	Y	Y	M	N	Y	N	N	N	N	Y	Y	Y	N	N
Georgia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Germany	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y

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
Ghana	Y	N	N	Y	N	N	Y	N	Y	Y	Y	Y	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	
Grenada	Y	Y	Y	Y	M	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	
Guernsey ¹	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	N	
Guinea	Y	N	Y	N	N	N	N	N	N	Y	N	N	N	Y	N	Y
Guinea-Bissau	Y	Y	N	Y	Y	N	N	N	N	Y	N	Y	Y	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	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Hungary	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Iceland	Y	Y	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	N	Y
Indonesia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
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	N	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	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
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	Y	Y	N	N	N	N	N	N	N	Y	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	Y	Y	M	N	N	N	N	Y	N	N	N	Y	N	Y
Libya	Y	Y	N	Y	M	N	N	N	Y	Y	N	Y	Y	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	Y
Macedonia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Madagascar	Y	Y	N	Y	N	N	Y	N		N	Y	Y	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.

² Kosovo is under the supervision of the UN and is not a sovereign state.

Actions by Governments	Criminalized Drug Money Laundering															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	States Party to 1988 UN Convention	Criminalized Financing of Terrorism	Internat'l Terrorism Financing Convention
Malawi	Y	Y	Y	Y	P	N	N	N		N	N	N	N	Y	N	Y
Malaysia	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	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	N	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	Y	P	N	Y	N	Y	N	Y	N	Y	Y	N	Y
Mauritius	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Mexico	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Micronesia	Y	Y	N	Y	N	N	Y	N	Y	N	Y	N	Y	Y	N	Y
Moldova	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Monaco	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Mongolia	Y	Y	Y	Y	N	N	Y	N	N	Y	N	Y	Y	Y	N	Y
Montenegro	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
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

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	
Nicaragua	Y	N	Y	Y	M	N	Y	N	Y	Y	Y	N	N	Y	N	Y
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	Y	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	Y	Y	Y	N	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	M	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

¹ Niueans are citizens of New Zealand; Niue is not a member of the UN.

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
Serbia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
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	Y	N	Y	Y	Y	Y	Y	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	Y	Y	Y	Y	Y	N	N
St. Vincent/Grenadines	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Suriname	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	N
Swaziland	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	N	Y	Y	N	Y
Sweden	Y	Y	Y	Y	M	Y	Y		Y	N	Y	Y	Y	Y	Y	Y
Switzerland	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	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	P	N	Y	N	Y	N	Y	N	Y	Y	Y	Y
Thailand	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Togo	Y	N	Y	Y	N	N	Y	N	Y	N	Y	N	Y	Y	N	Y
Tonga	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	N	N	Y	N	Y

¹ Taiwan 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
Trinidad & Tobago	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
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	Y	Y	Y	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	N	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	Y	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	N	Y	N
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	Y	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	Y	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

Afghanistan is not a regional financial or banking center. However, its formal financial system is growing rapidly while its traditional informal financial system remains significant in reach and scale. Afghanistan is a major drug trafficking and drug producing country and the illicit narcotics trade is the primary source of laundered funds. 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. The most fundamental obstacles continue to be legal, cultural and historical factors that conflict with more Western-style proposed reforms to the financial sector.

According to United Nations statistics, in 2005 and 2006, opium production increased and today Afghanistan accounts for over 90 percent of the world's opium production. Opium gum itself is sometimes 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 at least 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.

Much of the recent rise in opium production comes from Taliban strongholds in the southern part of the country. There are reports that the Taliban impose taxes on narcotics dealers, which undoubtedly helps finance their terrorist activities. Additional revenue streams for the Taliban and regional warlords come from "protecting" opium shipments, running heroin labs, and from "toll booths" established on transport and smuggling routes.

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 traditional hawala system that uses trade as the primary medium to balance accounts. In addition, the narcotics themselves are often used as tradable goods and as a means of exchange for automobiles, construction materials, foodstuffs, vegetable oils, electronics, and other goods between Afghanistan and neighboring Pakistan. Many of these goods are smuggled into Afghanistan from neighboring countries, particularly Iran and Pakistan, or enter via the Afghan Transit Trade without payment of customs duties or tariffs. Most of the trade goods imported into Afghanistan originate in Dubai. Invoice fraud, corruption, indigenous smuggling networks, underground finance, and legitimate commerce are all intertwined.

Afghanistan is widely served by the hawala system, which provides a range of financial and nonfinancial business services in local, regional, and international markets. Financial activities include foreign exchange transactions, funds transfers (particularly to and from neighboring countries with weak regulatory regimes for informal remittance systems), 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 risks), it is a traditional form of finance and deeply entrenched and widely used throughout Afghanistan and the neighboring region.

There are over 200 known hawala dealers in Kabul, with 100-300 additional dealers in each province. These dealers are loosely organized into informal provincial unions or guilds whose members maintain a number of agent-principal and partnership relationships with other dealers throughout the

country and internationally. Their record keeping and accounting practices are robust, 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 licensed; however the licensing regime that existed from April 2004 until September of 2006 was overly burdensome and resulted in issuance of few licenses. In September of 2006, Da Afghanistan Bank (DAB)—Afghanistan’s Central Bank—issued a new money service provider regulation that streamlined the licensing process and substantially reduced the licensing and ongoing compliance burden for hawaladars. The regulatory focus of the new regulation is on AML and CTF. The regulation requires and provides standard mechanisms for record keeping and reporting of large transactions. DAB has provided training sessions on the new regulation and has developed a streamlined application process. Several licenses have already been issued under the new regulation, with the majority of Kabul area hawaladars expected to obtain licenses in the near-term as a result of DAB outreach, law enforcement actions, pressure from commercial banks where they hold accounts, and customer demand for licensed providers. Options for strengthening the hawaladar unions and promoting self regulation are also being studied.

In early 2004, DAB worked in collaboration with international donors 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 Anti-Money Laundering (AML) and Proceeds of Crime and Combating the Financing of Terrorism (CTF) 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. 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 is functioning as a semi-autonomous unit within DAB. Banks and other financial and nonfinancial institutions 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. Currently, in excess of four thousand electronically formatted cash transaction reports are being received and processed each month. 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. At present the formal banking sector consists of three recently re-licensed state-owned banks, five branches of foreign banks, and six additional domestic banks. AML examinations have been conducted in half of these banks. The result is a growing awareness of AML requirements and deficiencies among the banks and a building of AML capacity. Additionally, the Central Bank has worked with the banking community to develop several ongoing topical working groups focused on AML issues (e.g. “know your customer” provisions and reporting of suspicious transactions).

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 is charged with administering the AML and CTF legislation, conducting examinations, licensing new institutions, overseeing money service providers, and liaising with the commercial banking sector generally. The effectiveness of the Supervision Department in the AML area remains limited due to staffing, organization, and management issues.

The Ministry of Interior and the Attorney General's Office are the primary financial enforcement authorities. However, 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 DAB. There is a need for significant training for judges and administrative staff before the Tribunal will be effective. The Tribunal will review supervisory actions of DAB, but will 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.

Border security continues to be a major issue throughout Afghanistan. At present there are 21 border crossings that have come under central government 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 improved, but smuggling and corruption continue to be major concerns, as well as trade fraud, which includes false and over-and-under invoicing. Thorough cargo inspections are not conducted at any gateway. A pilot program for declaring large, cross-border currency transactions has been developed for the Kabul International Airport, but has not yet been implemented. If successful, this prototype will serve as the foundation for expansion to other crossings.

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 nonprofit 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" nonprofit 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. In July 2006, Afghanistan became a member in the Asia Pacific Group, a Financial Action Task Force Style Regional Body (FSRB), and has obtained observer status in the Eurasian Group, another FSRB. Additionally the FIU has initiated the process for joining the Egmont Group of Financial Intelligence Units.

The Government of Afghanistan has made progress over the past year in developing its overall AML/CTF regime. Improvement has been seen in development of the FIU, the reporting of financial intelligence, participation in international AML bodies, improvement in bank AML compliance awareness, systems, and reporting, and in efforts to bring money service providers into a legal and regulatory framework that will result in meaningful AML compliance. However, much work remains to be done. Afghanistan should develop secure, reliable, and capable relationships among departments and agencies involved in law enforcement. Afghanistan should develop the investigative capabilities of law enforcement authorities in the areas of financial crimes, particularly money laundering and terrorist finance. Judicial authorities should also be trained in money laundering prosecutions. Afghan customs authorities should implement cross-border currency reporting and be trained to recognize forms of trade-based money laundering. Border enforcement should be a priority, both to enhance

scarce revenue and to disrupt narcotics trafficking and illicit value transfer. Afghan authorities should work to address widespread corruption in commerce and government. Afghanistan should ratify the UN Convention against Corruption.

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, often 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 remains primarily cash-based. Electronic and ATM transactions are relatively few in number, but are growing rapidly as more banks introduce this technology. The number of ATMs rapidly expanded following the decision of the Government of Albania (GOA) to deliver salaries through electronic transfers. By the end of 2005, all central government institutions had converted to electronic pay systems. Credit card usage has also increased in Albania. However, thus far a small number of people possess them and usage is primarily limited to a few large vendors.

There are 17 banks in Albania, but only five of them are considered to have a significant national presence. 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. Albania is not considered an offshore financial center, nor do its current laws facilitate such types of activity. Although current law permits the operation of free trade zones, the GOA has not pursued the implementation of them and none are currently in operation.

The Albanian economy is particularly vulnerable to money laundering activity because it is a cash-based economy. The GOA estimates that proceeds from the informal sector account for approximately 30-60 percent of Albania's 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, encompassing 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 Albania 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 (FIUs).

Albania criminalized money laundering in Article 287 of the Albanian Criminal Code of 1995, consolidated version as of December 1, 2004. However, the law was largely ineffectual as it required proof of a predicate offense.

Albania's original money laundering law was On the Prevention of Money Laundering, or Law No. 8610 of 17 May 2000. 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 international conventions. Under the revised Criminal Code many powers

were expanded and improved upon. The new law also revised the definition of money laundering, outlawed the establishment of anonymous accounts, and permitted the confiscation of accounts. Albania's money laundering law places reporting requirements on both financial institutions and individuals. Financial institutions are required to report to an anti-money laundering agency all transactions that exceed approximately \$200,000 as well as those that involve suspicious activity. Private individuals (both Albanian and foreign) are required to report to customs authorities all cross-border transactions that exceed approximately \$10,000. Declaration forms are available at border crossing points. The law also mandates the identification of beneficial owners. Banks and other institutions are required to maintain records of suspicious transaction reports (STRs) for ten years. All other reports are subject to a five-year record retention period. There have been cases of individuals sentenced for illegal transfer of money based on information from foreign FIUs, and the Albanian FIU occasionally shares cash smuggling reports with its counterparts in Turkey, Bulgaria, and Macedonia.

Financial institutions are required to report transactions within 48 hours if the origin of the money cannot be determined. In addition, there are requirements to report all financial transactions that exceed certain thresholds. However, financial institutions have no legal obligation to identify customers prior to opening an account. While most banks have internal rules mandating customer identification, Albania's money laundering law only requires customer identification prior to conducting transactions that exceed approximately \$20,000 or when there is a suspicion of money laundering.

Albania's 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 applies a difficult burden of proof in that it requires a prior or simultaneous conviction for the predicate crime before an indictment for money laundering can be issued. According to the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) mutual evaluation report (MER), whose team conducted the evaluation in September 2005, and which accepted the MER in July 2006, Albanian authorities estimated that Albania had two cases of money laundering and five convictions, with another five cases at the prosecutor's office. There is no information available regarding cases, prosecutions or convictions of money laundering offenses for 2006. Albanian law also has no specific laws pertaining to corporate criminal liability, however it may be possible (though unlikely) for legal entities to be prosecuted for money laundering under Article 45 of the Criminal Code.

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 nonbank financial institutions, enforcement has been poor in practice. There is an increasing number of STRs coming from banks as the banking sector becomes more mature, although the majority continues to come from tax and customs authorities 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.

Albania's money laundering law also mandates the establishment of an agency to coordinate the GOA's efforts to detect and prevent money laundering. Albania's FIU, the General Directorate for the Prevention of Money Laundering (DPPP), 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 2006, there were a total of 15 suspicious activity reports that the FIU acted upon, out of a total of 46,630 reports received.

Money Laundering and Financial Crimes

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 coordination on the both the policy and the technical level. On the policy level, an inter-ministerial group was established. The group is headed by Albania's Prime Minister and includes the participation of the Central Bank Governor and the General Prosecutor. On the technical level, a group of experts was established. The Albanian government is reportedly in the process of preparing a new draft law on money laundering.

In addition to the FIU, 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.

Albanian law also allows freezing or blocking of financial transactions believed to involve money laundering. In 2004, 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, 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.

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, criminalizing the financing of terrorism and mandating strong penalties for any actions or organizations linked with terrorism. The law permits the GOA to administratively sequester or freeze 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 the one freeze action conducted in 2004, the GOA has frozen the assets of seven additional individuals or entities in 2005, and supports USG and UN designation efforts.

The Ministry of Finance is the main entity responsible for issuing freeze orders. The order is executed by the Minister of Finance and then delivered by the FIU to other government agencies that take action to freeze any assets found belonging to the named individual or entity. In the case of individuals or entities whose names appear on the UNSCR 1267 consolidated list, the sequestration 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, their assets may 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 ordered confiscated and any proceeds are 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. The purpose of the agency is to safeguard sequestered assets and to dispose of assets ordered confiscated. After a difficult start, the GOA first staffed the AASCA in early December 2005. However, the agency receives little support from the Ministry of Finance and has also experienced a large turnover in staffing.

Between 2001 and 2005, the GOA 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). In 2005, the previous freezing orders were converted under the new law against terrorism financiers. As of 2005, 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. As of 2006, charitable organizations are required 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.

Albania is a member of MONEYVAL and participates in the Southeastern Europe Cooperative Initiative (SECI). The Albanian FIU is a member of the Egmont Group, 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 29 countries. Most recently, in February 2006, the Albanian FIU signed an MOU with its Kosovo counterpart that will allow the two FIUs to share information relating to money laundering. The FIU also participates in regional anti-money laundering seminars and conferences.

Albania 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. In May 2006, Albania ratified the UN Convention against Corruption.

The Government of Albania has enhanced its anti-money laundering/counterterrorist financing regime; however, additional improvements are greatly needed. Albania should amend Article 287 of the Criminal Code to allow authorities to prosecute money laundering without first obtaining a conviction for a predicate offense. The FIU should create or obtain a database to allow analysis of the large volume of currency transaction reports (CTRs) and suspicious transaction reports received so that these reports currently received in hard copy can be analyzed. Training for the FIU should also be a high priority, as its staff is largely new and inexperienced. Training and modernization for the other facets of financial crime investigation should also be in order. The Albanian police force still has no central database and its investigators lack training in modern financial investigation techniques. The Prosecutor's Office also lacks well-trained prosecutors to effectively manage and try cases. Albania should also 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.

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, nonbank financial professions such as lawyers, accountants, stockbrokers, insurance agents, pension managers, and dealers of precious metals and antiques. Provided information is shared with 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 noncompliance range from 50,000 to 5 million Algerian dinars (approximately U.S. \$700 to U.S. \$70,000). In addition to its provisions pertaining to money laundered from illicit activities, the law allows the investigation of terrorist-associated funds derived from “clean” sources.

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 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 deadline of September 1, 2006 after which all payments in excess of \$70,000 must be made by check, wire transfer, payment card, bill of exchange, promissory note, or other official bank payment. While nonresidents are exempt from this requirement, they must (like all travelers to and from the country) report foreign currency in their possession to the Algerian Customs Authority. The government suspended the deadline in September 2006, however, in response to the slow implementation of a nation-wide electronic check-clearing system that failed to gain the confidence of the Algerian business community.

The Ministry of Interior is charged with registering foreign and domestic nongovernmental organizations in Algeria. 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.

There are reports that Algerian customs and law enforcement authorities are increasingly concerned with cases of customs fraud and trade-based money laundering. Algerian authorities are taking steps to coordinate information sharing between concerned agencies.

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. The Ministry of Justice is expected to create a pool of judges trained in financial matters.

Over the last three years, Algeria has taken significant steps to enhance its statutory regime against anti-money laundering and terrorist financing. It needs to move forward now to implement those laws and eliminate bureaucratic barriers among various government agencies by empowering CTRF, which in 2006 investigated only 15 suspicious transactions, to be the focal point for the AML/CTF investigations. In addition, given the scope of Algeria's informal economy, it should renew its initiative to limit the size of cash transactions. Algerian law enforcement and customs authorities should be trained in recognizing and investigating trade-based money laundering, value transfer, and bulk cash smuggling used for financing terrorism and other illicit financial activities.

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. The Government of the Republic of Angola (GRA) 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 method of "mixing parcels" of licit and illicit diamonds, the Kimberly certification process can be compromised. Corruption and 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. Additional laws remain in draft form only. 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 counter narcotics laws criminalize money laundering related to narcotics trafficking. One of three draft laws designed to reform the banking sector specifically targets money laundering. The money laundering bill, which is currently under consideration in the Angolan Congress, was drafted with the assistance of the World Bank.

The high cash flow in Angola makes its financial system an 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 currency per month, largely in dollars, without a corresponding cash outflow. Local bank representatives have reported that clients have walked into banks with up to \$2 million in a briefcase to make a deposit. There are no currency transaction reports that cover these large cash transactions. 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 or search for patterns.

Corruption is a pervasive problem in Angolan society and is found in commerce and at the highest levels of government. Angola is rated 142 out of 163 countries in Transparency International's 2006 International Corruption Perception Index.

Angola is party to the 1988 UN Drug Convention and the UN Convention against Corruption. 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 legislation that adheres to world standards, the GRA should establish a system of financial transparency reporting requirements and a corresponding Financial Intelligence Unit. The GRA should then move quickly to implement the legislation and bolster the capacity of law enforcement to investigate financial crimes. Angola's judiciary should prioritize the prosecution of financial crimes, including corruption. The GRA 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 GRA should increase efforts to combat official corruption, including an effective system to identify, trace, seize, and forfeit assets.

Antigua and Barbuda

As with other countries in the region, illicit proceeds from the transshipment of narcotics are laundered in Antigua and Barbuda. However, its offshore financial sector as well as its internet gaming industry remain primary vulnerabilities in Antigua and Barbuda. In 2006, Antigua and Barbuda reported 16 offshore banks, two offshore trusts, two offshore insurance companies, 6,303 international business corporations (IBCs), and 30 internet gaming companies. Antigua and Barbuda has five domestic casinos that also are vulnerable to money laundering.

The International Business Corporations Act 1982 (IBCA), as amended, is the governing legal framework for offshore businesses in Antigua and Barbuda. The IBCA requires offshore banks to maintain full details of all transactions in relation to deposits and withdrawals, and to retain the information obtained for a period of six years. No offshore bank may serve as the originator or recipient in the transfer of funds on behalf of an entity who is not an account holder. Bearer shares are permitted through a registered agent. However, the registered agent must maintain a register that includes such information as the names of the beneficial owners and the number of shares issued. Failure to do so could result in a fine of \$50,000. Any entity licensed under the IBCA must maintain a physical presence with at least one full-time employee, and maintain all files and records for the company. Internet gaming companies must incorporate as an IBC, while land-based casinos must incorporate as a domestic company. As such, internet gaming companies must also meet the physical presence requirement, and are considered to have physical presence when the primary server is located in Antigua and Barbuda. Deemed a financial institution under the IBCA, internet gaming companies are also required to enforce know-your-customer verification procedures and maintain records relating to all gaming and financial transactions of each customer for six years. In addition, internet gaming companies must submit quarterly financial statements in addition to annual statements.

The Eastern Caribbean Central Bank (ECCB) supervises Antigua and Barbuda's domestic banking sector. In 2002, the IBCA was amended to create the Financial Services Regulatory Commission (FSRC) as the regulatory and supervisory authority that oversees offshore financial sectors, including internet gaming companies. The FSRC is an autonomous body supervised by a four-member Board comprised of public officials, and is presently chaired by the Solicitor General. The FSRC is also responsible for issuing IBC licenses and maintaining the register for all corporations. The FSRC is funded through the revenue generated by registration and licensing fees. Amendments to the IBCA in 2005 provide the FSRC with the ability to decline or revoke a license if it has reason to suspect that the corporation may be used for criminal purposes. To ensure compliance with legislation and regulations, the FSRC conducts annual on-site examinations and off-site examinations of offshore financial institutions as well as certain domestic nonbanking financial institutions, such as insurance companies, trusts, and money remitters.

The Government of Antigua and Barbuda (GOAB) reportedly receives approximately \$2.8 million per year from license fees and other charges related to the internet gaming industry. A nominal free trade zone in the country also seeks to attract investment in priority areas of the GOAB. Casinos and sports book-wagering operations in Antigua and Barbuda's Free Trade Zone are supervised by the Office of National Drug Control Policy (ONDCP) and the Directorate of Offshore Gaming (DOG), a department within the FSRC. In 2001, the DOG issued Interactive Gaming and Interactive Wagering Regulations in order to establish regulations for the licensing of the industry and address possible money laundering through client accounts of internet gambling operations.

The Money Laundering Prevention Act (MLPA) 1996, as amended, is the cornerstone of Antigua and Barbuda's anti-money laundering legislation. The MLPA makes it an offense for any person to obtain, conceal, retain, manage, or invest illicit proceeds or bring such proceeds into Antigua and Barbuda if that person knows or has reason to suspect that they are derived directly or indirectly from unlawful activity. The MLPA covers institutions defined under the Banking Act, IBCA, and the Financial Institutions (Non-Banking) Act, which include offshore banks, IBCs, money service businesses, credit unions, building societies, trust businesses, casinos, internet gaming companies, and sports betting companies. Intermediaries such as lawyers and accountants are not included in the MLPA. The MLPA requires reporting entities to report suspicious activity suspected to be related to money laundering, whether a transaction was completed or not. There is no reporting threshold imposed on banks and financial institutions except for internet gaming companies, which are required to report to all payouts over \$25,000. The MLPA also requires banks to monitor transactions involving individuals, businesses, and other financial institutions from countries that have not adopted a comprehensive anti-money laundering regime.

The Office of National Drug Control and Money Laundering Policy (ONDCP) Act 2003 establishes the ONDCP as the financial intelligence unit (FIU) of Antigua and Barbuda. An independent organization, the ONDCP is under the Ministry of National Security and is primarily responsible for the enforcement of the MLPA and for directing the GOAB's anti-money laundering efforts in coordination with the FSRC. The ONDCP assumes the role and fulfills the responsibilities of the Supervisory Authority as described in the MLPA, which includes the supervision of all financial institutions in respect to filing suspicious activity reports (SARs). As of October 2006, the ONDCP received 52 SARs of which 20 were investigated. In addition to receiving SARs, auditors of financial institutions review their compliance program and submit reports to the ONDCP for analysis and recommendations. The director of the ONDCP has the ability to appoint law enforcement officers to investigate narcotics trafficking, fraud, money laundering, and terrorist financing offenses. In 2005, two arrests were made on money laundering charges, but no arrests, prosecutions or convictions were reported in 2006.

In 2002, the ONDCP published guidelines which detail reporting entities' responsibilities including internal controls, customer identification, record keeping, reporting SARs, and anti-money laundering training for staff. The ONDCP has developed an anti-money laundering awareness training program and has trained a number of financial institutions, GOAB officials, and law enforcement officials with respect to their duties and responsibilities under the law.

The ONDCP has the ability to direct a financial institution to freeze property up to seven days, while it makes an application for a freeze order. A freeze order is made based upon a defendant being charged or about to be charged with a money laundering offense, or if the defendant is suspected of engaging in money laundering activity. Under the MLPA, a freeze order will lapse after 30 days unless charges are brought against the defendant, or an application for a civil forfeiture order has been filed. The Misuse of Drugs Act empowers the court to forfeit assets related to drug offenses. Forfeited assets are placed into the Forfeiture Fund and can be used by the ONDCP. The GOAB is currently working on asset forfeiture agreements with other jurisdictions. An MOU was recently signed with Canada.

Money Laundering and Financial Crimes

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. On its own initiative, the GOAB froze over \$90 million 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 million.

The ONDCP, with Cabinet approval, may enter into written agreements with other government agencies and foreign counterparts. Currently, the ONDCP has memoranda of understanding (MOUs) with the Royal Antigua and Barbuda Police Force, Customs, Immigration, and the Antigua and Barbuda Defense Force. The ONDCP also has an MOU with the FSRC, and expects to sign an MOU with the ECCB in 2007.

All travelers are required to fill out a Customs declaration form indicating if they are carrying in excess of \$10,000 in cash or currency. The GOAB Customs Department maintains statistics on cross-border cash reports and seizures for failure to report. This information is shared with the ONDCP and the Police.

The GOAB enacted the Prevention of Terrorism Act 2001, amended in 2005, to implement the Counter Terrorism Conventions of the United Nations. The Act 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 Act also provides the authority for the seizure of property used in the commission of a terrorism act; seizure and restraint of property that has been, is being or may be used to commit a terrorism offence; forfeiture of property on conviction of a terrorism offence; and forfeiture of property owned or controlled by terrorists. The Act requires financial institutions to report every three months whether they are in possession of any property owned or controlled by or on behalf of a terrorist group. In addition, financial institutions must report every transaction that is suspected to be related to the financing of terrorism to the ONDCP.

The Attorney General may revoke or deny the registration of a charity or nonprofit 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 has not undertaken any specific initiatives focused on the misuse of charities and nonprofit entities.

The GOAB continues its bilateral and multilateral cooperation in various criminal and civil investigations and prosecutions. The amended Banking Act of 2004 enables the ECCB to share information directly with foreign regulators through an MOU. In 1999, a Mutual Legal Assistance Treaty (MLAT) 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. Because of such assistance, the GOAB has benefited through an asset sharing agreement and has received asset sharing revenues from the United States.

Antigua and Barbuda is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD), and the Caribbean Financial Action Task Force (CFATF). The ONDCP joined the Egmont Group in June 2003. 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. On June 21, 2006 Antigua and Barbuda acceded to the UN Convention against Corruption.

The GOAB should implement and vigorously enforce all provisions of its anti-money laundering legislation including the strict and effective supervision of its offshore sector and gaming industry.

Despite the comprehensive nature of the law, Antigua and Barbuda has yet to prosecute a money laundering case. Moreover, there is an over-reliance on SARs to initiate investigations. Law enforcement and customs authorities should be trained to recognize money laundering typologies that fall outside the formal financial sector. The GOAB should vigorously enforce its anti-money laundering laws by actively prosecuting money laundering and other financial crimes.

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 gradual 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 nonbank sectors and professions, such as the insurance industry, financial advisors, accountants, notaries, trusts and companies, real or shell, remain viable mechanisms to launder illicit funds. Tax evasion is the predicate crime in the majority of 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 combat money laundering in 2006, including enacting amendments to its money laundering legislation with the passage of Law 26.087 in March, granting greater authority to Argentina's financial intelligence unit (the Unidad de Información Financiera, or UIF), creating a new National Coordination Unit in the Ministry of Justice and Human Rights to oversee and manage overall GOA anti-money laundering efforts, and creating a Special Prosecutors Unit within the Attorney General's Office for money laundering and terrorism finance cases. In addition, the Central Bank of Argentina (BCRA) completed plans for a specialized bank examination unit, announced in 2005, devoted specifically to money laundering and terrorism finance. On December 20, 2006, President Kirchner approved Argentina's long-awaited draft antiterrorism and counterterrorism financing law, which he sent to Congress for approval on the same day.

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 the UIF under the Ministry of Justice and Human Rights. The law requires 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 for Insurance (Superintendencia de Seguros de la Nación, or SSN). The law forbids institutions to notify their clients when filing suspicious transaction reports (STRs), 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 Attorney General's Office. As of October 31, 2006, the UIF had received 2174 reports of suspicious or unusual activities since its inception in 2002, forwarded 136 suspected cases of money laundering to prosecutors for review, and assisted prosecutors with 107 cases. 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.

On March 29, 2006, the Argentine Congress passed Law 26.087, amending and modifying Law 25.246, in order to address Financial Action Task Force (FATF) concerns regarding the inadequacies in Argentine money laundering and terrorism financing legislation and enforcement. The FATF conducted a mutual evaluation of Argentina in October 2003, which 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 weaknesses in Argentina's anti-money laundering legislation, as well as the lack of terrorist financing legislation or a national anti-money laundering and counterterrorist financing coordination strategy.

Law 26.087 responds to many of the deficiencies noted by the FATF. It makes substantive improvements to existing law, including lifting bank, stock exchange and professional secrecy restrictions on filing suspicious activity reports; partially lifting tax secrecy provisions; clarifying which courts can hear requests to lift tax secrecy requests, and requiring decisions within 30 days. Law 26.087 also lowers the standard of proof required before the UIF can pass cases to prosecutors, and eliminates the so-called "friends and family" exemption contained in Article 277 of the Argentine Criminal Code for cases of money laundering, while narrowing the exemption in cases of concealment. Overall, the law clarifies the relationship, jurisdiction, and responsibilities of the UIF and the Attorney General's Office, and improves information sharing and coordination. The law also reduces restrictions that have prevented the UIF from obtaining information needed for money laundering investigations by granting greater access to STRs filed by banks. However, the law does not lift financial secrecy provisions on records of large cash transactions, which are maintained by banks when customers conduct a cash transaction exceeding 10,000 pesos (approximately \$3,225). Also in response to FATF concerns, as noted in the mutual evaluation report, the Argentine government established a new National Coordination Unit in the Ministry of Justice and Human Rights. The National Coordination Unit represents Argentina at the FATF and GAFISUD, has the lead in developing money laundering and terrorism financing legislation, and manages the government's overall anti-money laundering and counterterrorist financing efforts.

The UIF, which began operating in June 2002, has issued resolutions widening the range of institutions and businesses required to report on 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), Customs, banks, currency exchange houses, casinos, securities dealers, insurance companies, postal money transmitters, accountants, notaries public, and dealers in art, antiques and precious metals. The resolutions issued by the UIF also provide guidelines for identifying suspicious or unusual transactions. All suspicious or unusual transactions, regardless of the amount, must be reported directly to the UIF. Prior to the passage of Resolution 4/2005 in 2005, only suspicious or unusual transactions that exceeded 50,000 pesos (approximately \$16,130) had to be reported; prior to 2004, suspicious transactions that were below a 500,000 peso threshold were first reported to the appropriate supervisory body for pre-analysis. Obligated entities are required to maintain a database of 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.

In September 2006, Congress passed Law 26.119, which amends Law 25.246 to modify the composition of the UIF. The new law reorganizes the UIF's executive structure, changing it from a five-member directorship with rotating presidency to a structure that has a permanent, politically-appointed president and vice-president. Law 26.119 also establishes a UIF Board of Advisors, comprised of representatives of key government entities, including the Central Bank, AFIP, the Securities Exchange Commission, the national counternarcotics secretariat (SEDRONAR), and the Justice, Economy, and Interior Ministries. The Board of Advisors' opinions on UIF decisions and actions are nonbinding.

The Central Bank requires by resolution that all banks maintain a database of all transactions exceeding 10,000 pesos, and periodically submit the data to the Central Bank. 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. The UIF further receives copies of the declarations to be made by all individuals (foreigners or Argentine citizens) entering or departing Argentina with over US\$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. In 2003, the Argentine Congress passed Law 22.415/25.821, which 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. However, the President vetoed the law because it allegedly conflicted 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.

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.

Terrorism and terrorist acts are not yet criminalized under Argentine law. Because these acts are not autonomous offenses, terrorist financing is not a predicate offense for money laundering. During 2005 and 2006, several bills were introduced in the Congress to implement the provisions of international treaties on terrorist financing under Argentine law. Various ministries in the government, as well as the "Comisión Mixta" (Mixed Commission—comprised of the Central Bank, Congress, Ministry of Economy, SEDRONAR, and Judicial branch), also developed draft counterterrorism finance laws. Argentina's new National Coordinator reviewed and harmonized the draft laws, and completed a final draft for the President to submit to Congress. The President approved the draft and sent it to Congress on December 20, 2006. Congress will consider it in March 2007, or in February if the President calls an extraordinary session. The draft law criminalizes both acts of terrorism and the financing of terrorism, and if approved, would provide the legal foundation for the UIF, Central Bank, and other law enforcement bodies to investigate and prosecute such crimes. FATF members will review either the draft or the newly enacted law during the February 2007 FATF Plenary to determine whether it meets international standards.

In the absence of terrorist financing legislation, the Central Bank issued Circular A 4273 in 2005 (titled "Norms on 'Prevention of Terrorist Financing'"), requiring banks to report any detected instances of the financing of terrorism. The Central Bank has regularly updated and modified the original Circular, with the most recent modification being Circular A 4599 of November 17, 2006. Bankers complain 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 draft counterterrorism law currently before Congress would provide the necessary legal backing for the Central Bank's administrative measures. The Central Bank of Argentina also 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.

On December 6, 2006, the U.S. Department of Treasury designated nine individuals and two entities in the Triborder Area between Argentina, Brazil and Paraguay that have provided financial or logistical support to Hizballah. According to the designation, the nine individuals operate in the Triborder Area and all have provided financial support and other services for Specially Designated Global Terrorist Assad Ahmad Barakat, who was previously designated by the U.S. Treasury in June 2004 for his support to Hizballah leadership. The two entities, Galeria Page and Casa Hamze, are located in Ciudad del Este, Paraguay, and have been utilized in generating or moving terrorist funds. The GOA has publicly disagreed with the designations, stating that the United States has not provided any new information that would prove terrorist financing activity is occurring in the Triborder Area.

Working with the U.S. Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE), Argentina has established a Trade Transparency Unit (TTU). The TTU examines anomalies in trade data that could be indicative of customs fraud and international trade-based money laundering. The TTU will generate, initiate, and support investigations and prosecutions related to trade-based money laundering and the movement of criminal proceeds across international borders. One key focus of the TTU, as well as of other TTUs in the region, will be financial crimes occurring in the Triborder Area, which is bound by Puerto Iguazu, Argentina, Foz do Iguacu, Brazil, and Ciudad del Este, Paraguay. The creation of the TTU was 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, 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 against Terrorism, and the UN Convention against Transnational Organized Crime. Argentina ratified the UN Convention against Corruption on August 28, 2006. Argentina participates in the "3 Plus 1" Security Group (formerly the Counter-Terrorism Dialogue) between the United States and the Triborder Area countries. The UIF has been a member of the Egmont Group since July 2003, and has signed memoranda of understanding regarding the exchange of information with a number of other financial intelligence units. 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 Laws 26.119, 26.087 and 25.246, the ratification of the UN International Convention for the Suppression of the Financing of Terrorism, a reorganized UIF, and enhanced enforcement capability via the Special Prosecutors Unit and Central Bank's specialized bank examination unit, Argentina has the legal and regulatory capability to prevent and combat money laundering more effectively. Additional legislative and regulatory changes would significantly improve the anti-money laundering and counterterrorist financing regime in Argentina, particularly the passage of the domestic legislation criminalizing the financing of terrorism that is currently before Congress. The GOA should enact legislation to expand the UIF's role to enable it to investigate money laundering arising from all crimes, rather than just six enumerated crimes; establish money laundering as an independent offense; and eliminate the currently monetary threshold of 50,000 pesos required to establish a money laundering offense. To comply with the latest FATF recommendation on the regulation of bulk money transactions, Argentina will also need to review the legislation vetoed in 2003 to find a way to regulate such transactions consistent with its MERCOSUR obligations. Continuing priorities are the effective 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. There is also a need for increased public awareness of the problem of money laundering and its connection to

narcotics, corruption and terrorism. Finally, the new National Coordinator's Office should alleviate the past problems of inadequate coordination and cooperation between government agencies.

Aruba

Aruba is an autonomous and largely self-governing Caribbean island under the sovereignty of the Kingdom of the Netherlands; foreign, defense and some judicial functions are handled at the Kingdom level. 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, eleven credit institutions and eleven casinos. The island also has six registered money transmitters, two exempted U.S. money transmitters (Money Gram and Western Union), eight life insurance companies, fourteen general insurance companies, two captive insurance companies, and eleven company pension funds. As of October 27, 2006, there were 5,343 limited liability companies (NVs), of which 372 were offshore limited liability companies or offshore NVs, which may operate until 2007-2008. In addition, there are approximately 2,763 Aruba Exempt Companies (AECs), which mainly serve as vehicles for tax minimization, corporate revenue routing, and asset protection and management.

The offshore NVs and the AECs are the primary methods used for international tax planning in Aruba. The offshore NVs pay a small percentage tax and are subject to more regulation than the AECs. The AECs pay an annual \$280 registration fee and must have a minimum of \$6,000 in authorized capital. Both offshore NVs and AECs can issue bearer shares. A local managing director is required for offshore NVs. The 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 fiscal legislation in line with OECD standards. In 2003, the GOA introduced a New Fiscal Regime (NFR) containing a dividend tax and imputation credits. As of July 1, 2003, the incorporation of low tax offshore NVs was halted. The NFR contains a specific exemption for the AEC. Nevertheless, as a result of commitments to the OECD, the regime was brought in line with OECD standards as of January 2006. As a result of the NFR, Aruba's offshore regime will cease operations by the end of 2008.

Aruba currently has three designated free zones: Oranjestad Free Zone, Bushiri Free Zone and the Barcadera Free Zone, which 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, including servicing, repairing and maintenance of goods with a foreign destination, could be licensed to operate within the free zones. However, State Ordinance Free Zones 2000 extended licensing to service-oriented companies (excluding financial services). Before being admitted to operate in the free zone, companies must submit a business plan along with personal data of managing directors, shareholders and ultimate beneficiaries, and must establish a limited liability company founded under Aruban law intended exclusively 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.

Aruba was co-chair for the CFATF Typology on International Trade, which took place in Guatemala City in October 2006. Aruba presented the integrity system developed by Free Zone Aruba NV for the free trade zones, and requested feedback from the participating countries and international organizations. Resulting from Aruba's proposed typology is research on free trade zones in the region

in order to identify vulnerabilities, which should lead to an update of the CFATF Guidelines and provide important information for the Financial Action Task Force (FATF) work that is being done to counter trade-based money laundering.

The Central Bank of Aruba is the supervisory and 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. The State Ordinance on the Supervision of Money-Transfer Companies, effective August 12, 2003, 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 currently being drafted.

The anti-money laundering legislation in Aruba extends to all crimes that have a potential penalty of more than four years' imprisonment, including tax offenses. Aruba's criminal code allows for conviction-based forfeiture of assets. All financial and nonfinancial institutions are obligated to identify clients that conduct transactions over 20,000 Aruban guilders (approximately \$11,300), and report suspicious transactions to Aruba's financial intelligence unit, the Meldpunt Ongebruikelijke Transacties (MOT). Obligated entities are protected from liability for reporting suspicious transactions. On July 1, 2001, reporting and identification requirements were extended by law to casinos and insurance companies.

The MOT is authorized to inspect all banks, money remitters, casinos, insurance companies and brokers for compliance with reporting requirements for suspicious transactions and the identification requirements for all financial transactions. The MOT is currently staffed by 12 employees. By September 2006, the MOT received 5,017 suspicious transaction reports, resulting in 86 investigations conducted and 22 cases transferred to the appropriate authorities. In June 2000, Aruba enacted a State Ordinance making it a legal requirement to report the cross-border transportation of currency in excess of 20,000 Aruban guilders to the customs department. The law also applies to express courier mail services. Reports generated are forwarded to the MOT to review, and in 2005, approximately 872 such reports were submitted. No data was provided for 2006.

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), 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 MOUs.

Aruba signed a multilateral directive with Colombia, Panama, the United States and Venezuela to establish an international working group to fight money laundering occurring 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.

In 2004, the Penal Code of Aruba was modified to criminalize terrorism, the financing of terrorism, and related criminal acts. The Kingdom of the Netherlands is party to the UN International Convention for the Suppression of the Financing of Terrorism; however, its ratification extends only to the Kingdom in Europe.

Aruba participates in the FATF and the FATF mutual evaluation program through representation in the Kingdom of the Netherlands. The GOA has a local FATF committee comprised of officials from

different departments of the Aruban Government, under the leadership of the MOT, to oversee the implementation of 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. Currently, Aruba is in compliance with seven of the nine FATF Special Recommendations. Aruba plans to 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.

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 GOA is a member of CFATF. The MOT became a member of the Egmont Group in 1997.

The Government of Aruba has shown a commitment to combating money laundering by establishing an anti-money laundering regime 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. Aruba should introduce the Sanctions Ordinance to become fully compliant with the FATF Special Recommendations on Terrorist Financing.

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 AUD1.2 trillion (approximately \$905 billion), making it the eighth largest market in the world, and the third largest in the Asia-Pacific region behind Japan and Hong Kong. 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 last four 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."

Money Laundering and Financial Crimes

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, now underway, which is expected to significantly reshape Australia's current AML/CTF regime in line with current international best practices.

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 from commercial exploitation of notoriety gained from committing a criminal offense.

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.

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 nonbanking financial entities (collectively referred to as cash dealers) to verify the identities of all account holders and signatories to accounts, and to retain the identification record, or a copy of it, for seven years after the day on which the relevant account is closed. A cash dealer, or an officer, employee, or agent of a cash dealer, is protected against any action, suit, or proceeding in relation to the reporting process. The FTR Act also establishes reporting requirements for Australia's financial services sector. Required to be reported are: suspicious transactions, cash transactions equal to or in excess of AUD10,000 (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 AUD10,000 (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 nonbank financial institutions such as money exchangers, money remitters, stockbrokers, casinos and other gambling institutions, bookmakers, insurance companies, insurance intermediaries, finance companies, finance intermediaries, trustees or managers of unit trusts; issuers, sellers, and redeemers of travelers checks, bullion sellers, and other financial services licensees. 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. AUSTRAC also provides advice and assistance to revenue collection, social justice, national security, and law enforcement agencies, and issues guidelines to cash dealers regarding their obligations under the FTR Act and regulations. As such, AUSTRAC plays a central role in Australia's AML system both domestically and internationally. During the 2005-06 Australian financial year, AUSTRAC's FTR information was used in 1,582 operational matters. Of these, in 431 matters FTR information was identified as being very valuable to outcomes. Results from the Australian Taxation Office shows that the FTR information contributed to more than AUD90.7 million (approximately \$68 million) in Australian Taxation Office assessments during the year. In 2005-06, AUSTRAC received 13,880,944 financial transaction reports, with 99.6 percent of the reports submitted electronically through the EDDS Web system. AUSTRAC received 24,801 suspect transaction reports (SUSTRs), an increase of 44.1 percent from the previous year.

In 2006, there was a significant increase in the total number of financial transaction reports received by AUSTRAC. Significant cash transactions reports (SCTRs) account for 17 percent of the total number of FTRs reported to AUSTRAC in the 2005-06 Australian financial year and are reported by cash dealers and solicitors. In 2005-06, AUSTRAC received 2,416,427 SCTRs, an increase of 5.6 percent from the previous year. Cash dealers are required to report all international funds transfer instructions (IFTIs) to AUSTRAC. Cash dealers reported 11,411,961 IFTIs to AUSTRAC—a 11.4 percent increase from 2005. International currency transfer reports (ICTR) are primarily declared to the Australian Customs Service by individuals when they enter or depart from Australia. AUSTRAC received 27,755 ICTRs—a 6.0 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

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 noncompliance. 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 noncompliance.

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), which took effect on December 14, 2006, amends 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 inserts 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 2006.

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. In 2006, AFP introduced mandatory consideration of potential money laundering and crime proceeds into its case management processes, thereby ensuring that case officers explore the possibility of money laundering and crime proceeds actions in all investigations conducted by the AFP.

A draft AML/CTF bill developed by the AGD and a package of draft AML/CTF Rules, developed by AUSTRAC, were released for public comment in December 2005 and received Royal Assent on December 12, 2006. The AML/CTF Act covers the financial sector, gambling, bullion dealing and any other professionals or businesses that provide particular designated services and imposes a number of obligations including customer due diligence, reporting requirements, record keeping, and establishing AML/CTF programs. The Act will implement a risk-based approach to regulation. Implementation will occur over a two-year period and include consultation with reporting entities. Under the Act, AUSTRAC will now have an expanded role as the national AML/CTF regulator with supervisory, monitoring and enforcement functions over a diverse range of business sectors.

The package of draft legislation and rules formed the basis for 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 represented a first tranche of reforms. The final component of the first tranche commences in December 2008.

Once the first tranche of AML/CTF reforms are implemented, the Australian Government will consider a second tranche of reforms (to begin in 2007), extending to real estate agents, jewelers, and specified nonfinancial legal and accounting services. Lawyers and accountants are also included in the first tranche, but only where they compete with the financial sector and not for general services, which will be included in the second tranche. The proposed legislative framework authorizes operational details 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 FATF, 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 (FIUs). AUSTRAC has signed exchange Instruments, mostly in the form of Memoranda of understanding (MOUs) allowing the exchange of financial intelligence with FinCEN and the FIUs of 45 other countries.

Following the bombings in Bali in October 2002, the Australian Government announced an AUD10 million (approximately \$7.5 million) initiative managed by the Australian Agency for International Development (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 Jakarta Centre for Law Enforcement Cooperation. As part of Australia's broader regional assistance initiatives, AUSTRAC continued its South East Asia Counter Terrorism Program of providing capacity building assistance to 10 South East Asian nations, to develop capacity in detecting and dealing with terrorist financing and money laundering. AUSTRAC is also providing further assistance in terms of IT system enhancement to the Indonesian FIU, PPATK (Indonesian Financial Transaction Reports and Analysis Center). AUSTRAC has provided training and other technical assistance to other developing FIUs in Southeast Asia. In the Pacific region, AUSTRAC has developed and provided unique software and training for personnel to five nascent Pacific island FIUs to fulfill their domestic obligations and share information with foreign analogs. AUSTRAC is also providing a larger scale information management system solution for the Fiji FIU to enable the collection and analysis of financial transaction reports. The AGD received a grant of AUD 7.7 million (approximately \$5.75) to develop a four year program to enhance 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 (PALP). The PALP, 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.

The GOA continues to pursue a comprehensive, anti-money laundering/counterterrorist financing regime that meets the objectives of the revised FATF Forty Recommendations and Nine Special Recommendations on Terrorist Financing. To enhance its AML/CTF regime, as noted in the FATF mutual evaluation, AUSTRAC has been provided with substantially increased powers to ensure compliance. There will be more on-site compliance audits and AUSTRAC can require regular compliance reports from reporting entities; can initiate monitoring orders and statutory demands for information and documents; can seek civil penalty orders, remedial directions and injunctions; and, can require a reporting entity to subject itself to an external audit of its AML/CTF program. The AML/CTF Act also provides for greater coordination amongst the regulatory agencies of its financial, securities and insurance sectors.

The GOA is continuing 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. Having significantly enhanced its increased focus on AML/CTF deterrence, the Government of Australia should increase its efforts to prosecute and convict money launderers.

Austria

Austria is not an important financial center, offshore tax haven, or banking center, but Austrian banking groups control significant shares of the banking markets in Central, Eastern and Southeastern

Europe. According to the 2004 IMF Financial Stability Assessment report, Austria also has one of the highest numbers of per capita bank and branches in the world, with about 900 banks and one bank branch for every 1500 people. Austria does not have a reputation as a major money laundering country. However, like any financial marketplace, Austria's financial and nonfinancial institutions are vulnerable to money laundering. The percentage of undetected organized crime is thought to be enormous, with much of it coming from the former Soviet Union. Money that organized crime launders derives primarily from serious fraud, corruption, narcotics trafficking and trafficking in persons.

Money laundering occurs within the Austrian banking system as well as in nonbank financial institutions and businesses. 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 offenses include terrorist financing and many other serious crimes. Regulations are stricter for money laundering by criminal organizations and terrorist "groupings," because in such cases the law requires no proof 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 currency and monetary instruments from illicit sources. Austrian customs authorities do not automatically screen all persons entering Austria for cash or monetary instruments. However, if asked, anyone carrying 10,000 euros (approximately \$12,400) or more must declare the funds and provide information on their source and use. To implement the new European Union (EU) regulation on controls of cash entering or leaving the EU, the Government of Austria (GOA) recently amended the Customs Procedures Act and the Tax Crimes Act, lowering the threshold for the "if asked" declaration obligation to 10,000 euros from 15,000 euros (\$18,600) as of August 1, 2006. Spot checks for currency at border crossings will continue. Customs officials have the authority to seize suspect cash at the border. An increasing problem is the use of prepaid cards and credit cards loaded with cash.

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 law requires identification of all customers when entering an ongoing business relationship. This would include all cases of opening a checking account, a passbook savings account, a securities deposit account, etc. In addition, the Banking Act requires customer identification for all transactions of more than 15,000 euros (\$18,600) for customers without a permanent business relationship with the bank. The law also requires banks and other financial institutions to keep records on customers and account owners. The Securities Supervision Act of 1996, which covers trade of securities, shares, money market instruments, options and other instruments listed on an Austrian stock exchange or any regulated market in the EU, refers to the Banking Act's identification regulations. The Insurance Act of 1997 includes similar regulations for insurance companies underwriting life policies. 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 Banking Act protects bankers and all other reporting individuals (auctioneers, real estate agents, lawyers, notaries, etc.) 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), however, regularly provides 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 must 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 secure electronic signature or a copy of a picture ID and a legal business declaration submitted by registered mail.

The Banking Act includes a due diligence obligation, and the law holds individual bankers responsible if their institutions launder money. In addition, banks have signed a voluntary agreement to prohibit active support of capital flight. The Federal Economic Chamber's Banking and Insurance Department, in cooperation with all banking and insurance associations, has also published an official Declaration of the Austrian Banking and Insurance Industries to Prevent Financial Transactions in Connection with Terrorism.

Amendments in 2003 to the Austrian Gambling Act, the Business Code, and the Austrian laws governing lawyers, notaries, and accounting professionals introduced additional money laundering regulations. The legislation concerns 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.

During Austria's EU Presidency in the first half of 2006, the GOA, in various EU committees and bodies, facilitated the implementation of guidelines for the Financial Action Task Force's (FATF) Special Recommendation VII on wire transfers as well as the EU's Third Money Laundering Directive (Directive 2005/60/EC). The EU regulation on wire transfers entered into force on January 1, 2007, and became immediately and directly applicable in Austria. The GOA also hosted a workshop on nonprofit organizations, terrorism financing and financial sanctions.

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). According to Interpol's General Secretariat, 40 percent of queries that Austria sends have resulted in positive leads. During the first nine months of 2006, the AFIU received 521 suspicious transaction reports from banks and fielded requests for information from Interpol, Europol, members of the Egmont Group, and other authorities. This represents an increase from the 467 suspicious transactions reported in 2005, which led to three convictions for money laundering. Criminals are often convicted for other crimes, however, with money laundering serving as additional grounds for conviction. In 2005, authorities instituted legal proceedings for money laundering in 13 cases, but data on convictions are not yet available. According to the AFIU, the increase in suspicious transaction reports in the first nine months of 2006 is due to higher sensitivity to money laundering, an improved reporting attitude, and the reporting of problems with "phishing" e-mails.

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. In connection with money laundering, organized crime and terrorist financing, all assets are subject to seizure and forfeiture, including bank assets, other financial assets, cars, legitimate businesses, and real estate. Courts may freeze assets in the early stages of an investigation. In the first eight months of 2006, Austrian courts froze assets worth 24 million euros (approximately \$30 million). In 2005, courts froze assets worth 99.2 million euros (approximately \$124.0 million).

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 bank secrecy regulations, though bank secrecy can be lifted in cases of suspected money laundering. Moreover,

bank secrecy does not apply in cases in which banks and other financial institutions must report suspected money laundering. Such cases are subject to instructions of the authorities (i.e., AFIU) with regard to processing such transactions.

The 2002 Criminal Code Amendment introduced the following new criminal offense categories: terrorist “grouping,” terrorist criminal activities, and financing of terrorism. The Criminal Code defines “financing of terrorism” 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. Furthermore, 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, the list of Specially Designated Global Terrorists that the United States has designated pursuant to E.O. 13224, and EU lists. According to the Ministry of Justice and the AFIU, no accounts found in Austria ultimately have shown any links to terrorist financing. The AFIU immediately shares all reports on suspected terrorism financing with the Austrian Interior Ministry’s Federal Agency for State Protection and Counterterrorism (BVT). Figures on suspected terrorism financing transaction reports in 2005 and 2006 are not yet available. There were no convictions for terrorism financing in 2005.

The GOA has undertaken important efforts that may help thwart the misuse of charitable or nonprofit entities as conduits for terrorist financing. The GOA has generally implemented the FATF’s Special Recommendation on Terrorist Financing regarding nonprofit organizations. The Law on Associations (Vereinsgesetz, published in Federal Law Gazette No. I/66 of April 26, 2002), which has been in force since July 1, 2002, covers charities and all other nonprofit associations in Austria. The law regulates the establishment of associations, bylaws, organization, management, association registers, appointment of auditors, and detailed accounting requirements. On January 1, 2007, special provisions will become effective for associations whose finances exceed a certain threshold. Each association must appoint two independent auditors and must inform its members about its finances and the auditors’ report. Associations with a balance sheet exceeding 3 million euros (\$3.72 million) or annual donations of more than 1 million euros (\$1.24 million) have to appoint independent auditors to review and certify the financial statements. Public collection of donations requires advance permission from the authorities. Since January 1, 2006, the newly established Central Register of Associations (Zentrales Vereinsregister) offers basic information on all registered associations in Austria free of charge via the Internet. The FMA recently announced intentions to employ 45 additional auditors to focus on combating money laundering, terrorist financing, as well as to better monitor offshore banking and charitable foundations.

Another law, the Law on Responsibility of Associations (Verbandsverantwortlichkeitsgesetz, published in Federal Law Gazette No. I/151 of December 23, 2005), came into force on January 1, 2006, and introduced criminal responsibility for all legal entities, general and limited commercial partnerships, registered partnerships and European Economic Interest Groupings, but not charitable or nonprofit entities. The law covers all crimes listed in the Criminal Code, including corruption, money laundering and terrorist financing.

Austria has not yet enacted legislation that provides for sharing forfeited narcotics-related assets with other governments. A bilateral U.S.-Austria agreement on sharing of forfeited assets remains under negotiation. In addition to the exchange of information with home country supervisors permitted by 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), as well as Bulgaria and Croatia. Austria has also given assistance to countries needing guidance in developing effective AML/CFT regimes: in March 2006, under the auspices of the EU, Austria assisted the FYROM with discussions highlighting Austria's experience, and best practices in AML, confiscation and seized assets management.

Austria 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. The GOA ratified the UN Convention against Corruption on January 11, 2006. Austria is a member of the EU and FATF, and a FATF mutual evaluation of Austria will take place in 2008. The AFIU is a member of the Egmont Group.

The Government of Austria has implemented a viable anti-money laundering and counterterrorist financing regime, and is generally cooperative with U.S. authorities in money laundering cases. However, certain deficiencies remain. There is a need for identification procedures for customers in non-face-to-face banking transactions. The GOA should amend its criminal code to penalize negligence in reporting money laundering and terrorist financing transactions. In spite of increases in suspicious transaction reporting and money laundering convictions in 2006, the AFIU and law enforcement require sufficient resources to adequately perform their functions. Finally, AFIU and other government personnel should be protected against damage claims because of delays in completing suspicious transactions until sufficient resources are provided to ensure timely reporting. The GOA should also ensure that it enhances inspections at its borders to protect against the cross-border transport of cash and negotiable instruments in concert with FATF Special Recommendation IX on Terrorist financing.

Bahamas

The Commonwealth of The Bahamas is an important regional and offshore financial center. The financial services sector provides vital economic contribution to The Bahamas, accounting for approximately 15 percent of the country's 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, drug traffickers store 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, as well as 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, one in Freeport/Lucaya, and one in Great Exuma. Cruise ships that overnight in Nassau may operate casinos. Reportedly, there are over ten internet gaming sites based in The Bahamas, although internet gambling is illegal in The Bahamas. Under Bahamian law, Bahamian residents are prohibited from gambling. Freeport is home to The Bahamas' only free trade zone. There are no indications that it is used to launder money.

The Central Bank of The Bahamas is responsible for the licensing, regulation, and supervision of banks and trust companies operating in 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 and provide the Central Bank with extensive information gathering powers, including on-site inspection of banks and 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. These expanded rights include the right to deny licenses to banks or trust companies deemed 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 a registered 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 is complete. Some industry sources have suggested that this requirement has contributed to a decline in banks and trusts from 301 in 2003 to 250 at the end of 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 agents, registered offices, nominee shareholders, and officers and directors for IBCs.

Money laundering is criminalized under the Proceeds of Crime Act 2000. The Financial Transaction Reporting Act 2000 (FTRA) 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 October 2006, the Central Bank reported full compliance with KYC requirements. All nonverified accounts have been frozen.

The FTRA requires financial and nonfinancial institutions to report suspicious transactions to the financial intelligence unit (FIU) when the institution suspects or has reason to believe that any transaction involves the proceeds of crime. The FIU Act 2000 protects obligated entities from criminal or civil liability for reporting transactions. Financial institutions are required by law to maintain records related to financial transactions for no less than five years. Established by the FIU Act 2000, The Bahamas FIU operates as an independent administrative body under the Office of the Attorney General, and is responsible for receiving, analyzing and disseminating suspicious transaction reports (STRs). The FIU is also responsible for publishing guidelines to advise entities of their reporting obligations. Presently, the FIU is in the process of revising its guidelines to incorporate terrorist financing reporting requirements, and is expected to publish the new guidelines in early 2007.

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. In 2005 there were nine cases of asset restraint as a result of suspicious transactions. From January to September 2006, the FIU received 124 STRs, of which 60 were being analyzed and 15 were forwarded to the police for investigation. If money laundering is suspected, the FIU will disseminate STRs to the Tracing and Forfeiture/Money Laundering Investigation Section (T&F/MLIS) of the Drug Enforcement Unit (DEU) of the Royal Bahamas Police Force for investigation and prosecution in collaboration with the Office of the Attorney General.

Between January 2000 and September 2006, 17 individuals were charged with money laundering by the T&F/MLIS, leading to seven convictions. Seven defendants await trial, while two defendants fled the jurisdiction prior to trial. As a matter of law, the Government of the Commonwealth of the Bahamas (GOB) seizes assets derived from international drug trade and money laundering. The banking community has cooperated with these efforts. During 2006, nearly two million dollars in cash and assets were seized or frozen. The seized items are in the custody of the GOB. Some are in the

process of confiscation while some remain uncontested. Seized assets may be shared with other jurisdictions on a case-by-case basis.

In 2004, the Anti-Terrorism Act (ATA) was enacted 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. To date, there have been no suspicious transactions or prosecutions for violation of the ATA.

The Bahamas is a party to the UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. The Bahamas has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the Inter-American Convention against Terrorism. The GOB has neither signed nor ratified the UN Convention against Corruption. The Bahamas is a member of the Caribbean Financial Action Task Force (CFATF) and recently underwent a Mutual Evaluation in June 2006. The FIU has been an active participant within the Egmont Group since becoming a member in 2001, and is currently one of the two regional representatives for the Americas. 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. The Bahamas FIU has the ability to sign memoranda of understanding with other FIUs for the exchange of information.

The GOB has enacted substantial reforms to reduce its vulnerability to money laundering and terrorist financing. The GOB should continue to enhance its supervision of financial institutions, especially investment funds. The Bahamas should also provide adequate resources to its law enforcement, prosecutorial and judicial entities to ensure that investigations and prosecutions are satisfactorily completed and requests for international cooperation are efficiently processed.

Bahrain

Bahrain has one of the most diversified economies in the Gulf Cooperation Council (GCC). In contrast to most of its neighbors, oil accounted for only 11.1 percent of Bahrain's gross domestic product (GDP) in 2005. Bahrain has promoted itself as an international financial center in the Gulf region. It hosts a mix of 375 diverse financial institutions, including 187 banks, of which 51 are wholesale banks (formerly referred to as off-shore banks or OBUs); 39 investment banks; and 25 commercial banks, of which 17 are foreign-owned. There are 31 representative offices of international banks. In addition there are 21 moneychangers and money brokers, and several other investment institutions, including 85 insurance companies. The vast network of Bahrain's conventional banking system—coupled with a vibrant Islamic banking sector—attracts a high volume of financial activity. With its strategic geographical location in the Middle East, close ties to neighboring Saudi Arabia, and as a transit point and communication hub along the Gulf into Southwest Asia, Bahrain may attract money laundering activities. It is thought that the greatest risk of money laundering stems from questionable foreign proceeds that transit Bahrain. Other sources of money laundering in Bahrain include hawala, trade fraud, real estate, and smuggling.

Bahrain criminalized money laundering in January 2001, with punishment of up to seven years in prison, and a fine of up to one million Bahraini dinars (approximately \$2.65 million). 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 Bahraini dinars (approximately \$265,000) and a prison term of not less than five years.

In August 2006, Bahrain passed Law 54/2006, which amended certain provisions of the 2001 anti-money laundering law to include banning and combating money laundering and terrorist financing. Law 54 criminalizes the undeclared transfer of money across international borders for the purpose of money laundering or supporting terrorism. Shortly after the passage of Law 54, Bahrain passed Law No. 58 of 2006 pertaining to the “Protection of the Community against Terrorist Acts.” Under these laws, persons convicted of collecting or contributing funds, or otherwise providing financial support to a group or persons who practice terrorist acts, whether inside or outside Bahrain, will be subject to imprisonment for a minimum of ten years in prison up to a maximum of a life sentence. Notably, the AML law allows Bahrain to prosecute a money laundering violation regardless of whether the underlying act is a crime in Bahrain. For example, although there is no income tax system in Bahrain, someone engaging in illicit financial transactions for the purpose of evading another nation’s tax system may be prosecuted for money laundering in Bahrain.

A controversial feature of the new law is a revised definition of terrorism that is based on the definition as set forth by the Organization of the Islamic Conference. Article 2 excludes from the definition of terrorism acts of struggle against invasion or foreign aggression, colonization, or foreign supremacy in the interest of freedom and the nation’s liberty.

Under the original anti-money laundering law, the Bahrain Monetary Agency (BMA), the principal regulator of the financial sector, 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. The current requirement for filing STRs stipulates no minimum thresholds. In 2005, the BMA established a secure online website, by which banks were enabled to file STRs. Immunity from criminal or civil action is given to those who report suspicious transactions. The law further provides for the confiscation of assets and allows for greater international cooperation.

In June 2001, the Policy Committee for the Prohibition and Combating of Money Laundering and Terrorist Financing was established, as an interagency committee to oversee and coordinate Bahrain’s anti-money laundering efforts. The committee, which is under the chairmanship of the Deputy Governor of BMA, includes members from the Bahrain Stock Exchange, the Ministries of Finance and National Economy, Interior, Justice, Commerce, Social Development, and Foreign Affairs.

The Anti-Money Laundering Unit (AMLU) was established in 2002 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 as well as suspicious operations; conduct investigations; disseminate information to local law enforcement; share information with international counterparts; and execute decisions, orders, and decrees issued by the competent courts in offenses related to money laundering. The AMLU became a member of the Egmont Group of FIUs in July 2003.

The AMLU receives suspicious transaction reports (STRs) from banks and other financial institutions, investment houses, broker/dealers, moneychangers, insurance firms, real estate agents, gold dealers, financial intermediaries, and attorneys. Financial institutions file copies of the STRs with the BMA. Nonfinancial institutions are required under a Ministry of Industry and Commerce (MOIC) directive to also file STRs with that ministry. 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. The BMA does not independently investigate the STRs, since responsibility for investigation rests with the AMLU. However, BMA may assist the AMLU with its investigations, particularly in cases where special banking expertise is required.

The BMA is the regulator for other nonbanking financial institutions including insurance companies, exchange houses, and capital markets. BMA inspected four insurance companies in 2005 and had conducted six more inspections by November 2006. More insurance industry inspections are

scheduled for 2007. Anti-money laundering regulations for investment firms and securities brokers were revised in April 2006.

In November 2003, the MOIC published new anti-money laundering guidelines, which govern designated nonfinancial businesses and professions (DNFBPs). The MOIC has also announced an increased focus on enforcement, noting some 300 visits to DNFBPs in 2005, including car dealers, jewelers, real estate agencies, etc. By November 2006, the MOIC had conducted an additional 274 enforcement follow-up visits. A total of 140 of these have been assigned an MOIC compliance officer as a result. The MOIC has also increased its inspection team staff from four to seven.

The MOIC system of requiring dual STR reporting to both it and the AMLU mirrors the BMA's system. Reportedly, good cooperation exists between MOIC, BMA, and AMLU, with all three agencies describing the double filing of STRs as a backup system. The AMLU and BMA's compliance staff analyze the STRs and work together on identifying weaknesses or criminal activity, but it is the AMLU that must conduct the actual investigation and forward cases of money laundering and terrorist financing to the Office of Public Prosecutor. From January through November 2006, the AMLU has received and investigated 118 STRs, 26 of which have been forwarded to the Office of Public Prosecutor for prosecution. The GOB completed its first successful money laundering prosecutions in May 2006. The prosecutions resulted in two convictions with sentences of one and three years and fines of \$380 and \$1,900 respectively.

Bahrain is moving ahead with plans to establish a special court to try financial crimes. The court is expected to begin hearing cases in May 2007, and Bahraini judges are undergoing special training to handle such cases.

There are 51 BMA licensed wholesale Banks, which formerly were referred to as offshore banking units (OBUs) that are branches of international commercial banks. Such new licenses allow wholesale banks to accept deposits from citizens and residents of Bahrain, and undertake transactions in Bahraini dinars. Wholesale banks are regulated and supervised in the same way as the domestic banking sector, and are subject to the same regulations, on-site examination procedures, and external audit and regulatory reporting obligations.

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.

In January 2002, the BMA issued circular BC/1/2002, which implemented the Financial Action Task Force (FATF) Nine Special Recommendations on Terrorist Financing as part of the Central Bank's AML regulations. Subsequently, the BMA froze two accounts that had been designated by the UNSCR 1267 Sanctions Committee, and one account that was listed under U.S. Executive Order 13224.

Circular BC/1/2002 also 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 Central Bank 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 are required to file suspicious transaction reports (STRs) if they suspect that the funds being transferred are linked to suspicious activities or terrorist financing. Licensees must also maintain records of the identity of their customers in accordance with the Central Bank'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 Recommendations plus Nine Special Recommendations. Revised

and updated BMA regulations were issued in mid- 2005. The BMA is drafting new regulations to be issued in 2007 intended to enhance existing circulars regarding requirements for money changers.

Legislative Decree No. 21 of 1989 governs the licensing of nonprofit 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, MSD 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. Banks must report to BMA any transaction by a charitable institution that exceeds 3,000 Bahraini dinars (approximately \$8,000). MSD has the right to inspect records of the societies to insure their compliance with the law.

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 32 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 as it does with respect to conventional banks. In March 2002, the BMA introduced a comprehensive set of regulations for Islamic banks called the Prudential Information and Regulatory Framework for Islamic Banks (PIRI). The framework was designed to monitor certain banking aspects, such as capital requirements, governance, control systems, and regulatory reporting.

In November 2004, Bahrain hosted the inaugural meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF). Bahrain also serves as the headquarters for the MENAFATF Secretariat.

In October 2006, the Policy Committee for the Prohibition and Combating of Money Laundering and Terrorist Financing announced the formation of two new sub-committees: the U.N. Sub-Committee, which will head a new inter-agency framework for disseminating and reviewing international financial crimes designations; and the Legal Sub-Committee, which will coordinate the drafting of any future financial crimes legislation.

Bahrain is a party to the 1988 UN Drug Convention, the UN Convention on Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism. Bahrain has signed, but has not yet ratified, the UN Convention against Corruption.

The Government of Bahrain has demonstrated a commitment to establish a strong anti-money laundering and terrorist financing system and appears determined to engage its large financial sector in this effort. The Anti-Money Laundering Unit should maintain its efforts to obtain and solidify the necessary expertise in tracking suspicious transactions. However, there should not be an over-reliance on suspicious transaction reporting. Bahraini law enforcement and customs authorities should take a more active role in recognizing, initiating and pursuing investigations in anti-money laundering and counterterrorist financing cases. The Ministry of Social Development should expand and provide training for its staff with NGO/charities oversight responsibilities. Bahrain should become a party to the UN Convention against Corruption.

Bangladesh

Bangladesh is not an important regional or offshore financial center.

While there is evidence of funds laundered through the official banking system, there is no indication of large-scale abuse. Money transfers outside the formal banking and foreign exchange licensing system are illegal. The principal money laundering vulnerability remains the widespread use of the underground hawala or “hundi” system to transfer money and value outside the formal banking network. The vast majority of hundi transactions in Bangladesh are used to repatriate wages from Bangladeshi workers abroad.

The Central Bank has reported a considerable increase in remittances since 2002 through official channels. The figure has more than doubled from \$2 billion to the current level of \$4.3 billion in fiscal year 2006 (July 1-June 30). The increase is due to competition from the government and commercial banks through improved delivery time and valued-added services, such as group life insurance. Hundi, however, will probably never be completely eradicated as it is used to avoid taxes, customs duties and currency controls. The nonconvertibility of the local currency (the taka) coupled with intense scrutiny on foreign currency transactions in formal financial institutions also contribute to the popularity of both hundi and black market money exchanges.

In Bangladesh, hundi primarily uses trade goods to provide counter valuation or a method of balancing the books in transactions. It is part of trade-based money laundering and a compensation mechanism for the significant amount of goods smuggled into Bangladesh. An estimated \$1 billion dollars worth of dutiable goods are smuggled every year from India into Bangladesh. A comparatively small amount of goods are 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. For the past five years (2001-2005) Bangladesh has been ranked by Transparency International’s Corruption Perception Index as the country with the highest level of perceived corruption in the world. In 2006, Bangladesh was ranked 156 out of 163 countries surveyed.

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 has conducted training for commercial banks’ headquarters around the country in “know your customer” practices. Since Bangladesh does not have a national identity card and because the vast majority of 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 slowly changing, especially in head offices. Accounting procedures used by the Central Bank may not achieve international standards in every respect. In 2004, the Central Bank issued “Guidance Notes on Prevention of Money Laundering” and designated anti-money laundering compliance programs as a “core risk” subject to the annual bank supervision process of the Central 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 Central Bank conducts regular training programs for compliance officers based on the Guidance Notes. In December 2005, the Central Bank called all compliance officers to Dhaka for a discussion about their obligations and heightened police interest in money laundering and terrorist financing. During 2006, the Central Bank continued to work with compliance officers around the country, sending their instructors to regional workshops.

Currently, Bangladesh is working to formalize operations for a Financial Intelligence Unit (FIU). Under the 2002 Money Laundering Prevention Act (MLPA), the Anti-Money Laundering Unit (AMLU) of the Central 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 Central Bank has approved the purchase of hardware for

the nascent FIU, which will be coupled with link analysis software provided by the U.S. Department of Justice.

The Central Bank has received approximately 236 suspicious transaction reports since the MLPA was enacted in 2002. To date, there have been no successful prosecutions in part due to procedural problems in adjusting to inter-agency cooperation. A major setback occurred in December 2005 when the newly created Anti-Corruption Commission (ACC) advised the bank that it would not investigate these cases and returned them. The Criminal Investigation Division of the country's police force agreed to take the cases. During 2006, the bank and police hammered out a procedure to investigate cases initiated by the bank through suspicious transactions reports. With the approval of the Law Minister, dedicated government attorneys will handle the prosecutions. Officials expect prosecutions to begin in spring 2007.

The Anti-Money Laundering and Terrorist Financing Act 2005 (AMLTF), drafted to replace the MLPA from 2002, was shelved due to political issues related to upcoming national elections expected in January 2007. The draft AMLTF provided powers required for a FIU to meet most of the international recommendations set forth by the Egmont Group, including sharing information with law enforcement at home and abroad. The draft legislation also provided for the establishment of a Financial Investigation and Prosecution Office wherein law enforcement investigators and prosecutors would work as a team from the beginning of the case to trial. The 2005 draft legislation addressed asset forfeiture and provided that assets, substitute assets (without proving the relation to the crime) and instrumentalities of the crime can be forfeited. It did not, however, address the nuts and bolts of asset forfeiture, which the Central Bank asserts can be addressed administratively and via regulatory procedures. Changes following cabinet review weakened the draft by, for example, deleting provisions for the establishment of an enforcement group that would be comprised of Central Bank analysts, police and prosecutors.

The AML draft also criminalized terrorism financing. The government announced that it wanted a separate Anti-Terrorism law that would criminalize terrorist financing, stipulating that the Anti-Terrorism Act (ATA) would have to be passed before the AML. The ATA law was not sent to Parliament in 2006. A worrying development in the initial review stage of the ATA was the removal of the section providing for international cooperation.

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, the Central Bank fined two local banks for failure to comply with Central 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 and protocols 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 some advancement, the Government of Bangladesh's anti-money laundering/terrorist financing regimes should be strengthened to comply with international standards. Bangladesh should criminalize terrorist finance. Legislation should provide for safe harbor provisions in order to protect reporting individuals, due diligence programs, and banker negligence accountability that would make individual bankers responsible under certain circumstances if their institutions launder money. Bangladesh should create a financial intelligence collection system and establish a viable Financial Intelligence Unit to analyze the intelligence. A lack of training, resources and computer technology, including computer links with the outlying districts, continue to hinder progress. Bangladesh law enforcement and customs should examine forms of trade-based money laundering. Bangladesh should further efforts to combat pervasive corruption, which is intertwined with money laundering,

smuggling, and tax evasion. Bangladesh should ratify the UN Convention against Transnational Organized Crime.

Barbados

A transit country for illicit narcotics, Barbados remains attractive for money laundering, which primarily occurs through the formal banking system. There is also evidence of proceeds being directed to financial institutions in Barbados by criminals abroad.

As of July 30, 2006, there were six commercial banks and 14 nonbank financial institutions in Barbados. The offshore sector consists of 54 offshore banks, 4,635 international business companies (IBCs), 178 exempt insurance companies (a significant reduction from 2005), 57 qualified exempt insurance companies, nine mutual funds companies, one exempt mutual fund company, seven trust companies, and six finance companies. According to the Central Bank, it is estimated that there is approximately \$32 billion worth of assets in Barbados's offshore banks. There are no free trade zones, casinos, or internet gaming sites in Barbados.

The Central Bank regulates and supervises both on and offshore banks, trust companies, and finance companies. The Ministry of Finance issues banking licenses after the Central Bank receives and reviews applications, and recommends applicants for licensing. The International Financial Services Act 2002 incorporates fully the standards established in the Basel Committee's Core Principles for Effective Banking Supervision and provides for on-site examinations of offshore banks. On-site examinations of licensees use a comprehensive methodology that seeks to assess the level of compliance with legislation and guidelines. Offshore banks must submit quarterly statements of assets and liabilities and annual balance sheets to the Central Bank. Additionally, the Central Bank conducts off-site surveillance, which consists of reviewing financial data as well as other documents submitted by financial institutions. The Central Bank revised its Anti-Money Laundering Guidelines in 2001. The revised "know your customer" guidelines provide detailed guidance to financial institutions regulated by the Central Bank.

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 permitted, 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 more information than was previously provided for IBC license applications or renewals.

The Government of Barbados (GOB) criminalized drug money laundering in 1990 through the Proceeds of Crime Act. The Act 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 1998 (MLPCA) extends the offense of money laundering beyond drug-related crimes, and criminalizes the laundering of illicit proceeds from unlawful activities that are punishable by at least one year's imprisonment. Under the MLPCA, money laundering is punishable by a maximum of 25 years in prison and a maximum fine of \$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 extend to other financial institutions, including money remitters, investment services, and 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 \$5,000 for a period of five years, and establish internal auditing and compliance procedures.

The Anti-Money Laundering Authority (AMLA) was created to supervise financial institutions' compliance with the MLPCA. Financial institutions must also report suspicious transactions to the

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AMLA through the Barbados Financial Intelligence Unit (FIU). There are no laws that prevent disclosure of information to relevant authorities, and individuals reporting to the FIU are protected by law. The AMLA is also responsible for issuing anti-money laundering training requirements and regulations for financial institutions. However, staff constraints limit the direct supervisory capacity of the AMLA.

The FIU is housed in the Office of the Attorney General within the AMLA. The FIU was established in September 2000 and is fully operational as an independent agency. From January 1-June 30, 2006, the FIU received 41 suspicious activity reports (SARs)—half of the amount received the previous year—and referred two cases to the Commissioner of Police. The FIU reports that though there has been a decrease in SARs, the quality of SARs received has improved. The FIU forwards information to the Financial Crimes Investigation Unit of the police if it has reasonable grounds to suspect money laundering. Government entities and financial institutions are required to provide additional information to the FIU upon request by the FIU Director. The FIU also has the ability to negotiate memoranda of understanding (MOUs) with foreign counterparts.

The MLPCA only provides for criminal asset seizure and forfeiture, not civil 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. Legitimate businesses and other financial institutions are subject to criminal sanctions and the termination of operating licenses. Tracing, seizing and freezing assets may be done by the FIU and the police. Freezing orders are usually granted for six months at a time after which they need to be reviewed. Frozen assets may be confiscated on application by the Director of Public Prosecutions and are paid into the National Consolidated Fund. No asset sharing law has been enacted, but bilateral treaties as well as the Mutual Assistance in Criminal Matters Act, have provisions for asset tracing, freezing and seizure between countries.

The Barbados Anti-Terrorism Act 2002, as well as provisions of the Money Laundering Financing of Terrorism (Prevention and Control) Act (MLFTA), criminalize the financing of terrorism. The MLFTA has a provision for information sharing between the Barbados Customs Department and the FIU, and is also designed to control bulk cash smuggling and the use of cash couriers. 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. To date, the GOB has found no evidence of terrorist financing. The GOB has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and nonprofit entities.

Barbados has bilateral tax treaties that eliminate or reduce double taxation with fourteen countries including the United States. The United States and the GOB ratified amendments to their bilateral tax treaty in 2004. 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 Caribbean Financial Action Task Force (CFATF) and underwent a Mutual Evaluation in December 2006. Barbados is also a member of the Offshore Group of Banking Supervisors, the Caribbean Regional Compliance Association, and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The FIU was admitted to the Egmont Group in 2002. Barbados is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. The GOB has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption and the Inter-American Convention against Terrorism.

Although the GOB has strengthened the anti-money laundering legislation, it must steadfastly enforce the laws and regulations it has adopted. The GOB should adopt civil forfeiture and asset sharing legislation. Barbados should be more aggressive in conducting examinations of the financial sector and maintaining strict control over vetting and licensing of offshore entities. The GOB should ensure adequate supervision of nongovernmental organizations and charities. It should also work to improve information sharing between regulatory and enforcement agencies. In addition, Barbados should continue to provide adequate resources to its law enforcement and prosecutorial personnel, to ensure Mutual Legal Assistance Treaty requests are efficiently processed.

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, but Belarus has many vulnerabilities, including organized crime. Due to inflation, excessively high taxes, underground markets, 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. Smuggling is prevalent. Corruption is a severe problem in Belarus, which exacerbates financial crimes enforcement and retards needed reforms.

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 the Republic of Belarus (NBRB), and even market forces. Under the decree, legislation that contradicted the decree became void in June. On January 28, 2006 the President issued a decree granting him powers to confiscate at will any plot of land for agricultural, environmental, recreational, historical, and cultural uses. The President subsequently relinquished some of his nominal power in June by abolishing for banks the “golden share” rule that permits the government to interfere in the decision-making of any company formerly owned by the government. Moreover, the President canceled a requirement that foreign capital must account for 25 percent of the total authorized capital stock of the country’s banks. However, the government imposed penalties on 107 government-owned enterprises that failed to transfer accounts from private banks to government-owned financial institutions per a 2005 presidential directive.

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. On January 31, 2006, President Lukashenko signed degree 66, which tightened FEZ regulations on transaction reporting and security, including mandatory video surveillance systems.

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 nonbank 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; leasing and estate agents; post

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offices; dealers in precious stones and metals; attorneys conducting financial transactions on behalf of clients; 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 nondrug 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 NBRB has issued suggested anti-money laundering and counterterrorist financing (AML/CFT) regulations, including know your customer (KYC) and due diligence requirements. Although these are not legally binding, they are treated as mandatory by the institutions overseen by the NBRB.

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, or DFM); 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; the Ministry on Taxes and Duties (MTD); and other state bodies. The MTD also provides oversight and has released binding regulations on its subject institutions.

On March 17, 2006 a series of amendments to the AML Law passed by parliament in December 2005 to enhance money laundering prevention came into effect. Under the new law, individual and corporate financial transactions exceeding approximately \$27,000 and \$270,000, respectively, are subject to special inspection. Banks that violate the new law face fines of up to one percent of their registered capital and suspension of their licenses for up to one year. However, this is a threshold reporting requirement. A 2005 International Monetary Fund (IMF) Financial System Stability Assessment pointed out that the AML/CFT framework, including that of suspicious transaction reporting, needed to be significantly upgraded to meet FATF standards. Additionally, the new law exempts most government transactions and transactions sanctioned by the President from extraordinary inspection. Moreover, the government used the anti-money law as a pretext for preventing several pro-democracy NGOs from receiving foreign assistance.

In January 2005, the President signed a decree on the regulation of the gaming sector, making the owners of gambling businesses subject to stricter tax regulations. In addition, a provision intended to combat money laundering requires those participating in gaming activities to produce identification in order to receive a monetary winnings.

On February 9, 2006, the government abolished 1997 identification requirements for all foreign currency exchange transactions at banks. The Belarusian banking sector consists of 31 banks. Of these, 27 have foreign investors and nine banks are foreign owned. As of May 1, 2006 the capital base of Belarus’ banks totaled almost \$10 billion. The state-owned Belarus Bank is the largest and most influential bank in Belarus. In 2005, Belarus Bank conducted \$2.7 million dollars in financial transactions with Russian clients, 28 percent more than 2004. In April, Russia’s Burbank opened a \$2 million credit line to Belarus Bank for trade finance on an unsecured basis. By 2006, total credit lines to Belarus Bank from foreign financial institutions amounted to \$220 million. 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.

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. In April 2006, President Lukashenko signed ordinance 259, which granted the DFM the power to suspend the financial operations of any company suspected of money laundering or financing terrorism.

The DFM cooperates with its counterparts in foreign states and with international organizations to combat money laundering. In 2005, the DFM fielded 19 inquiries from other FIUs, and requested information 34 times from other FIUs. The DFM is not a member of the Egmont Group, but it has applied for membership. The DFM's counterpart FIUs from Russia and Poland are the DFM's sponsors for Egmont membership.

Financial institutions are obligated to report to the DFM transactions subject to special monitoring, including: transactions whose suspected purpose is money laundering or terrorism financing; 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 reported 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 and examine the internal rules and enforcement mechanisms of any financial institution. The DFM also has the authority to initiate its own investigations.

Failure to report and transmit the required information on financial transactions may subject a bank or other financial institution to criminal liability. The National Bank of the Republic 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. In February 2006, the Interior Ministry announced the establishment of a new counterterrorism department within its Main Office against Organized Crime and Corruption.

Belarusian legislation provides for broad seizure powers and for law enforcement to identify and trace assets. Seizure based on a criminal conviction is in the Criminal Code for all serious offenses, including money laundering. Seizure of assets from third parties appears to be possible but is not specifically codified. 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 2006, Belarus has not identified any assets as belonging to individuals or entities included on the UNSCR 1267 Sanctions Committee's consolidated list.

Domestically, Belarus has made an effort to ensure cooperation and coordination between state bodies through the Interdepartmental Working Group; this Group has been established specifically to address these AML/CFT issues. This Working Group includes representatives of the Prosecutor's office, the National Bank, MTD, State Security Committee, Department of Financial Investigation, and the DFM. The Director of the DFM serves as the head of this Group.

Belarus has signed bilateral treaties on law enforcement cooperation with Bulgaria, India, Lithuania, the People's Republic of China, Poland, Romania, Turkey, the United Kingdom, and Vietnam. In September, 2006 Belarus signed an anti-money laundering agreement with the People's Bank of China. 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 also assumed international commitments to combat terrorism as a member of the Collective Security Treaty Organization (CSTO), which includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan.

Belarus is a party to the UN International Convention for the Suppression of the Financing of Terrorism. However, over the past year, Belarus has significantly expanded its economic relations with state sponsors of terrorism. In May, 2006 President Lukashenko hosted senior officials of Syria's governing Baath Party and signed several economic cooperation agreements. In October, following Foreign Minister Sergey Martynov's visit to Tehran, Belarus and Iran began formal negotiations to open Iranian banks in Minsk. In November, 2006, President Lukashenko visited Iran.

Belarus is a party to the 1988 UN Drug Convention and to the UN Convention against Transnational Organized Crime. On September 15, 2005, Belarus became a signatory to the UN International Convention for the Suppression of Acts of Nuclear Terrorism.

Belarus is a party to the UN Convention against Corruption. 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. On January 31, the Belarusian State Customs Committee unveiled an anticorruption plan that included stiffer penalties for bribery and closer cooperation with law enforcement authorities. On July 20, 2006 President Lukashenko signed an anticorruption law to comply with the Council of Europe's 1999 Criminal Law Convention on Corruption, which Belarus ratified in 2004. The law expanded Belarus' existing anticorruption legislation by defining professions and individuals vulnerable to and capable of corruption to include senior government officials; members of parliament and local councils; presidential, parliamentary, and local council candidates; foreign officials; officials of private organizations that perform administrative and control functions; and volunteers assisting law enforcement agencies in maintaining public order. However, corruption remains a serious obstacle to enforcing laws dealing with financial crimes. Belarus is 151 out of 163 countries listed in Transparency International's 2006 International Corruption Perception Index.

The Government of Belarus (GOB) has taken 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, and ensure that the regulations and guidance provided are legally binding. The GOB should implement strict regulation of its offshore industries and those operating within the FEZ areas. The GOB needs to reinstate the identification requirement for foreign currency exchange transactions. It should hone its guidance and enforcement of suspicious transaction reporting and provide adequate resources to its FIU so that it can operate effectively. The GOB must work to further improve the coordination between agencies responsible for enforcing anti-money laundering measures. The GOB also needs to take steps to ensure that the anti-money laundering framework that does exist is used in a manner consistent with the reason for which it was implemented, rather than using it in a political manner. The GOB should take serious steps to combat corruption in commerce and government.

Belgium

The banking industry of Belgium is of medium size, with assets of over \$1.9 trillion dollars in 2005. Strong legislative and oversight provisions are in place in the formal financial sector to combat money laundering and terrorist financing. Belgian officials have noted that criminals are increasing their use of the nonfinancial professions to facilitate access to the official financial sector.

Belgium criminalized money laundering through the Law of 11 January 1993, On Preventing Use of the Financial System for Purposes of Money Laundering. This law outlined the customer due diligence and reporting requirements. These are applicable to nonfinancial business and professions as well. Obligated entities include estate agents, private security firms, funds transporters, diamond merchants, notaries, bailiffs, auditors, chartered accountants, tax advisors, certified accountants, and casinos, when customers seek to execute a financial transaction in connection with their gambling. Additional laws made the requirements applicable to other sectors as well: the Law of 22 March 1993, On the Legal Status and Supervision of Credit Institutions; and the Law of 6 April 1995, On Secondary Markets, On Legal Status and Supervision of Investment Firms, On Intermediaries and Investment Advisors. Article 505 of the Penal Code sets penalties of up to five years of imprisonment for money laundering convictions. Any unlawful activity may serve as the predicate offense.

The Law of 12 January 2004 amended Belgian domestic legislation by making it applicable to attorneys, and implementing the Second European Union (EU) Directive on Money Laundering, or Council Directive 2001/97/EC On Prevention of the Use of the Financial System for Money Laundering, which broadened the scope of money laundering predicate offenses beyond drug trafficking to include the financing of terrorist acts or organizations. This Law was challenged by the Belgian bar association and taken to the Court of Arbitration, which referred the challenge to the

European Court of Justice. The bar has argued that the Second EU Directive violates the right to a fair trial by the obligated attorneys, because the reporting obligations prejudice the lawyers against fully and independently representing their clients.

In June 2005 Belgium underwent a mutual evaluation by the Financial Action Task Force (FATF). Although the report concluded that Belgium's anti-money laundering and counterterrorism financing (AML/CFT) regime is effective, the assessment team found it partially compliant or noncompliant in certain areas. These areas include: due diligence and regulation requirements for designated nonfinancial businesses and professions, licensing or registration of businesses providing money or value transfer services, allocation of adequate resources to the authorities charged with combating financial crimes, elimination of bearer bonds, development of an independent authority to freeze assets, and implementation of a system to monitor cross-border currency movements. Belgium is currently working to address these deficiencies. In 2007 Belgium must report back to FATF regarding its progress in implementing these recommendations.

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. In 2006 further raids uncovered numerous counterfeit phone cards and illegal or undocumented workers in addition to evidence of money laundering activities in some locations. Since 2004, more than 130 such shops have been closed by Belgian authorities, who estimate that the Belgian state may be deprived of up to \$256 million in lost tax revenue each year through tax evasion by these businesses. Authorities report that phone shops often declare bankruptcy and later reopen under new management, making it difficult for officials to trace ownership and collect tax revenues. Authorities believe that 3,000- 5,000 phone shops may be operating in Belgium. Only an estimated one-quarter 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.

Belgium's robust diamond industry presents special challenges for law enforcement. Despite some diffusion in recent years, Belgium continues to be the world's diamond-trading center. Fully 90 percent of the world's crude diamonds and 50 percent of cut diamonds pass through Belgium. Most of the "blood" or "conflict diamonds" from long-running African civil wars were processed in Antwerp. 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 introduced much-needed transparency into the global diamond trade. However, diamonds of questionable origin continue to appear on the Belgium market. 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. 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.

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. Belgian law mandates reporting of suspicious transactions by a wide variety of financial institutions and nonfinancial entities, including notaries, accountants, bailiffs, real estate agents, casinos, cash transporters, external tax consultants, certified accountant-tax experts, and lawyers. Lawyers in particular do not consistently comply with reporting requirements. Belgian lawyers, for example, did not report any suspicious transactions to the FIU in 2005. 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. As of October 2006, a decision from the court of arbitration was still pending.

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 \$13,250). 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 \$1.56 million.

Money laundering legislation imposes prohibitions on cash payments for real estate, except for an amount not exceeding 10 percent of the purchase price or approximately \$18,800, whichever is lower. Cash payments over \$18,800 for goods are also illegal.

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 cease the issuance of bearer bonds beginning on January 1, 2008. Bearer bonds issued before that date will still be valid, however. Bearer shares are permitted for individuals as well as for banks and companies.

Currently, Belgium has no reporting requirements on cross-border currency movements. However, 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 expects to implement this regulation by June 15, 2007, as required. Belgian customs officials and CTIF-CFI will verify cross-border currency movements, and irregularities may be forwarded to judicial authorities.

Belgium and other EU member states must implement the Third EU Money Laundering Directive by December 15, 2007. As for nonprofit organizations, the European Commission adopted a communication on November 29, 2005, that includes recommendations for EU member states and a framework for a code of conduct for the sector. Belgian officials are working to increase transparency in the nonprofit sector through better enforcement of registration and reporting procedures. Requirements for nonprofit organizations include registering, furnishing copies of their statutes and list of members, providing minutes from council meetings, and filing budget reports.

The Belgian financial intelligence unit (FIU), known as the Cellule de Traitement des Informations Financières and in Flemish as Cel voor Financiële Informatieverwerking (CTIF-CFI), was created by the Royal Decree of 11 June 1993, on the Composition, Organization, Operation and Independence of the FIU. 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. CTIF-CFI's primary mission is to receive, analyze, and disseminate all suspicious transaction reports submitted by regulated entities. Operating as a filter between obligated entities and judicial authorities, CTIF-CFI reports possible money laundering or terrorist financing transactions to the public prosecutor. 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. CTIF-CFI also acts as the supervisory body for professions not supervised by CBFA or other authorities. CTIF-CFI has also been very active in analyzing the diamond industry and working to eliminate its potential for money laundering and terrorist financing. 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 and how diamond traders apply this legislation.

Financial experts, including three magistrates (public prosecutors) appointed by the King compose the CTIF-CFI. A magistrate presides over the body. Terms of service are for six years and may be renewed. In addition to administrative and legal support, the investigative department consists of inspectors/analysts. There are also three liaison police officers, one customs officer, and one officer of the Belgian intelligence service to maintain contact with the various law enforcement agencies in Belgium.

From its founding in 1993 until the end of 2005, CTIF-CFI received 104,537 disclosures and opened a total of 21,959 individual case files (numerous disclosures may be linked to a single case). Of these, the FIU has transmitted 7,114 cases to the public prosecutor aggregating approximately \$15.48 billion. In 2005, the FIU received 10,148 disclosures, opened 3,051 new cases, and transmitted 686 cases to the public prosecutor, up from 664 cases transmitted in 2004. Nearly 75 percent of disclosures on files transmitted to the federal prosecutor were made by credit institutions. Foreign exchange offices and foreign counterpart units accounted for an additional 18 percent of the files transmitted, with notaries, casinos, and other entities also reporting.

Since the creation of CTIF-CFI in 1993, Belgian courts and tribunals have pronounced sentences in at least 837 of the 7,114 cases transmitted to the Federal Prosecutor (some of these convictions are still under appeal). From 1993-2005, the conviction rate was 12 percent. To date, Belgian courts have convicted 1,880 individuals for money laundering on the basis of cases forwarded by the FIU. These convictions have yielded combined total sentences of 2,819 years. Whereas five years is the maximum sentence for money laundering, the length of the sentence may increase if the financial crime is compounded by another type of crime such as drug trafficking. The cumulative fines levied for money laundering total approximately \$91 million. Belgian authorities have confiscated more than \$788 million connected with money laundering crimes. The majority of convictions related to money laundering are based upon disclosures made by the financial institutions and others to CTIF-CFI.

As with Belgium's FIU, the federal police are required to transmit suspected money laundering cases to the public prosecutor. In 2005 the federal police referred a total of 2,241 individuals to the public prosecutor for various crimes. More than 20 percent of these (450 individual cases) involved money laundering, fraud, and corruption. Other offenses were: narcotics (28 percent); aggravated theft in homes (13 percent); stolen vehicles (12 percent); armed robbery (12 percent); and trafficking in persons (10 percent). In 2005, the federal police referred 10 individuals to the public prosecutor for suspected links to terrorism. The FATF evaluation team found that the criminal prosecution authorities have the necessary power to carry out their functions; however, in some places or at some times, the prosecutors and police seem to lack resources to properly perform their AML/CFT duties.

The federal police enjoy good cross-border cooperation with other police and investigative services in neighboring countries. Belgium does not require an international treaty as a prerequisite to lending mutual assistance in criminal cases. 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 2005, Project Cash Watch, carried out under the auspices of the federal police in Belgium's international airports and other transit venues, netted seizures of more than \$2.45

million. The federal police established a special bureau to combat VAT fraud shortly after 2001, when estimates of lost revenue topped \$1.4 billion. In 2005, losses to the Belgian Treasury through VAT fraud were an estimated \$230 million.

According to the FATF mutual evaluation report, Belgium has created a sophisticated and comprehensive confiscation and seizure regime, including the 2003 establishment of the Central Office for Seizure and Confiscation (COSC). Belgian law allows for civil as well as criminal forfeiture of assets. A law passed in July 2006 allows for the possibility, on a reciprocal basis, of the sharing of seized assets from serious crimes, including those related to narcotics, with affected countries. The COSC operates under the auspices of the Belgian Ministry of Justice and ensures that confiscations and seizures in Belgium are carried out smoothly and efficiently in accordance with Belgian law. In Belgium, confiscations and seizures can only be carried out by a judicial order.

Belgian authorities attempt to sell confiscated items such as cars, computers, and cell phones soon after confiscation in order to minimize the loss of the market value of the goods over time. If a suspect is later found innocent, he or she receives the cash equivalent of the item(s) sold, plus accrued interest. COSC has a commercial account for the deposit of confiscated funds. As of October 2006, the fund held more than \$165 million. COSC also maintains safe deposit boxes for the storage of high value items, such as jewelry. Beginning in 2005, a verification program has been in place to check the legal records of suspects who have been found innocent and are about to have confiscated proceeds returned to them. If it is discovered that the person owes taxes or has overdue fines, for example, COSC can intervene and ensure that the Belgian government is paid before proceeds are returned. Through October 2006, this program has netted \$1.65 million for federal coffers.

Seizures in Belgium can be direct or indirect. Direct seizures involve the seizure of items linked directly to a crime. Noncash items are held in the clerks' offices in one of Belgium's 27 judicial districts. Indirect seizures are "seizures by equivalence," usually of homes, cars, jewels, etc., not directly linked to the crime in question. Money from seizures and from the sale of seized goods is deposited in the Belgian Treasury. According to the COSC, information concerning the value of seizures is not available publicly.

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 law transposed the Second European Money Laundering Directive and implemented eight of FATF's Special Recommendations. Article 140 of the Penal Code criminalizes participation in the activity of a terrorist group, and Article 141 specifically penalizes the provision of material resources, including financial assistance, to terrorist groups; the penalty is five to ten years' imprisonment.

Under Belgium's 1993 anti-money laundering and terrorist finance law (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 2005, CTIF-CFI temporarily froze assets in 29 cases, representing approximately \$175 million.

Under the January 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.

In Belgium, the Ministry of Finance can administratively freeze assets of individuals and entities associated with al-Qaeda, the Taliban and Usama Bin Laden on the United Nations 1267 Sanctions Committee's consolidated list and/or those 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. Belgium is working on legislation to permit the administrative freeze of terrorist assets in the absence of a judicial order or UN or EU designation.

Belgium's FIU is active with its European colleagues in sharing information. CTIF-CFI has signed a memorandum of understanding with the United States that governs their collaborative work. CTIF-CFI was a founding member of the Egmont Group and headed the secretariat from 2005 to 2006. Belgium is a cooperative and reliable partner in law enforcement efforts. In 2005, Belgium collaborated with several countries on a criminal case resulting in nearly \$20 million being frozen in accounts held in another European country.

Belgium is a party to the 1988 UN Drug Convention and the UN Convention for the Suppression of the Financing of Terrorism. 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. A mutual legal assistance treaty (MLAT) between Belgium and the United States has been in force since 2000, and an extradition treaty between the two countries has been operative since September 1997. The MLAT process is used for all information requests related to criminal cases, with careful consideration of privacy rights of parties involved. Bilateral instruments amending and supplementing these treaties, in implementation of the U.S.-EU Extradition and Mutual Legal Assistance Agreements, were signed with Belgium in December 2004.

Belgium's continuing work on implementing the FATF recommendations complements an already solid anti-money laundering regime and a clear official commitment to fighting against financial crimes, including the financing of terrorism. However, the Government of Belgium should continue to work through proposed legislation that pursues tougher and faster independent asset-freezing capability as well as the optimal disposition of seized assets. The Government of Belgium should continue its efforts to uncover, investigate, and prosecute illegal banking operations, including those connected to its diamond and real estate sectors, as well as the informal financial sector and nonbank financial institutions. Belgium should continue to enact reforms in the diamond market that will promote increased transparency. The GOB should strengthen adherence to reporting requirements by some nonfinancial entities in Belgium, such as lawyers and notaries. To be even more effective in its efforts, Belgium may need to devote more resources, including investigative personnel, to police, prosecutors and 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. Belizean officials suspect that money laundering occurs primarily within the country's offshore financial sector. 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.

Offshore banks, international business companies (IBCs) 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. Presently, there are eight licensed offshore banks, approximately 32,800 active registered IBCs, one licensed offshore insurance company, one mutual fund company, and 30 trust companies and agents operating in Belize. Local money exchange houses, which were suspected of money laundering, were closed effective July 11, 2005. There are also a number of undisclosed internet gaming sites operating from within the country. These gaming sites are unregulated at this time. Currently there are no offshore casinos operating from within Belize. Government of Belize (GOB) 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.

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. 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. GOB legislation 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.

There is one free trade zone presently operating in Belize, at the border with southern Mexico. There are also designated free trade zones in Punta Gorda, Belize City and Benque Viejo, 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. 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, in collaboration with the Customs Department and the Central Bank of Belize, monitors the operations of CFZ business activities. There is no indication that the CFZ is presently being used in trade-based money laundering schemes or by financiers of terrorism.

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.

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. Other legislation to combat money laundering include the Money Laundering Prevention Guidance Notes; the Financial Intelligence Unit Act, 2002; the Misuse of Drugs Act; The International Financial Services Practitioners Regulations (Code of Conduct), 2001 (IFSCR); Money Laundering Prevention Regulations, 1998 (MLPR); and the Offshore Banking Act, 2000, renamed the International Banking Act, 2002 (IBA). In 2006, there were no major money laundering cases to report, and the effectiveness of the anti-money laundering regime in Belize remains unclear.

The Central Bank of Belize supervises and examines financial institutions for compliance with anti-money laundering and counterterrorist financing 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 legislation and must adhere to the same anti-money laundering and counterterrorist financing requirements. To legally operate from within Belize, all offshore banks must be licensed by the Central Bank and be registered as 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 Central Bank issued Supporting Regulations and Guidance Notes in 1998. Licensed banks and financial institutions are required to establish due diligence ("know-your-customer") provisions, monitor their customers' activities and report any suspicious transactions to the financial intelligence unit (FIU). Belize law obligates banks and other financial institutions to maintain business transactions records for at least five years when the transactions are complex, unusual or large. Money laundering controls are also applicable to nonbank financial institutions, such as exchange houses, insurance companies, lawyers, accountants and the securities sector, which are regulated by the International Financial Services Commission. Financial institution employees are exempt 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.

The reporting of all cross-border currency movement is mandatory. All individuals entering or departing Belize with more than \$10,000 in cash or negotiable instruments are required to file a declaration with the authorities at Customs, the Central Bank and the FIU.

The FIU of Belize is an independent agency presently housed at the Central Bank. Current laws do not provide for the funding of the FIU, and the FIU has to apply to the Ministry of Finance for funds. The funding allocated to the FIU for fiscal year 2006 was approximately \$200,000. Due to financial constraints, the FIU is not adequately staffed and existing personnel lack sufficient training and experience. On November 5, 2005 the director of the FIU resigned, leaving the FIU with only four employees; the new FIU director did not begin until July 2006.

As of October 15, 2006, the FIU had received 34 suspicious transaction reports (STRs) from obligated entities. Of the 34 STRs filed, 13 became the subject of investigations. The Director of the Public Prosecutions Office and the Belizean Police Department are responsible for investigating all crimes. However, the FIU also has administrative, prosecutorial and investigative responsibilities for financial crimes, such as money laundering and terrorist financing. Although the FIU has access to records and databanks of other GOB 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. On several occasions, the FIU has cooperated with the United States' FIU and other U.S. law enforcement agencies.

Belize criminalized terrorist financing via amendments to its anti-money laundering legislation, The Money Laundering (Prevention) (Amendment) Act, 2002. GOB authorities have circulated 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 to all financial institutions in Belize. There are no indications that charitable or nonprofit 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 nonprofit entities from aiding in the financing of terrorist activities.

Alternative remittance systems are illegal in Belize. However, Belizean authorities acknowledge the existence and use of indigenous alternative remittance systems that bypass, in whole or in part,

financial institutions. Therefore, Belizean authorities monitor such activities at the borders with Mexico and Guatemala.

Belizean law makes no distinctions between civil and criminal forfeitures. All forfeitures resulting from money laundering or terrorist financing 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, and the Ministry of Finance can also confiscate frozen assets. With prior court approval, Belizean authorities have the power to identify, freeze and seize assets related to terrorist financing or money laundering. Currently, the GOB's legislation does not specify the length of time assets can be frozen. There are no limitations to the kinds of property that may be seized, including any property—tangible or intangible—which may be related to a crime or is shown to be from the proceeds of a crime. This includes legitimate businesses. However, Belizean law enforcement lacks the resources necessary to trace and seize assets.

The Belize Police Department reported that during 2006, the only assets forfeited or seized were firearms and ammunition, on which no value is placed. Assets forfeited and/or seized in 2005 totaled approximately \$120,000. GOB 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. Currently, the GOB is not engaged in any bilateral or multilateral negotiations with other governments to enhance asset tracing and seizure. 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 with the United States, which provides for mutual legal assistance in criminal matters. Amendments to the MLPA preclude the necessity of a Mutual Legal Assistance Treaty for exchanging information or providing judicial and legal assistance to authorities of other jurisdictions in matters pertaining to money laundering and other financial crimes. 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. The GOB has signed, but not yet ratified, the Inter-American Convention against Terrorism, and has neither signed nor ratified the UN Convention against Corruption. Belize is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Working Group to Control Money Laundering and the Caribbean Financial Action Task Force. Its FIU became a member of the Egmont Group of financial intelligence units in 2004.

The Government of Belize should increase resources to provide adequate training to those entities responsible for enforcing Belize's anti-money laundering and counterterrorist financing laws, including the financial intelligence unit and the asset forfeiture regime. Belize should take steps to address the vulnerabilities in its supervision of its offshore sector, particularly the lack of supervision of internet gaming facilities. Belize should immobilize bearer shares and mandate suspicious activity reporting for the offshore financial sector.

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 nonbank 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.

Money Laundering and Financial Crimes

Bolivia's formal financial sector consists of approximately 13 commercial banks, six private financial funds, nine mutual funds, 23 savings and credit cooperatives, 14 insurance companies and one stock exchange, all of which are subject to the same anti-money laundering controls. The Bolivian system is highly dollarized, with close to 90 percent of deposits and loans denominated in dollars rather than bolivianos, the local currency. Free trade zones exist in the cities of El Alto, Cochabamba, Santa Cruz, Oruro, Puerto Aguirre and Desaguadero.

Several entities that move money in Bolivia remain unregulated. Hotels, currency exchange houses, illicit casinos, cash transporters, and wire transfer businesses can be used to transfer money freely into and out of Bolivia but are not subject to anti-money laundering controls. Informal exchange businesses, particularly in the department of Santa Cruz, are also used to transmit money in order to avoid law enforcement scrutiny.

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 (FIU), 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 of July 31, 1997.

Although Law 1768 established the UIF as an administrative financial intelligence unit in 1997, the UIF did not become operational until July 1999. As Bolivia's FIU, the UIF is responsible for collecting and analyzing data on suspected money laundering and other financial crimes. Under Decree 24771, obligated entities-which include only 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 designated threshold, nor is there a requirement that persons entering or leaving the country declare the transportation of currency over a designated threshold, as is commonplace in many countries' anti-money laundering regimes.

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. The Special Group for Investigation of Economic Financial Affairs (GIAEF), created in 2002 within Bolivia's Special Counter-Narcotics Force (FELCN), is responsible for investigating 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 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. Given the size of Bolivia's financial sector, compliance with reporting requirements is extremely low, as the UIF receives, on average, less than 50 suspicious transaction reports per year. Seventy percent of those reports are filed by a single bank.

Corruption is a serious issue in Bolivia. According to estimates by the U.S. Agency for International Development (USAID), corruption costs Bolivians approximately \$115 million per year, equal to half of the GOB's budget deficit. 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.

In order to further combat corruption, the GOB promulgated Supreme Decree 28695, the Organizational Structure for the Fight against Corruption and Illicit Enrichment, on April 26, 2006. Among a number of other provisions, the decree provides for the creation of a “Financial and Property Intelligence Unit,” which would replace the UIF. Decree 28695 also repealed Decree 24771, which gave the UIF its authority. However, given that the repeal of Decree 24771 would eliminate the UIF before its replacement was operational, the GOB then passed Decree 28713 on May 13, 2006, reinstating the UIF’s functions and duties until January 2007 and placing the UIF under the Ministry of Finance. On November 29, 2006, the GOB passed Decree 28956, eliminating the portion of Decree 28695 that had repealed Decree 24771 and allowing the UIF to continue to operate until the Financial and Property Intelligence Unit becomes a functioning entity.

The Constitution Commission of the Bolivian Chamber of Deputies has drafted a new anti-money laundering law that would establish the Financial and Property Intelligence Unit as Bolivia’s sole financial intelligence unit. However, the law does not include provisions to bring Bolivia’s anti-money laundering regime into greater compliance with international standards, in spite of suggestions and input from the Financial Action Task Force for South America (GAFISUD), the International Monetary Fund (IMF), the UIF, and the Government of the United States. The draft was presented to Chamber of Deputies in early December 2006, but is not yet under consideration by the Chamber.

Although the draft law in effect provides a mission for the Financial and Property Intelligence Unit, there are concerns regarding the functions and authorities of the new entity, and the current operations of the UIF. As a result of the new decree and the plans to establish Financial and Property Intelligence Unit, the UIF has undergone two changes in leadership since April 2006 and many staff members have left, bringing the number of personnel to only five. Limitations in its reach, a lack of resources, and weaknesses in its basic legal and regulatory framework have traditionally hampered the UIF’s effectiveness as a financial intelligence unit. There is no indication that the establishment of the Financial and Property Intelligence Unit will resolve these problems and allow for a more effective FIU.

There are also concerns that the new legislation will not improve the GOB’s overall anti-money laundering regime, which is undermined by the lack of a legal and bureaucratic framework 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 involving money laundering.

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.

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, but not ratified, 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, the bill has not yet been presented to Congress. There have been no cases of terrorist financing to date.

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 on Money Laundering and GAFISUD. Bolivia 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 Corruption and the UN Convention against Transnational Organized Crime. The GOB and the United States signed an extradition treaty in June 1995, which entered into force in November 1996.

While the Government of Bolivia's efforts to combat corruption are necessary, the GOB should take steps to ensure that any changes in its anticorruption legislation will strengthen its anti-money laundering regime. The GOB should also improve its current money laundering legislation so that it conforms to the standards of the Financial Action Task Force and GAFISUD by making money laundering an autonomous offense without requiring a connection to other illicit activities; criminalizing terrorist financing; allowing the blocking of terrorist assets; and, requiring currently unregulated sectors to be subject to anti-money laundering and counterterrorist financing controls. Bolivia should ensure that, with the creation of a new financial intelligence unit, the unit has sufficient staff and resources, as well as the authority to receive suspicious transaction reports on activities indicative of terrorist financing and reports from nonbank financial institutions. Bolivia should also continue to strengthen the relationships and cooperation between all government entities involved in the fight against money laundering and other financial crimes in order to create a more effective regime capable of preventing and combating money laundering and terrorist financing.

Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) has a cash-based economy and is not an international, regional, or offshore financial center. International observers believe the laundering of illicit proceeds from criminal activity including the proceeds from smuggling, corruption, and tax evasion is widespread. Due to its porous borders and weak enforcement capabilities, BiH is a significant market and transit point for illegal commodities including cigarettes, narcotics, firearms, counterfeit goods, lumber and fuel oils. BiH authorities have had some recent success in clamping down on money laundering through the formal banking system, which has resulted in suspect nongovernmental organizations (NGOs) increasing their use of direct cash transfers from abroad as a source of funding.

There are multiple jurisdictional levels in Bosnia and Herzegovina, including the State, the two entities (the Federation of Bosnia and Herzegovina and the Republika Srpska), and Brcko District. The Federation is further divided into ten cantons. New criminal and criminal procedure codes from the State, the two entities and Brcko District were enacted and harmonized in 2003, although the jurisdictions maintain their own enforcement bodies. Although state-level institutions are becoming more firmly grounded and are gaining increased authority, there remains a fair amount of confusion regarding jurisdictional matters between the entities and state-level institutions. Unless otherwise specified, relevant laws and institutions are at the state level.

Money laundering of all kinds is a criminal offense in all state and entity criminal codes. The new criminal procedure and criminal codes enacted in 2003 included tougher provisions against money laundering. At the state level, the Law on the Prevention of Money Laundering came into force in December 2004. The law determines the measures and responsibilities for detecting, preventing, and investigating money laundering and terrorist financing. The law also prescribes measures and responsibilities for international cooperation and establishes a financial intelligence unit (FIU) within the State Investigative and Protection Agency (SIPA). The law requires banks to submit reports on suspicious financial transactions to the state-level FIU. The Prosecutor's office must also share data on money laundering and terrorist financing offenses with the FIU.

The Law on the Prevention of Money Laundering applies to any person who "accepts, exchanges, keeps, disposes of, uses in commercial or other activity, otherwise conceals or tries to conceal money or property he knows was acquired through perpetration of criminal offence, 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 money laundering convictions covering amounts above the equivalent of \$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. SIPA and the Federation and Republika Srpska (RS) police bodies are responsible for the investigation of financial crimes. BiH has not enacted bank secrecy laws which prevent the disclosure of client and ownership information to bank supervisors and law enforcement authorities.

Banks and other financial institutions are required to know, record, and report the identity of customers engaging in significant transactions, including currency transactions above the equivalent of \$18,000. Obligated entities are also required to maintain records for twelve years in order to respond to law enforcement requests. The money laundering law applies to all individuals and several nonbank financial institutions including, but not limited to, post offices, investment and mutual pension companies, stock exchanges and stock exchange agencies, insurance companies, casinos, currency exchange offices and intermediaries such as lawyers and accountants. There is, however, no formal supervision mechanism in place for nonbank financial institutions and intermediaries. It is mandatory for all banks and financial institutions to report suspicious transactions, and there is no mandated reporting threshold for reporting suspicious transactions. Banking authorities have supervision responsibility for all covered sectors. However, reportedly there is little supervision of nonbank financial institutions and intermediaries. The law also requires that customs administration authorities report cross-border transportation of cash and securities in excess of \$6,000 to the FIU. The Indirect Taxation Authority (ITA), which has responsibility for customs, suffers, like other BiH state-level agencies, from a lack of resources and sufficiently trained personnel.

The banking community cooperates with law enforcement efforts to trace funds and freeze accounts. Bosnian law protects reporting individuals with respect to law enforcement cooperation. Although there is no state-level banking supervision agency, entity level banking supervision agencies oversee and examine financial institutions for compliance with anti-money laundering and counter terrorist financing laws and regulations.

Money Laundering and Financial Crimes

The Financial Intelligence Department (FID), Bosnia-Herzegovina's FIU, is a hybrid body, performing analytical duties with some limited criminal investigative responsibilities. The FID receives, collects, records, analyzes, and forwards information related to money laundering and terrorist financing to the State Prosecutor. It also provides expert support to the Prosecutor regarding financial activities, and is responsible for international cooperation on money laundering issues. The FID has access to the records of other government entities, and formal mechanisms for inter-agency information sharing are in place. The FID is empowered to freeze accounts for five days; when its preliminary analysis is complete, it may forward the case to the Prosecutor. At that point, the freeze on the accounts may be extended. The FIU reports that it froze approximately \$1,468,604 in the first nine months of 2006.

The September 2006 International Monetary Fund's Financial System Stability Assessment report praised Bosnia-Herzegovina for the progress made since the MONEYVAL 2005 mutual evaluation report. It cited in particular "the development of an effective state-level FIU." However, according to a European Commission report, fewer than half of FID's planned positions have been filled. There are also reported problems with information-sharing, coordination, and communication, as well as jurisdictional issues between the Financial Police and other State agencies.

For the first nine months of 2006, FID received 145,071 currency reports from banks and other financial institutions. Of these, 14 were identified as suspicious and nine were investigated. Of these nine investigations, two cases were dropped, four have been sent to the prosecutor's office, and three are still under investigation. Since BiH established its anti-money laundering regime, there have been nineteen convictions for money laundering. However, because of the appeals process, only one conviction has been finalized.

BiH has no asset forfeiture law, with the exception of the Persons Indicted for War Crimes (PIFWC) support laws which allow for the seizure of PIFWC assets or assets of those providing material support to them. Articles 110 and 111 of the BiH Criminal Code (along with similar laws in the harmonized entity and Brcko Criminal Codes) are the only legal provisions that might be used in place of an actual asset forfeiture law. These provisions authorize the "confiscation of material gain" (or a sum of money equivalent to the material gain if confiscation is not feasible) from illegal activity. The tools used in committing those crimes are not subject to seizure. Confiscation can only be done as part of a verdict in a criminal case, and is administered by the courts, not law enforcement agencies. The courts decide whether the articles will be "sold under the provisions applicable to judicial enforcement procedure, turned over to the criminology museum or some other institution, or destroyed. The proceeds obtained from sale of such articles shall be credited to the budget of Bosnia and Herzegovina." Prosecutors 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. 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 forfeiture. There are no laws for sharing seized assets with other governments. BiH authorities have the authority to identify, freeze, seize, and forfeit terrorist-finance-related and other assets. The banking agencies (Federation and RS Banking Agencies) in particular have the capability to freeze assets without undue delay.

Terrorist financing was criminalized in article 202 of the criminal procedure code. BiH is a party to the 1999 International Convention for the Suppression of the Financing of Terrorism. The entity banking agencies are cognizant of the requirements to sanction individuals and entities listed by the UNSCR 1267 Sanctions Committee's consolidated list. However, the state authorities do not circulate this list to entity authorities on a regular basis. In July 2006, BiH adopted a "Strategy against Terrorism," but SIPA needs to be strengthened to meet its designated responsibilities in the Strategy.

In 2006, after a cooperative investigation between BiH and law enforcement authorities in several European Union countries, BiH authorities initiated a prosecution at the Court of Bosnia and Herzegovina against five people suspected of terrorist crimes. And in 2004, the government disrupted the operations of Al Furqan (aka Sirat, Istikamet), Al Haramain & Al Masjed Al Aqsa Charity Foundation, and Taibah International, organizations listed by the UNSCR 1267 Committee as having direct links with al-Qaida. Authorities continue to investigate other organizations and individuals for links to terrorist financing.

Nonbank financial transfers are reportedly very difficult for BiH law enforcement and customs officials to deal with due to a lack of reporting as well as a lack of understanding of indigenous methodologies, many of which are found in the underground economy and are enabled by smuggling and the misuse of trade. Currently there are six Free Trade Zones in BiH. However, only three of the zones are active, with production based mainly on automobiles and textiles.

Bosnia and Herzegovina has no Mutual Legal Assistance Treaty with the U.S., although an extradition treaty signed by the Kingdom of Serbia in 1902 has carried over into BiH; some financial crimes are covered, but not contemporary forms of money laundering. There is no formal bilateral agreement between the United States and BiH regarding the exchange of records in connection with narcotics investigations and proceedings. Authorities have made good faith efforts to exchange information informally with officials from the United States. BiH is a party to the 1988 UN Drug Convention (by way of succession from the former Yugoslavia), the UN Convention against Transnational Organized Crime, the UN Convention against Corruption and the UN International Convention for the Suppression of the Financing of Terrorism. Unfortunately, on many occasions, BiH has not passed implementing legislation for the international conventions to which it is a signatory.

The Government of Bosnia and Herzegovina (GOBH) should continue to strengthen institutions with responsibilities for money laundering prevention, particularly those at the state level. Due to a lack of resources and bureaucratic politics, SIPA and the FIU, like many state institutions, remain underfunded and under-resourced. Efforts should be made to increase funding for its anti-money laundering and counterterrorist finance programs and enhance cooperation between concerned departments and agencies. Prosecutors, financial investigators, and tax administrators have received training on tax evasion, money laundering and other financial crimes. However, significant additional training may be necessary to ensure that they understand diverse methodologies and aggressively pursue investigations. BiH law enforcement and customs authorities should take additional steps to control the integrity of the border and limit smuggling. Efforts should be made to understand the illicit markets and their role in trade-based money laundering and alternative remittance systems. BiH should study the formation of centralized regulatory and law enforcement authorities. Specific steps should be taken to combat corruption at all levels of commerce and government.

Brazil

Brazil is the world's fifth largest country in both size and population, and its economy is the tenth largest in the world. Due to its size and significant economy, Brazil is considered a regional financial center, although it is not an offshore financial center. Brazil is also 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 to domestic crime, especially drug-trafficking, corruption, organized crime, and trade in contraband, all of which generate funds that may be laundered through the banking system, real estate investment, financial asset markets, luxury goods or informal financial networks. 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 2006 the Government of Brazil (GOB) continued investigations into a series of corruption scandals of unusual scope that emerged in 2005. Parallel investigations by Brazilian Congressional committees and law enforcement authorities revealed illicit financing by several political parties of their 2002 presidential campaigns and a related scheme involving vote-buying in Congress by elements within the ruling party and the executive branch, financed by kickbacks on contracts. Two medium-sized regional banks served as conduits for illicit payments, making use of a publicity firm's bank accounts, while some payments were made into bank accounts overseas. Fourteen senators and federal deputies either resigned or were expelled from office, including the President's former Chief of Staff, due to their involvement in the scheme. Prosecutors have brought criminal charges in the case as well, which are now pending before the Supreme Court. A separate corruption case implicating multiple members of Congress involved inflated billing for ambulances purchased with public funds. Brazil's anti-money laundering mechanisms and institutions have played useful roles in the investigation of these cases.

A primary source of criminal activity and contraband is the Triborder Area (TBA) shared by Argentina, Brazil, and Paraguay. Brazilian authorities have expressed particular concern over the trafficking in arms and drugs in the TBA. Brazilian authorities note that the proceeds of domestic drug trafficking and organized crime feed a regional arms trade, operating in the TBA. In addition, a wide variety of counterfeit goods, including cigarettes, CDs, DVDs, and computer software, are smuggled across the border from Paraguay into Brazil; a significant portion of these counterfeit goods originate in Asia. The U.S. government believes the TBA to be a source of terrorist financing, although the GOB maintains that it has not seen any evidence of such. In 2006 Brazilian customs authorities continued a campaign launched in 2005 to combat contraband in the TBA given the significant loss of tax revenues that result from the contraband trade (estimated at \$1.2 billion per year). The campaign has featured enhanced controls at border crossing point and frequent 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 \$4,600) 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, establishes 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 Brazil's 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.

Since 1999, the COAF has 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.

In addition to filing SARs, banks are also required to report cash transactions exceeding 100,000 reais (approximately \$48,000) to the Central Bank. 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. COAF Resolution 14 of October 23, 2006, further extended these anti-money laundering requirements to the real estate sector. Separately, the insurance regulator, SUSEP, clarified its reporting requirements for insurance companies and brokers in Circular 327 from May 29, 2006, which requires these entities to have an anti-money laundering program and report large insurance policy purchases, settlements or otherwise suspicious transactions to both SUSEP and COAF.

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 gained 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. In 2006, the COAF received roughly 13,000 cash transaction reports and 2000 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.

The GOB has institutionalized its national strategy for combating money laundering, holding its fourth annual high-level planning and evaluation session in December 2006. 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. Given the GOB's emphasis on and need for fighting corruption, the main goal for 2006 was 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 has reported substantial growth in the number of money laundering investigations, trials and convictions since 2003. The annual number of investigations grew from 198 in 2003 to 310 in 2004, 449 in 2005, and 625 in the first three quarters of 2006. These investigations led to 26 trials in 2003, 74 in 2004, 75 in 2005, and 41 in the first three quarters of 2006, while convictions ranged from 172 in 2003 to 87 in 2004, 183 in 2005 and 866 in 2006 to date. 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). The GOB credits the creation of specialized money laundering courts, founded in 2003, for the increasing number of successful money laundering prosecutions. 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 aimed to build on the success of the specialized courts by creating complementary specialized federal police financial crimes units in the same jurisdictions. Another reason for the increased prosecutions was the large number of money laundering cases from the Banestado bank scandal of the late 1990's, which began to move to trial during the 2004-2005 period.

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.

In 2005, the GOB drafted a bill to update its anti-money laundering legislation. If passed, this bill, which has not yet been presented to Congress, 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 such as the Central Bank. The COAF would also be able to request additional information directly from the reporting entities.

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 planned 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.

Brazil has drafted, but not yet presented to Congress, legislation overhauling Brazil's antiterrorism legislation, including specific provisions criminalizing the financing of terrorism. Passage of this legislation would address a fundamental weakness in Brazil's legislative regime to counter money laundering and terrorism finance. 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 nonprofit 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 nonprofit status, including money laundering. These regulations would apply to nongovernmental organizations, churches and charitable organizations.

The GOB has generally 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 Brazil. In November 2003, the GOB extradited Assad Ahmad Barakat, designated by the United States under E.O. 13224 as a Specially Designated Global Terrorist, to Paraguay on charges of tax evasion; he was convicted in May 2004 for tax evasion (Paraguay has not criminalized terrorist financing), and sentenced to six and one-half years in prison.

On December 6, 2006, the U.S. Department of Treasury placed nine individuals and two entities in the Triborder Area that have provided financial or logistical support to Hizballah on its list of Specially Designated Nationals. The nine individuals operate in the Triborder Area and all have provided financial support and other services for Specially Designated Global Terrorist Assad Ahmad Barakat, who was previously designated by the U.S. Treasury in June 2004 for his support to Hizballah leadership. The two entities, Galeria Page and Casa Hamze, are located in Ciudad del Este, Paraguay, and have been used to generate or move terrorist funds. The GOB has publicly disagreed with the designations, stating that the United States has not provided any new information that would prove terrorist financing activity is occurring in the Triborder Area.

Brazil 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 on Terrorism. Brazil is a member of the Financial Action Task Force (FATF), was a founding member of the Financial Action Task Force Against Money Laundering in South America (GAFISUD), and held 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 U.S. Immigration and Customs Enforcement in 2006 established a trade transparency unit (TTU) to detect money laundering via trade transactions. The GOB also participates in the “3 Plus 1” Security Group (formerly the 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. 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). The BVI remains vulnerable to money laundering, primarily due to its financial services industry. The BVI has approximately 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 reportedly 61,000 international business companies (IBCs)—an extraordinary diminution of some 483,000 IBCs reportedly registered in the BVI in 2004.

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The Financial Services Commission (FSC) is the independent regulatory authority responsible for the licensing and supervision of regulated entities, which include banking and fiduciary businesses, investment businesses, insolvency services, insurance companies, and company management and registration businesses. Money remitters, however, are not subject to licensing or supervision. The FSC is also responsible for on-site inspections of these entities. The FSC cooperates with its foreign counterparts and law enforcement agencies. In 2000, the Information Assistance (Financial Services) Act (IAFSA) was enacted to increase the scope of cooperation between the BVI's regulators and regulators from other countries.

According to the International Business Companies Act of 1984, IBCs registered in the BVI 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). All IBCs must be registered in the BVI by a registered agent, and the IBC or the registered agent must maintain an office in the BVI. The BVI has approximately 90 registered agents that are licensed by the 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. Although procedures exist for the freezing and confiscation of assets linked to criminal activity, including money laundering and terrorist financing, the procedures for the forfeiture of assets that are not directly linked to narcotics-related crimes are unclear.

The Proceeds of Criminal Conduct Act also created a financial intelligence unit (FIU). The Financial Investigation Agency Act 2003 reorganized and renamed the FIU, now called the Financial Investigation Agency (FIA). The FIA, generally referred to as the Reporting Authority, is responsible for the collection, analysis, and dissemination of financial information.

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 suspicious transactions and report them to the FIA. Obligated entities are protected from liability for reporting 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 United Kingdom's Terrorism (United Nations Measures) (Overseas Territories) Order 2001 and the Anti-Terrorism (Financial and Other Measures) (Overseas Territories) Order 2002 extend to the BVI. The Afghanistan (United Nations Sanctions) (Overseas Territories) Order 2001 and the Al-Qaida and Taliban (United Nations Measures) (Overseas Territories) Order 2002 also apply to the BVI. However, the BVI has not specifically criminalized the financing of terrorism.

The BVI is a member of the Caribbean Financial Action Task Force (CFATF). The BVI is subject to the 1988 UN Drug Convention and, as a British Overseas Territory, has implemented measures in accordance with this convention and the UN Convention against Transnational Organized Crime. Application of the U.S.-UK Mutual Legal Assistance Treaty concerning the Cayman Islands was extended to the BVI in 1990. The Financial Investigation Agency is a member of the Egmont Group.

The Government of the British Virgin Islands should continue to strengthen its anti-money laundering regime by fully implementing its programs and legislation. The BVI should also extend the provisions of its anti-money laundering and counterterrorist financing to a wider range of entities, including money remitters. The BVI should establish the financing of terrorism as an autonomous offense.

Bulgaria

Bulgaria is neither considered an important regional financial center nor an offshore financial center. Its significance in terms of money laundering stems from its geographical position, its well-developed financial sector relative to other Balkan countries, and its 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 is 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 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 duty free shops used to violate customs and tax regimes. The duty free shops may be used to facilitate other crimes, including financial crimes. Credible allegations have linked many duty free shops in Bulgaria to organized crime interests involved in fuel smuggling, 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 procedures for identifying unlawful activity 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.

Article 253 of the Bulgarian Penal Code criminalizes money laundering. The 2006 amendments increase penalties (including in cases of conspiracy and abuse of office), clarify that predicate crimes committed outside Bulgaria can support a money laundering charge brought in Bulgaria, and allow prosecution on money laundering charges without first obtaining a conviction for the predicate crime. Article 253 criminalizes money laundering related to all crimes; as such, drug-trafficking is but one of many recognized predicate offenses

The Law on Measures against Money Laundering (LMML), adopted in 1998 and amended most recently in 2006, is the legislative backbone of Bulgaria's anti-money laundering regime. Bulgaria has strict and wide-ranging banking, tax, and commercial secrecy laws that limit the dissemination of

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financial information absent the issuance of a court order. While the financial intelligence unit (FIU) is not bound by the secrecy provisions, they apply to all other government institutions and are often cited as an impediment to law enforcement functions. In an effort to lessen the impact of secrecy laws on law enforcement functions, in 2006 the GOB issued amendments to both the LMML and the Law on Credit Institutions. The amendments to the Law on Credit Institutions facilitated the investigation and prosecution of financial crimes by giving the Prosecutor General the right to request financial information from banks without a court order in cases involving money laundering and organized crime.

Banks and the 29 other reporting entities under the LMML are required to apply “know your customer” (KYC) standards. Since 2003, all reporting entities are required to ask for the source of funds in any transaction greater than \$19,000 or foreign exchange transactions greater than \$6,500. Reporting entities are also required to notify the FIA of any cash payment greater \$19,000.

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 Financial Intelligence Agency (FIA) serves as Bulgaria’s FIU and is located within the Ministry of Finance. The LMML guarantees the independence of the FIA director, allows the agency to perform onsite compliance inspections, and authorizes it to obtain information without a court order, share all information with law enforcement, and receive reports of suspected terrorism financing. The agency has a supervisor within the MOF who oversees the activities of the FIA. However, the supervisor is prohibited by law from issuing operational commands. The FIA remains handicapped technologically, but it is working on improving its databases to improve analytical efficiency.

The FIA is an administrative unit and does not participate in criminal investigations. In 2006, the Ministry of the Interior (MOI), the Prosecutor’s Office, and the FIA established new procedures for closer cooperation when following leads contained in a suspicious transaction report (STR). The FIA forwards reports to the Prosecutor, and sends to the MOI a copy of each. The MOI is subsequently required to produce a report on the enforcement potential of the case within 30 days of receipt.

Between January and November 2006, the FIA received 310 STRs, on transactions totaling \$175 million, and 134,241 currency transaction reports (CTRs). On the basis of the forwarded reports, 276 cases were opened, 74 cases were referred to the Supreme Prosecutor’s Office of Cassation, and 207 cases were referred to the Ministry of Interior. The FIA forwarded 32 reports to supervisory authorities for administrative action.

A May 2006 report from the European Union (EU) regarding the status of Bulgaria’s application for admission to the EU called Bulgaria’s enforcement of anti-money laundering provisions an area of “serious concern,” requiring “urgent action”. This issue was one of several, resulting in a potential delay of entry date into the EU. In response, Bulgaria’s Parliament tightened the LMML with further amendments. The 2006 LMML amendments expanded the definition of money laundering and the list of reporting entities; allowed FIA to obtain bank records without a court order; outlawed anonymous bank accounts; expanded the definition of “currency”; and required the disclosure of source for currency exported from the country. Overall, these amendments are expected to strengthen the investigative capabilities of both the FIA and law enforcement when dealing with money laundering cases. Experts view this legislation as comprehensive and in line with international standards. All financial sectors are considered susceptible to money laundering and subject to anti-money laundering regulations. Under the LMML, 30 categories of entities, including lawyers, real estate agents, auctioneers, tax consultants, and security exchange operators, are required to file suspicious transactions reports. To date, only the banking sector has substantially complied with the law’s filing

requirement. Lower rates of reporting compliance by exchange bureaus, casinos, and other nonbank 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 nonbank financial sector.

Although money laundering has been pursued in court cases, there had not been a conviction until recently. In October 2006, the courts rendered the country's first two convictions for money laundering. On October 9, the Ruse District Court sentenced a defendant to 11 months in prison and three years of probation after he admitted to receiving a 350,000 Euro (approximately \$464,000) bank transfer in 2004. The FIA initiated the investigation. In another case, the Varna District Court sentenced a defendant to an eighteen-month imprisonment and a fine of 4,000 BGL (approximately \$2,600) for the predicate crime of drug trafficking and distribution.

There are few, if any, indications of terrorist financing connected with Bulgaria. Article 108a of the Penal Code criminalizes terrorism and terrorist financing. Article 253 of the Criminal Code qualifies terrorist acts and financing as predicate crimes under the "all crimes" approach to money laundering. In February 2003, the GOB enacted the Law on Measures Against Terrorist Financing (LMATF), which links counterterrorism measures with financial intelligence and compels all covered entities to report a suspicion of terrorism financing or pay a penalty of approximately \$15,000. The law is consistent with Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing and authorizes the FIA to use its resources and financial intelligence to combat terrorism financing along with money laundering.

Under the LMATF, the GOB may freeze the assets of a suspected terrorist for 45 days. 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 FIA and the Bulgarian National Bank circulate the names of suspected terrorists and terrorist organizations, as found on the UNSCR 1267 Sanctions Committee's consolidated list, as well as the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224, and those designated by the relevant EU 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 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 nonprofit legal status is occasionally used to conceal money laundering. In 2006, the GOB somewhat strengthened its nonbank financial institution oversight by instituting compliance checks on casinos and exchange offices. Between January and October 2006, the FIA inspected 23 casinos and 548 exchange offices, imposing fines in 15 cases.

The Bulgarian Penal Code provides legal mechanisms for forfeiting assets (including substitute assets in money laundering cases) and instrumentalities. Both the money laundering and the terrorist financing laws 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 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.

The United States does not have a mutual legal assistance treaty with Bulgaria. However, the 2005 ratification of the UN Convention Against Transnational Organized Crime by the U.S. established an MLAT-type relationship between the two countries, and the U.S.-EU Agreement on Mutual Legal Assistance, once ratified, will lay the basis for a more comprehensive MLAT relationship. Currently, the FIA has bilateral memoranda of understanding (MOU) regarding information exchange relating to money laundering with 29 countries. Negotiations with three 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 October 2006, the FIA sent 285 requests for information to foreign FIUs and received 65 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; the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; the UN Convention against Transnational Organized Crime; the UN International Convention for the Suppression of the Financing of Terrorism; and the UN Convention against Corruption.

In 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 enacted legislative changes consistent with international anti-money laundering standards, law enforcement remains problematic. The GOB must take steps to improve and tighten its regulatory and reporting regime, particularly with regard to nonbank sectors. The GOB should improve the consistency of its customs reporting enforcement and should also establish procedures to identify the origin of funds used to acquire banks and businesses during privatization. The GOB needs to provide sufficient resources to the Financial Intelligence Agency so that the agency can incorporate technological improvements. The FIA should also continue to improve inter-agency cooperation in order to ensure effective implementation of Bulgaria's anti-money laundering regime and to improve prosecutorial effectiveness in money laundering cases.

Burma

Burma, a major drug-producing country, has taken steps to strengthen its anti-money laundering regulatory regime in 2005 and 2006. The country's economy remains dominated by state-owned entities, including the military. Agriculture and extractive industries, including natural gas, mining, logging and fishing provide the major portion of national income, with heavy industry and manufacturing playing minor roles. The steps Burma has taken over the past two years have reduced vulnerability to drug money laundering in the banking sector. However, with an underdeveloped financial sector and large volume of informal trade, Burma remains a country where there is significant risk of drug money being funneled into commercial enterprises and infrastructure

investment. The government has addressed most key areas of concern identified by the international community by implementing some anti-money laundering measures, and in October 2006, the Financial Action Task Force (FATF) removed Burma from the FATF list of Non-Cooperative Countries and Territories (NCCT).

The United States maintains other sanctions on trade, investment and financial transactions with Burma under Executive Order 13047 (May 1997), Executive Order 13310 (July 2003); the Narcotics Control Trade Act, the Foreign Assistance Act, the International Financial Institutions Act, the Export-Import Bank Act, the Export Administration Act, the Customs and Trade Act, the Tariff Act (19 USC 1307), and the 2003 Burmese Freedom and Democracy Act (P.L. 108-61).

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 fairly high level of 100 million kyat (approximately \$75,000). Burma adopted a “Mutual Assistance in Criminal Matters Law” in 2004, added fraud to the list of predicate offenses, and established legal penalties for leaking information about suspicious transaction reports. The GOB’s 2004 anti-money laundering measures amended regulations instituted in 2003 that set out 11 predicate offenses, including narcotics activities, human trafficking, arms trafficking, cyber-crime, and “offenses committed by acts of terrorism,” among others. The 2003 regulations, expanded in 2006, require banks, customs officials and the legal and real estate sectors to file suspicious transaction reports (STRs) and impose severe penalties for noncompliance.

The GOB established a Department Against Transnational Crime in 2004. Its mandate includes 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 produced regular progress reports in 2005 and 2006. In 2005, the government also increased the size of the FIU to 11 permanent members, plus 20 support staff. In August 2005, the Central Bank of Myanmar issued guidelines for on-site bank inspections and required reports that review banks’ compliance with AML legislation. Since then, the Central Bank has sent teams to instruct bank staff on the new guidelines and to inspect banking operations for compliance.

The United States maintains the separate countermeasures it adopted against Burma in 2004, which found the jurisdiction of Burma and two private Burmese banks, Myanmar Mayflower Bank and Asia Wealth Bank, to be “of primary money laundering concern.” These countermeasures prohibited U.S. banks 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. These rules were issued by the Financial Crimes Enforcement Network within the Treasury Department, pursuant to Section 311 of the 2001 USA PATRIOT Act.

Myanmar Mayflower and Asia Wealth Bank had been linked directly to narcotics trafficking organizations in Southeast Asia. In March 2005, following GOB investigations, the Central Bank of Myanmar revoked the operating licenses of Myanmar Mayflower Bank and Asia Wealth Bank, citing infractions of the Financial Institutions of Myanmar Law. The two banks no longer exist. In August 2005, the Government of Burma also revoked the license of Myanmar Universal Bank (MUB), and convicted the bank’s chairman under both the Narcotics and Psychotropic Substances Law, and the Control of Money Laundering Law. Under the money laundering charge, the court sentenced him to one 10-year and one unlimited term in prison and seized his and his bank’s assets.

Burma also remains under a separate 2002 U.S. Treasury Department advisory stating that U.S. financial institutions should give enhanced scrutiny to all financial transactions related to Burma. The Section 311 rules complement the 2003 Burmese Freedom and Democracy Act (renewed in July 2006) and Executive Order 13310 (July 2003), which impose additional economic sanctions on Burma

following the regime's May 2003 attack on a peaceful convoy of the country's pro-democracy opposition led by Nobel laureate Aung San Suu Kyi. The sanctions prohibit the import of most Burmese-produced goods into the United States, ban the provision of financial services to Burma by any U.S. persons, freeze assets of the ruling junta and other Burmese institutions, and expand U.S. visa restrictions to include managers of state-owned enterprises as well as 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 that placed these sanctions on Burma.

Burma became a member of the Asia/Pacific Group on Money Laundering in January 2006, and is a party to the 1988 UN Drug Convention. Over the past several years, the Government of Burma has expanded its counternarcotics cooperation with other states. The GOB has bilateral drug control agreements with India, Bangladesh, Vietnam, Russia, Laos, the Philippines, China, and Thailand. These agreements include 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. The government signed a cooperative MOU with Indonesia's FIU in November 2006.

Burma is a party to the UN Convention against Transnational Organized Crime and ratified the UN Convention on Corruption in December 2005 and the UN International Convention for the Suppression of the Financing of Terrorism in August 2006. Burma signed the ASEAN Multilateral Assistance in Criminal Matters Agreement in January 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. To fully implement a strong anti-money laundering/counterterrorist financing regime, Burma must provide the necessary resources to administrative and judicial authorities who supervise the financial sector, so they can apply and enforce the government's regulations to fight money laundering successfully. Burma must also continue to improve its enforcement of the new regulations and oversight of its banking system, and end all government policies that facilitate the investment of drug money into the legitimate economy. It also must monitor more carefully the widespread use of informal remittance or "hundi" networks, and should criminalize the funding of terrorism.

Cambodia

Cambodia is neither an important regional financial center nor an offshore financial center. While there have been no verified reports of money laundering in Cambodia, it serves as a transit route for heroin from Burma and Laos to international drug markets such as Vietnam, mainland China, Taiwan, and Australia. Its very weak anti-money laundering regime, a cash-based economy with an active informal banking system, porous borders with attendant smuggling, casinos, and widespread official corruption also contribute to money laundering in Cambodia.

The National Bank of Cambodia (NBC) has made some strides in recent years by beginning to regulate the small official banking sector, but other nonbank financial institutions, such as casinos, remain outside its jurisdiction. While the Ministry of Interior has legal responsibility for oversight of the casinos and providing security, it exerts little supervision. In July 2006, the Council of Ministers approved draft legislation that would criminalize money laundering and the financing of terrorism and forwarded the bill to the National Assembly for ratification. However, the National Assembly had not taken action as of mid-November 2006.

Cambodia's banking sector is small but expanding, with fifteen general commercial banks, five commercial banks, and numerous microfinance institutions. However, overall lending and banking activity remains limited as most Cambodians keep their assets outside the banking system. Economists

note that while a typical country would have a bank deposit to GDP ratio of roughly 60 percent, Cambodia's ratio is only 16 percent—low even by developing economy standards. Cambodia's banking system is highly consolidated, with two banks—Canadia Bank and Foreign Trade Bank (FTB)—accounting for more than 40 percent of all bank deposits. Moreover, during the October 2005 privatization of the Foreign Trade Bank, Canadia gained a 46 percent share in FTB, further strengthening Canadia's large role in the financial services sector.

The NBC has regulatory responsibility for the banking sector. The NBC regularly audits individual banks (that have a small numbers of transactions and deposits) to ensure compliance with laws and regulations. There is a standing requirement for banks to declare transactions over 42,000,000 riel (approximately \$10,000). The NBC says its audits reveal that this requirement is generally followed. While there are no reports to indicate that banking institutions themselves are knowingly engaged in money laundering, government audits would likely not be a sufficient deterrent to money laundering through most Cambodian banks. However, questions from correspondent banks about large transfers and Cambodia's relatively high 0.15 percent tax on financial transactions might discourage money laundering within the formal banking sector

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 such as casinos. The vulnerability of Cambodia's financial sector is further exacerbated because of the intersection of the casino and banking interests with four companies having whole or partial shares in both banks and casinos,

With increased political stability and the gradual return of normalcy in Cambodia after decades of war and instability, bank deposits have risen by 12-15 percent per year since 2000 and the financial sector shows some signs of deepening as domestic business activity continues to increase in the handful of urban areas. Foreign direct investment, while limited, is increasing after several years of contraction.

Reportedly, 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 reportedly no evidence that smuggling is funded primarily by drug proceeds, including the importing and local production of the methamphetamine (ATS). 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 its proceeds. Cambodia has a cash-based and dollar-based economy, and the smuggling trade is usually conducted in dollars. 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.

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 nonbank financial institutions such as casinos or other intermediaries, such as lawyers or accountants. However, this authority is included in draft anti-money laundering legislation.

The major nonbank financial institutions in Cambodia are the casinos, where foreigners are allowed to gamble but 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 financial operations.

There are currently more than 20 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 in Phnom Penh that has avoided the regulation that all casinos be at least 200 kilometers from the capital city. Casino patrons placing small bets simply hand-carry their money across borders, while others use either bank transfers or junket operators. There is no effective oversight of cash movement into or out of Cambodia. Cambodian casinos have accounts with major Thai or Vietnamese banks and patrons can wire large amounts of money to one of these foreign accounts. After a quick phone call to verify the transfer, the Cambodian casino issues the appropriate amount in chips. Casinos also work with junket operators who, despite their name, only facilitate money transfers and do not serve as travel or tour operators. Players deposit money with a junket operator in Vietnam or Thailand, the casino verifies the deposit and issues chips to the player—typically up to double the amount of the deposit. After the gambling session ends, the junket operator then has 15 days to pay the casino for any losses. Because the junket operator is responsible for collecting from the patrons, casinos see little need to investigate the patron’s ability to cover his/her potential debt or the source of his/her wealth.

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 and in fulfilling “Know Your Customer” best practices, though no suspicious transactions have yet been reported to the NBC. 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.

In 2005, Cambodia became a party to the 1988 UN Drug Convention, the UN Convention Against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism. No existing laws currently address terrorism financing, although it is specifically addressed in the draft law on money laundering. The NBC does circulate to financial institutions the list of individuals and entities included on the UNSCR 1267 Sanction Committee’s consolidated list, and 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 conducts mutual evaluations of members’ anti-money laundering and terrorism financing efforts. An APG evaluation of Cambodia originally scheduled for 2005 has been delayed at the government’s request until early 2007 to permit passage of the draft Law on the Prevention of Money Laundering and Financing of Terrorism before the evaluation. According to the draft law, a new financial intelligence unit (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.

A Working Group, including the NBC and the Ministries of Economy and Finance, Interior, and Justice, the National Authority for Combating Drugs was formed on November 26, 2003 to draft anti-money laundering legislation that meets international standards. 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 (including in free trade zones); 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. While the draft anti-money laundering legislation was being considered, the NBC planned to issue a series of regulations that have the force of law (parkas) and that will criminalize money laundering and terrorism financing, as well as update existing financial rules and regulations. However, these prakas were not issued due to concerns that they would set stricter rules than would be included in the new legislation.

Making progress on the long-awaited draft anti-money laundering legislation and becoming a party to the UN conventions on drugs, organized crime, and terrorism financing are positive steps. The Government of Cambodia should pass the draft anti-money laundering and counterterrorist financing legislation as soon as possible. Questions remain regarding the government's ability to implement and enforce the measures once they are in place. To this end, Cambodia should engage fully with the Asia/Pacific Group on Money Laundering and implement all recommendations of its upcoming mutual evaluation in order to develop a comprehensive viable anti-money laundering/counterterrorist financing regime that comports with international standards.

Canada

With \$1.5 billion in trade crossing the border each day, both the United States and Canadian governments are concerned about the criminal cross-border movements of currency, particularly the illicit proceeds of drug trafficking. Significant amounts of U.S. currency derived through illegal drug sales in the United States are subsequently laundered through the Canadian financial system each year.

The Government of Canada (GOC) enacted the Proceeds of Crime (Money Laundering) Act in 2000 to assist in the detection and deterrence of money laundering, facilitate the investigation and prosecution of money laundering, and create the 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 to cover all indictable offenses, including terrorism and the trafficking of persons. In addition to amending the PCMLTFA, the 2001 reforms made it a crime under the Canadian Criminal Code to knowingly collect or give funds to carry out terrorism, denied or removed charitable status from those supporting terrorism and facilitated freezing and seizing their assets.

The PCMLTFA created 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 10,000 Canadian dollars (approximately \$9,000) or more. Failure to report cross-border movements of currency and monetary instruments could result in seizure of funds or penalties ranging from approximately \$225 to \$4,500. Failure to file a suspicious transaction report (STR) could result in up to five years' imprisonment, a fine of approximately \$1.8 million, or both. The law protects those filing suspicious transaction reports

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from civil and criminal prosecution. There has been no apparent decline in deposits made with Canadian financial institutions as a result of Canada's revised laws and regulations.

Canada's FIU, the Financial Transactions and Reports Analysis Center of Canada (FINTRAC), was established in July 2001. FINTRAC is an independent agency within the GOC that receives and analyzes reports from financial institutions and other financial intermediaries (such as money service businesses, casinos, accountants, and real estate agents) as mandated by the PCMLTFA, and makes disclosures to law enforcement and intelligence agencies. Guidelines explaining the PCMLTFA and its requirements were published by FINTRAC in 2002; further additions were made in 2003. The guidelines provide an overview of FINTRAC's mandate and responsibilities, and include background information about money laundering and terrorist financing, including their international scope and nature. The guidelines also provide an outline of the Canadian legislative requirements for a compliance regime, record keeping, client identification and reporting transactions.

FINTRAC currently has over 37.4 million financial transaction reports contained within its database. During 2005-2006, FINTRAC received nearly 15 million reports from reporting entities. FINTRAC produced a total of 168 case disclosures in 2005-2006, totaling approximately \$4.5 billion, more than double the value of the previous year. The case disclosures represented nearly \$4.3 billion in transactions of suspected money laundering, and \$230 million in transactions of suspected terrorist financing activity and other threats to the security of Canada. Thirty-two domestic law enforcement agencies and 10 foreign counterparts have received disclosures from FINTRAC.

FINTRAC has the authority to negotiate information exchange agreements with foreign FIUs. It has signed over 35 memoranda of understanding (MOUs) to establish the terms and conditions to share intelligence with FIUs—including an MOU with FinCEN, the FIU of the United States—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.

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 of involving the commission of a terrorist financing offense. 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. The GOC has also listed and searched financial records for suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee's consolidated list. There are currently more than 500 individuals and entities associated with terrorist activities designated by the GOC. This designation effectively freezes their assets and prohibits fund-raising on their behalf in Canada.

In a 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." United States 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 United States and Canadian law enforcement officers to exchange information promptly concerning suspicious sums of money found in the possession of individuals attempting to cross the United States-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 October 2006, Bill C-25 was introduced to Parliament to amend the PCMLTFA. Bill C-25 is designed to make Canada's anti-money laundering and antiterrorist financing regime consistent with

the Financial Action Task Force (FATF) recommendations. Canada will undergo a FATF Mutual Evaluation in early 2007. The new legislation will expand the coverage of Canada's anti-money laundering and antiterrorist financing regime by bringing additional business sectors, including lawyers and dealers in precious metals and stones, under the authority of the PCMLTFA and related regulations. Bill C-25 also mandates that FINTRAC create a national registry for money service businesses and establish a system of administrative monetary penalties. The proposed measures will improve compliance with the reporting, record keeping and client identification provisions of the PCMLTFA. The Bill permits FINTRAC to include additional information in the intelligence product that FINTRAC can disclose to law enforcement and national security agencies, as recommended in the 2004 Auditor General's Report. Bill C-25 received final Parliamentary approval in December 2006

In addition to new legislation, the GOC is undertaking other initiatives to bolster its ability to combat money laundering and terrorist financing. In May 2006, the GOC announced that it had added in the 2006 budget approximately \$58 million over the next two years for FINTRAC, the Royal Canadian Mounted Police (RCMP), and the Department of Justice. The new funding will increase the number of RCMP officers working in the antiterrorist financing and anti-money laundering units; increase the capabilities of the Canada Border Services Agency (CBSA) to detect unreported currency at airports and border crossings; enable Canada's Department of Justice to handle the expanding litigation workload that will result from increasing the enforcement resources of other GOC agencies; and ensure that FINTRAC can better analyze transactions reports and monitor compliance of unregulated financial sectors such as money remitters.

Canada is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime. The GOC has also ratified the Organization of American States (OAS) Inter-American Convention on Mutual Assistance in Criminal Matters, the Inter-American Convention against Terrorism, and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The GOC has signed, but not yet ratified, the UN Convention against Corruption.

Canada is a member of the Financial Action Task Force and assumed the FATF Presidency for a one-year term beginning in July 2006. Canada became a member of the Asia/Pacific Group on Money Laundering (APG) in July 2006. Canada also belongs to the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. FINTRAC became a member of the Egmont Group in 2002. In June 2006, Toronto was selected as the permanent location of the Secretariat of the Egmont Group. The GOC will contribute approximately \$4.5 million over the next five years to help establish the Secretariat

Canada has demonstrated a strong commitment to combat money laundering and terrorist financing both domestically and internationally. In 2006, the GOC made strides in enhancing its anti-money laundering regime and reducing its vulnerability to money laundering and terrorist financing, and should continue to expand these efforts in 2007. The GOC should consider taking the necessary steps to permit FINTRAC to disclose timely and meaningful information to Canadian law enforcement agencies on suspicious financial transactions. Were the GOC to do so, both Canada and the United States might see a significant decrease in the illegal cross-border movement of cash and narcotics, as well as a significant increase in successful prosecutions and convictions.

Cayman Islands

The Cayman Islands, a United Kingdom (UK) Caribbean overseas territory, continues to make strides in strengthening its anti-money laundering program. However, the islands remain vulnerable to money laundering due to their significant offshore sector. The Cayman Islands is home to a well-developed offshore financial center that provides a wide range of services, including banking, structured finance,

investment funds, various types of trusts, and company formation and management. At the end of 2006, The Cayman Islands Monetary Authority (CIMA) reported over 450 banks and trust companies, 8,143 funds, 740 captive insurance companies, and 62,572 exempt companies licensed or registered in the Cayman Islands.

The CIMA is responsible for the licensing, regulation and supervision of the Cayman Islands' financial industry, which includes banks, trust companies, investment funds, fund administrators, insurance companies, insurance managers, money service businesses, and corporate service providers. The CIMA received independence to issue and revoke licenses and enforce regulations through the Monetary Authority Law 2003. Supervision of licensees is carried out through on-site and off-site examinations, which include monitoring for anti-money laundering and counter financing terrorism compliance. A 2001 amendment to The Companies Law institutes a custodial system in order to immobilize bearer shares. There are no shell banks in the Cayman Islands. The CIMA has a statutory function under the Monetary Authority Law to provide assistance to overseas regulatory authorities, and is able to share information with such authorities with or without a memorandum of understanding (MOU). In June 2005, the CIMA signed an MOU with the U.S. Securities and Exchange Commission (SEC). The CIMA also has several other MOUs with regulatory counterparts in a number of countries, including Brazil, Canada, Jamaica and Panama.

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 15,000 Cayman Islands dollars (approximately \$18,000), or who may be engaging in money laundering.

The Misuse of Drugs Law criminalized narcotics-related money laundering. The Proceeds of Criminal Conduct Law (PCCL) criminalized money laundering related to all other serious crimes. The PCCL provides for the offense of money laundering where a person or business has engaged in criminal conduct or has benefited from criminal conduct; tax offenses are not included. The PCCL requires mandatory reporting of suspicious transactions, and makes failure to report a suspicious transaction a criminal offense that could result in fines or imprisonment. There is no threshold amount for the reporting of suspicious activity. A suspicious activity report (SAR) must be reported once it is known or suspected that a transaction may be related to money laundering or terrorism financing.

Established under PCCL (Amendment) Law 2003, the Financial Reporting Authority (FRA) replaces the former financial intelligence unit of the Cayman Islands. The FRA began operations on January 12, 2004. FRA staff consists of a director, a legal advisor, a senior 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 2005 to June 2006, the FRA developed 221 new cases, which consisted of suspicious activity reports received from reporting entities as well as information requests from foreign FIUs.

The Cayman Islands is subject to the United Kingdom Terrorism (United Nations Measure) (Overseas Territories) Order 2001. 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 provision on money laundering related to terrorist financing. However, the United Kingdom has yet to extend the application of the International Convention for the Suppression of the Financing of Terrorism to the Cayman Islands.

In 1986, the United States and the United Kingdom signed a Treaty concerning the Cayman Islands relating to Mutual Legal Assistance in Criminal Matters. By a 1994 exchange of notes, Article 16 of that treaty has been deemed to authorize asset sharing between the United States and the Cayman Islands. The Cayman Islands is a member of the Caribbean Financial Action Task Force (CFATF), and the FRA is a member of the Egmont Group.

The Cayman Islands should continue its efforts to implement its anti-money laundering regime.

Chile

Chile's large and 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. Some Chilean officials believe these increased flows do not, at the same time, create a significant money laundering threat. However, the combination of Chile's irregular regulatory oversight and favorable financial reputation might make it attractive to criminal organizations and other potential 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, Law 19.913 of December 2003, and Law 20.119 of August 2006. 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 rate of 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 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. The new UAF is part of the Ministry of Finance.

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 (financing 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 card 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, 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. Under Law 20.119, which went into effect on August 31, 2006, pension funds and sports clubs are now also subject to reporting requirements.

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 (UF) (approximately \$12,000). 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. The Chilean tax service

(Servicio de Impuestos Internos) 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 UF 450 into or out of Chile must be reported to Customs, 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 legally empowered to seize or otherwise stop the movement of funds, and the entry or exit of these funds is not subject to taxation.

On August 31, 2006, Law 20.119 went into effect. This law restores several powers of the UAF that had been previously removed from the original draft of Law 19.913 by Chile's constitutional tribunal, including the UAF's ability to impose sanctions for noncompliance. Law 19.913 did not grant any government or supervisory entity the authority to impose penalties for partial or noncompliance, resulting in only voluntary-not compulsory-reporting of suspicious or unusual financial transactions. Additionally, while the UAF could previously only exact information from institutions which had already submitted suspicious transaction reports (STRs), it can now demand information to pursue leads received through any official avenue, be it an STR, a cash transaction report (CTR), cross border report, or a request for information from a foreign FIU. The UAF may also now access any government information (police, taxes, etc.) not covered by secrecy or privacy laws. Article 154, paragraph 1 of the Chilean General Banking Law establishes bank secrecy on all types of bank deposits, and prohibits the institution from providing background information related to such operations to any individual except the person making the deposit, or to a third party expressly authorized by the client. Records covered by secrecy protection can now be obtained by the UAF with permission from a judge, usually obtained within 48 hours. One deficiency of Law 19.913 that was not corrected with the passage of Law 20.119, however, is the lack of a definition of "suspicious activity" in the reporting requirements for nonbank and nonfinancial institutions.

The UAF began operating in April 2004, and began receiving STRs from reporting entities in May 2004. In 2005 the UAF received an average of 13 STRs per month. The average number per month increased to 19 in 2006. The average breakdown per month was 14.6 STRs from banks, 1.6 from exchange houses, 1.8 from money transfer and courier services, and 1 from other obliged institutions. By October 1, 2006, the UAF had received 170 STRs, 131 of which were from banks. STRs from nonbank institutions comprise about 23 percent of the total STRs received by October 2006.

Cash transaction reports are also requested regularly by the UAF. In May 2005 money exchange houses were instructed by the UAF to submit CTRs every three months. In September 2005, banks were instructed to submit CTRs every three months. In March 2006 the rest of the obliged institutions were instructed to submit CTRs every 3 months, though some specific institutions without a high amount of cash transactions (e.g. notaries) may submit every 6 months. In all cases, institutions must report CTRs dating from May 2004, when the obligation to record cash transactions over 450 UF went into effect. The UAF received approximately 1000 CTRs in 2006.

The UAF has two STR forms—one for banks, and the other for nonbanking institutions. As of November 2006 it became possible to submit STRs and CTRs through the Internet. Suspicious transaction reports from financial institutions can also be received electronically, via a system known as SINACOFI (Sistema Nacional de Comunicaciones Financieras) that is used by banks to distribute encrypted information among themselves and the Superintendence of Banks.

Banks in Chile are supervised formally by the Superintendence of Banks and Financial Institutions (SBIF) and informally by the Association of Banks and Financial Institutions. Banks are obliged 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 noncurrent accounts. Stock brokerages, securities firms and insurance companies are under the supervision and regulation of the Superintendence of Securities and Insurance. The Superintendence of Securities and Insurance is an

autonomous corporate agency affiliated to the Chilean Government through the Ministry of Finance, and enforces compliance with all laws, regulations, by-laws and other provisions governing the operation of securities, stock exchange and insurance companies in Chile.

In March 2006, the SBIF developed new rules establishing the norms and standards for banks and financial institutions (including leasing companies, securities companies and agents, factoring companies, insurance companies, stock brokerages, general funds-managing companies, and investment fund-managing companies) to prevent money laundering and terrorism financing. These rules also require financial institutions to keep records with updated background information on their clients throughout the period of their commercial relationship. Additionally, Chilean law requires that banks and financial institutions maintain records for a minimum of five years on any case reported to the UAF.

One weakness in Chile's efforts to combat money laundering is that nonbank financial institutions, such as money exchange houses and cash couriers, currently do not fall under the supervision of any regulatory body for compliance with anti-money laundering and counterterrorist financing standards. In Santiago alone there are approximately 55 exchange houses, many of which do not record or share with other exchange houses any information about their customers. Discerning suspicious activity is more difficult without due diligence on clients or good record-keeping. An attempt to self-regulate was undertaken by six exchange houses that formed the Chamber of Exchange Houses and Couriers in 1999, and registered with the Ministry of Economy. However, the Association dissolved in October 2006. Exchange houses as well as cash courier companies are also requested by Law 19,913 to report any suspicious transaction and any cash transaction over UF 450 to the UAF. The lack of supervision, definition of "suspicious activity," and a harmonized system to keep record of daily transactions diminishes useful reporting to the UAF, and undermines the effectiveness of the system. This sector appears particularly vulnerable to abuse by money launderers.

Chile's gaming industry falls under the supervision of the Superintendence of Casinos, which is in charge of drafting regulations about casino facilities, and the administration, operation and proper development of the industry. There are currently seven casinos located throughout the country. The SCJ has oversight powers over the industry but no law enforcement or regulatory authority. Under Law 19,995, the Superintendence of Casinos granted authorization for 10 casinos to operate in Chile after participating in an international and domestic bidding process to assign 17 permits during 2005 and 2006. Seven of these permits are still under a revision process; it is expected that their permits will be issued by December 2006. In total, 22 casinos, including the 7 already in operation, will be fully operating by 2008 under the oversight authority of the Superintendence of Casinos. There is currently no legal framework for supervising the money moving through the gaming industry. However, Article 3 of Law 19,913 requires casinos to report to the UAF any transaction in cash for over UF 450 (approximately \$12,000) and any suspicious operation, to present them with balance sheets, to provide financial reports, to keep historical accounting records, and to designate a compliance official to relate to the UAF. Currently the Superintendence of Casinos has focused on analyzing the integrity of the bidding companies. They have investigated these companies with the support of domestic and international police and financial institutions.

When the UAF determines that an account or a case requires further investigation, it passes the information to the Public Ministry (the public prosecutor's office). The Public Ministry has been responsible for receiving and investigating all cases from the UAF since June 2005 (prior to June 2005, all cases deemed by the UAF to require further investigation were sent to the Consejo de Defensa del Estado or CDE). Of the 170 STRs received as of October 1, 2006, the UAF sent 27 of to the Public Ministry for further investigation. Under Law 20,119, 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 begin prosecution.

The Chilean investigative police (PICH) work in conjunction with the Public Ministry on money laundering investigations. The PICH investigators appear to be very competent and well-trained, but complain about insufficient access to information. Chilean law prohibits the UAF from giving information directly to law enforcement, and allows the sharing of information only with the Public Ministry and foreign FIUs. Currently PICH and other law enforcement must request financial information from the Public Ministry, which in turn requests it from the UAF. The police and prosecutors have expressed concern about the lack of timely access to information.

No money laundering cases have been prosecuted to date in Chile. The first such case is scheduled to go to trial in July 2007. The case was brought to the attention of the Chilean authorities when local press ran articles about a Chilean arrested in Germany for drug trafficking. The articles also detailed the suspect's business dealings in Chile, which led to the decision to investigate the case in Chile as well. Through cooperation with the German government, the Government of Chile (GOC) discovered the suspect's brother had been laundering money in Chile tied with the drug trafficking in Germany. The Public Ministry and PICH continue to cooperate with U.S. and regional law enforcement in money laundering investigations.

Two free trade zones exist in Chile, in Punta Arenas and Iquique. The Iquique free trade zone, the larger of the two, also has an extension in Arica, near Chile's border with Peru. The physical borders of the free trade zone are porous and largely uncontrolled. There are indications that money laundering schemes are rampant in the Iquique-Arica free trade zone. Chilean resources to combat this issue are extremely limited. Police investigative efforts suggest possible criminal links between Iquique and the Triborder Area (Brazil, Paraguay and Argentina), involving both terrorist financing and money laundering. In December 2006, the U.S. Department of Treasury designated nine individuals and two businesses in the Triborder Area that have provided financial and logistical support to Hizballah; one of those individuals, Hatim Ahmad Barakat, had traveled to Chile to collect funds intended for Hizballah, and was reported to be a significant shareholder in at least two businesses in Iquique. Hatim Barakat has been in prison in Paraguay since 2004.

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, financing a terrorist act and the provision (directly or indirectly) of funds to a terrorist organization are punishable by five to ten years in prison. 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 which allow 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 CONACE, the National Drug Control Commission, to fund drug abuse prevention and rehabilitation programs. Under the present law, forfeiture is possible for real property and financial assets. Civil forfeiture is not permitted.

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. On September 13, 2006, the GOC 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). GAFISUD conducted a mutual evaluation of Chile's efforts to combat money laundering in September 2006. 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 was nominated in 2006 to serve as the representative for the Americas on the Egmont Committee. The UAF has signed memoranda of understanding (MOUs) for the exchange of financial information with the United States FIU and FIUS of 25 other jurisdictions. Chile is also in the process of establishing MOUs with Belgium, British Virgin Islands, Gibraltar, Holland, Italy, Luxembourg, St. Kitts and Nevis, United Kingdom, and Venezuela.

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. Chile took a major step in addressing some limitations of the UAF in the passage of Law 20.119. The new law should strengthen the ability of the UAF to aggressively track potential money laundering, but is too new at this point to determine if that has yet occurred. There continues to be no government oversight or standardization of most nonbank financial institutions, and anecdotal evidence that money laundering is occurring in money exchange houses makes this lack of oversight an issue of greater concern. The laws and institutions in Chile which combat money laundering are relatively new, and the system is still developing. The Public Ministry, the investigative police (PICH), and the uniformed national police (Carabineros) are trying to find effective ways to work together, but there are complaints of limited access to information and inter-agency conflict. Chile should take all necessary steps to ensure sufficient government oversight of nonfinancial institutions, aggressive action on the part of the UAF and other key agencies, and inter-agency cooperation, so that Chile is capable of effectively combating money laundering and terrorist financing.

China, People's Republic of

Money laundering remains a major concern as China 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 currently 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 China disguised as foreign investment, and as such, receive tax benefits. Continuing speculation following the July 2005 adjustment of the renminbi (RMB) exchange rate system also fueled illicit capital flows into China throughout 2006. Hong Kong-registered companies figure prominently in schemes to transfer corruption proceeds and in tax evasion recycling schemes. The International Monetary Fund estimated that money laundering in China may total as much as \$24 billion annually.

On October 31, 2006, the National People's Congress passed a new Anti-Money Laundering Law, which came into effect January 1, 2007. This new law broadens the scope of existing anti-money laundering regulations to include any institution involved in money laundering. It mandates that financial and some nonfinancial institutions maintain records on accounts and transactions, and that they report large and suspicious transactions. The law more firmly establishes the Central Bank's authority over national anti-money laundering efforts, but does not clearly define "nonfinancial institutions" for this purpose. The law also increases the number of predicate offenses for money

laundering, to include fraud, bribery, and embezzlement. 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.

Additional regulations were announced in 2006 aimed at further strengthening China's anti-money laundering efforts. In December, 2006, China's central bank issued two new regulations—"Rules for Anti-Money Laundering by Financial Institutions", which will come into effect January 1, 2007, and "Administrative Rules for Reporting of Large-Value and Suspicious Transactions by Financial Institutions", which will come into effect March 1, 2007. Together, these regulations revise earlier PBC regulations implemented in March, 2004. The new regulations will require all financial institutions—including securities, trust companies and futures dealers—to report large and suspicious transactions. Any cash deposit or withdrawal of over RMB 200,000 or foreign-currency withdrawal of \$10,000 in one business day must be reported within five days if electronically or within 10 days in writing to the PBC. Money transfers between companies exceeding RMB 2 million or US\$200,000 in one day or between an individual and a company greater than RMB 500,000 or US\$100,000 must also be reported. The regulations are slated for implementation between January and March of 2007.

These regulations enhance a prior 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 in particular were required to report suspicious foreign exchange transactions—but not all transactions, as in the new regulations—of more than \$10,000 per person in a single transaction or cumulatively per day in cash, or noncash foreign exchange transactions of \$100,000 per individual or \$500,000 per entity either in a single transaction or cumulatively per day. Under the regulation, banks were further required to submit monthly reports to the PBC outlining suspicious activity and to retain transaction records for five years. Banks which failed to report on time can be fined up to the equivalent of approximately \$3,600. Under the December 2006 regulations, financial institutions that fail to meet reporting requirements in a timely manner can have their licenses or business operations suspended.

On April 12, 2006, the PBC proposed a series of measures aimed at curbing money laundering in the insurance, banking and securities sectors. The proposed regulations, which were circulated for comment until May 8 2006, would require institutions to report all "block transactions"—defined as transactions worth more than 50,000 RMB (approximately \$6,241) or \$10,000 per day—to the PBC's anti-money laundering center for review. The proposal would also define the following as "block transactions": noncash transactions of more than 200,000 RMB or \$100,000 per day and transactions between institutional accounts amounting to more than 1 million RMB or \$500,000 per day. However, the current status of these proposed regulations is unclear.

The new Anti-Money Laundering Law passed in 2006 builds on China's 1997 Criminal Code. The 2006 law amended Article 191 of the Criminal Code to criminalize money laundering for seven predicate offenses, expanded from the original three predicate offenses, which were narcotics trafficking, organized crime, and smuggling. In 2001, Article 191 was amended to add terrorism as a fourth predicate offense. Article 191, however, still does not encompass all of the twenty designated categories of offenses identified by the Financial Action Task Force (FATF), even after passage of the 2006 law. Additionally, the 2006 law amended Article 312 to make it an offense to launder the proceeds of any crime through a variety of means. Article 312 criminalizes complicity in concealing

the proceeds of criminal activity. Article 174 criminalizes the establishment of an unauthorized financial institution.

While official scrutiny of cross-border transactions is improving, the Chinese Government is also moving to loosen capital-account restrictions. For example, as of January 1, 2005, travelers can take up to 20,000 RMB (approximately \$2,500) or, in foreign currency, up to \$5,000, into 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, RMB-denominated, credit cards overseas. Such cards can now be used in Hong Kong, Macau, Singapore, Thailand, and South Korea. To address online fraud, the PBC 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, while enforcement is handled by the Ministry of Public Security.

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. According to the China Anti-Money Laundering Monitoring and Analysis Center, 683 suspicious money laundering cases had been reported to the police by the end of 2005. They involved 137.8 billion yuan (\$17.2 billion) and over one billion U.S. dollars.

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 PBC 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. 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. In December, 2006, authorities in Shanghai announced they were investigating the country's largest-ever money laundering case, totaling about five billion yuan (\$633 million). The case involves underground banks, according to Chinese media reports.

To remedy information deficiencies, the PBC 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. PBC

rules obligate financial institutions to perform customer identification, due diligence and record keeping. SAFE implemented a new regulation on March 1, 2004 requiring nonresidents, 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.

China supports international efforts to counter the financing of terrorism. Terrorist financing is now a criminal offense in China, 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, Chinese 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 Xinjiang Uighur Autonomous Region. 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.

China is a party to the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime. China became a party to UN Convention against Corruption, and to the UN International Convention for the Suppression of the Financing of Terrorism in 2006.

China has signed mutual legal assistance treaties with 24 countries. The United States and China 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 United States and China cooperate and discuss money laundering and other enforcement issues under the auspices of the U.S.-China Joint Liaison Group's (JLG) subgroup on law enforcement cooperation. JLG meetings are held annually in either Washington, D.C., or Beijing. In addition, the United States and China have established a Working Group on Counterterrorism that meets on a regular basis. The PRC has established similar working groups with other countries as well.

In late 2004, China joined the Eurasian Group (EAG), a Financial Action Task Force (FATF)-style regional group which includes Russia, Belarus, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. In January 2005, China became an observer to the FATF and seeks to become a full member of the FATF. The FATF conducted a mutual evaluation of China in November, 2006.

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, terrorist financing and other criminal financial activity.

The Chinese Government 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 will 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 suspicious transaction reporting (STR) 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 noncompliance with requirements that financial institutions perform customer identification, due diligence, and record keeping. China should also ensure effective implementation of the many regulatory changes it has put in place over the past three years in seeking to build a highly functional anti-money laundering regime.

Colombia

The Government of Colombia (GOC) is a regional leader in the fight against money laundering. Comprehensive anti-money laundering 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. Although progress has been made in recent years, a complex legal system and limited resources for anti-money laundering programs have constrained 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 terrorist organizations. The GOC and U.S. law enforcement agencies are closely monitoring transactions that could disguise terrorist finance activities. 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 significant export sectors that ship 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 not related to money laundering or terrorist financing, such as bank fraud, has not been widely seen in Colombia. However, criminal elements have used the banking sector to launder money, under the guise of licit transactions. Money laundering has occurred via trade and the nonbank 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.

Money launderers in Colombia employ a wide variety of techniques. Money launderers frequently use such alternative laundering methods as the Black Market Peso Exchange and contraband trade to launder the proceeds of illicit funds. Colombia's financial intelligence unit, the Unidad de Información y Análisis Financiero (Financial Information and Analysis Unit, or UIAF) has identified more than ten techniques alone for laundering money via contraband trade. In 2005, the GOC asserted that illicit funds were being laundered by imports of under-valued Chinese manufactured goods via Panama's Colon Free Trade Zone, and implemented specific controls on Panamanian re-exports to Colombia. Panama countered with a complaint to the World Trade Organization (WTO), and eventually the controls were dropped in October 2006. Colombian industry reaction to the decision was negative, reflecting in part the realities of increasing Chinese competition, but as well the very negative impact that laundering via contraband trade has on legitimate businesses.

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 (carrying currency on a person) of U.S. and other foreign currencies and an increase in the number of shell companies operating in Colombia. Pre-paid debit cards, internet banking, and the dollarization of the economy of neighboring Ecuador represent some of the growing challenges to money laundering enforcement in Colombia.

Casinos in Colombia lack adequate regulation and transparency. Free trade zones in some areas of the country 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 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 and 2001, Colombia criminalized the laundering of the proceeds of extortion, illicit enrichment, rebellion, narcotics trafficking, 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 is itself an offense punishable under the criminal code, with penalties increased in 2002 to imprisonment of two to five years.

Established in 1999 within the Ministry of Finance and Public Credit, 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 (FIUs) in Central and South America. The UIAF currently has approximately 45 personnel, and a new director took over leadership of the unit in August 2006.

The UIAF has broad authority to access and analyze financial information from public and private entities in Colombia. Obligated entities, which include banks, stock exchanges and brokers, mutual funds, investment funds, export and import intermediaries, credit unions, wire remitters, exchange houses, public agencies and entities that fall under the supervision of the Superintendence of Notaries, are required to report suspicious transaction to the UIAF, and are barred from informing their clients of their reports. Most obligated entities are also required to establish “know-your-customer” provisions. With the exception of exchange houses, obligated entities must report to the UIAF cash transactions over \$5,000. Through December 2004, the UIAF had also required exchange houses provide bulk data for all transactions above US\$ 700. A change in January 2005 extended this requirement to all financial institutions for bulk data on transfers, remittances and currency transactions, and lowered the threshold transaction value to US\$ 200. This considerably broadened the data which UIAF examines, enhancing their analytical coverage.

Financial institutions are required by law to maintain records of account holders and financial transactions for five years. Secrecy laws have not been an impediment to bank cooperation with law enforcement officials, since under Colombian law there is a legal exemption to client confidentiality when a financial institution suspects money laundering activity. Colombia’s banks have strict compliance procedures, and work closely with the GOC, other foreign governments and private consultants to ensure system integrity. General negligence laws and criminal fraud provisions ensure the financial sector complies with its responsibilities while protecting consumer rights. Obligated entities are supervised by the Superintendence of Finance, which was created in November 2005 by combining the former Superintendence of Banks and the former Superintendence of Securities into a

single organization. The fusion was generally welcomed as providing more consistent and comprehensive oversight of the financial industry.

Following UIAF's inception in 1999, the number of STRs grew rapidly as financial institutions strived to comply with the reporting requirement, peaking at 13,488 STRs in 2002. The UIAF analysts noted, however, that the quality of reports was lacking, and subsequently began an outreach program to educate reporting institutions on what type of financial activity merited an STR. The quantity of STRs fell to 9,074 in 2005, but UIAF is generally pleased that the overall quality of reporting has improved. Currently, 20 percent of STRs are deemed by UIAF to merit further investigation by their analysis unit, and between five and seven percent of cases are forwarded to an enforcement division for further action. In 2006, 6,120 STRs were filed through the month of October. The prosecutor's office reported 87 successful convictions for money laundering in 2005, and 66 convictions between January and October 2006.

In June 2006, the UIAF inaugurated a new centralized data network connecting 17 governmental entities as well as the banker's association (Asobancaria). The network allows these entities to exchange information online and share their databases in a secure manner, and should facilitate greater cooperation among government agencies in preventing money laundering and other financial crimes. The pilot phase of the project had been made possible by USG financial contributions.

Given past concerns about bulk cash smuggling, in October 2005, the GOC made it illegal to transport more than the equivalent of US\$ 10,000 in cash across Colombian borders, inbound or outbound. Such transactions must now be handled through the formal financial system, which is subject to the UIAF reporting requirements. Colombia has criminalized cross-border cash smuggling and defines it as money laundering. In spite of improvements, 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, and it has been noted that customs officials lack the proper technical equipment necessary to do their job. The GOC has been slow to make needed changes in this area.

Colombian law provides for both conviction-based and nonconviction 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, including Law 30 of 1986 and Law 333 of 1996; however, procedural and other difficulties led to only limited forfeiture successes, with substantial assets tied up in proceedings for years. In 2002, the GOC enacted Law 793, which 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, places obligations on claimants to demonstrate their legitimate interest in property, 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. Law 785 of 2002 also strengthened the GOC's ability to administer seized and forfeited assets. 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.

Laws 793 and 785 have helped streamline the asset forfeiture process, resulting in a tenfold increase in sentences. Yet problems remain: concerns about personal liability have discouraged official action in some cases, exceptions in proceedings can still cause cases to drag on for years, and the pace of final

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decisions remains slow compared to new seizures. Prosecutors also have limited discretion on assets seizures, and must seize all assets associated with a case, including those of minimal value or those which clearly risk loss under state administration, such as livestock.

In 2006, the Colombian media criticized DNE's asset management, citing losses to the GOC from poor maintenance or even loss of assets under their administration. Prior to the fourth quarter of 2006, only a very limited number of assets were disposed of or transferred to government entities, due to the huge task of managing the assets. At the end of 2006, DNE was managing 75,000 assets, some 75 percent of which were seized before 2002. With limited resources and only 45 staff dedicated to asset management, the DNE must rely on outside contractors to store or manage assets. The GOC has established priorities for the proceeds of disposed assets; however, DNE's management task will only be reduced when the pace of judicial decisions and disposals exceeds new seizures.

The Colombian government has been aggressively pursuing the seizure of assets obtained by drug traffickers through their illicit activities. For the last three years the Sensitive Investigations Unit (SIU) of the Colombian National Police (CNP), in conjunction with U.S. law enforcement and the Colombian Fiscalía (prosecutor's office) have been investigating the Cali and North Valle cartels' business empires under the Rodriguez Orejuela brothers and the Grajales family, respectively. The Cali and Norte Valle cartels, as well as their leaders and associated businesses, are on the U.S. Department of the Treasury Office of Foreign Asset Control (OFAC) list of Specially Designated Narcotics Traffickers (SDNTs), pursuant to Executive Order 12978. Colombian and U.S. law enforcement agencies have cooperated in 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. These joint actions to apply economic sanctions have gravely affected the Colombian drug cartels' abilities to use many of the financial assets they derived from their narcotics trafficking activities and have assisted the Colombian government in creating cases in order to seize narcotics related assets. Recent seizures include those of the Drogas La Rebaja drug store chain owned by the Rodriguez Orejuela brothers in 2004, and the Grajales' agricultural companies and Casa Estrella department stores in June 2005 and August 2006 respectively.

In September 2006, 28 family members of the Rodriguez-Orejuelas brothers entered into a plea agreement with the United States. Under the terms of the agreement, the family members agreed to forfeit their right, title, and interest in all Rodriguez-Orejuela business entities and other assets worldwide, as well as all assets of any nature in the United States, up to a maximum of \$ 2.1 billion in value. Approximately \$ 260 million in assets related to this judgment have been identified in Colombia.

Bilateral cooperation between the GOC and the USG remains strong and active. In 2006, several major investigations by DEA and the sensitive investigation unit (SIU) of the Department of Administrative Security (DAS) resulted in arrests and seizures of major money laundering organizations operating between the countries. These include Operation Common Denominator, which led to the arrests of money launderers that utilized the black market peso exchange to launder drug proceeds from the U.S. and Europe, and the seizure of over 17 million euros and 2,000 kilograms of cocaine in Spain; Operation Hoyo Verde, which resulted in 88 arrests for money laundering in the United States, Curacao, the Dominican Republic, Puerto Rico, the Netherlands and Colombia, and the seizure of \$ 8.6 million in cash, \$ 5.8 million in assets and 100 kilograms of cocaine; and Operation Plata Sucia, which led to 28 money laundering arrests in Colombia, New York and Florida, and the seizure of over \$5 million in currency, 65 kilograms of heroin and 60 kilograms of cocaine. Extradition requests to the United States are pending in many of the arrests.

In January 2007, the Colombian National Police in cooperation with the DEA recovered approximately \$80 million in primarily U.S. currency and gold on raids on houses used to stash drug

proceeds. Reportedly, the total value is probably the most ever seized by law enforcement in a single operation anywhere in the world.

The U.S. Department of Homeland Security's Immigration and Customs Enforcement (ICE) division has also worked closely with Colombian authorities. In 2002, ICE supported the CNP establishment of a financial investigative unit within the organization's intelligence and investigations unit (DIJIN). ICE also helped Colombia establish a Trade Transparency Unit (TTU) to analyze trade data for customs fraud and money laundering. The TTU analysis showed a direct financial relationship between the narcotics cartels and the Revolutionary Armed Forces of Colombia (FARC), the primary armed guerilla group also designated as an international terrorist organization

Significant strides have been made in the past year to close a loophole in Colombian law to make terrorist financing an autonomous crime. A law was approved by the Colombian Congress (Project 208) which amended the penal code to define and criminalize direct and indirect financing of terrorism, of both national and international terrorist groups. In accordance with the Financial Action Task Force of South America (GAFISUD) and Egmont Group recommendations, the UIAF will receive STRs 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 with either of these regulations, but many had complied regardless. The bill was passed by the Colombian Senate in September 2006, and by the Colombian House of Representatives in December 2006. Presidential approval is expected in 2007.

Colombian law is unclear on 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's publication of Specially Designated Terrorists. Charities and nongovernmental organizations (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 STR reporting. Reportedly, the GOC acknowledges that monitoring NGOs and charities is an issue that needs continued work and vigilance.

Colombia is a member of GAFISUD and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Money Laundering Experts Working Group, which it chaired in 2005. The UIAF is a member of the Egmont Group, and has signed memoranda of understanding with 27 FIUs around the world. Colombia 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 GOC has signed, but not ratified, the Inter-American Convention against Terrorism. Colombia formally ratified the UN Convention against Corruption in October 2006.

In 2006, the Government of Colombia has seen additional progress in the development of its financial intelligence unit, regulatory framework and interagency cooperation within the government. The passage of a formal terrorist finance law within the year is another development in fighting terrorism and financial crime. International cooperation with the U.S. and other countries has led to several high-profile seizures and prosecutions. However, weaknesses remain. The growth in contraband trade to launder illicit drug proceeds will require even greater interagency cooperation within the GOC, including coordination between the UIAF and DIAN, the tax and customs authority. Congestion in the court system, procedural impediments and corruption are also problems. Limited resources for prosecutors, investigators, and the judiciary hamper their ability to close cases and dispose of seized assets. Streamlined procedures for the liquidation and sale of seized assets under state management

could help provide funds available for Colombia's anti-money laundering and counterterrorist financing regime.

Comoros

The Union of the Comoros (Comoros) consists of three islands: Grande Comore, Anjouan and Moheli. An ongoing struggle for influence continues between the Union and island presidents. 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, Comoran authorities lack the capacity to effectively implement and enforce the legislation, especially on the island of Anjouan. In May 2006, Muslim cleric Ahmed Abdallah Mohamed Sambi was elected President in the first peaceful change of power in Comoros' post-independence history. He won the election with 58 percent of the vote after campaigning on promises to fight corruption and unemployment. The presidency of the union rotates between the three islands. The former incumbent, Azali Assoumani, represented Grand Comore; Sambi is from Anjouan. The three islands in the Comoros 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: requires financial and related records to be maintained for five years; permits assets generated or related to money laundering activities to be frozen, seized and forfeited; requires residents to declare all currency or financial instruments upon arrival and departure, and nonresidents to declare all financial instruments upon arrival and all financial instruments above Comoran francs 500,000 (approximately \$1,250) on departure; 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; requires nonbank financial institutions to meet the same customer identification standards and reporting requirements as banks; 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 (approximately \$12,500); and, criminalizes the provision of material support to terrorists and terrorist organizations. Although there is a suspicious activity filing requirement in the Union's AML law, there does not appear to be an independent financial intelligence unit in either Anjouan or the Union. As of February 2006, no suspicious transaction reports had been filed with the Comorian Central Bank in Grand Comore as required under the existing Union law, and the branch of the Central Bank located in Anjouan had no knowledge of the shell bank entities that have been licensed by Anjouan's Offshore Finance Authority, which apparently operates independently from the Union's Central Bank and has licensed some 300 offshore banks, many of which appear to be shell banks.

Foreign remittances from Comorans abroad in France, Mayotte (claimed by France) and elsewhere remain the most important influx of funds for most Comorons. Until recently most remittances came via informal channels, but in 2006 Western Union established a presence to capture part of this market.

Union authorities have 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 appears Anjouan does have an AML law (the Money Laundering Prevention Act, Government Notice 008 of 2005) but reportedly the law applies to Anjouan and not to the offshore entities it licenses. Little is known about: (i) the procedures that have been established to review and approve offshore licenses issued before the

enactment of the AML law; (ii) the procedures that have been established to review and approve ongoing bank license applications and to supervise and monitor institutions for compliance with Anjouan laws; and, (iii) the efforts and resources available to implement these procedures and enforce compliance.

Union President Azali made efforts during his time as President 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 the 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 the Comoros without prior authorization from the Union Finance Minister upon recommendation from the Comoros Central Bank. Thus, offshore banks operating in the autonomous islands of the Union of the Comoros without prior authorization from the 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 the Comoros." Also in May 2005, President Azali told the USG that the Comoran 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. Since taking office, President Sambi has sought to have corrupt former officials prosecuted. A grossly inadequate budget, dysfunctional ministries, and a nonfunctioning judiciary limit Sambi. Throughout 2006 there were reports that Sambi's authority in Anjouan is limited. There are reports that high-ranking Comoran officials tolerate and possibly benefit from money laundering. The lack of political will is exacerbated by the lack of capacity.

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-Comoran domiciled parties. In November 2004 and again in December 2005, Anjouan island government officials denied island government involvement in the offshore sector. They said the Union of the 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. Substantial concern remains that Anjouan, and possibly Moheli, allows shell banking activity.

There are reports that France, which as the former colonial power maintains substantial influence and activity in Comoros, has bypassed the Union and island governments in order to, where possible, prosecute suspects in money laundering or shell banks under French law. Although Comoros lacks homegrown narcotics, the islands are used as a transit site for drugs coming mainly from Madagascar.

In view of international concern about drug trafficking, in 1993 France began providing technical expertise in this field to Comoros.

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 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 (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.

Comoros has become the 12th member of the free-trade area of the Common Market for Eastern and Southern Africa (Comesa). The U.S. Export-Import Bank (ExIm Bank) has added Comoros to its Short-Term Insurance Pilot Program for Africa (STIPP), while renewing the program for three years, beginning March 31, 2006.

The Government of the Union of the Comoros (GOC) should harmonize anti-money legislation for the three islands that comprise the federal entity. The legislation should adhere to world standards. 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 prohibited. The list of individuals and entities that are included on the United Nations 1267 Sanctions Committee's consolidated list should be circulated to banks in the Comoros. The deficiencies in the anti-money laundering/terrorist financing regimes in the Comoros and the 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.

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. The Cook Islands' offshore sector makes it vulnerable to money laundering. The sector offers banking, insurance, international trusts, and formation of international business companies and trusts. However, due to recent legislative and regulatory changes, the Cook Islands complies with current international standards.

The domestic banking system is comprised of branches of two major Australian banks and the local Bank of the Cook Islands (BCI). 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 Financial Supervisory Commission (FSC). In addition, nonperforming loans made by the Cook Islands Development Bank have been transferred to another affiliated company. In addition to the three domestic banks, the Cook Islands financial sector also consists of four international banks, six trustee companies, and six offshore and three domestic insurance companies.

The Cook Islands has an offshore financial sector that licenses international banks and offshore insurance companies and registers international business companies (IBCs). The offshore sector also consists of company services and trusts, including asset protection trusts (APTs). APTs protect the assets of individuals from civil judgments in their home countries and often contain a "flee clause." Under a "flee clause," if a foreign law enforcement agency makes an inquiry regarding the trust, the trust will be transferred automatically to another offshore center. According to officials of the

Government of the Cook Islands (GOCI), the “flee clause” is used to transfer APTs in times of emergency, such as a natural disaster.

The Cook Islands was placed on the Financial Action Task Force (FATF) list of Non-Cooperative Countries and Territories (NCCT) since 2000. After the GOCI addressed deficiencies in its anti-money laundering regime by enacting legislative reforms, the FATF removed the Cook Islands from its NCCT list in February 2005. The FATF conducted a year-long monitoring program, which concluded in June 2006, to closely monitor the islands.

The Banking Act 2003 and the Financial Supervisory Commission Act (FSCA) 2003 established a new framework for licensing and prudential supervision of domestic and offshore financial institutions in the Cook Islands. The legislation requires international offshore banks to have a physical presence in the Cook Islands, transparent financial statements, and adequate records prepared in accordance with consistent accounting systems. The physical presence requirement is intended to prohibit shell banks. All banks are subject to a vigorous and comprehensive regulatory process, including on-site examinations and supervision of activities.

The FSCA established the Financial Supervisory Commission 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. 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.

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.

By enacting the Financial Transactions Reporting Act (FTRA) 2003 and additional legislation and amendments in 2003 and 2004, Cook Islands authorities strengthened its anti-money laundering and counterterrorist 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, drafted new insurance legislation in 2006. It is anticipated that the draft legislation will be passed in 2007. The legislation will regulate the small domestic insurance sector and update supervision of the offshore insurance sector. Insurance intermediaries will also be regulated under the proposed legislation.

The FTRA imposes certain reporting obligations on 26 different types of institutions, 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 when required. Reporting 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 verify the customer’s identity. In addition, reporting 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. Reporting institutions must comply with any guidelines and training requirements issued under the FTRA, as amended, and must provide internal

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training on all anti-money laundering matters. The FTRA provides for administrative and financial sanctions on institutions for noncompliance.

The FTRA requires the FSC to assess the compliance by licensed financial institutions with customer due diligence and record keeping requirements. Resulting reports and documentation from annual inspections are provided to the Cook Islands Financial Intelligence Unit (CIFIU). The CIFIU is also responsible for assessing compliance by nonlicensed institutions.

The CIFIU is the central unit responsible for processing disclosures of financial information in accordance with anti-money laundering and antiterrorist financing legislation. It became fully operational with the assistance of a Government of New Zealand technical advisor. The FTRA grants supervisory authority to the CIFIU, allowing it to cooperate with other regulators and supervisors, require reporting institutions to supplement reports, and obtain information from any law enforcement agency and supervisory body.

Obligated institutions are required to report any attempted or completed large currency transactions and suspicious transactions to the CIFIU. The currency reporting requirements apply to all currency transactions of NZ\$10,000 (approximately \$6870) and above, electronic funds transfers of NZ\$10,000 and above, and transfers of currency in excess of NZ\$10,000 into and out of the Cook Islands. Failure to declare such transactions could incur penalties. The CIFIU 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 CIFIU does not have an investigative mandate. If it determines that a money laundering offense, serious offense or terrorist financing 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 CIFIU.

The CIFIU is participating in the Pacific FIU database project (PFIUDP) provided by AUSTRAC, the Australian FIU. The CIFIU received a prototype of the database and is now testing the reporting and analysis capacity. The Pacific FIU Database Project includes other jurisdictions that will receive versions of the same database framework.

Since June 2004 the Cook Islands had made further progress in implementing its AML/CFT regime. The head of the CIFIU chairs the Coordinating Committee of Agencies and Ministries, which promotes, formalizes and maintains coordination among relevant government agencies; assists the GOCI 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. 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 CIFIU 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 Terrorism Suppression Act 2004, based on the model law drafted by an expert group established under the auspices of the Pacific Islands Forum Secretariat, 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 GOCI 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 Cook Islands is an active member of the Asia/Pacific Group on Money Laundering (APG), an associate member organization of the FATF. The CIFIU 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. The Cook

Islands plans to become a member of the Offshore Group of Banking Supervisors (OGBS), once it has qualified by undergoing further evaluation. The GOCI is also an active member of the Association of Financial Supervisors of Pacific Countries and draws on the resources of this association and Pacific Financial Technical Assistance Centre for capacity building for FSC staff. The Cook Islands has received nine requests for mutual legal assistance since the Mutual Assistance in Criminal Matters Act came into force in 2003. Five have been answered, and four are pending. The Cook Islands has not received any extradition requests from foreign countries, but successfully extradited one person from New Zealand.

The Cook Islands should continue to implement legislation designed to strengthen its nascent AML/CTF institutions. The Government of the Cook Islands should maintain vigilant regulation of its offshore financial sector, including its asset protection trusts, to ensure that its offshore sector comports with international standards.

Costa Rica

Costa Rica is not a major financial center but 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. Costa Rica has a black market for smuggled goods, but the goal of most of this activity seems to be tax evasion rather than laundering of narcotics proceeds. Reforms in 2002 to the Costa Rican counternarcotics law expand the scope of anti-money laundering regulations, but also create an invitation to launder funds by eliminating the government's licensing and supervision of casinos, jewelers, realtors, attorneys, and other nonbank financial institutions. No actions were taken to close this loophole in 2006. 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. Two of the largest companies shut down their operations during 2006 when top executives were arrested in the United States.

In 2002, the Government of Costa Rica (GOCR) enacted Law 8204. Law 8204 criminalizes the laundering of proceeds from all serious crimes, which are defined as crimes 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 and suspicious transactions to the financial intelligence unit (FIU), 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, applies to the movement of all capital, current regulations are strictly interpreted so that the law applies only to those entities that are involved in the transfer of funds as a primary business purpose. Therefore, the law does not cover such entities as casinos, dealers in gems or Internet gambling operations, as their primary business is not the transfer of funds.

The formal banking industry in Costa Rica is tightly regulated. However, the offshore banking sector, which offers banking, corporate and trust formation services, remains 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 2005, the GOCR's Attorney General ruled that the SUGEF lacks authority to regulate offshore operations due to an apparent contradiction between the 1995 Organic Law of the

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Costa Rican Central Bank and Law 8204. Draft legislation to correct the contradiction and reassert the SUGEF's regulatory power is under review in the Legislative Assembly. However, the Legislative Assembly took no action on this draft legislation in 2006.

All persons carrying cash are required to declare any amount over \$10,000 to Costa Rican officials at ports of entry. During 2006, officials seized over \$5.2 million in narcotics-related assets, much of it in undeclared cash. By comparison, in 2005 the GOOCR seized \$850,000 in assets. Seized assets are processed by the Costa Rican Drug Institute (ICD) and if forfeited, are divided among drug treatment agencies (60 percent), law enforcement agencies (30 percent), and the ICD (10 percent).

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" a federal 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 FIU, the Unidad de Análisis Financiero (UAF), became operational in 1998 and was admitted into the Egmont Group in 1999. Established within the ICD, the UAF analyzes suspicious activity reports for potential referral to prosecutors. It has no regulatory responsibilities. The UAF 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 banking industry cooperates with authorities and routinely reports suspicious activities. In spite of its broad access to government information and high levels of cooperation with the financial sector, the UAF remains ill-equipped and under-funded to provide information needed by investigators. Nevertheless, in 2006, the UAF increased the quality of its analysis and forwarded more thoroughly analyzed cases to prosecutors. Three money laundering cases that began judicial proceedings in 2005 were successfully prosecuted in 2006.

Although the GOOCR has ratified the major UN counterterrorism conventions, terrorism and its financing are not crimes in Costa Rica. 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 2006.

In 2002, a government task force drafted a comprehensive counterterrorism law with specific terrorist financing provisions. The draft law, when passed, would expand existing conspiracy laws to include the financing of terrorism and enhance existing narcotics laws by incorporating the prevention of terrorist financing into the mandate of the ICD. In 2004, the Legislative Assembly also considered a separate draft terrorism law but took no action. In 2006, the Assembly's Narcotics Committee continued to study 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 GOOCR has signed, but not yet ratified, the UN Convention against Corruption. The GOOCR has also signed the Organization of American States (OAS) Inter-American Convention on Mutual Assistance in Criminal Matters, and has ratified the Inter-American Convention against Terrorism. Costa Rica is a member of the Caribbean Financial Action Task Force (CFATF) and the Money Laundering Experts Working Group of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD). The UAF is a member of the Egmont Group.

Even though Costa Rica has convicted a handful of individuals for money laundering in 2005 and 2006, further efforts are required to bring Costa Rica into compliance with international anti-money laundering and counterterrorist financing standards. The GOCR should pass legislation that clarifies contradictions regarding the supervision of its offshore banking sector, and should extend its anti-money laundering legislation and regulations to cover the Internet gaming sector, gem dealers, attorneys, casinos and other nonbank financial institutions. Costa Rica should also criminalize terrorism and terrorist financing, and ensure that its financial intelligence unit and other GOCR authorities are adequately equipped to combat financial crime.

Côte d'Ivoire

Cote d'Ivoire is an important West African regional financial hub. Money laundering and terrorist financing 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 products. Most of the smuggling networks are organized chiefly by nationals from Nigeria and the Democratic Republic of the Congo. Due to the ongoing political and economic turmoil in Cote d'Ivoire, respect for the rule of law continues to deteriorate. As a result, Ivorian and some Liberian nationals are becoming more and more involved in criminal activities and the subsequent laundering of funds. Cote d'Ivoire is ranked 153 out of 163 countries in Transparency International's 2006 Corruption Perception Index.

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. Ivorian 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 taxes. According to the Office of the Customs Financial Enquiries, the cross-border trade of diamond and cocoa over Cote d'Ivoire's porous borders generates contraband funds that are laundered into the banking system via informal moneychangers. Criminal enterprises use both the formal and informal financial sector to launder funds. Cash is moved both via the formal banking sector and by cash couriers. Cash earned by immigrant or migrant workers generally flows out of Cote d'Ivoire, going to extended families outside the region. Informal money couriers and money transfer organizations similar to hawaladars move funds both domestically and within the sub-region. Currently, domestic informal cash transfer systems are not regulated. Informal remittance transfers from outside Cote d'Ivoire violate West African Central Bank (BCEAO) money transfer regulations. 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.

Hizbollah is present in Cote d'Ivoire, and it conducts fundraising activities, mostly among the large Lebanese expatriate community. The Ivorian government has taken no legal action to prevent the misuse of charitable and other nonprofit entities that can be used as conduits for the financing of terrorism. Reportedly, the Ministry of Interior Security is addressing this problem.

There are no free trade zones in Cote d'Ivoire. In August 2004, the Ivorian 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 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 the largest bank network in the region with seventeen banks and two nonbank financial institutions. Of that number, there are eight foreign-owned banks and two foreign-owned financial institutions in operation. French banking accounts for more than 60 percent of banking activity. 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 political crisis has disrupted banking operations.

The Ivorian 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 Ivorian National Assembly 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 was adopted on December 2, 2005, and became effective on August 9, 2006.

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 institutions. It establishes procedures, which require these institutions to assist in the detection of money laundering through suspicious transaction reporting, and it creates an Ivorian Financial Intelligence Unit (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, as 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 Ivorian Economic and Financial police, the criminal police unit (Police Judiciaire), the Department of Territorial Surveillance (Ivorian 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 BCEO, and the West African Banking Commission, headquartered in Cote d'Ivoire, supervise and examine Ivorian compliance with anti-money laundering/counterterrorist financing laws and regulations. All Ivorian 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 (approximately \$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 (approximately \$100,000) for known customers. For occasional customers, the floor value for "significant transactions" is CFA 5,000,000.

The new money laundering controls will apply to nonbank financial institutions such as exchange houses, stock brokerage firms, insurance companies, casinos, cash couriers, national lotteries, nongovernment 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 Ivorian financial institutions, businesses, and professionals and nonbank institutions under the scope of the new money laundering law are required to report suspicious transactions. The Ivorian 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, Ivorian 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, Ivorian 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.

Although Cote d'Ivoire's new money laundering law encompasses the laundering of funds from all serious crimes, 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 Ivorian government to implement the asset freeze provisions of UNSCR 1373. The BCEAO and Ivorian 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. No assets related to terrorist entities or individuals have been discovered, frozen or seized.

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 Financial Action Task Force (FATF). In July 2006, the United Nations Office on Drugs and Crime (UNODC) sponsored a meeting on money laundering in cooperation with the GIABA. The Ivorian 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 an individual 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 hosted a workshop and conference regarding money laundering and fraud prevention, both in March 2006. Abidjan also hosted the Eleventh Conference of Customs Director Generals for West and Central Africa on information exchange as a critical part of the fight against customs and fiscal fraud. Also in March 2006, Cote d'Ivoire held, in collaboration with the United Nations Development Program (UNDP), a workshop releasing the results of the 2004 training seminar on financial delinquency, money laundering and terrorism financing.

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.

The Government of the Cote d'Ivoire should implement its new anti-money laundering law, including the funding and establishing of an FIU. It should criminalize terrorist financing. Cote d'Ivoire law enforcement and customs should examine forms of trade-based money laundering and informal value transfer systems. Authorities should take steps to halt the spread of corruption that permeates both commerce and government and facilitates the underground economy and money laundering. Cote d'Ivoire should ratify the UN Convention against Transnational Organized Crime.

Cyprus

Cyprus has been divided since the Turkish military intervention of 1974, following a coup d'etat directed from Greece. Since then, the southern part of the country (approximately sixty percent of the country) has been under the control of the Government of the Republic of Cyprus. The northern forty percent is controlled by a Turkish Cypriot administration that in 1983 proclaimed itself the "Turkish Republic of Northern Cyprus (TRNC)," recognized only by Turkey. The U.S. Government recognizes only the Government of the Republic of Cyprus (GORC).

The government-controlled area of the Republic of Cyprus is a major regional financial center with a robust financial services industry that includes an offshore sector. As with other such centers, Cyprus remains vulnerable to international money laundering activities. Fraud and other financial crimes, and narcotics trafficking are the major sources of illicit proceeds laundered in Cyprus. Casinos and internet gaming sites are not permitted, although sports betting halls are allowed.

A number of factors facilitated the development of Cyprus' offshore financial sector in Cyprus: the island's central location; a preferential tax regime, double tax treaties with 40 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. Since the offshore financial sector was established in 1975, more than 54,000 offshore international business companies have been registered. Reportedly, there are approximately 14,000 international business companies (IBCs) are

currently registered. An International Banking Unit (IBU) is a Cypriot limited liability company or a branch of a foreign bank, which has obtained a banking license from the Central Bank. An Offshore Financial Services Company (OFSC) engages in dealing, buying, selling, subscribing to or underwriting investments; managing investments belonging to other persons; giving investment advice to actual or potential investors; and establishing collective investment schemes. The Central Bank vetting process for offshore companies also ensures that prospective OFSCs are linked to existing investment or financial services companies in well-regulated countries.

In recent years, Cyprus has introduced tax and legislative changes effectively abolishing all legal and substantive distinctions between domestic and offshore companies. All Cypriot companies are now taxed at a uniform rate of 10 percent, irrespective of the permanent residence of their owners or whether they do business internationally or in Cyprus. A transition period allowing preferential tax treatment to offshore companies that existed prior to 2002 expired on January 1, 2006. Additionally, the prohibition from doing business domestically has been lifted and companies formerly classified as offshore are now free to engage in business locally. Bearer shares have been abolished. It is not clear whether the beneficial owners of the more than 50,000 international business companies formally registered in the offshore sector are now known to the Cyprus authorities.

The GORC continues to revise its anti-money laundering (AML) framework to meet evolving international standards. In 1996, the GOC passed the Prevention and Suppression of Money Laundering Activities Law, which mandated the establishment of the Cypriot financial intelligence unit (FIU). This law criminalizes all money laundering, provides for the confiscation of proceeds from serious crimes, and codifies the actions that banks, nonbank financial institutions, and obligated nonfinancial businesses must take, including those related to customer identification. 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 replacing the separate list of predicate offenses with a definition of predicate offense to be any criminal offense punishable by a prison term exceeding one year, by addressing government corruption, by providing for the sharing of assets with other governments and by facilitating the exchange of financial information with other FIUs.

Amendments passed in 2003 and 2004 authorize the FIU to instruct banks to delay or prevent execution of customers' payment orders; extend due diligence and reporting requirements to auditors, tax advisors, accountants, and, in certain cases, attorneys, real estate agents, and dealers in precious stones and gems; and permit administrative fines of up to 2863 Cypriot pounds (approximately \$6,390). The amendments also 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 GORC enacted legislation regulating capital and bullion movements and foreign currency transactions. The law requires all persons entering or leaving Cyprus to declare all currency, Cypriot or foreign, or gold bullion worth approximately \$15,500 (approximately 6730 Cypriot pounds) or more. This sum is subject to revision by the Central Bank. This law replaced the exchange control restrictions under the Exchange Control Law, which expired in May 2004.

Four authorities regulate and supervise financial institutions in Cyprus: the Central Bank of Cyprus, responsible for supervising locally incorporated banks as well as subsidiaries and branches of foreign banks; the Cooperative Societies Supervision and Development Authority (CSSDA), supervising cooperative credit institutions; the Superintendent for Insurance Control; and the Cyprus Securities and Exchange Commission. Designated nonfinancial businesses and professions (DNFBPs) are regulated by three entities: the Council of the Bar Association supervises attorneys; the Institute of Certified Public Accountants supervises accountants; and the FIU supervises real estate agents and dealers in precious metals and stones. 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.

The GORC-controlled area of Cyprus currently hosts a total of 40 banks. Fourteen of these are incorporated locally. Eleven of the fourteen banks are commercial banks and three are specialized financial institutions. Of the commercial banks, six are foreign-owned, and two are branches of foreign banks. The remaining 26 banks are foreign-incorporated and conduct their operations almost exclusively outside of Cyprus. At the end of August 2006, the cumulative assets of domestic banks were \$53.9 billion, while the cumulative assets of subsidiaries and branches of the foreign-incorporated banks were \$22.8 billion.

As of May 2004, when Cyprus joined the EU, banks licensed by competent authorities in EU countries could 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 2006, four foreign banks were operating a branch in Cyprus under the EU's "single passport" arrangement.

Cyprus hosts six licensed money transfer companies, 40 international independent financial advisers, six international trustee services and 200 feeder funds. There are also 47 investment firms, two management firms handling "undertakings for collective investment in transferable securities" (UCITS), 43 licensed insurance companies, 238 licensed real estate agents, 1,858 registered accountants, 1,631 practicing lawyers and around 350 credit institutions. These 350-plus credit societies and cooperative savings banks retain 32 percent of total deposits.

In October 2006, the IMF released a detailed assessment of the "Observance of Standards and Codes for Banking Supervision, Insurance Supervision and Securities Regulation." Among other issues, the report noted that the SEC was legally unable to cooperate with foreign regulators if the SEC did not have an independent interest in the matter being investigated and that the SEC was experiencing difficulty obtaining information regarding the beneficial owners of Cypriot-registered companies. The SEC is working to resolve both of these issues. The report also noted that commitments emerging from EU accession had "placed stress on the skills and resources" of the staff of the CSSDA and the Insurance Superintendent and recommended additional training.

In recent years the Central Bank has introduced many new regulations aimed at strengthening anti-money laundering vigilance in the banking sector. Among other requirements, banks must (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 noncooperative. This list is updated regularly in line with the changes effected to the list of noncooperative countries and territories by the FATF.

All banks must report to the Central Bank, on a monthly basis, individual cash deposits exceeding 10,000 Cypriot pounds (approximately \$22,000 in local currency) or approximately \$10,000 in foreign currency. Bank employees are required to report all suspicious transactions to the bank's compliance officer, who determines whether to forward a report to the Cypriot FIU for investigation. Banks retain reports not forwarded to the FIU, 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 transaction reports (STRs) submitted to the compliance officer and the number

forwarded by the compliance officer to the FIU. By law, bank officials may be held personally liable if their institutions launder money. Cypriot law partially protects reporting individuals with respect to their cooperation with law enforcement but does not clearly absolve a reporting institution or its personnel from complete criminal or civil liability. Banks must retain transaction records for five years.

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's 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.

Established as the Cypriot FIU in 1997, the Unit for Combating Money Laundering (MOKAS) is responsible for receiving and analyzing STRs and for conducting money laundering or financial fraud investigations. At the time of the MONEYVAL mutual evaluation report submission, in February 2006, MOKAS had a multidisciplinary staff of 14. In June 2006, MOKAS hired an additional six financial investigators. A representative of the Attorney General's Office heads the unit. MOKAS cooperates closely with FinCEN and other U.S. Government agencies in money laundering investigations. All banks and nonbank financial institutions, insurance companies, the stock exchange, cooperative banks, lawyers, accountants, and other financial intermediaries must report suspicious transactions to MOKAS. Sustained efforts by the Central Bank and MOKAS to strengthen reporting have resulted in an increase in the number of STRs being filed from 25 in 2000 to 179 in 2006. During 2006, MOKAS received 208 information requests from foreign FIUs, other foreign authorities, and INTERPOL. MOKAS evaluates evidence generated by its member organizations and other sources to determine if an investigation is necessary. Money laundering is an autonomous crime. The MONEYVAL team noted at its on-site visit that there appeared to be 14 money laundering cases in the courts. Only three of the 14 known cases resulted from the STR process.

MOKAS 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.

During 2006, MOKAS opened 410 cases and closed 160. There were twelve prosecutions for money laundering, which resulted in seven convictions. During the same period, it issued 28 Information Disclosure Orders (typically involving judiciary proceedings in courts abroad), 13 administrative orders for postponement of transactions, and 4 freezing orders, including two foreign restraint orders, resulting in the freezing of 2.23 million euros (approximately \$2.9 million) in bank accounts and three vehicles. . Additionally, during 2006, MOKAS issued one confiscation order for a total amount of 1.33 million euros (approximately \$1.73 million). 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. Terrorism financing is criminalized by sections 4 and 8 of the Ratification Law 29 (III) of 2001. The implementing legislation amended the AML law to criminalize the collection of funds in the knowledge that these would be used by terrorists or terrorist groups for violent acts. The parliament passed an amendment to the implementing legislation in July 2005 eliminating a loophole that had inadvertently excused Cypriot nationals operating in Cyprus from prosecution for terrorism finance offenses. However, as noted in the 2006 MONEYVAL mutual evaluation report, Cyprus has yet to criminalize the general collection of funds in the knowledge that they would be used by terrorists or terrorist groups for any purpose (i.e. not just for violent acts) as required by FATF Special Recommendation II. 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 or the U.S. Treasury Department as a terrorist or a terrorist organization.

Under a standing instruction, the Central Bank automatically issues a “search and freeze” order for accounts matching the name of any entity or group designated by the UN 1267 Sanctions Committee or the EU Clearinghouse as a terrorist or terrorist organization. If a financial institution were to find any matching accounts, it would be required to immediately freeze the accounts and inform the Central Bank. As of January 2007, no bank had reported holding a matching account. When FIUs or governments such as the USG—not the UN or the EU Clearinghouse—designate and circulate the names of suspected terrorists, MOKAS has the authority to block funds and contacts commercial banks directly to investigate. None of these checks have revealed anything suspicious to date. The lawyers’ and accountants’ associations cooperate closely with the Central Bank. The GORC cooperates with the United States to investigate terrorist financing. MOKAS reports that no terrorist assets have been found in Cyprus to date and thus there have been no terrorist finance prosecutions or freezing of terrorist assets. However, authorities reported that in 2006 there had been one investigation for terrorism financing involving four persons.

Reportedly, there is no evidence that alternative remittance systems such as hawala or black market exchanges are operating in Cyprus on a significant scale. The GORC believes that its existing legal structure is adequate to address money laundering through such alternative systems. The GORC licenses charitable organizations, which must file with the GORC copies of their organizing documents and annual statements of account. Reportedly, the majority of 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 Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and the Offshore Group of Banking Supervisors. MOKAS is a member of the Egmont Group and has signed memoranda of understanding (MOUs) with 17 FIUs, although Cypriot law allows MOKAS to share information with other FIUs without benefit of an MOU. A mutual legal assistance treaty between Cyprus and the United States entered into force September 18, 2002.

Cyprus underwent a MONEYVAL mutual evaluation in April 2005, the results of which were published in a report adopted at the MONEYVAL Plenary meeting in February 2006. The report

found Cyprus to be fully compliant in 17 areas, largely compliant in 22, and partially compliant in 10 of the Financial Action Task Force's (FATF) Forty Recommendations and Nine Special Recommendations on terrorism finance. There were no criteria for which Cyprus was found to be noncompliant. The assessment team also put forward a detailed recommended action plan designed to further improve its anti-money laundering system.

The Government of the Republic of Cyprus (GORC) 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 enhance regulation of corporate service providers, including trust and incorporation companies, lawyers, accountants, and other designated nonfinancial businesses and professions. Now that the GOC is abolishing its offshore financial services, it should withdraw from the Offshore Group of Banking Supervisors to dispel any confusion that its continued membership might engender. It should enact provisions that allow for civil forfeiture of assets. It should also continue to work on improving the collection and centralization of statistical data in relation to money laundering investigations, prosecutions and convictions. Cyprus should criminalize the collection of funds with the knowledge that they will be used by terrorists or terrorist groups for any purpose—not only to commit violent acts. Cyprus should also take steps to implement the recommendations of the recent MONEYVAL and IMF evaluations, including ensuring the staffing level at MOKAS is sufficient for MOKAS to fulfill its mandate.

Area Administered by Turkish Cypriots. The Turkish Cypriot community continues to lack the legal and institutional framework necessary to provide effective protection against the risks of money laundering. It is thought that the 19 essentially unregulated and primarily Turkish-mainland owned casinos and the 15 offshore banks are the primary vehicles through which money laundering occurs. Casino licenses are fairly easy to obtain, and background checks on applicants are minimal. A significant portion of the funds generated by these casinos reportedly change hands in Turkey without ever 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 approximately five hundred “finance institutions” operating in the area that extend credit and give loans. Although they must register with the “Office of the Registrar of Companies,” they are unregulated. Some of these companies are owned by banks and others by auto dealers. In 2005 and 2006, there was a large increase in the number of sport betting halls, which are licensed by the “Office of the Prime Minister.” There are currently seven companies operating in this sector, with a total of 85 outlets. Four of the companies also accept bets over the internet. Turkish Cypriot authorities deported one prominent Turkish organized crime figure, Yasar Oz, following a December 19 shootout at the Grand Ruby Casino that left two dead. As a result of this incident, the Turkish Cypriot authorities arrested seven individuals, closed the Grand Ruby and Denizkizi Casinos and deported much of their staff. Nevertheless, several other casinos are still believed to have significant links to organized crime groups in Turkey.

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 Turkish Cypriot community is not part of any regional FATF-style organization and thus is not subject to any peer evaluations.

The offshore banking sector 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 U.S. domestic financial institution or domestic financial agency for, or on behalf of, First Merchant Bank OSH Ltd. On December 4, 2006, the Turkish Cypriot administration ordered First Merchant Bank to cease its operations due to violations of the Turkish Cypriot “Offshore Banking Law.” The bank is now only permitted to perform activities associated with closing the Bank such as the payment and collection of outstanding debts.

Turkish Cypriot authorities have begun taking limited steps to address these risks. Nevertheless, it appears that the Turkish Cypriot leadership lacks the political will necessary to push through reforms needed to introduce effective oversight of its limited and relatively isolated financial sector. In 1999, an anti- money laundering law (AMLL) 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, nonbank financial institutions, and foreign exchange dealers must report all currency transactions over \$20,000 and suspicious transactions in any amount. Banks must follow a know-your-customer policy and require customer identification. Banks must also submit suspicious transaction reports (STRs) to a five-member Anti-Money Laundering Committee (AMLC) which decides whether to refer suspicious cases to the police and the attorney general’s office for further investigation. The five-member committee is composed of representatives of the police, customs, the Central Bank, and the Ministry of Finance. However, the AMLL has never been fully implemented or enforced.

In 2005, the AMLC, which had been largely dormant for several years, began meeting on a regular basis and encouraging banks to meet their obligations to file STRs. 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 for money laundering, although one foreign bank owner suspected of having ties to organized crime was successfully extradited. There are significant concerns that law enforcement and judicial officials lack the technical skills needed to investigate and prosecute financial crimes.

Although the 1999 AMLL 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, Economy and Tourism are drafting several new anti-money laundering laws that they claim will, among other things, establish an FIU and provide for better regulation of 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 or when the new legislation will be adopted, and if it is adopted, whether it will ever be fully implemented and enforced. Work on the new bills has been ongoing for more than two years.

There are currently 23 domestic banks in the area administered by Turkish Cypriots. Internet banking is available. The offshore sector consists of 16 banks and approximately 50 companies. 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 Finance performs this function. Since 2000, the Turkish Cypriot authorities have registered one new offshore bank. A new law has come into effect that restricts the granting of new bank licenses to only those banks with licensees in an OECD country or a country with “friendly relations” with the TRNC.

The 1999 Turkish Cypriot AMLL provided better banking regulations than were previously in force, but as an AML tool it is far from adequate, and without ongoing enforcement, cannot meet its objectives. A major weakness continues to be the many casinos, where a lack of resources and expertise leave that area, essentially 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, establish a strong, functioning financial intelligence unit, and adopt and implement a strong regulatory environment for all obliged institutions, in particular casinos, money exchange houses, and entities in the offshore sector. Turkish Cypriot authorities should take steps to enhance the expertise of members of the enforcement, regulatory, and financial communities with an objective of better regulatory guidance, the more efficient STR reporting, better analysis of reports, and enhanced use of legal tools available for prosecutions.

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, counterfeit goods, 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. Domestic and foreign organized crime groups target Czech financial institutions for laundering activity, most commonly by means of financial transfers through the Czech Republic. Banks, currency exchanges, casinos and other gaming establishments, investment companies, and real estate agencies have all been used to launder criminal proceeds. Currency exchanges in the capital and border regions are also considered to be a major problem.

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 introduced 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 introduced several major changes to the Czech Republic’s money laundering laws and harmonized 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 (European Union’s Second Money Laundering Directive). As a result, the list of covered institutions

now includes attorneys, casinos, realtors, notaries, accountants, tax auditors, and entrepreneurs engaging in transactions exceeding 15,000 euros (approximately \$19,440).

The Ministry of Interior is currently drafting legislation implementing the European Union's Third Money Laundering Directive. In connection with this effort, the Czech National Bank is preparing an amendment to the foreign currency law that would introduce new regulations and licensing requirements for currency exchanges. Moreover, new legislation on the "Application of International Sanctions" came into force in April 2006. Under the new law, the FAU has the authority to fine institutions not reporting accounts or other assets belonging to individuals, organizations or countries on which international sanctions have been imposed or those not fulfilling other obligations set by international regulations. Earlier laws restricting financial cooperation with the Taliban (2000) and Iraq (2005) were replaced with the new law.

The Czech Republic had been criticized in the past 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 to nonbearer passbooks. 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.

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 15,000 Euros 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. Similar reporting requirements apply to anyone seeking to mail the same amount 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. Reportedly, Chinese and Vietnamese residing locally in the Czech Republic are the most active in cash smuggling across the border.

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 extended the anti-money laundering/counterterrorist financing responsibilities of the FAU. As a result, the FAU is now authorized to share all information with the Czech Intelligence Service (BIS) and Czech National Security Bureau (NBU) in addition to its ongoing cooperation with the police and customs. 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 an administrative FIU without law enforcement authority and can only investigate accounts for which designated entities have filed suspicious transaction reports. The FAU has the power to ask the banking sector to check a specific individual or organization's account. Since April 2006, they are also able to fine financial institutions for not reporting on accounts or other assets belonging to individuals, organizations, or countries on which international sanctions have been imposed. The FAU 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.

There are two law enforcement agencies working closely together on the investigation of money laundering cases. The Financial Police (also known as the Illegal Proceeds and Tax Crime Unit) is the main law enforcement counterpart to the FAU and is also responsible for investigating cases of terrorism financing. The Unit for Combating Corruption and Financial Criminality (UOKFK) has primary responsibility for all financial crime and corruption cases.

Although the FAU conducts investigations based on suspicious transaction reports filed by financial institutions, 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. Recently, the FAU has focused on the growing problem of embezzlement of European Structural Funds and has already seized 220 million crowns (approximately \$10 million) of suspected embezzled funds. The law 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. 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. 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.

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. The FAU still remains a relatively small organization, given the scope of its responsibilities. The Financial Police could soon face similar challenges due to changes in the police retirement plan and a perceived lack of political support for independent police work. Reportedly, many senior officers are leaving the police force or to considering early retirement. The departure of senior officials would have devastating effects and would hinder not only the Financial Police, but the organized crime unit, anticorruption unit, and other critical police organizations as well. Most troubling is the proposed dissolution of the Financial Police into other police units. The creation of the Financial Police was based on EU recommendations and these changes would possibly lead to a loss of EU funding and would negatively impact police morale. Observers believe this action would have a serious negative effect on the government's ability to investigate and prosecute money laundering and terrorist finance cases.

Despite these staffing challenges, an increase in the government's political will and attention 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 successfully prosecuted a money laundering case. However, in 2004 the Ministry of Justice achieved its first four convictions against individuals attempting to legalize the proceeds from crime. Unfortunately, sentences were very low and consisted of probation. In 2005, 23 alleged offenders were prosecuted and three were convicted. In the first six months of 2006, courts increased convictions to 5 individuals. However, only 6 people were prosecuted during the same time period, a marked decrease from the previous year. Sentences were again low including suspended sentences or fines. An ongoing issue in

criminal prosecutions 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 grew slightly after a significant jump in 2004. The number of inquiries evaluated and forwarded to law enforcement doubled in 2005. This trend is interpreted as evidence of the active participation of obliged entities in the anti-money laundering regime and police suspicion of financial activities of groups and individuals suspected of some cooperation with terrorism groups. There were 3,267 suspicious transactions reported in 2004, and 3,404 in 2005. From January through September 2006, there were 2,043 reports of suspicious transactions. The number of reports forwarded to the police in 2004 by the FAU was 103. This number rose significantly in 2005 to 208. From January through September 2006, the number of reports forwarded to the police was 102. Every case that was passed to law enforcement was investigated. In 2005, the FAU received 130 assistance requests from abroad and sent 69 requests abroad. During the first nine months of 2006, the FAU received 84 requests and sent out 69 requests. From January to October 2006, the Financial Police's Department of Criminal Proceeds and Money Laundering investigated 76 cases and seized assets valued at 1.42 billion crowns (approximately \$64.6 million). This figure is a significant increase over 2005, when the Department investigated 99 cases and seized assets valued at roughly 931 million crowns (approximately \$42.3 million) and a monumental upsurge when compared to 2004 when the Department investigated 139 cases and seized assets only valued around 2 million crowns (approximately \$91,000). Regarding drug cases, the Department participated in 12 cases in 2005 investigated by the Czech National Drug Headquarters, and seized assets valued at 48 million crowns (approximately \$2 million) including three cars. Although the National Drug Headquarters continues close cooperation with the Czech Financial Police, during the first half of 2006, the amount of successfully seized assets from two cases decreased significantly to 1.34 million crowns (approximately \$61,000).

In October 2005, the Czech Parliament ratified the UN International 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 for 2005-2007 in November 2005. This document covers topics ranging from police work and cooperation to protection of security interests, enhancement of security standards, and customs issues. One of the major priorities contained in the plan continues to be the fight against terrorist financing.

In November 2004, the Czech Government amended the Criminal Code and enacted new definitions for terrorist attacks and 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, obliged 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.

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 networks 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 governmental body called the Clearinghouse, instituted in 2002, was established to streamline the collection of information from institutions in order to enhance cooperation and response

to a terrorist threat. The Clearinghouse meets only in necessary cases. 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. 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, two suspect accounts have been identified in Czech financial institutions based on the information provided by the United States. The accounts have been frozen and contain \$500,000.

Although Czech law authorizes officials to use asset forfeiture, it is a relatively new tool and that is not widely used. It was introduced into the criminal system in 2002 and allows judges, prosecutors, or the police (with the prosecutor's assent) to freeze an account or assets 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. An amendment to the 2004 Law on the Administration of Asset Forfeiture in Criminal Procedure implemented provisions and responsibilities overseeing the administration and storage of seized property and appoints the police as responsible for the administration of seized assets as well.

A recent amendment of Czech Criminal Procedure Code and Penal Code came into force in July 2006, bringing several positive changes to asset forfeiture and seizure. The law, as newly amended, now allows for the freezing and confiscation of the value of any asset (including immovable assets) and is not limited to property. These provisions allow the police and prosecutors to effectively seize assets gained in illicit activity previously shielded by family members. The law allows for the seizure of substitute asset values as well as asset values not belonging to the criminal and appoints the police as responsible for administration of seized assets.

The Czech Republic has signed memoranda of understanding (MOUs) on information exchange with 22 countries, including new agreements with Australia and Canada. The Czech Republic also has a formalized agreement with Europol since 2002. The FAU is a member of the Egmont Group, and is also authorized to cooperate and share information with all of its international counterparts, including those not part 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). Cooperation and information exchange with international counterparts or other international organizations has a foundation in Czech law.

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 and the UN Convention against Corruption. 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 May 2006, the United States and the Czech Republic signed a supplemental extradition treaty and a supplemental MLAT to implement the U.S.-EU Agreements on these subjects; but these instruments have not yet been ratified.

The Czech Republic has made progress in its efforts to strengthen its money laundering regime, as demonstrated by its ratification in 2005 of the UN International Convention on the Suppression of the Financing of Terrorism and its expanded capacity to enforce existing money laundering regulations 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 assets forfeiture has not yet become a standard tool used by prosecutors and judges, although the government has given law enforcement the tools for seizing illicit assets shielded by family members. Czech law enforcement and customs authorities should intensify efforts to monitor underground markets and informal remittance systems, such as hawala, used often used by the immigrant communities. Many of these underground systems are based on the misuse of trade. However, changes under discussion to disband the Financial Police are troubling. Doing so would have a negative impact on the government's ability to investigate and prosecute money laundering and terrorist finance cases. The Czech Republic should ratify the UN Convention against Transnational Organized Crime and UN Convention against Corruption.

Dominica

The Commonwealth of Dominica initially sought to attract offshore dollars by offering a wide range of offshore 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. In September 2006, Dominica announced its intentions to revive its offshore sector through the creation and development of new products and conditions. This includes adjustments to Dominica's economic citizenship program to encourage investors to fund Dominican business projects in exchange for citizenship.

Dominica's financial sector includes one offshore and four domestic banks, 17 credit unions, approximately 11,452 international business companies (IBCs) (a significant increase from 1,435 in 2002), 19 insurance agencies, six money service businesses, one building and loan society, and three operational internet gaming companies (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 not very active, Dominica's economic citizenship program is not 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.

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 ECCB also conducts on-site inspections for anti-money laundering compliance of onshore and offshore banks in Dominica. The ECCB is unable to share examination information directly with foreign regulators or law enforcement personnel. The Minister of Finance is required to seek advice from the ECCB before exercising his powers with respect to licensing and enforcement.

The Offshore Banking (Amendment) Act 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 have available for review on-site books and records of transactions.

The International Business Companies (Amendment) 2000 requires bearer shares to be kept with a registered agent who 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. IBCs are not required to have a physical presence, nor do they have to file annual financial reports. IBCs are restricted from conducting local business activities. The Act empowers the FSU to “perform regulatory, investigatory, and enforcement functions” over IBCs. The International Business Unit (IBU) of the Ministry of Finance supervises and regulates offshore entities and domestic insurance companies.

The Money Laundering Prevention Act (MLPA) of December 2000, as amended in July 2001, criminalizes the laundering of proceeds from any indictable offense. In addition, the law applies not only to narcotics-related money laundering, but also to the illicit proceeds of all criminal acts, whether committed in Dominica or elsewhere. The MLPA overrides secrecy provisions in other legislation and requires financial institutions to keep records of transactions for at least seven years. The MLPA requires a wide range of financial institutions and businesses, including any offshore institutions, to report suspicious transactions simultaneously to the Money Laundering Supervisory Authority (MLSA) and Dominica’s financial intelligence unit (FIU). Additionally, financial institutions are required to report any transaction over \$5,000. The MLPA also requires persons to report cross-border movements of currency that exceed \$10,000 to the FIU.

The MLSA is authorized to inspect and supervise nonbank financial institutions and regulated businesses for compliance with the MLPA. 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 MLSA is also responsible for developing anti-money laundering policies, issuing guidance notes and conducting training. 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 client identification 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. Reporting entities are protected by law. 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.

The FIU was also established under the MLPA and became operational in August 2001. The FIU is comprised of two full time staff members: a director and a financial analyst/investigator. A police officer with training in financial investigations is also assigned to the FIU on an as-needed basis. The FIU analyzes suspicious transaction reports (STRs) and cross-border currency transactions, forwards appropriate information to the Director of Public Prosecutions, and liaisons 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 from the 122 STRs received in 2004. The decline continued in 2006 with the FIU receiving only six STRs.

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. Under the Act No. 20 of 2000 and Act No. 3

of 2003, all assets that can be linked to any individual or legitimate business under investigation can be seized or forfeited, providing that the amount seized or forfeited does not exceed the total benefit gained by the subject from the crime committed. The court can order the confiscation of frozen assets. Pursuant to the MLPA, tangible confiscated assets such as vehicles or boats are forfeited to the GCOD. Intangible assets such as cash or bank accounts are split between the Forfeiture Fund and the Government Consolidated Fund by 80 and 20 percent, respectively. The total amount of nonterrorist related assets frozen, forfeited and/or seized in the past year was \$55,481, up from zero the year before.

There are no known convictions on money laundering charges in Dominica. In 2006, a French national—under investigation since 2004 for misappropriation of funds from Guadeloupe nationals—was arrested for attempting to obtain a line of credit through fraudulent wire transfers. In 2005, a Haitian national was arrested for human trafficking and money laundering. The GCOD also filed criminal complaints and is working with the United States authorities on a case against St. Regis University for issuing fraudulent degrees and laundering the proceeds in an offshore bank

On June 5, 2003, Dominica enacted the Suppression of Financing of Terrorism Act, which criminalizes the financing of terrorism. The Act also provides authority to identify, freeze and seize terrorist assets, and to revoke the registration of charities providing resources to terrorists. The MLSA and the Office of the Attorney General supervise and examine financial institutions for compliance with counterterrorist financing laws and regulations. The GCOD circulates the United Nations 1267 Sanctions Committee list to financial institutions, but 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.

Dominica is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the Caribbean Financial Action Task Force (CFATF). The FIU became a member of the Egmont Group in June 2003. Dominica is a party to the 1988 UN Drug Convention. The GCOD has neither signed nor ratified the UN Convention against Transnational Organized Crime or the UN Convention against Corruption. 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, particularly international business companies (IBCs). Dominica should continue to develop the FIU to enable it to fulfill its responsibilities and cooperate with foreign authorities. The GCOD should eliminate its program of economic citizenship.

Dominican Republic

The Dominican Republic is a major transit country for drug trafficking. Financial institutions in the Dominican Republic 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 the use of 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, real estate and construction companies, 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 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 trial phase began in mid-2006, but remains mired in procedural delays that could jeopardize the entire case. 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. The GODR negotiated an International Monetary Fund (IMF) standby loan 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. Though legislative changes have been made, full implementation of IMF requirements lags.

The enactment of Act 17 of December 1995 (the 1995 Narcotics Law) made narcotics-related money laundering a criminal offense. To update its anti-money laundering legislation in line with international standards, the GODR passed Law No. 72-02 in 2002 to expand money laundering predicate offenses beyond illegal drug activity to include other serious crimes, such as illicit trafficking in human beings or human organs, arms trafficking, kidnapping, extortion related to recordings and electronic tapes, theft of vehicles, counterfeiting of currency, fraud against the state, embezzlement, and extortion and bribery related to drug trafficking. Law 183-02 further imposes financial penalties on institutions that engage in money laundering. The GODR is currently considering an amendment to this law that would add criminal penalties to perpetrators of financial crimes.

Under Decree No. 288-1996 of the Superintendence of Banks, banks, currency exchange houses and stockbrokers are required to know and identify their customers, keep records of transactions (five years), record currency transactions greater than \$10,000, and file suspicious transactions reports (STRs). Law No. 72-02 enhances requirements for customer identification, record keeping of transactions, and reporting of STRs. Law 72-02 also extends reporting requirements to numerous other financial and nonfinancial sectors, including securities brokers, the Central Bank, cashers of checks or other types of negotiable instruments, issuers/sellers/cashers of travelers checks or money orders, credit and debit card companies, fund 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 must report suspicious transactions as well as all currency transactions exceeding \$10,000. Moreover, the legislation requires individuals to declare cross-border movements of currency that are equal to or greater than the equivalent of \$10,000 in domestic or foreign currency.

The Unidad de Inteligencia Financiera (UIF) was created in 1997 as the financial intelligence unit (FIU) of the Dominican Republic. The UIF, a department within the Superintendence of Banks, receives financial disclosures and STRs from reporting entities in the financial sector. In 2002, Law 72-02 created the Unidad de Análisis Financiero (Financial Analysis Unit, or UAF) as a second FIU that reports to the National Anti-Money Laundering Committee, and has the mandate to receive financial disclosures and STRs from both financial and nonfinancial reporting entities.

According to the GODR, the UAF has replaced the UIF as the FIU of the Dominican Republic. However, the UAF began operating in May 2005, and the UIF has not ceased operations. Therefore, it appears that a duality of FIU functions continues to exist between these two units. For instance, financial reporting entities may report to either the UIF or the UAF, while nonfinancial reporting entities must report to the UAF. For 2006, the UAF received 229 STRs and 22,610 reports of currency transaction reports. The majority of the reports the UAF received were transferred from the UIF. The UIF, which became a member of the Egmont Group in 2000, lost its membership in November 2006 as it is no longer the legally recognized FIU of the Dominican Republic. The UAF anticipates

applying for Egmont membership once a full transition of FIU functions and responsibilities are complete and the GODR has formally criminalized terrorist financing, as the criminalization of terrorist financing is now a requirement for all new members of the Egmont Group.

In 2005, two asset seizure laws were 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 August 2006, the Attorney General's office created a financial crimes unit to actively pursue financial crimes and money laundering investigations to aide in prosecutors' ability to obtain money laundering convictions.

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 GODR has not enacted specific legislation that would criminalize the financing terrorism and provide reporting entities with a legal basis to carry out counterterrorism financing prevention programs.

According to U.S. law enforcement officials, cooperation between law enforcement agencies on drug cases, human trafficking, and extradition matters remains strong. In 2006, the GODR assisted U.S. law enforcement authorities to disrupt a drug-trafficking and money laundering ring transferring \$2-3 million in illicit remittances to the Dominican Republic per month.

The United States continues to encourage the GODR to join a mutual legal assistance treaty with the Organization of American States (OAS) and sign related money laundering conventions. The Dominican Republic is a member of the Caribbean Financial Action Task Force (CFATF) and the OAS 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. On October 26, 2006, the GODR ratified the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. On August 10, 2006, the Dominican Republic became a party to the Inter-American Convention against Terrorism.

Weak implementation of anti-money laundering legislation leaves the Dominican Republic vulnerable to criminal financial activity. The Government of the Dominican Republic should enhance supervision of the nonfinancial sector, and ensure this sector's compliance with reporting requirements. The Dominican Republic should bolster the operational capacity of the fledgling UAF and ensure a full transition of FIU functions. The GODR should formally criminalize the financing of terrorism.

Ecuador

With a dollar economy geographically situated 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 not been fully 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 is evidence 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 or other convertible assets. The law calls for the creation of a financial intelligence unit (FIU) under the purview of the National Council Against Money Laundering. Regulations for application of the law and establishment of the FIU were published in April 2006. The FIU director was appointed in November 2006, and the hiring of personnel began in January 2007.

The National Council Against Money Laundering, established under Law 2005-13, is headed by the Procurador General (solicitor general) and includes 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.

Ecuador's first major money laundering case broke in August 2006 with the arrest of approximately a dozen alleged members of a Colombian money laundering operation and the seizure of a large number of assets in Ecuador. Accused drug trafficker Hernan Prada Cortes, recently extradited to the United States from Colombia, had acquired many Ecuadorian businesses and real properties in the names of other persons since 2000. Faced with the need to prosecute successfully this high-visibility case before the new FIU is in place, the GOE is making efforts to resolve pending issues.

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 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 banks, savings and credit institutions, investment companies, stock exchanges, mutual funds, exchange houses, credit card administrators, money transmitters, mortgage companies, insurance companies and reinsurance companies, are required to report all "unusual and unjustified" transactions to the FIU, once it is operational. Obligated entities are also required to report 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 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.

Some existing laws may 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 advise the police of suspicious transactions if no criminal activity is proven. These obstacles can be overcome by a judge properly issuing an appropriate warrant. However, as a result of this contradictory legal framework, cooperation between other Government of Ecuador

(GOE) agencies and the police has in the past 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.

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.

Terrorist financing has not been criminalized in Ecuador. 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 2006, the draft law had passed its first debate in Congress. The Superintendence of Banks has cooperated with the U.S. Government 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, or as named on the consolidated list maintained by the United Nations 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. 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 nonprofit entities to finance terrorist activities.

Ecuador 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. On July 27, 2006, the Government of Ecuador (GOE) 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 (GAFISUD). The GOE is scheduled to undergo a mutual evaluation by GAFISUD in 2007. Ecuador and the United States are parties to a bilateral Agreement for the Prevention and Control of Narcotics 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.

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 quickly establish a fully functioning FIU that meets the standards of the Egmont Group and the Financial Action Task Force. Ecuador should criminalize the financing of terrorism, which is a prerequisite for membership in the Egmont Group and is necessary in order to fully comply with international anti-money laundering and counterterrorist financing standards. The GOE should also

address items that were not accounted for in the new money laundering legislation, including the abolition of strict bank secrecy limitations and any potential sanctions for financial institutions that report suspicious transactions.

Egypt, The Arab Republic of

Egypt is not considered a regional financial center or a major money laundering country. The Government of Egypt (GOE) continued financial sector reform in 2006, privatizing the Bank of Alexandria (BOA), the smallest of the four public banks, which was sold to Italy's Sanpaolo IMI. The GOE also undertook initiatives to improve stock market regulation and transparency, stimulate the mortgage sector, reform Central Bank management and restructure public insurance companies. Despite these reforms, Egypt still has a large, informal cash economy, and many financial transactions do not enter the banking system at all. Of the few money laundering cases that have made it to court in the last several years, most involved illegal dealings in antiquities and misappropriation of public funds.

While there is no significant market for illicit or smuggled goods in Egypt, there is evidence that arms are being smuggled across Egypt's border with Gaza. The funding source is unclear, as is the destination of the proceeds. Other than arms, authorities say that the under-invoicing of imports and exports by Egyptian businessmen is still a relatively common practice. The primary goal for businessmen who engage in such activity is reportedly to avoid taxes and customs fees. Customs fraud and invoice manipulation are also found in regional value transfer and countervaluation in hawala transactions. The Ministry of Finance has indicated that more businesses and individuals are filing tax returns as a result of June 2005 tax cuts. Nevertheless, a large portion of Egypt's economy remains undocumented.

At present, money laundering and terrorist financing are not reported to be widespread. Most cases of money laundering that have been detected have involved laundering of money through the formal banking sector. 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. Reports on the number of Egyptian expatriates are contradictory, but the figure generally stated is 5 million. One report claimed that these expatriates transfer remittances amounting to \$5 billion annually: \$3.3 billion transmitted through official means (i.e., banks, Western Union); and \$1.5 billion through informal means. Many overseas workers use informal means due to a lack of trust in or familiarity with banking procedures or 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. Western Union, the only formal cash transfer operator in Egypt, continues to draw customers.

Egypt does not have a high prevalence of financial crimes, such as counterfeiting or bank fraud. There is no evidence that Egyptian institutions engage in currency transactions involving international narcotics trafficking proceeds. Egypt's Law No. 80 of 2002 criminalizes 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 established the Money Laundering Combating Unit (MLCU) as Egypt's financial intelligence unit (FIU), which officially began operating on March 1, 2003, as an independent entity within the Central Bank of Egypt (CBE). The administrative regulations of the anti-money laundering (AML) law provide the legal basis by which the MLCU derives its authority, spelled out the predicate crimes associated with money laundering, established a Council 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. Article 86 of the Penal Code criminalizes the financing of terrorism.

The CBE's Bank Supervision Unit shares responsibility with the MLCU for regulating banks and financial institutions and ensuring compliance with AML law. Under the AML law, banks are required to keep all records for five years, and numbered or anonymous financial accounts are prohibited. The CBE also requires banks to maintain internal systems enabling them to comply with the AML law and has issued an instruction to banks requiring them to examine large transactions. In addition, banks are required to submit quarterly reports showing compliance with respect to their AML responsibilities. Reporting of suspicious transactions is voluntary by banks and nonbank financial institutions.

In 2006, the CBE and MLCU undertook special compliance assessments of all banks operating in Egypt. The assessments consisted of questionnaires and on-site visits to check AML systems in place in banks. Based on the assessments, banks were divided into three categories: fully compliant, partially compliant, and noncompliant. To date, only one bank has been found noncompliant. Where deficiencies were found, banks were notified of corrective measures to be undertaken with a deadline for making the necessary changes and follow-up visits to reassess compliance. Sanctions for noncompliance include issuing a warning letter; imposing financial penalties; forbidding banks to undertake certain activities; replacing the board of directors; and revoking the bank's license. CBE and MLCU officials have indicated that they will continue to conduct comprehensive periodic assessments of all banks.

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 and independent brokers and dealers under its jurisdiction. The inspections were aimed at explaining and discussing AML 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.

In 2006, an independent insurance regulatory authority was established and charged with supervising insurance companies for compliance with AML laws and regulations. The General Authority for Free Zones and Investment (GAFI) regulates activity in free zones and Special Economic Zones (SEZ). The Ministry of Communication and Information Technology regulates the Postal Authority and the financial services it offers. Egypt allows gambling in casinos located in international hotels, but only foreigners are allowed to enter the casinos. All cash transactions at casinos are performed by licensed banks subject to AML controls. Individuals acting as financial intermediaries, such as lawyers, accountants, and cash couriers, are not currently subject to AML controls, although MLCU officials have indicated that the law will soon be amended to cover the activities of these individuals. The AML law protects institutions and individuals who cooperate with law enforcement officials.

The executive regulations of the AML 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. The Customs Authority also signed an agreement with the MLCU to share information on currency declarations. Further impetus to law enforcement was added on account of reports that Hamas ministers from the Palestinian Authority were crossing the Egypt-Gaza border with large amounts of cash. Egyptian Customs Authorities now pass all reports of foreign currency declarations at the border to the MLCU, and also alert the European Union border guards of individuals crossing the border with large amounts of cash. Authorities claim that the terrorist attacks of the past several years 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 the country. Egypt has 11 public free zones, several private free zones, and one SEZ, though more of the latter may be opened soon. Public free zones are outside of Egypt's customs boundaries, so firms operating within them have significant freedom with regard to transactions and exchanges. The firms may be foreign or domestic, may operate in foreign currency, and are exempt from customs duties, taxes and fees. Private free zones are established by GAFI decree and are usually limited to a single project such as mixing, repackaging, assembling and/or manufacturing for re-export. The SEZs allow firms operating in them to import capital equipment, raw materials, and intermediate goods duty-free and to operate tax-free. Activity in the free zones and SEZs is not subject to Egypt's anti-money laundering law (AML), but there is no indication that the zones are being used for trade-based money laundering schemes or for financing of terrorism.

The MLCU, Egypt's FIU, is an independent entity within the CBE. The MLCU has its own budget and staff, and also has the full legal authority to examine all Suspicious Transaction Reports (STRs) and conduct investigations. Investigations are conducted with the assistance of counterpart law enforcement agencies, including the Ministry of Interior, the National Security Agency, and the Administrative Control Authority. The MLCU shares information with all of these agencies. The unit handles implementation of the AML law, which includes publishing the executive directives. The MLCU takes its direction from a six-member council, which is chaired by the Assistant Minister of Justice for Legislative Affairs. Other members of the council include the Chairman of the CMA, the Deputy Governor of the CBE, a Sub-Minister from the Ministry of Social Solidarity, 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. MLCU has received extensive training by U.S., European, and Australian anti-money laundering and counterterrorist financing authorities.

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 these rules and procedures 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 a 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 Public Prosecution.

Since its inception in 2003, the MLCU has received several thousand STRs from financial institutions and has successfully brought several cases to court. 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 a separate AML department that 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 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 nongovernmental 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 Solidarity and the CBE continually monitor the operations of domestic NGOs and charities to prevent the funding of domestic and foreign terrorist groups.

Although the AML law does not specifically allow for seizure and confiscation of assets from money laundering, the Penal Code authorizes seizure of assets related to predicate crimes, including terrorism. All assets are subject to seizure, including moveable and immovable property, rights and businesses. Assets can only be seized with an order from the Public Prosecutor, and the agency responsible for seizing the assets depends on the predicate crime. Typically, the CBE seizes cash and the Ministry of Justice seizes real assets. Confiscated assets are turned over to the Ministry of Finance, and the executive regulations of the AML law allow for sharing of confiscated assets with other governments. The Public Prosecutor's office is currently engaged in negotiations to enhance cooperation with other governments on asset seizure and confiscation.

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 narcotics.

In January 2005, the National Committee for Combating Money Laundering and Terrorist Financing was established to formulate general strategy and 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 MCLU. 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. Egypt also has agreements for cooperation on AML issues with the UK, Romania, Zimbabwe and Peru. 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 2006.

Egypt is a founding member of the Middle East and North Africa Financial Action Task Force (MENAFATF) and follows that organization's recommendations on anti-money laundering and counterterrorist financing. In January 2006, Egypt assumed the presidency of MENAFATF 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 Government of Egypt should follow through with its plans to enact an updated law against terrorism that specifically addresses the threat of terrorist financing, including asset identification, seizure and forfeiture. The GOE must also improve its ability to pursue suspicious financial activities and transactions through the entire investigative and judicial process. Egypt should work to increase the number of successful money laundering investigations, prosecutions, and convictions. 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, specifically allowing for seizure of suspicious cross-border currency transfers, regardless of whether couriers have followed required

reporting procedures. Egyptian authorities should investigate underground value transfer systems and their possible relationship with money laundering and terrorist finance.

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 growth of El Salvador's financial sector, the increase in narcotics trafficking, the large volume of remittances through the formal financial sector and alternative remittance systems, and the use of the U.S. dollar as legal tender make El Salvador vulnerable to money laundering. In 2006, approximately \$3.3 billion in remittances were sent to El Salvador through the financial system. Most were sent from Salvadorans working in the United States to family members. The quantity of additional remittances that flow back to El Salvador via other methods such as visiting relatives, regular mail and alternative remittance systems is not known.

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), the Unidad de Inteligencia Financiera (UIF), within the Attorney General's Office. The UIF has been operational since January 2000. The National Civilian 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 UIF. Entities obligated to comply with these requirements include banks, finance companies, exchange houses, stock exchanges and exchange brokers, commodity exchanges, insurance companies, credit card companies, casinos, dealers in precious metals and stones, real estate agents, travel agencies, the postal service, construction companies and the hotel industry. The law includes a safe harbor provision to protect all persons who report transactions and cooperate with law enforcement authorities, and also contains banker negligence provisions that make individual bankers responsible for money laundering at their institutions. Bank secrecy laws do not apply to money laundering investigations.

Cooperation between the Attorney General's Office and the police has resulted in the conviction of two individuals for money laundering offenses, and the arrests of several high-profile individuals suspected of money laundering and other financial crimes. Additionally, the Government of El Salvador (GOES) has recently begun to investigate private companies and financial service providers involved in suspicious financial activities. Despite demonstrating a greater commitment to pursue financial crimes over the previous year, the GOES still lacks sufficient prosecutorial and police resources to adequately investigate and prosecute financial crimes.

The GOES has established a secure computerized communication link between the Attorney General's office and the financial crimes division of the police. In addition to providing communication, the system has a software component that filters, sorts, and connects financial and other information vital

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to money laundering investigations. The system became operational in the last quarter of the year and is expected to greatly enhance investigative capabilities.

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. In 2006, the PNC seized over \$2.2 million in undeclared cash from individuals transiting El Salvador's international airport and land border crossings.

The GOES has established systems for identifying, tracing, freezing, seizing and forfeiting narcotics-related and other assets of serious crimes. Forfeited money laundering proceeds are deposited in a special fund used to support law enforcement, drug treatment and prevention, and other related government programs, while funds forfeited as the result of other criminal activity are deposited into general government revenues. Law enforcement agencies are allowed to use certain seized assets while a final sentence is pending. In practice, however, the process does not often result in the forfeiture of funds that are then channeled to counternarcotics operations. 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.

The GOES passed counterterrorism legislation, Decree No. 108, on September 19, 2006. Decree No. 108 further defines acts of terrorism and establishes tougher penalties for the execution of those acts. Article 29 of Decree No. 108 establishes the financing of terrorism as a criminal offense, punishable by a prison term of 20 to 30 years and a monetary fine ranging from \$100,000 to \$500,000. The law also granted the GOES the legal authority to freeze and seize suspected assets associated with terrorists and terrorism. However, provisions to improve supervision of cash couriers, wire transfers, and financing of nongovernmental organizations (NGOs) that were included in an early draft were not included in the final law.

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 financial 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 also 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 UIF to sign agreements in order to share or provide information to other countries. The GOES is party to the Organization of American States (OAS) Inter-American Convention on Mutual Assistance in Criminal Matters, which provides for parties to cooperate in tracking and seizing assets. The UIF is also legally authorized to access the databases of public or private entities. The GOES has cooperated with foreign governments in financial investigations related to narcotics, money laundering, terrorism, terrorism financing and other serious crimes.

El Salvador is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the Caribbean Financial Action Task Force. The UIF has been a member of the Egmont Group since 2000. The GOES is party to the OAS Inter-

American Convention against Terrorism, the UN International Convention for the Suppression of the Financing of Terrorism, the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. 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 Government of El Salvador made advances in 2006 with the passage of counterterrorist financing legislation. 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 GOES should improve supervision of cash couriers and wire transfers as outlined in the Financial Action Task Force (FATF) Special Recommendations on terrorism financing. The GOES should also ensure that sufficient resources are provided to the overburdened Attorney General's office and the financial and narcotics divisions of the police.

France

France remains an attractive venue for money laundering because of its sizable economy, political stability, and sophisticated financial system. However, France has put in place comprehensive financial controls, and it is an active partner in international efforts to control money laundering and the financing of terrorism.

The Government of France (GOF) first criminalized money laundering related to narcotics trafficking in 1987. In 1988, the Customs Code was amended to incorporate financial dealings with money launderers as a crime and in May 1996 the criminalization of money laundering was expanded to cover the proceeds of all crimes with Law No. 96-392. In 2004, the French Supreme Court ruled 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.

Article 324-1 of the Penal Code provides that money laundering is punishable by five years imprisonment and a fine of 375,000 euro (approximately \$481,000). With aggravating circumstances such as habitual or organized activity (Article 324-2) or connection with narcotics trafficking (Article 222-38), the punishment increases to ten years imprisonment and a fine of 750,000 euro (approximately \$962,000). In 1990, the obligation for financial institutions to combat money laundering came into effect with the adoption of the anti-money laundering (AML) law—now incorporated in the Monetary and Financial Code (MFC) and France's ratification of the 1988 UN Drug Convention. Suspicious transaction reporting is now required for a wide variety of financial and nonfinancial entities, including banks, insurance companies, casinos, and lawyers.

As a member of the European Union (EU), France is obligated to implement all three EU money laundering directives, including Directive 2001/97/EC, which was transposed into domestic French legislation in 2004. With Decree 2006-736 of 26 June 2006, France incorporated the EU's Second Money Laundering Directive into French law. The EU adopted the Third Money Laundering Directive (2005/60/EC) in late 2005, which must be implemented in France by December 15, 2007.

Decree No. 2002-770 of 2002 addresses the functions 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), known as the unit for Treatment of Intelligence and Action Against Clandestine Financial Circuits or TRACFIN, and the Justice Ministry. It comprises representatives from reporting professions and institutions, regulators, and law enforcement authorities. The Committee's purpose is to share information with regulated entities and to make proposals to improve the anti-money laundering system.

The Banking Commission supervises financial institutions and conducts regular audits of credit institutions. The Insurance and Provident Institutions Supervision Commission reviews insurance brokers. The Financial Market Authority, which evolved from the merger of the Securities Exchange Commission and the Financial Markets Council, monitors the reporting compliance of the stock exchange and other nonbank financial institutions. The Central Bank (Banque de France) oversees management of the required records to monitor banking transactions, such as those for means of payment (checks and ATM cards) or extensions of credit. Bank regulators and law enforcement can access the system 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) filed by French financial institutions and nonfinancial professions. TRACFIN participates in FINATER, an informal group created within the French Ministry of the Economy, Finance, and Industry in September 2001 to gather information to fight terrorist financing. TRACFIN 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. With the Law of 15 May 2001, TRACFIN can obtain information from senior police officers and central or local governments. The State Prosecutor informs the FIU of final court orders relating to suspicious transactions that have been reported.

TRACFIN received 10,842 STRs in 2004, 11,553 in 2005 and 12,047 in 2006. Approximately 83 percent of STRs are sent from the banking sector. A total of 308 cases were referred to the judicial authorities in 2003, which resulted in 63 convictions. The FIU referred 347 cases in 2004, 405 in 2005 and 411 in 2006.

In addition to STRs, two other types of reports are required to be filed with the FIU. First, a report must be filed with TRACFIN when the identity of the principal or beneficiary remains doubtful despite due diligence; there is no threshold limit for such reporting. Second, 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 Financial Action Task Force (FATF) list of noncooperative countries or territories.

Laws No. 98-546 and 2001-420, of July 1998 and May 2001 respectively, extended the reporting obligations to new businesses. In addition, the laws ensured that with regard to criminal law, legal proceedings for "criminal conspiracy" are applicable to money laundering. While Law No. 96-392 of 1996 instituted procedures for seizure and confiscation of the proceeds of crime, these laws permit seizure of all or part of property.

Since 1986, French counterterrorism 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 (Article 421-2-2 of the Penal Code) is defined according to the UN International Convention for the Suppression of the Financing of Terrorism and can result in ten years' imprisonment and a fine of 225,000 euro (about \$289,000). Since 2001, TRACFIN has referred 92 cases of suspected terrorist financing to the judicial authorities for prosecution. 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 2006, the GOF moved to strengthen France's antiterrorism legal arsenal with the Act of 23 January 2006, authorizing video surveillance of public places, including nuclear and industrial sites, airports, and railway stations. The Act 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 Act 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 Act plugs up a potential loophole concerning the freezing of citizen versus resident EU-member assets. Adopted in January 2006, it was expected to enter into force by presidential decree before the end of 2006.

French authorities moved rapidly to freeze financial assets of organizations associated with al-Qaida and the Taliban under United Nations Security Council Resolution 1267. France takes actions against other terrorist groups through the EU-wide "clearinghouse" procedure. Within the Group of Eight, which it 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 strong.

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 Egmont Committee and has information-sharing agreements with 30 foreign FIUs.

France is a member of the FATF and held the FATF Presidency for a one-year term during 2004-05. It is a Cooperating and Supporting Nation to the Caribbean Financial Action Task Force (CFATF) and an Observer to the Financial Action Task Force of South America (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; the UN International Convention for the Suppression of the Financing of Terrorism; and 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 is one of the largest financial centers in Europe. Most of the money laundering that occurs in Germany relates to white collar crime. Although not a major drug producing country, Germany continues to be a consumer and a major transit hub for narcotics. Both the domestic consumption and the transiting of narcotics are additional sources of money laundering in Germany. According to the German Financial Intelligence Unit's (FIU's) annual report, about three-fourths of the suspicious transaction reports (STRs) filed in Germany cite suspected fraud, forgery and tax evasion. Germany is not an offshore financial center.

Money Laundering and Financial Crimes

In 2002, the German Government (GOG) enacted a number of laws to improve authorities' ability to combat money laundering and terrorist financing. The 2002 measures brought German laws into line with the first and second European Union (EU) Money Laundering Directives, which mandate suspicious activity reporting by a variety of entities, including notaries, accountants, tax consultants, casinos, luxury item retailers, and attorneys.

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 \$19,520). The legislation mandates more comprehensive background checks for owners of financial institutions and tighter rules for credit card companies. Banks must report suspected money laundering to the FIU located within the Federal Office of Criminal Investigation (Bundeskriminalamt or BKA), as well as to the State Attorney (Staatsanwaltschaft).

The GOG has directed the Interior Ministry to draft new legislation to implement the third EU Money Laundering Directive by December 2007. In addition to requiring that EU member states implement the Financial Action Task Force's (FATF) Forty Recommendations, the directive contains further provisions on customer due diligence and other internal risk-management measures to prevent money laundering. The directive calls for improved integrity and transparency to help prevent financial crime and improve information exchange between the public and private sectors. The EU requirement also expands reporting requirements to encompass transactions which support the financing of terrorism or would do so if actually effected.

In May 2002, the German banking, securities, and insurance industry regulators merged into a single financial sector regulator known as the Federal Financial Supervisory Authority (BaFIN). Germany's anti-money laundering (AML) legislation requires that BaFIN compile a centralized register of all bank accounts in Germany, including 300 million deposit accounts. As a result, in 2003 BaFIN established a central database with electronic access to all key account data held by banks in Germany. Banks cooperate with authorities and use computer-aided systems to analyze 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 FIU within the BKA. Staffed with financial market supervision, customs, and legal experts, the FIU is responsible for developing a central database to use when analyzing cases and responding to reports of suspicious transactions. Another unit under the BKA, the Federal Financial Crimes Investigation Task Force, houses twenty BKA officers and customs agents.

In 2005, obligated entities submitted more than 8,000 STRs to the FIU. Approximately forty-five percent of the persons cited in German STRs are non-German nationals. Eighty-five percent of the reports resulted in investigative action. 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 2004, that the most recent year for which data is available, there were 109 money laundering convictions. The State Attorney can order a freeze of accounts when warranted.

As an EU member, Germany complies with 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, which governs wire transfers, however, requires such information on all cross-border transfers, including transfers between EU members.

Germany moved quickly after September 11, 2001, to identify and correct the weaknesses in its laws that had permitted terrorists to live and study in Germany. The first reform package closed loopholes that had permitted members of foreign terrorist organizations to engage in fundraising in Germany (e.g., through charitable organizations) that extremists had exploited to advocate violence. Subsequently, Germany increased its law enforcement efforts to prevent misuse of charitable entities. Germany has used its Law on Associations (Vereinsgesetz) to take administrative action to ban extremist associations that “threaten the democratic 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 efforts and to share information on suspected terrorists. The law also 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. Another proposed counterterrorism reform, will further streamline and simplify security agencies’ access to German financial, travel, and telephone records. In 2002, the GOG also added terrorism and terrorist financing to its list predicate offenses for money laundering, as defined by Section 261 of the Federal Criminal Code. A 2002 amendment of the Criminal Code allows prosecution of members of terrorist organizations based outside Germany

An immigration law, effective January 2005, contains provisions designed to facilitate the deportation of foreigners who support terrorist organizations.

A November 2003 amendment to the Banking Act created a broad legal basis for BaFIN to order freezes of assets of suspected terrorists who are EU residents, although authorities concentrate on financial assets. While BaFIN’s system allows for immediate identification of financial assets for potential freezes and German law enforcement authorities can freeze accounts for up to nine months, money cannot be seized until authorities prove in court that the funds were derived from criminal activity or intended for terrorist activity. Sanctions imposed by the United Nations Security Council (UNSC) are exempted from the rule.

Germany participates in United Nations and EU processes to monitor and freeze the assets of terrorists. The names of suspected terrorists and terrorist organizations listed on the UNSCR 1267 Sanctions Committee’s consolidated list and those designated by EU or German authorities are regularly disseminated to German financial institutions. In 2005, authorities found and froze less than 20,000 euros (approximately \$26,000) in connection with names appearing on the 1267 consolidated list. A court can order the freezing of nonfinancial assets, but Germany typically does not do so, even when the action is pursuant to EU or UNSCR 1267 listings. Germany and several other EU member states have taken the view that the EU Council Common Position requires, at a minimum, a criminal investigation to establish a sufficient legal basis for freezes under the EU Clearinghouse process.

Proceeds from asset seizures and forfeitures are paid into the federal government treasury. German authorities cooperate with U.S. authorities to trace and seize assets to the full extent allowed under German laws. German law does not allow for sharing forfeited assets with other countries.

Since 1998, the GOG has licensed and supervised money transmitters, shut down thousands of unlicensed money remitters, and 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 \$19,400). A new European Union (EU) law, applicable to all EU members, is expected to take effect in June 2007 and will lower this amount to 10,000 euros (approximately \$13,000)

Germany considers the activities of alternative remittance systems such as hawala to be banking activities. Accordingly, German authorities require bank licenses for money transfer services, thus allowing authorities to prosecute unlicensed operations and maintain close surveillance over

authorized transfer agents. BaFIN has investigated more than 2,500 cases of unauthorized financial services since 2003. It closed down more than 200 informal financial networks in 2005. There are currently 52 legally licensed money transfer services in Germany.

Germany exchanges law enforcement information with the United States through bilateral law enforcement agreements and informal mechanisms. United States and German authorities have conducted joint investigations. German law enforcement authorities cooperate closely at the EU level, such as through Europol. Germany has Mutual Legal Assistance Treaties (MLATs) with numerous countries. The MLAT with the United States was signed in October 2003. On July 27, 2006, the U.S. Senate ratified the MLAT; once the German parliament ratifies it, the two sides will exchange letters to bring the MLAT into force. In addition, the U.S.-EU Agreements on Mutual Legal Assistance and Extradition are expected to further improve U.S.-German legal cooperation.

Germany is a member of the FATF, the EU and the Council of Europe. Its FIU is a member of the Egmont Group. Germany is 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. Germany has signed, but not yet ratified, the UN Convention against Corruption.

The Government of Germany's anti-money laundering laws and its ratification of international instruments underline Germany's continued efforts to combat money laundering and terrorist finance. Germany should amend its wire transfer legislation to ensure that origination information applies to all cross-border transfers, including those within the EU. It should also amend legislation to waive the asset freezing restrictions in the EU Clearinghouse for financial crime and terrorism financing, so that the freezing process does not require a criminal investigation. German legislation should be amended to allow asset sharing with other countries. Germany should ratify the UN Convention against Corruption.

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 to Combat Money Laundering criminalize money laundering related to all crimes. These ordinances also mandate suspicious transaction reporting for the financial sector and for designated nonfinancial businesses, which include 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. Obligated entities must submit suspicious transactions reports (STRs) to Gibraltar's financial intelligence unit (FIU).

The Financial Services Commission (FSC) regulates and supervises Gibraltar's financial services industry. Because of statutory requirements, the FSC must match the supervisory standards set by the UK. The FSC issues comprehensive AML Guidance Notes, which have the force of law, to clarify the obligations of Gibraltar's financial service providers. Financial institutions must retain records for at least five years from the date of the most recent transaction. If the obligated institution has submitted an STR to the FIU, or when a client or transaction is under investigation, it must maintain any relevant record even if the five year mandate has expired. Offshore banks are subject to the same legal and supervisory requirements as onshore.

The FSC also licenses and regulates the activities of trust and company management services, insurance companies, and collective investment schemes. The Government of Gibraltar (GOG)

permits internet gaming, and maintains a licensing regime for that sector. Gibraltar has circulated guidelines for correspondent banking, politically exposed persons, bearer securities, and “know your customer” (KYC) procedures.

The 2001 “Terrorism (United Nations Measures) (Overseas Territories) Order” criminalizes terrorism financing. Under this Order, if a financial institution suspects or knows that a customer is a terrorist or is linked to terrorism, including terrorist financing, the institution must report that customer.

In 1996, Gibraltar established the Gibraltar Coordinating Center for Criminal Intelligence and Drugs (GCID) as a sub-unit of the Gibraltar Criminal Intelligence Department. The GCID serves as Gibraltar’s FIU. As such, it serves as the central point for receiving both financial and terrorism-related disclosures and receives, analyzes, and disseminates STR information filed by obliged institutions. The GCID is staffed mainly with police and customs officers, but is independent of any law enforcement agency. The FIU received 108 STRs in 2005, and 118 in 2006. There is a confiscation regime in place, but in order to confiscate assets in a money laundering case, the law enforcement agency investigating the case must be able to link the funds passing through the financial system with the original illicit funds. If this link cannot be substantiated, the funds cannot be confiscated.

The United Kingdom has not extended the Mutual Legal Assistance Treaty between itself and the United States to Gibraltar. However, 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.

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 to update mutual legal assistance arrangements with the EU and Council of Europe partners. The GOG has implemented the 1988 UN Drug Convention pursuant to its Schengen obligations, but the UK has not extended the Convention to Gibraltar. 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. The GOG should pass legislation implementing the Financial Action Task Force’s Nine Special Recommendations on Terrorist Financing. Gibraltar should also institute a regulatory scheme for its internet gaming sector in addition to its licensing regime. The GOG should work to implement the standards in the UN Convention against Corruption, the UN Convention against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism.

Greece

While not a major financial center, Greece is fast becoming a regional financial center in the rapidly developing Balkans. Money laundering in Greece, due to the extensive use of currency in Greek society, is inherently difficult to detect. U.S. law enforcement agencies believe that criminally derived funds are typically not laundered through the banking system; rather they are most commonly invested in real estate, the lottery and a growing stock market. U.S. law enforcement agencies also believe Greece’s location has led to a moderate increase in cross-border movements of illicit currency and monetary instruments due to the increasing interconnection of various financial services companies operating in Southeastern Europe and the Balkans. Reportedly, currency transactions involving international narcotics trafficking proceeds are not thought to include significant amounts of U.S. currency.

Greek authorities maintain that Greece is not an offshore financial center, and that there are no offshore financial institutions or international business companies (IBCs) per se operating within the country. However, Greek law (89/1967) provides for the establishment of companies which may be based in Greece but operate solely abroad. These firms are effectively excluded from supervision by Greece's tax authorities as they do not file taxes in Greece. "Law 89" companies, as they are known, mainly operate or claim to operate in the shipping industry and are known for their complex corporate and ownership structures. These firms fall under the authority of non-Greek jurisdictions and often operate through a large number of intermediaries. They could serve as a catalyst for money laundering. Although Greek law allows banking authorities to check these companies' transactions, such audits must be executed in conjunction with other Greek jurisdictions to be effective.

Greek law does not provide for nominee directors or trustees in Greek companies. Bearer shares have been abolished for banks and for a limited number of other companies, but most companies may issue bearer shares. 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 transshipped or re-exported. Reportedly there is no indication that these zones are being used in trade-based money laundering or in the financing of terrorism.

The GOG criminalized money laundering derived from all crimes with the 1995 Law 2331/1995, entitled "Prevention of and Combating the Legalization of Income Derived from Criminal Activities." That law imposes a penalty for money laundering of up to ten years in prison and confiscation of the criminally-derived assets. The law also requires that banks and nonbank financial institutions file suspicious transaction reports (STRs) with Greece's financial intelligence unit (FIU). Legislation passed in March 2001 targets organized crime by making money laundering a criminal offense when the property holdings laundered are obtained through criminal activity or cooperation in criminal activity.

In November 2005, the GOG enacted Law 3424/2005, which extends the list of predicate offenses for money laundering to include terrorist financing, trafficking in persons, electronic fraud, and stock market manipulation. It also extends the STR reporting requirements to obligate additional sectors such as auction dealers and accountants. It furthermore 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 and authorizes the FIU director to issue a temporary freeze of assets without the issuance of a court order. Through its Act 2577 9/2006, the Bank of Greece has applied the main provisions of the Third European Union (EU) Directive to all financial institutions. The GOG anticipates that the Directive will be formally transposed into national law in early 2008.

In 2003, Greece enacted legislation (Law 3148) that incorporates 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.

The Bank of Greece, through its Banking Supervision Department; the Ministry of National Economy and Finance, through its Capital Market Commission; and the Ministry of Development, through its Directorate of Insurance Companies, supervise and monitor credit and financial institutions. Supervision includes the issuance of guidelines and circulars, as well as on-site audits that incorporate a component assessing 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 must send the Bank of Greece a monthly report on their daily purchases and sales of foreign currency and audits of such companies are also periodically carried out, albeit infrequently. However, implementation of regulatory requirements documenting the flow of large sums of cash through financial and other institutions is reportedly weak.

Under Decree 2181/93, banks in Greece must demand customer identification information when opening an account or conducting transactions that exceed 15,000 euros (approx. \$19,400). If there is suspicion of illegal activities, banks may take measures to gather more information on the identification of the person involved in the transaction. If any question remains, officers must file an STR with the Bank's compliance officer, irrespective of the amount involved. Greek citizens must also provide a tax registration number if they conduct foreign currency exchanges of 1,000 euros (approx. \$1300) or more. The law requires that banks and financial institutions 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 financial institution is required by law to appoint a compliance officer to whom all other branches or other officers must report any suspicious transactions. 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 must furnish all relevant information to the prosecuting authorities. Safe harbor provisions in Greek law protect individuals reporting violations of anti-money laundering laws and statutes.

Greece has adopted banker negligence laws under which individual bankers may be held liable if their institutions launder money. Banks and credit institutions may be 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 September 2006, the Bank of Greece announced that for the first three-quarters of 2006, it had imposed fines in excess of ten million euros against a number of unidentified institutions for violating anti-money laundering laws and regulations. However, most of the fines reportedly require the offending institution to give the Central Bank a sum of money that the Central Bank holds in a separate, interest free account. After a designated period of time, the Central Bank returns the money to the offending institution. The Bank has imposed fines and administrative sanctions, including prohibiting the opening of new branches, in previous years.

Although authorities have recently targeted the gaming industry to restrain money launderers from using Greece's nine casinos to launder illicit funds, reportedly there is no oversight committee. Casinos are not obligated to report suspicious transactions.

Law 2331/1995 established the Competent Committee (CC), which functions as Greece's FIU. The FIU has been empowered with substantial authority. The CC is chaired by a senior retired judge and includes eleven senior representatives from the Bank of Greece, various government ministries and law enforcement agencies, the Hellenic Bankers Association, and the securities commission. The CC is responsible for receiving and processing all STRs. The STRs are hand delivered to the FIU, where, upon receipt, the committee (which is comprised of senior officials, and not full-time analysts) reviews the STRs to determine whether further investigation is necessary. If the committee requests more information from the reporting institution, the FIU will mail those questions to the institution. Once it receives a reply, the committee reviews the file again to see if the report warrants further investigation.

When the CC considers an STR to warrant further investigation, it forwards the case to the Special Control Directorate (YPEE), a multi-agency group that, in addition to initiating its own investigations, currently functions as the CC's investigative arm. When fully staffed, the Greek FIU will carry out its own investigations without resorting to help by third agencies. The YPEE, which only has investigative authority over cases which, broadly defined, involve smuggling and high-worth tax evasion, is under the direct supervision of the Ministry of Economy and Finance. The YPEE has its own in-house prosecutor in order to facilitate confidentiality and speed of action. The FIU is

responsible for preparing Money laundering cases on behalf of the Public Prosecutor's Office. The FIU is not operating at its envisaged capability because it lacks the parliamentary-approved level of full time staff, has no updated electronic database and inadequate technical capabilities for processing an ever-increasing number of STRs, which, based on unconfirmed numbers, have exceeded 1500 through late 2006.

Law 3424 passed in November 2005 upgraded the CC to an independent authority with access to public and private files, and without tax confidentiality restrictions. The law also broadens the FIU's authority with respect to the evaluation of information it receives from various organizations within Greece as well as from international organizations. However, the FIU requires a memorandum of understanding (MOU) before exchanging information with its international partners. The head of the FIU can temporarily freeze suspects' funds. The committee has the authority to impose heavy penalties on those who fail to report suspicious transactions. Reportedly, the staff limitations at the FIU have contributed to its difficulty in maintaining an effective two-way communication with Greece's broader financial community, as well as with its international counterparts.

Money laundering cases have seldom been prosecuted independently of another crime. Greek authorities do not have an effective information technology system in place to track money laundering prosecution statistics. There have been several prosecutions for money laundering in the past year. A senior judge was sentenced to 86 years in prison on charges of money laundering and receiving bribes. Additionally, the Ministry of Justice has either fired or suspended fourteen judges accused of being involved in bribery and money laundering cases. Recently, a high profile case involving over \$125 million in laundered funds made headlines. It involved ten individuals and five companies spread over four countries. A court decision is still pending in the case.

If the FIU director freezes any assets, the FIU must prepare a report and forward it to an investigating magistrate and prosecutor, who conducts a further investigation and who, upon conclusion of the investigation, can issue a freezing order, pending the outcome of the criminal case. With regard to the freezing of accounts and assets, Law 3424/2005 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 promulgated implementing regulations for Law 3424/2005 in June, 2006. The 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. It is unclear what the GOG can seize once it obtains a conviction against a defendant, and whether the GOG can seize not only property as the proceeds of crime, but also property intended for use in a crime. 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 recent counterterrorism law (Law 3251/July 2004), anyone who finances the joining or forming of a terrorist group 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 \$26,000 and \$3,885,000), closure for a period of two months to two years, and ineligibility for state subsidies. Technically, it is not illegal in Greece to fund an already established terrorist group. It is only considered a terrorist financing crime if a person funds a specific attack executed by three or more people. The GOG plans to address the Financial Action Task Force's (FATF) Special Recommendation IX on cash couriers at a later date, following the issuance of a relevant EU directive.

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 Laden, the Al-Qaida organization, or the Taliban, as well as the EU's list of designees.

However, in most instances, there must be an active investigation before the GOG can freeze any assets. The GOG has not found any accounts belonging to anyone on the circulated lists.

The Bank of Greece maintains that alternative remittance systems do not exist in Greece and has no plans to introduce initiatives for their regulation. Illegal immigrants or individuals without valid residence permits reportedly send remittances to Albania and other destinations in the form of currency, 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 reported evidence that such organizations are 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, but has not yet ratified the law to enact the convention. 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 twenty countries, including the United States. 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.

The Government of Greece has made progress in expanding and adjusting its legislation to international standards by gradually incorporating all EU directives on money laundering and terrorist financing. However, these actions do not comprehensively address all of the FATF Forty plus Nine Recommendations. In order to meet its stated goal of effectively addressing money laundering, the Greek Government should:

- Accelerate its efforts to realize the promise of new laws and regulations aimed at upgrading its financial intelligence unit. This includes staffing it fully with experienced analysts. The FIU should also improve its information technology (IT) capabilities so that analysts can develop an comprehensive database as well as use the Egmont Group's secure communications system. These IT upgrades will have the advantage of allowing Greek authorities to implement a system to track statistics on money laundering prosecutions and convictions, as well as asset freezes and forfeitures;
- Improve its asset freezing capabilities and should develop a clear and effective system for identifying and freezing terrorist assets within its jurisdiction. Furthermore, the GOG must also make public its system for releasing any assets it may accidentally freeze in accordance with its UN obligations;
- Take steps to require suspicious transaction reporting for its casinos and for the gaming sector, and institute a supervisory body to monitor its compliance;
- Ensure uniform enforcement of its cross-border currency reporting requirements and take steps to deter the smuggling of currency and precious metals across its borders. The GOG should take steps to codify and implement legislation addressing FATF Special Recommendation IX relating to cash couriers, and not wait for an EU Directive;

- Ensure that its “Law 89” companies, and companies operating within its free trade zones, are subject to the same AML requirements and gatekeeper and due diligence provisions, including know your customer (KYC) rules and the identification of the beneficial owner, as its other sectors;
- Abolish company-issued bearer shares, so that all bearer shares are legally prohibited;
- Ratify the UN Convention against Transnational Organized Crime.

Grenada

Grenada is not an important regional financial center. Most of the money laundering found in Grenada involves smuggling and narcotics. Proceeds of narcotics trafficking may be laundered through a wide variety of businesses, as well as through the purchase of land, boats, jewelry, cars, and houses and other real estate. Grenada’s offshore financial sector is also vulnerable to money laundering.

After being placed on the Financial Action Task Force’s (FATF) list of noncooperative countries and territories (NCCT) in the fight against money laundering in September 2001, the Government of Grenada (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 December 2006, Grenada had 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 nearly 6000 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.

The Grenada International Financial Services Authority (GIFSA) monitors and regulates offshore financial services. GIFSA is governed by seven directors, appointed by the Minister of Finance, who are qualified or experienced in accounting, banking, commerce, insurance, management or law. GIFSA issues certificates of incorporation for IBCs, and makes recommendations to the Minister of Finance in regard to the revocation of offshore licenses. Bearer shares are not permitted for offshore banks. Currently Grenada’s only offshore bank is inactive. However, holders of bearer shares in nonfinancial institutions or IBCs are permitted to issue bearer shares but must lodge these shares with one of the 15 or so registered agents licensed by the GIFSA. Registered agents are required by law to verify the identity of the beneficial owners of all shares. In addition, the International Companies Act requires registered agents to maintain records of the names and addresses of directors and beneficial owners of all shares. There is an ECD 30,000 (approximately \$11,500) penalty and possible revocation of the registered agent’s license for failure to maintain records. The GIFSA has the ability to conduct on-site inspections; the authority to access the records and information maintained by registered agents; and the authority to obtain customer account records from an offshore institution upon request. The GIFSA is able to share this information with regulatory, supervisory and administrative agencies. The GIFSA also has access to auditors’ examination reports and may also share this information with relevant authorities.

To strengthen the supervision of the nonbank financial sector, which includes the insurance sector, cooperatives, offshore financial services, and money remitters, the GOG enacted the Grenada Authority for the Regulation of Financial Institutions (GARFIN) Act in May 2006. The Act provides for the creation of a single regulatory agency responsible for regulating and supervising all nonbank financial institutions and services in Grenada. The Eastern Caribbean Central Bank has responsibility

for the supervision of domestic banks, and will continue to do so. It is anticipated that GARFIN will be operational by spring 2007.

The Money Laundering Prevention Act (MLPA) enacted in 1999 and the Proceeds of Crime Act (POCA) No. 3 of 2003 criminalize money laundering in Grenada. Under the MLPA, the laundering of the proceeds of narcotics trafficking and all serious crimes is an offense. Under the POCA 2003, the predicate offenses for money laundering extend to all criminal conduct, which includes illicit drug trafficking, trafficking of firearms, kidnapping, extortion, corruption, terrorism and its financing, and fraud. According to the POCA 2003, a conviction on a predicate offense is not required in order to prove that certain goods are the proceeds of crime, and subsequently convict a person for laundering those proceeds. Grenada's anti-money laundering legislation applies to banks and nonbank financial institutions, as well as the offshore sector.

Established under the MLPA, the Supervisory Authority supervises the compliance of banks and nonbank financial institutions (including money remitters, stock exchange, insurance, casinos, precious gem dealers, real estate, lawyers, notaries, and accountants) with money laundering and terrorist financing laws and regulations. These institutions are required to know, record and report the identity of customers engaging in significant transactions. This applies to large currency transactions over the threshold of \$3,700. Records must be maintained for seven years. In addition, a reporting entity must pay attention to all complex, unusual or large business transactions, or unusual patterns of transactions, whether completed or not. Once a transaction is determined to be suspicious or possibly indicative of money laundering, the reporting entity must forward a suspicious transaction report (STR) to the Supervisory Authority within 14 days.

The Supervisory Authority issued Anti-Money Laundering Guidelines in 2001. The guidelines direct financial institutions to maintain records, train staff, identify suspicious transactions, and designate reporting officers. The guidelines also provide examples to help institutions 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 counterparts and provide them with information. Financial institutions could be fined for not granting access to Supervisory Authority personnel.

In June 2001, the GOG established a Financial Intelligence Unit (FIU), headed by a prosecutor from the Attorney General's office. The FIU's staff includes an assistant superintendent of police, four police officers, and two support personnel. In 2003, Grenada enacted the Financial Intelligence Unit Act No. 1 of 2003. Though the FIU operates within the police force, it is technically assigned to the Supervisory Authority. The FIU is charged with receiving and analyzing suspicious transaction reports (STRs) from the Supervisory Authority, and with investigating alleged money laundering offenses. From January to November 2006, the FIU received 17 STRs. An investigation of one STR resulted in an arrest, which was a joint FIU-Drug Squad operation. The operation netted a quantity of a controlled substance and \$3,700. The case is currently pending in court. The FIU has the ability to directly consult bank accounts and can request any documents from institutions that it considers necessary to fulfill its functions. In addition, the FIU also has access to other government agencies' databases. The FIU has the authority to exchange information with its foreign counterparts without a memorandum of understanding (MOU).

The FIU and the Director of Public Prosecution's Office are responsible for tracing, seizing and freezing assets. The time period for restraint of property is determined by the High Court. Presently, only criminal forfeiture is allowed by law. Approximately \$42,132 of criminal-related assets was seized by November 2006. The management and disposition of seized and forfeited assets are in the charge of the Minister of Finance. The POCA provides for the establishment of a confiscated assets fund; the Minister of Finance is also responsible for the management of this fund. There is no independent system for freezing terrorist assets; it falls under the general authority of the Director of

Public Prosecution. New legislation is currently under consideration, including the Civil Forfeiture Bill, Interception of Communication Act, Cash Forfeiture Act, and Confiscation of the Proceeds of Crime Bill. These bills are now being reviewed by the relevant ministries.

Grenada regulates the cross-border movement of currency. There is no threshold requirement for currency reporting. Law enforcement and Customs officers have the powers to seize and detain cash that is imported or exported from Grenada. Cash seizure reports are shared between government agencies, particularly between Customs and the FIU.

The GOG criminalized terrorism financing through the Terrorism Act No. 5 2003. The legislation provides the GOG with the authority to identify, freeze, and seize assets related to terrorism. The GOG circulates to the appropriate institutions the names of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list. There has been no known identified evidence of terrorist financing in Grenada. Grenada has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and nonprofit entities. The GOG has not identified any indigenous alternative remittance systems, but suspects there are some in operation.

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 (TIEA) with the United States. Grenada has cooperated extensively with U.S. law enforcement in numerous money laundering and other financial crimes investigations, contributing to successful prosecutions. Grenada also works actively with other governments to ensure asset tracing, freezing and seizures take place, if and when necessary, regardless of the status of the agreements. In 2003, the GOG passed the Exchange of Information Act No. 2 to permit the ECCB to provide information to foreign regulators on Grenadian banks, both domestic and offshore.

Grenada is a member of the Caribbean Financial Action Task Force (CFATF). The FIU became a member of the Egmont Group in June 2004. Grenada is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The GOG 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. Grenada has not yet signed the UN Convention against Corruption. On May 8, 2006, Grenada ratified the Inter-American Convention against Terrorism.

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 continue to update its Anti-Money Laundering Guidelines. The GOG should also move forward in adopting civil forfeiture legislation, and establish mechanisms to identify and regulate alternative remittance systems. Law enforcement and customs authorities should initiate money laundering investigations based on regional smuggling. Grenada should also continue to enhance its information sharing, particularly with other Caribbean jurisdictions. Grenada should also become a party to the UN Convention against Corruption.

Guatemala

Guatemala is a major transit country for illegal narcotics from Colombia and precursor chemicals from Europe. Those factors, combined with historically weak law enforcement and judicial regimes, corruption and increasing organized crime activity, lead authorities to suspect that significant money laundering occurs in Guatemala. According to law enforcement sources, narcotics trafficking is the primary source of money laundered in Guatemala; however, the laundering of proceeds from other illicit sources, such as human trafficking, contraband, kidnapping, tax evasion, vehicle theft and corruption, is substantial. Officials of the Government of Guatemala (GOG) believe that couriers, offshore accounts and wire transfers are used to launder funds, which are subsequently invested in real

estate, capital goods, large commercial projects and shell companies, or are otherwise transferred through the financial system.

Guatemala is not considered a regional financial center, but it is an offshore center. Exchange controls have largely disappeared and dollar accounts are common, but some larger banks conduct significant business through their offshore subsidiaries. The Guatemalan financial services industry is comprised of 25 commercial banks, four of which exist in a state of permanent suspension with no commercial offices; ten offshore banks, all of which are affiliated, as required by law, with a domestic financial group; five licensed money exchangers; 14 money remitters, including wire remitters and remittance-targeting courier services; 18 insurance companies; 17 financial societies; 16 bonded warehouses; 308 savings and loans cooperatives; eight credit card issuers; seven leasing entities; 11 financial guarantors; and one check-clearing entity run by the Central Bank. It is also estimated that there are hundreds of unlicensed money exchangers that exist informally.

The Superintendence of Banks (SIB), which operates under the general direction of the Monetary Board, has oversight and inspection authority over the Central Bank (Bank of Guatemala), as well as over banks, credit institutions, financial enterprises, securities entities, insurance companies, currency exchange houses and other institutions as may be designated by the Bank of Guatemala Act. Guatemala's relatively small free trade zones target regional maquila (assembly line industry) 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.

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. 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 (FIU), the Intendencia de Verificación Especial (IVE), 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 \$3.5 billion in remittance flows pass through informal channels, although sector reforms are leading to increasing use of banks and other formal means of transmission. Terrorist financing legislation passed in August 2005 requires remitters to maintain name and address information on senders (principally U. S. based) on transfers equal to or over an amount to be determined by implementing regulations. Increasing financial sector competition should continue to expand services and bring more people into the formal banking sector, isolating those who abuse informal channels.

The Financial Action Task Force (FATF) placed Guatemala on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering in 2001. Guatemala was removed from the NCCT list at the FATF plenary in June 2004, after authorities implemented the necessary reforms to bring Guatemala into compliance with international standards.

One of the reforms is Decree 67-2001, or the “Law Against Money and Asset Laundering.” Individuals convicted of money or asset laundering are subject to a noncommutable prison term ranging from six to 20 years, and fines equal to the value of the assets, instruments or products resulting from the crime. Convicted foreigners will be expelled from Guatemala. Conspiracy and attempt to commit money laundering are also penalized. The law holds institutions and businesses responsible for failure to prevent money laundering or allowing money laundering to occur, regardless of the responsibility of owners, directors or other employees, and they may face cancellation of their banking licenses and/or criminal charges. The law also applies to the offshore entities that operate in Guatemala but are registered under the laws of another jurisdiction.

Decree 67-2001 also obligates individuals and legal entities to report to the competent authorities the cross-border movement 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. Money seized at the airports—approximately \$167,400 in 2006—suggests that proceeds from illicit activity are regularly hand carried over Guatemalan borders. However, apart from a cursory check of a self-reporting customs form, there is little monitoring of compliance at the airport. Compliance is not regularly monitored at land borders.

In addition, the Guatemalan Monetary Board issued Resolution JM-191, approving the “Regulation to Prevent and Detect the Laundering of Assets” (RPDLA) submitted by the SIB. The RPDLA 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. The Guatemalan financial sector has largely complied with these requirements and has a generally cooperative relationship with the SIB.

Covered institutions are prohibited from maintaining anonymous accounts or accounts that appear under fictitious or inexact names. Nonbank financial institutions, however, may issue bearer shares, and there is limited banking secrecy. Obligated entities are required to keep a registry of their customers as well as of the transactions undertaken by them, such as the opening of new accounts or the leasing of safety deposit boxes. Financial institutions must also keep records of the execution of cash transactions exceeding \$10,000 or more per day, and report these transactions to Guatemala’s FIU, the IVE. Under the law, obligated entities must maintain records of these registries and transactions for five years. Financial institutions are also required to report all suspicious transactions to the IVE.

Decree 67-2001 establishes the IVE within the Superintendence of Banks in order 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. 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 has imposed over \$100,000 in civil penalties to date for institutional failure to comply with anti-money laundering regulation.

Since its inception, the IVE has received approximately 1,600 suspicious transaction reports (STRs) from the 400 obligated 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.

In 2006, Guatemala created a money laundering task force. The money laundering task force is a joint unit comprised of individuals from the Guatemalan Tax Authority (SAT), the IVE, Public Ministry, Prosecutor's Office, Government Ministry, National Police and Drug Police. Together they work on investigating financial crimes, building evidence and bringing the cases to prosecution. They are currently working on four cases of suspected money laundering.

Other government agencies have become involved in combating money laundering. In addition to the SIB, the SAT has been working to improve its processes and personnel to better collect taxes and combat tax evasion. This indirectly assists anti-money laundering efforts by making it easier to detect suspicious activity through nonpayment of tax.

Thirty-nine 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. Thirteen money laundering prosecutions have been concluded, twelve of which resulted in convictions. Eleven of those cases have been sentenced, with the remaining two cases awaiting the completion of appeals. Additional cases have been developed from cooperation between the Public Ministry and the IVE. The Public Ministry's AML Unit had initiated 46 cases as of January 2006. In addition, four cases have been transferred to other offices for investigation and prosecution (such as the anticorruption unit) due to the nature of their particular predicate offenses. The other 46 cases are either still under investigation or in initial trial stages. 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.

In 2006, Guatemala passed an organized crime control law. This new legislation permits the use of undercover operations, controlled deliveries and wire taps to investigate many forms of organized crime activity, including money laundering crimes.

Under current legislation, any assets linked to money laundering can be seized. 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. In 2003, the Guatemalan Congress approved reforms to enable seized money to be shared among several GOG agencies, including police and the IVE. 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 legislation criminalizing terrorist financing. 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 counterterrorism financing 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 very cooperative in looking for terrorist financing funds. The new legislation brings Guatemala into greater compliance with FATF Special Recommendations on Terrorist Financing and the United Nations Security Council Resolution 1373 Against Terrorism.

Guatemala is a party to the UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. On March 1, 2006, the GOG ratified the Inter-American Convention against Terrorism, and on November 3, 2006, the GOG ratified the UN Convention against Corruption. Guatemala is also a party to the Central American Convention for the Prevention of Money Laundering and Related Crimes. The GOG is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the Caribbean Financial Action Task Force (CFATF). In 2003, the IVE became a member of the Egmont Group.

Corruption and organized crime remain strong forces in Guatemala and may prove to be the biggest hurdles facing the Government of Guatemala in the long term. Guatemala has made efforts to comply with international standards and improve its anti-money laundering regime; however, Guatemala should take steps to immobilize bearer shares, and to identify and regulate offshore financial services and gaming establishments. The GOG should also 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 successfully prosecute money laundering cases, and 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 dependents of the British Crown and 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 authority to legislate 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 17,800 companies registered in the Bailiwick. Nonresidents own approximately half of the companies, and they have an exempt tax status. These companies do not fall within the standard definition of an international business company (IBC). 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 51 banks, all of which have offices, records, and a substantial presence in the Bailiwick. The banks are licensed to conduct business with residents and nonresidents alike. There are 626 international insurance companies and 684 collective investment funds. There are also 18 bureaux de change, which file accounts with the tax authorities. Ten of the bureaux de change are part of a

licensed bank, and it is the bank that publishes and files those accounts. Bureaux de change and other money service providers are required to register information with the Commission.

Guernsey has put in place a comprehensive legal framework to counter money laundering and the financing of terrorism. The Criminal Justice (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). 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 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 on behalf 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 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.

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 the 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 Financial Intelligence Service (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 serves as the central point within the Bailiwick for the receipt, collation, analysis, and dissemination of all financial crime intelligence. In 2005, the FIS received 650 STRs. The FIS received 757 STRs in 2004 and 705 STRs in 2003.

In November 2002, the International Monetary Fund (IMF) undertook an assessment of Guernsey’s compliance with internationally accepted standards and measures of good practice relative to its regulatory and supervisory arrangements for the financial sector. The IMF report states that Guernsey has a comprehensive system of financial sector regulation with a high level of compliance with international standards. As for AML/CFT, the IMF report highlights that Guernsey has a developed legal and institutional framework for AML/CFT and a high level of compliance with the FATF Recommendations.

There has been counterterrorism legislation covering the Bailiwick since 1974. The Terrorism and Crime (Bailiwick of Guernsey) Law, 2002, replicates equivalent UK legislation.

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 U.S.-UK 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 participated in the European Union's PHARE anti-money laundering developmental assistance 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.

Guyana

Guyana is neither an important regional nor an offshore financial center, nor does it have any 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 40 to 60 percent of the size of the formal sector. Money laundering has been linked to trafficking in drugs, firearms and persons, as well as to corruption and fraud. Drug trafficking and money laundering appear to be benefiting the Guyanese economy, particularly the construction sector. Investigating and prosecuting money laundering cases is not a priority for law enforcement. The Government of Guyana (GOG) made no arrests or prosecutions for money laundering in 2006 due to a lack of adequate legislation and resources.

The Money Laundering Prevention Act of 2000 criminalizes money laundering related to narcotics trafficking, illicit trafficking of firearms, extortion, corruption, bribery, fraud, counterfeiting and forgery. The Act does not specifically cover the financing of terrorism or all serious crimes in its list of offenses. Licensed financial institutions—including banks, securities brokers, exchange houses, credit unions, building societies and trusts—are required to report suspicious transactions to Guyana's financial intelligence unit (FIU), although they are left to determine thresholds individually according to banking best practices. Financial institutions must keep records of suspicious transaction reports (STRs) for six years. The law also requires that the cross-border transportation of currency exceeding \$10,000 be reported. The legislation includes provisions regarding confidentiality in the reporting process, good faith reporting, penalties for destroying records related to an investigation or disclosing investigations, and international cooperation. The Money Laundering Prevention Act establishes the Guyana Revenue Authority, the Customs Anti-Narcotics Unit, the Attorney General, the Director for Public Prosecutions and the FIU as the authorities responsible for investigating financial crime.

The GOG's anti-money laundering regime is ineffective, and the implementing regulations of the Money Laundering Prevention Act are inadequate. Guyana's central bank, the Bank of Guyana, lacks the capacity to fully execute its mandate to supervise financial institutions for compliance with anti-money laundering provisions. There have been no money laundering prosecutions to date, and it is unclear if a conviction for the predicate offense is necessary to obtain a money laundering conviction. The financial intelligence unit, established within the Ministry of Finance in 2003, is currently a one-person organization and is dependent upon the Ministry for its budget and office space. Although the

FIU may request additional information from obligated entities, its analytical capabilities are severely limited by its inability to access to law enforcement data and its lack of authority to exchange information with foreign FIUs. The GOG does not release statistics on the number of suspicious transaction reports received by the FIU, although the requirement to make these statistics available to relevant authorities is mandated by the Financial Action Task Force (FATF).

In order to improve the GOG's anti-money laundering regime, the FIU has prepared drafts of legislation criminalizing the financing of terrorism and expanding the scope of the money laundering offense. The new legislation is also expected to provide for oversight of export industries, the insurance industry, real estate and alternative remittance systems. The draft money laundering act failed to make the legislative agenda before the dissolution of Parliament in May 2006.

In January 2007, the National Assembly passed the Gambling Prevention (Amendment) Bill, which legalizes casino gambling. The bill establishes a Gaming Authority authorized to issue casino licenses to new luxury hotel or resort complexes with a minimum of 150 rooms. Vocal opposition to the bill from religious groups, opposition parties, and the public included concerns that casino gambling would provide a front for money launderers.

The Money Laundering Prevention Act provides for seizure of assets derived as proceeds of crime, including money, investments, and real and personal property. However, guidelines for implementing seizures and forfeitures have not been finalized. Forfeiture and seizure mechanisms are conviction-based, and may be carried out by the Office of the Director of Public Prosecutions if a court order is obtained.

The Ministry of Foreign Affairs and the Bank of Guyana continue to assist U.S. efforts to combat terrorist financing by working towards 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, and 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 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 and the Caribbean Financial Action Task Force (CFATF). Guyana underwent its second CFATF mutual evaluation in 2004, and the results of the evaluation were presented at the CFATF plenary in October 2006. The mutual evaluation team found the GOG to be noncompliant or materially noncompliant with approximately half of the FATF Recommendations.

Guyana is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Guyana has not signed the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Corruption. The GOG has signed, but not yet ratified, the Inter-American Convention against Terrorism. Guyana's FIU is one of the few in the region that is not a member of the Egmont Group.

The Government of Guyana should introduce the draft legislation on money laundering to Parliament early in the legislative session. The GOG should provide greater autonomy for the FIU by making it an independent unit with its own budget and office space, enable the FIU to access law enforcement data, and ensure that the FIU has the operational capacity to meet the membership requirements of the

Egmont Group and other international standards. Guyana should also provide appropriate resources and awareness training to its regulatory, law enforcement and prosecutorial personnel, and establish procedures for asset seizure and forfeiture. Now that Guyana has legalized casino gambling, the GOG should ensure that the necessary anti-money laundering regulations are extended to the gaming sector. Guyana should criminalize terrorist financing and adopt measures that would allow it to block terrorist assets. In addition, Guyana should seize opportunities to sensitize the public to the harmful impact of money laundering on legitimate businesses and the national economy. The GOG should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Corruption.

Haiti

Haiti is not a major financial center. 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. Haiti is a major drug-transit country, and money laundering activity is linked to the drug trade. Money laundering and other financial crimes occur in the banking system and in casinos, foreign currency transactions and real estate transactions. While the informal economy in Haiti is significant and partly funded by illicit 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, ranging from \$30,000 to \$100,000 on their persons. Haitian narcotics officers interdicting these outbound funds often collect a six to 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.

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) took 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 and a commission to examine transactions conducted by the government from 2001 through February 2004. The commission published its report in July 2005. In early 2006 Presidential elections took place. Neither the IGOH nor the new government have prosecuted 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 legislation. 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 remitters, exchange houses, casinos, and real estate agents. Insurance companies are not covered; however, they are only nominally represented in Haiti. 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 \$5,420). It also requires exchange brokers and money remitters to obtain declarations identifying the source of funds exceeding 200,000 gourdes or its equivalent in foreign currency. The nonfinancial sector, however, 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. Created in 2003, the *Unité Centrale de Renseignements Financiers* (UCREF) is the financial intelligence unit (FIU) of Haiti. The UCREF is responsible for receiving and analyzing reports submitted in accordance with the law. The UCREF has approximately 42 employees, including 25 investigators. Institutions 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 and a fine of 20 million gourdes (approximately \$542,000). 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 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 was supportive of a stronger, more proactive asset seizure law, yet its temporary governmental mandate did not allow for the passage of new laws. The IGOH set-up a Financial Crimes Task Force under the auspices of the Central Bank and the Ministries of Justice and Finance, charged with identifying and investigating major financial crimes and coordinating with the UCREF in recommending prosecutions. The recently elected Government of Haiti has not recognized the Task Force and the Task Force has become dormant.

In 2006, UCREF confiscated \$801,000 and froze 157 million gourdes (approximately \$4.3 million), in addition to \$1.4 million related to money laundering offenses. It is unknown how many current investigations are active at this time. The director of UCREF was jailed for a short period of time by a magistrate on unknown charges. At the time of his incarceration over \$1.4 million was unfrozen and released to the persons who claimed ownership.

In 2006 the UCREF assisted the U.S. in at least three major investigations. 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. However, the law suit was dropped shortly after the new government took office. Though the recent achievements of the UCREF are a marked improvement, it 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.

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. Reportedly, Haiti does circulate the UN 1267 list. 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 the financing of terrorism in Haiti.

Haiti is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption and the Inter-American Convention against Terrorism. Haiti is a member of the OAS/CICAD Experts Group to Control Money Laundering and the Caribbean Financial Action Task Force. The UCREF is not a member of the Egmont Group of financial intelligence units; however, it has three memoranda of understanding with the FIUs of the Dominican Republic, Panama and Honduras.

While improvements were made to Haiti's anti-money laundering regime under the IGOH, the new administration should implement and enforce the AML Law. The Government of Haiti should confront the rampant corruption present in almost all public institutions. The GOH should recognize the Financial Crimes Task Force and should strengthen the organizational structures and personal skills of employees both in the UCREF and the Financial Crimes Task Force. Steps should be taken so

that the UCREF fully meets international standards and is eligible for membership in the Egmont Group. The GOH should enact legislation to criminalize the financing of terrorism and become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Honduras

Honduras is not an important regional or offshore financial center and is not considered to have a significant black market for smuggled goods, although there have been recent high-profile smuggling cases involving gasoline and other consumer goods. Money laundering, however, does take place, primarily through the banking sector but also through currency exchange houses and front companies. The vulnerabilities of Honduras to money laundering stem primarily from significant trafficking of narcotics, particularly cocaine, throughout the region. An estimated \$2 billion in remittances and 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. It is not a matter of government policy to encourage, facilitate or engage in laundering the proceeds from illegal drug transactions, terrorist financing or other serious crimes. However, corruption remains a serious problem, particularly within the judiciary and law enforcement sectors.

There is no indication Honduran free trade zone companies are being used in trade-based money laundering schemes or by financiers 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.

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, made it virtually impossible to successfully prosecute the crime.

In 2002, Honduras passed Decree No. 45-2002, which 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 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, as well as any sale or movement of assets that lacks economic justification. 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-and, if asked, present-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), the Unidad de Información Financiera (UIF), within the National Banking and Securities Commission. Banks and other financial institutions are required to report to the UIF currency transactions over \$10,000 in dollar denominated accounts or the equivalent in local currency accounts, as well as all suspicious transactions. The law requires the UIF 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. Anti-money laundering 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.

Decree No. 45-2002 requires that a public prosecutor be assigned to the UIF. In practice, two prosecutors are assigned to the UIF, each on a part-time basis, with responsibility for specific cases divided among them depending upon 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 obligated 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 has not been an issue throughout 2006, 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 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 systems operate efficiently and consistently with all relevant laws, regulations, resolutions, and directives. However, the size of the group and overly political environment stifled effective discussions and marginalized any positive developments that came out of the meetings. In early 2006, the new head of the banking commission effectively terminated the CIPLAFT.

At roughly the same time as the termination of the CIPLAFT, a new agreement among the Public Ministry, the banking commission, and the UIF was drafted with the intent to more effectively prioritize money laundering cases and determine which cases to pursue. Previously, an average of 20 nonpriority cases were sent to prosecutors for review each month. This has been streamlined to a more manageable five cases, each of which has been determined to be promising for potential prosecution, and many older cases have been officially closed. The result is fewer active cases, allowing the overloaded prosecutors and under-funded police units to focus on the strongest and most important cases.

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. Through November of 2006, another six convictions have been obtained.

The Honduran Congress first enacted an asset seizure law in 1993. Decree No. 45-2002 strengthens the asset seizure provisions of the law, and established an Office of Seized Assets (OABI) under the Public Ministry. Decree 45-2002 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 or forfeiture of assets of criminal activity.

As of December 2006, the total value of assets seized since the 2002 law came into effect is estimated at \$5.7 million, including \$4.6 million in tangible assets such as cars, houses and boats. To date in 2006, two new cases have added approximately \$20,000 to the total assets seized. Most of these seized assets are alleged to have derived from crimes related to drug trafficking; none is 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.

In addition to undergoing the financial audit verifying the bank accounts, OABI has moved to distribute funds to various law enforcement units and nongovernmental organizations (NGOs). The funds, which constituted the first systematic distribution under the new guidelines, went to the Supreme Court, federal prosecutors, OABI, and two civil society groups. Momentum is now gaining for OABI to more quickly liquidate all assets once confiscated, in an effort to avoid parking lots full of deteriorating assets or high protection and maintenance fees. With new management and guidelines in place, OABI is set to expand its role significantly when a witness protection law passes that will allow the unit to hold all seized assets, not just assets seized under the money laundering law.

The GOH has been supportive of counterterrorism efforts. Decree No. 45-2002 states that an asset transfer related to terrorism is a crime; however, terrorist financing has not been identified as a crime itself. This law does not explicitly grant the GOH the authority to freeze or seize terrorist assets; however, under separate authority, the National Banking and Insurance Commission has issued freeze orders promptly for the organizations and individuals named by the United Nations 1267 Sanctions Committee and those organizations and individuals on the list of Specially Designated Global Terrorists designated by the United States pursuant to Executive Order 13224. 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 \$2 billion in 2006), 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 nonprofit entities in Honduras have been used as conduits for the financing of terrorism.

Honduras cooperates with U.S. investigations and requests for information pursuant to the 1988 United Nations Drug Convention. 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 UIF 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 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, the UN Convention against Corruption, and the Inter-American Convention against Terrorism. 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 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 2005, the UIF became a member of the Egmont Group.

Four years after passing a new law against money laundering, the Government of Honduras (GOH) continued to make considerable progress in implementing the law, establishing and training the entities responsible for the investigation of financial crimes, and improving cooperation among these entities. In 2006, the Government of Honduras continues its positive steps to implement Decree No. 45-2002. The number of good cases identified for investigation has helped focus the poorly funded prosecutors and police force, while the number of cases closed continues to climb. The asset seizure organization, OABI, continues to improve, and seized assets could soon become a significant funding source for the Public Ministry and police forces. The GOH should continue to support the developing law enforcement and regulatory entities responsible for combating money laundering and other financial crimes, and ensure that resources are available to strengthen its anti-money laundering regime. Sustained progress will depend upon increased commitment from the government to aggressively prosecute financial crimes. Honduras should draft and pass legislation specifically criminalizing the financing of terrorism to comport with international standards.

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 Hong Kong vulnerable to money laundering. The primary sources of laundered funds are tax evasion, fraud, illegal gambling and bookmaking, and intellectual property rights violations. Laundering channels include Hong Kong's banking system, and its legitimate and underground remittance and money transfer networks. The proceeds from narcotics trafficking are believed to be only a small percentage of illicit proceeds laundered. However, over the past two years, reportedly legitimate Hong Kong business entities and financial institutions have been playing an increasingly important role in the Black Market Peso Exchange (BMPE). The BMPE in Hong Kong is perpetuated by local Hong Kong business entities that either knowingly or unknowingly enter into business agreements with individuals directly associated with the BMPE process. The BMPE is a trade-based money laundering scheme used by Colombian drug cartels to launder illicit drug profits. 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. 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 \$641,000).

Money laundering ordinances apply to covered institutions including banks and nonbank financial institutions, as well as to intermediaries such as lawyers and accountants. All persons must report suspicious transactions of any amount to the Joint Financial Intelligence Unit (JFIU). The JFIU does not investigate suspicious transactions itself, but receives, stores, and disseminates suspicious transactions reports (STRs) to the appropriate investigative unit. Typically, STRs are passed to 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. The Hong Kong Monetary Authority is responsible for supervising and examining compliance of financial institutions that are authorized under Hong Kong's Banking Ordinance. The Hong Kong Securities and Futures Commission (SFC) is responsible for supervising and examining compliance of persons that are licensed by the SFC to conduct business in regulated activities as defined in Schedule 5 of the Securities and Futures Ordinance. The Office of the Commissioner of Insurance (OCI) is responsible for supervising and examining compliance of insurance institutions. 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), and must retain these records for at least six years. Under a directive from Hong Kong's Monetary Authority, Hong Kong would reduce this threshold amount to HK\$8000 (approximately \$1000) effective January 1, 2007.

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. Hong Kong is examining the effectiveness of its existing regime in interdicting illicit cross border cash couriership activities. Reportedly, Hong Kong is deliberating ways of complying with FATF Special Recommendation Nine but does not intend to put in place the recommended "declaration system." Law enforcement agents in Hong Kong are already empowered to seize criminal proceeds at any place, including at the border.

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 Office of Commissioner of Insurance (OCI) and the Securities and Futures Commission (SFC) 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 HKMA'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. 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 Union Pay. 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. Legitimate businesses can be seized if the business is the “realizable property” of the defendant or one of the defendants. Realizable property is defined under the DTRoP and OSCO as any property held by the defendant; any property held by a person to whom the defendant has directly or indirectly made a gift; or any property that is subject to the effective control of the defendant.

Hong Kong Customs and Hong Kong Police are responsible for conducting financial investigations. The Secretary of Justice is responsible for the legal procedures involved in restraining and confiscating assets. There is no time frame ascribed to freezing drug proceeds or the proceeds of other crimes. Regarding terrorist property, a formal application for forfeiture must be made within two years of freezing. Confiscated or forfeited assets and proceeds are paid into general government revenue.

As of October 31, 2006, the value of assets under restraint was \$178 million, and the value of assets under a court confiscation order, but not yet paid to the government, was \$8.85 million, according to figures from the JFIU. It also reported that as of October 31, 2006, the amount confiscated and paid to the government since the enactment of DTRoP and OSCO was \$55.4 million, and a total of 395 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 2006, a total of 10,782 STRs were filed, of which 1330 were referred to law enforcement agencies. This compares to a total of 13,505 STRs filed during all of 2005; 14,029 filed during 2004; and 11,671 during 2003. The JFIU plans to launch an electronic system for reporting STRs by registered users in late 2006.

The JFIU receives disclosures, conducts analysis, and in suitable cases distributes them to law enforcement investigating units. The JFIU can distribute cases to all Hong Kong law enforcement agencies, to similar overseas bodies and, in certain circumstances, to regulatory bodies in Hong Kong. The JFIU also conducts research on money laundering trends and methods, and provides case examples (typologies) to financial and nonfinancial institutions in order to assist them in identifying suspicious transactions. The JFIU has no regulatory responsibilities.

The Hong Kong Police has a number of dedicated units responsible for investigating financial crime, but the Commercial Crimes and Narcotics Bureaus in the Police Headquarters are the primary units responsible for investigating money laundering and terrorist financing.

The JFIU analyzes 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). There were 44 prosecutions for money laundering during the first 9 months of 2006, compared to 40 for the entire year of 2004 and 29 for 2003. Hong Kong Customs had a significant money laundering case in 2006, in which the mastermind of a local pirated optical disc syndicate was convicted of money laundering involving HK\$ 27.4 million (\$3.5 million). These proceeds accrued over a four-year period from piracy activities. In July 2002, Hong Kong's legislature passed the United Nations (Anti-Terrorism Measures) Ordinance criminalizing supplying 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 nonfund 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 (PRC) 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 HKSAR executes the relevant UN treaty. Through the PRC, the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the UN International Convention for the Suppression of the Financing of Terrorism are all applicable to Hong Kong. The PRC ratified the UN Convention against Corruption on 13 January 2006 and the UN Convention for the Suppression of the Financing of Terrorism on 19 April 2006.

To help deal with anti-money laundering (AML) issues from a practical perspective and reflect business needs, the Hong Kong Monetary Authority (HKMA) has recently coordinated the establishment of an Industry Working Group on AML, which includes representatives of some 20 authorized institutions. The Group has met twice, and three sub-groups have been established to share experiences and consider the way forward on issues such as PEPs (politically exposed persons), terrorist financing, transaction monitoring systems and private banking issues. The HKMA is also taking a number of initiatives on AML issues, including issuing circulars and guidance to authorized institutions on combating the financing of weapons of mass destruction, conducting in-depth

examinations of institutions' AML controls, and setting out best practices for AML in high-risk areas such as correspondent banking, private banking and remittance.

The HKMA circulated guidelines in 2004 incorporating the FATF Special Eight Recommendations on Terrorist Financing which require banks to maintain a database of terrorist names and management information systems to 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. In 2006, the OCI and the SFC revised their guidance notes to take into account the latest recommendations by the FATF.

Other bodies governing segments of the financial sector are also active in anti-money laundering efforts. The Hong Kong Estates Agents Authority, for instance, has drawn up specific guidelines for real estate agents on filing suspicious transaction reports, and the Law Society of Hong Kong and the Hong Kong Institute of Certified Public Accountants are in the process of drafting such guidance.

In 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."

The Financial Investigations Division of the Narcotics Bureau has assisted the FBI in the investigation of the fugitives arrested in the United States in conjunction with the Bank of China case. In 2006, in a joint operation among the U.S. Immigration and Customs Enforcement (ICE), the U.S. Food and Drug Administration and Hong Kong Customs, a major mainland Chinese trafficker in counterfeit pharmaceutical drugs was identified. In September 2006, when the subject of the investigation arrived at a meeting in Hong Kong arranged by undercover agents, he was arrested by Hong Kong Customs officers under the Fugitive Offenders Ordinance.

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.

Hong Kong has mutual legal assistance agreements with a total of 21 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, Poland, Germany and Malaysia. Hong Kong has also signed surrender-of-fugitive-offenders agreements with 16 countries, and has signed Agreements for the transfer-of-sentenced-persons with eight 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. Per FATF Special Recommendation Nine, Hong Kong should also establish mandatory cross-border currency reporting requirements. Hong Kong should 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. Particularly since Hong Kong is a major trading center, Hong Kong law enforcement and customs authorities should seek to identify trade-based money laundering.

Hungary

Taking advantage of its pivotal location in central Europe, its cash-based economy and its well-developed financial services industry, criminal organizations from countries such as Russia and Ukraine have reportedly entrenched themselves in Hungary. Money laundering is related to a variety of criminal activities, including narcotics, prostitution, trafficking in persons, and organized crime. Additional financial crimes such as counterfeiting of euros, real estate fraud, and the copying/theft of bankcards are also prevalent. Financial crime has not increased in recent years, though there have been some isolated, albeit well-publicized, cases.

Hungary has been continuously improving its money laundering enforcement regime following its 2003 removal from the Financial Action Task Force (FATF) list of noncooperative countries and territories. Since then, it has worked to implement the FATF Forty Recommendations and the Nine Special Recommendations on Terrorist Financing. In early 2005, the International Monetary Fund (IMF), in conjunction with the Council of Europe’s Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), conducted the third-round mutual evaluation of Hungary’s anti-money laundering and counterterrorism financing regime. The evaluation team published the results of their assessment in June 2005.

Reacting to the advice cited in the mutual evaluation report, Hungary adopted an Action Plan and a new draft Anti-Money Laundering Act (AMLA) that will be submitted to the Parliament in September 2007. The draft AMLA addresses several (but not all) of the deficiencies cited in the mutual evaluation report. The draft law brings Hungary into compliance with the Vienna and Palermo Conventions by enlarging the scope of the money laundering offense so that it covers the transfer of proceeds to a third party even if it is carried out through a nonbanking or nonfinancial transaction. The draft AMLA also addresses reporting problems within Hungary’s AML reporting system. According to the evaluation report, harsh criminal penalties for nonreporting have resulted in over filing by Hungarian financial institutions which are producing a high volume of suspicious transaction reports (STRs)—but which are of low quality. The draft law reduces the maximum punishment for the intentional failure to comply with reporting obligations from three years imprisonment to two years imprisonment. The maximum penalty for negligence in reporting has likewise been reduced from two years imprisonment to one year imprisonment, community service, or fine. Currently, the Hungarian Criminal Code only criminalizes terrorist acts committed by a group. The draft AMLA will include provisions punishing

the financing of terrorist acts which are committed by an individual. The draft law also establishes a clear legal basis for the obligation to report suspicious transactions relating to the financing of terrorism.

The AMLA also addresses FATF Special Recommendation Nine regarding cash couriers by requiring the declaration to Customs authorities of all movements of cash exceeding 10,000 euros (approximately \$13,000). The draft law also calls for the establishment of an electronic database for the managing and processing of data contained in the Customs declarations.

Hungary banned offshore financial centers by Act CXII of 1996 on Credit Institutions. Offshore casinos are also prohibited from operating by the 1996 Act. At one time, there were offshore companies registered in Hungary that enjoyed a preferential tax benefits. However, the preferential tax treatment was phased out at the end of 2005 and in 2006, these companies were converted automatically into Hungarian companies. The only special status they retain is the ability to keep financial records in foreign currencies. Hungary no longer permits the operation of free trade zones.

Hungary's first enacted anti-money laundering legislation in 1994 with Act XXIV. Hungary's money laundering legislation covers all serious crimes punishable by imprisonment. In April 2002, Section 303 of the Penal Code on Money Laundering was amended to criminalize self-laundering. 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.

Hungary's financial regulatory body, the Hungarian Financial Supervisory Authority (HFSA), is charged with supervising financial service providers with the exception of cash processors, which are supervised by the National Bank of Hungary. Most designated nonfinancial businesses and professions (DNFBP) such as auditors, casinos, lawyers, and notaries are supervised by their own trade associations. Either the Hungarian National Police (HNP) or the Financial Intelligence Unit (FIU) within the HNP acts as the regulator for all other entities that are covered under the 2003 Act and that have no formal supervisory authority. In 2005, the HFSA conducted 169 on-site AML compliance inspections and issued enforcement warnings in 62 cases. In 2006, the HFSA established a new department specializing in issues pertaining to money laundering and financial crimes. That department is responsible for the coordination of supervisory tasks and duties related to money laundering and terrorist financing, and also assists other departments of the HFSA with on-site inspections.

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 \$10,300) 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 obliged to file reports, except when they are representing their clients in a criminal court case. 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 randomly perform on-site checks of service

providers. According to Hungarian bank secrecy regulations, financial service providers are obliged to supply law enforcement authorities with relevant data.

Safe harbor provisions protect individuals when executing 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.

As of 2001, only banks or their authorized agents can operate currency exchange booths. There are currently approximately 300 exchange booths in Hungary. These exchange booths are subject to “double supervision,” because they are subject to the banks’ internal control mechanisms, which are in turn subject to supervision by the HFSA. Exchange booths must verify customer identity for currency exchange transactions totaling or exceeding HUF 300,000 (approximately \$1,500). These amounts can derive either from a single transaction or consecutive separate transactions which, in sum, exceeds this threshold. The exchange booths are also required to file suspicious transaction reports (STRs) for questionable currency exchange transactions in any amount. Monitoring of these suspicious transactions has resulted in ongoing criminal investigations.

Act CXX of 2001 eliminated bearer shares and required that all such shares be transferred to identifiable shares by the end of 2003. All shares now are subject to transparency requirements, and both owners and beneficiaries must be registered. By mid-2003, Hungary had successfully transferred 90 percent of anonymous savings accounts into identifiable accounts. Individuals must now have written permission from the police in order to access them.

Hungary’s Financial intelligence Unit (FIU) is an investigative FIU and is part of the HNP. It investigates money laundering cases and has considerable authority to request and release information, both domestically 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). The NBI is responsible for the detection and investigation of major corruption and money laundering cases. This restructuring has eliminated the parallel jurisdictions that existed in economic and financial crime investigations, and implemented a more coordinated investigative effort for money laundering investigations. The NBI houses the resulting new division, the Economic and Financial Crimes Department. The NBI has a staff of 134 at the headquarters level.

The FIU receives and investigates suspicious transaction information. In the first six months of 2006, the FIU received 5,195 STRs, opened 5,197 cases, and referred twenty of these cases to prosecutors. Banks filed the majority of these reports (80 percent), as well as currency exchange houses (16 percent). The 2005 Action Plan requires an impact study to review the supervision of these sectors, and aims to create programs to improve supervision and provide increased outreach and guidance to DNFBP’s with regard to reporting obligations. Currently all obligated entities file reports using a paper system. However, the FIU is currently developing and testing a new electronic reporting system. During the first six months of 2006, a total of 20 money laundering investigations, involving 26 individuals had been opened. Five of these cases (14 persons) have reached the prosecution stage and are awaiting final judgments.

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.

For most crimes, with the exception of terrorism financing, the police (including the FIU) 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. In the first half of 2006, authorities seized assets in two money laundering cases worth a total of approximately 435,000 euro (\$563,000).

Act IV of 1978, Article 261, criminalizes terrorist acts. Hungary has criminalized terrorism and all forms of terrorism financing with Act II of 2003, which modifies Criminal Code Article 261. The offense includes providing 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. The Hungarian Criminal Code does not include a separate provision for the financing of a terrorist act conducted by an individual. The FIU reported that only two of the STRs filed in 2006 were related to the financing of terrorism, in part because Hungary's current AML law does not provide a solid legal basis for an obligation to report suspicious financial activity related to terrorism financing. The draft AMLA contains provisions to correct these legal deficiencies.

The Hungarian Criminal Code treats terrorist financing-related crimes differently than all other crimes. Hungary can 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. 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 nonprofit entity, the GOH will freeze the assets regardless of the amount.

Hungary and the United States have a Mutual Legal Assistance Treaty and a nonbinding information-sharing arrangement designed to enable U.S. and Hungarian law enforcement to work more closely to fight organized crime and illicit transnational activities. 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 MONEYVAL. Hungary's FIU has been a member of the Egmont Group since 1998.

Hungary is a party to the UN International Convention for the Suppression of the Financing of Terrorism; 1988 UN Drug Convention; and the UN Convention against Corruption. In December 2006 Hungary ratified the UN Convention against Transnational Organized Crime.

Hungary has made progress in developing its anti-money laundering regime. However, the GOH needs to continue its efforts with regard to implementation. An increased level of cooperation and coordination is needed among the different law enforcement entities involved in the anti-money laundering regime in Hungary. Prosecutors, judges, and police require additional training in order to promote the successful prosecution of money laundering cases. The HFSA and other supervisory bodies should improve supervision and provide increased outreach and guidance to financial

institutions with regard to reporting obligations. The GOH should take steps to ensure that nonbank financial institutions file suspicious transactions reports. Increased AML/CTF training for the employees of financial institutions and other obliged entities is also necessary in order to improve the number and quality of STRs filed, in particular those which may be related to the financing of terrorism. The FIU should continue work on the electronic reporting system until it is operational, and implement it. The GOH should enact the draft AMLA in September 2007 to ensure that Hungary complies with international standards, including those relating to the financing of terrorism.

India

India's growing status as a regional financial center, its large system of informal cross-border money flows, and its widely perceived tax avoidance problems 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. Historically, because of its location between the heroin-producing countries of the Golden Triangle and Golden Crescent, India has been a drug-transit country.

India's strict foreign-exchange laws and transaction reporting requirements, combined with the banking industry's due diligence policy, make it difficult for criminals to use banks or other financial institutions to launder money. Accordingly, large portions of illegal proceeds are 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 2005-2006 amounted to \$24 billion (reportedly the largest in the world).

Reportedly, many Indians do not trust banks and prefer to avoid the lengthy paperwork required to complete a money transfer through a financial institution. The hawala system can provide the same remittance service as a bank with little or no documentation and at lower rates and provide anonymity and security for their customers. 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 nonbank 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, many believe 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 is used extensively to avoid both customs duties, taxes and to launder illicit proceeds through trade-based money laundering.

India has illegal 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 dealing in cash transactions and avoiding customs duties and taxes, black market merchants offer better prices than those offered by regulated merchants. However, due to trade liberalization and an increase in the number of foreign companies doing business in India, the business volume in smuggled goods has fallen significantly. Most products previously sold in the black market are now traded through lawful channels.

While tax evasion is also widespread, the GOI is gradually making changes to the tax system. The government now requires individuals to use a personal identification number to pay taxes, purchase foreign exchange, and apply for passports. The GOI also introduced a value added tax (VAT) in April 2005 which replaced numerous complicated state sales taxes and excise taxes. As a result, the

incentives and opportunities for businesses to conceal their sales or income levels have been reduced. Most of the twenty-eight Indian states have implemented the national VAT mandate, and the GOI anticipates that all states will be compliant by April 2007.

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 for 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 the SAFEMA.

2001 Amendments to the NDPSA allow the CA to seize any asset owned or used by a narcotics trafficker immediately upon arrest. Previously, assets could only be seized after a conviction. Even so, 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. In 2005, pursuant to the NDPSA and with U.S. Government funding through its Letter of Agreement with India, the CA held nine asset seizure and forfeiture workshops in New Delhi, Himachal Pradesh, Uttar Pradesh, Rajasthan, and Andhra 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), implemented in 2000, is one of the GOI's primary tools for fighting money laundering. The FEMA's objectives include establishing controls over foreign exchange, preventing capital flight, and maintaining 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.

The Prevention of Money Laundering Act (PMLA) was signed into 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 (such as stock market brokers) maintain records of all cash transactions exceeding \$21,740. However, to date, there have been no prosecutions or convictions under the PMLA.

With the notification of the PMLA in July 2005, a financial intelligence unit (FIU) was established in January 2006 with the mandate to combat money laundering and terrorist financing. The FIU is the central repository to receive, process, analyze, and disseminate information from suspicious transaction reports (STRs) and general cash transaction reports from financial institutions, banking companies, and intermediaries. It acts independently to refer such cases to the appropriate enforcement agency. Since it was initiated, India's FIU has received about 450 STRs.

The FIU is also responsible for strengthening efforts amongst the intelligence, investigative, and law enforcement agencies towards reaching global standards to prevent money laundering and related crimes. The FIU reports directly to the Economic Intelligence Council, which is headed by the Finance Minister. Administratively, it falls under the supervision of MOF's Department of Revenue. The FIU is not a regulatory agency but is permitted to exchange information with foreign FIUs on the basis of reciprocity, mutual agreement, or critical threat information on a case-by-case basis. There have been approximately 20 such information exchanges since FIU's establishment. As an Egmont observer, India's exchange of information with foreign FIUs is limited whereas full membership enables access to a global framework of sharing and obtaining terrorism financing information.

The MOF's Enforcement Directorate is responsible for investigations and for the 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 eighteen regional economic committees in India. The Central Economic Intelligence Bureau (CEIB) functions 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 and the MOF are actively working to amend regulations in order to be compliant with international standards. At present, the PMLA does not include comprehensive provisions on terrorism financing. The MOF has organized a committee of the relevant departments and ministries to amend the PMLA, which are likely to be introduced in the July-August, 2007 parliamentary session. Amendments will include provisions to criminalize terrorism financing and incorporate most of the FATF recommended categories of offenses.

In October 2006, the Finance Ministry stated that India had agreed to reconcile its list of predicate crimes with that of the Financial Action Task Force (FATF) and not set minimum property value thresholds on predicate crimes. As of December 2006, India is a FATF observer and has a two year probationary period to become compliant with FATF norms to become a member. Full FATF membership has been one criterion identified to help India move towards a sufficient anti-money laundering and terrorist financing (AML/CTF) regime required by the U.S. Federal Reserve Board in making determinations on foreign bank branch applications. In this context, the GOI is seeking to amend the PMLA to block terrorism financing through banking and financial institution channels. After PMLA changes are fully enacted, the Securities and Exchange Board of India (SEBI) Act will also be revised to include similar offenses.

The Central Bureau of Investigation (CBI), the Directorate of Revenue Intelligence (DRI), Customs and Excise, RBI, the Competent Authority, and the MOF are all active in anti-money laundering efforts. During 2004, 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 Department of Enforcement. During 2005, the Directorate of Enforcement (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. For example, banks are beginning to hire compliance officers to ensure that anti-money laundering regulations are being observed. The RBI issued a notice in 2002 to commercial banks instructing them to adopt the due diligence 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 proof of identity when opening a bank account. Banks also

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require that the source of funds must be declared if the deposit is more than \$10,000. Finally, banks must report suspicious transactions.

Since March 2006, the FIU has been receiving reports on suspicious transactions and cash flows from banks, financial institutions, and intermediaries involving over USD \$22,490. About 50 percent of such transactions are reported electronically by public and private banks (led by the large private banks) while the other institutions are only equipped to report manually. The FIU is in the process of developing a secure gateway for submission of electronic STRs which should be in place by December 2007.

A circular to all intermediaries registered with SEBI was issued on the obligations to prevent money laundering. The circular included information on the maintenance of records, preservation of information with respect to certain transactions, and reporting to the Director of the FIU suspicious cash flows and financial transactions.

The GOI has the power to order banks to freeze assets. In November 2004, the RBI issued a circular updating its due diligence 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 UNSCR 1267 Sanctions Committee's consolidated list is routinely circulated to all financial institutions. The RBI also asked all commercial banks to become FATF-compliant in terms of customer identification for existing as well as new accounts. These guidelines went into effect in December 2005. Banks have been enforcing the guidelines strictly with new customers and gradually phasing in the procedures with old customers. High-risk accounts are subject to intense monitoring.

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. The OBUs include overseas companies, partnership firms, societies, and other corporate bodies. OBUs must be audited to confirm 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; however, the auditing firm is not required to obtain government approval.

The CBI is a member of INTERPOL. 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.

GOI regulations governing charities remain antiquated and the process by which charities are governed at the provincial and regional levels remain weak. The GOI does require charities to register with the state-based Registrar of Societies, and, if seeking tax exempt status, they must apply separately with the Exemptions Department of the Central Board of Direct Taxes. There remain no guidelines or provisions governing the oversight of charities for AML/CFT purposes, and there remains a need for increased integration between charities regulators and law enforcement authorities regarding the threat of terrorist finance. 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. 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 such as criminalization of terrorist financing.

India is a party to the 1988 UN Drug Convention, and is a member of the Asia/Pacific Group (APG) on Money Laundering. India implements the 1988 UN Drug Convention through amendments to the

NDPSA (in 1989 and 2001) and the PMLA. 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 took effect in October 2005. India has also signed a police and security cooperation protocol with Turkey that provides for joint efforts to combat money laundering. The GOI is implementing this convention through the Unlawful Activities Prevention Act.

Since terrorist financing in India is linked to the hawala system, the Government of India should cooperate fully with international initiatives to provide increased transparency in alternative remittance systems, and, if necessary should initiate regulation and increase law enforcement actions in this area. India should examine the scope of its citizens' involvement in the illicit international diamond trade. It also needs to quickly finalize the implementation of regulations to the anti-money laundering law and ensure that the new FIU is fully operational. Meaningful tax reform will also assist in negating the popularity of hawala and lessen money laundering. Increased enforcement action should also be taken in order to effectively combat trade-based money laundering. Additionally, 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 nondrug criminal activity such as gambling, prostitution, bank fraud, piracy and counterfeiting, illegal logging, and corruption. Indonesia also has a long history of smuggling, a practice 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 and subsequent special FATF monitoring on February 11, 2006. The removal of Indonesia from the NCCT list and special monitoring recognized a concerted, interagency effort-supported 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, analyzes, and evaluates currency and suspicious financial transactions, provides advice and assistance to relevant authorities, and issues publications. As of November 30, 2006 the PPATK has received approximately 6,884 suspicious transactions reports (STRs) from 115 banks and 47 nonbank financial institutions. The volume of STRs has increased from an average of 70 per month in 2004 to 324 per month in 2006. The agency also reported that it had received over 1.9 million cash transaction reports (CTRs). Based on their analysis of 608 STRs, PPATK investigators have referred 417 cases to the police. Based on referrals of STRs and other related information from the PPATK, there have been over 30 convictions for money laundering or its predicate crimes, including six for money laundering only. Of the six money laundering convictions, three were handed down in January and included sentences between five to seven years.

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

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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 nonbank financial sector, police, prosecutors and judges; cash smuggling; and regulation of charities and money changers. In July 2006, the Asia Pacific Group (APG) named PPATK Chairman Yunus Husein a co-chair of the regional FATF style organization for a two-year term. In November 2006, Indonesia hosted the annual APG Typologies Workshop.

The PPATK is actively pursuing broader cooperation with relevant GOI agencies. The PPATK has signed ten 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 Ministry of Finance Directorate General of Financial Institutions, the Directorate General of Taxation, Director General for Customs and Excise, the Ministry of Forestry Center for International Forestry Research, the Indonesian National Police, the Supreme Audit Board (BPK), 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. However, weak human and technical capacity, poor interagency cooperation, and corruption, still remain significant impediments to the continuing development of an effective and credible AML regime.

Banks and other financial institutions now routinely question the sources of funds or require identification of depositors or beneficial owners. Financial reporting requirements were put in place 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, making 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 financing.

In September 2003, Parliament passed Law No. 25/2003 amending Law No. 15/2002 Concerning the Crime of Money Laundering in order to address 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. 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. The amendment expands the scope of regulations requiring STRs to include attempted or unfinished transactions. The amendment also shortens the time to file an STR to three days or less after the discovery of an indication of a suspicious transaction. The amendment 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 \$110,000). 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. In March 2006, the GOI enacted Indonesia's first Mutual Legal Assistance (MLA) Law (No. 1/2006), establishing formal, binding procedures to facilitate MLA with 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 \$11,000). The regulation defines suspicious transactions according to a 39-point matrix that includes key indicators such as unusual cash transactions, unusual ownership patterns, or unexplained changes in transactional behavior. BI specifically requires banks to treat as suspicious any transactions to or from countries “connected with the production, processing and/or market for drugs or terrorism.”

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 Sanctions on the Implementation of KYC and other Obligations Related to Law on Money Laundering Crimes. BI is also preparing Guidelines for Money Changers on Record Keeping and Reporting Procedures, and Money Changer Examinations to be 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 \$11,000) or more, or the equivalent in another currency, which must be reported to the Director General of Customs and Excise. 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, and requires individuals who import or export more than rupiah 50 to 100 million in cash (approximately \$5,500-\$11,000) to report such transactions to Customs. This information is to be declared on the Indonesian Customs Declaration (BC2.2). As of October 2006, the PPATK has received more than 1,200 reports from Customs on cross border cash carrying issues. The reports came from five entry points as follows: Batam Port, Jakarta’s Soekarno Hatta Airport, Tanjung Balai Karimun Port, Ngurah Rai Bali Airport, and Husein Sastranegara Bandung Airport.

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. Article 15 of the 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 regulation 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 is sought. In cases when money laundering is the alleged crime, however, bank secrecy laws would not apply, according to the anti-money laundering law.

The GOI has 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 or more 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 the 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.

In August, 2006, the GOI enacted Indonesia's first Witness and Victim Protection Law (No. 13/2006). Indonesia's AML Law and Government Implementing Regulation No. 57/2003 also provides protection to whistleblowers and witnesses.

In October 2006, the GOI submitted to Parliament 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.

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, such as charitable and nonprofit entities in its strategy to combat terrorist finance and money laundering. The PPATK has issued guidelines for nonbank 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 has initiated a dialogue with charities and nonprofit entities to enhance 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. In June, 2006, Indonesia became a party to the UN International Convention for the Suppression of the Financing of Terrorism.

In June 2004, the PPATK became a member of the Egmont Group and, as such, is committed to the Group's established Principles governing the exchange of financial intelligence with other members. The PPATK is actively pursuing broader cooperation through the MOU process with approximately twenty other FIUs. 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 Matters 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 highest levels of GOI leadership should continue to demonstrate strong support for strengthening Indonesia's anti-money laundering regime. In particular, the GOI must continue to improve capacity and interagency cooperation in analyzing suspicious and cash transactions, investigating and

prosecuting cases, and achieving deterrent levels of convictions and custodial and administrative sentences and penalties. As part of this effort, 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 reassess and streamline its processes for reviewing UN designations and for identifying, freezing and seizing terrorist assets. The GOI should expand its list of predicate crimes for money laundering. Indonesia should also become a party to the UN Convention against Transnational Organized Crime.

Iran

Iran is not a regional financial center. Iran's economy is marked by an inefficient state sector, over-reliance on the petroleum industry—Iran's huge oil and gas reserves produce 60 percent of government revenue—and state-centered policies that cause major distortions in the economy. Reportedly, a prominent Iranian banking official estimates that money laundering encompasses an estimated 20 percent of Iran's economy. There are other reports that over \$11 billion a year is laundered via smuggling commodities in Iran and over \$6 billion is laundered by international criminal networks. The World Bank reports that about 19 percent of Iran's GDP pertains to unofficial economic activities. Money laundering in Iran encompasses narcotics trafficking, smuggling, trade fraud, counterfeit merchandise and intellectual property rights violations, cigarette smuggling, trafficking in persons, hawala, capital flight, and tax evasion.

After the Iranian Revolution of 1979, the Government of Iran (GOI) nationalized the country's banks, leaving a total of six banks: Bank Refah, Bank Melli Iran, Bank Saderat, Bank Tejarat, Bank Mellat and Bank Sepah, and three specialized institutions, Bank Keshavarzi, Bank Maskan and Bank Sanat va Madden. No foreign banks were allowed to operate in the country. Since 1983, consistent with Islamic law, banks have been prohibited from paying interest on deposits or charging interest on loans. However, alternative financial instruments were developed including profit-sharing and financing based on trade. In 1994, Iran authorized the creation of private credit institutions. Licenses for these banks were first granted in 2001. Currently, these banks include Larafarinan, Parsian, Saman Eghtesad and Eghtesade Novin. Standard Chartered Bank became the first foreign bank to be awarded a license to establish a branch in Iran, although this was limited to Kish, a free-zone island. Currently, some 40 international banks have representative offices in Iran, which may undertake lending but not accept deposits.

There are currently no meaningful anti-money laundering (AML) controls on the Iranian banking system. The Central Bank of Iran (CBI) has issued AML circulars that address suspicious activity reporting and other procedures that demonstrate an awareness of international standards, but there is a lack of implementation. In 2003, the Majlis (Parliament) reportedly passed an anti-money laundering act. The act includes customer identification requirements, mandatory record keeping for five years after the opening of accounts, and the reporting of suspicious activities. However, the act has not been implemented due to reported pressure by vested interests within the government.

Iran has reported to the United Nations that it has established a financial intelligence unit (FIU). However, Iran has not provided any documentation or details on the FIU.

The U.S. Department of State has designated Iran as a State Sponsor of Terrorism. On September 8, 2006 the U.S. Treasury Department issued a regulation prohibiting U.S. financial institutions from handling any assets, directly or indirectly, relating to Iran's Bank Saderat, based on evidence of its involvement in transferring funds to terrorist groups. Bank Saderat is one of Iran's largest with approximately 3,400 branches.

On January 9, 2007, the U.S. Treasury Department imposed sanctions against Bank Sepah, a state-owned Iranian financial institution for providing support and services to designated Iranian

proliferation firms, particularly Iran's missile procurement network. Bank Sepah is the fifth largest Iranian state-owned bank with more than 290 domestic branches as well as international branches in Europe.

Iran has a very large underground economy, which is spurred by restrictive taxation, widespread smuggling, currency exchange controls, capital flight, and a large Iranian expatriate community. Anyone engaging in transfers or transactions of foreign currency into or out of Iran must abide by CBI regulations, including registration and licensing. Those who do not are subject to temporary or permanent closure. The regulations and circulars address money transfer businesses, including hawaladars. However, underground hawala and moneylenders in the bazaar are active in Iran. Since there is an absence of an adequate banking system and working capital, the popular informal system meets the need for currency exchange and money lending. Many hawaladars and traditional bazaari are linked directly to the regional hawala hub in Dubai. Countervaluation in hawala transactions is often accomplished via trade. The trade and smuggling of goods into Iranian commerce leads to a significant amount of trade-based money laundering and value transfer.

Iran's real estate market is often used to launder money. Often times, real estate settlements and payment are made overseas. In addition, there are reports that a massive amount of Iranian capital has been invested in the United Arab Emirates, particularly in Dubai real estate.

Via a transit trade agreement, goods purchased primarily in Dubai are sent to ports in southern Iran and then via land routes to markets in Afghanistan. There are reports that the transit trade facilitates the laundering of Afghan narcotics proceeds. According to the United Nations Office on Drugs and Crime, approximately 60 percent of Afghanistan's opium is trafficked across Iran's border. Reportedly, Iran has an estimated 3 million drug users and the worst heroin addiction rate in the world. Opiates not intended for the Iranian domestic market transit Iran to Turkey, where the morphine base is converted to heroin. Heroin and hashish are delivered to buyers located in Turkey. The drugs are then shipped to the international market, primarily Europe. In Iran and elsewhere in the region, proceeds from narcotics sales are sometimes exchanged for trade goods via value transfer.

Iran's "bonyads," or charitable religious foundations, were originally established at the time of the Iranian revolution to help the poor. They have rapidly expanded beyond their original mandate. Although still funded, in part, by Islamic charitable contributions, today's bonyads monopolize Iranian import-export concerns and major industries including petroleum, automobiles, hotels, and banks. Bonyad conglomerates account for a substantial percentage of Iran's gross national product. Individual bonyads such as Imman Reza Foundation and the Martyrs' Foundation have billions of dollars in assets. Mullahs direct the bonyad foundations. Given the low rate of capital accumulation in the Iranian economy, the foundations constitute one of the few governmental institutions for internal economic investment. Reportedly, the bonyads stifle entrepreneurs not affiliated with them due to the bonyads' favored status, which includes exemption from taxes, the granting of favorable exchange rates, and lack of accounting oversight by the Iranian government. Corruption is widespread throughout Iranian society; at the highest levels of government, favored individuals and families benefit from "baksheesh" deals. Iran is ranked 106 out of 163 countries listed in Transparency International's 2006 Corruption Perception Index. Despite some limited attempts at reforming bonyads, there has been little transparency or substantive progress. Bonyads have been involved in funding terrorist organizations and serving as fronts for the procurement of nuclear capacity and prohibited weapons and technology.

Iran is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Iran has signed but not ratified the UN Convention Against Corruption. It has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Iran should construct and implement a viable anti-money laundering and terrorist finance regime that adheres to international standards. Iran should be more active in countering regional smuggling. Iran should implement meaningful reforms in bonyads that promote transparency and accountability. Iran should create an anti-corruption law with strict penalties and enforcement, applying it equally to figures with close ties to the government and the clerical communities. It should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Iran should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism. Iran should not support terrorism or the funding of terrorism.

Iraq

Iraq's economy is cash-based. There is little data available on the extent of money laundering in Iraq. However, cross-border smuggling is widespread, including the smuggling of bulk cash. Iraq is a major market for smuggled cigarettes and counterfeit goods, and money is laundered from intellectual property right violations. There is a large market for stolen cars from Europe and the United States. Ransoms generated from kidnapping generate tens of millions of dollars every year. Kidnappings are linked to human exploitation and terrorist finance. Iraq is a source country for human trafficking. Trade-based money laundering, customs fraud, and value transfer are found in the underground economy and are commonly used in informal value transfer systems such as hawala. Hawala networks are prevalent and are widely used in Iraq and the region. Cash, trade-based money laundering, and hawala are all components of terrorist and insurgent finance found in Iraq. In early 2006, the Iraqi oil ministry estimated that ten percent of the \$4 billion to \$5 billion in fuel imported for public consumption at subsidized rates in 2005 was smuggled internally and out of the country for resale at market rates. Moreover, there are reports that approximately ten percent of all oil smuggling profits are going to insurgents. Subsidy scams and black market sales also exist for gasoline, kerosene, and cooking fuel. Corruption is a severe problem that permeates society and commerce and is also found at the highest levels of government and other institutions. Transparency International's 2006 International Corruption Perception Index listed Iraq 161 out of 163 countries surveyed. The formal financial sector is growing and at least ten new banks, both domestic and international, have been licensed to operate in Iraq. The two state-owned banks control at least 90 percent of the banking sector.

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 to by Iraqi leaders, the Transitional Administrative Law (TAL) described 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, also provides for the continuation of existing laws, including CPA regulations and orders that govern money laundering.

The CPA Order No. 93, "Anti-Money Laundering Act of 2004" (AMLA) 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 AMLA covers: banks; investment funds; securities dealers; insurance entities; money transmitters and foreign currency exchange dealers, 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 dinars (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 any transaction over four million Iraqi dinar (approximately \$3,000) that is believed to 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 and which has 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. 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 was mandated by the AMLA 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 AMLA 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 dinars (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 AMLA 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 AMLA calls for the establishment of the Money Laundering Reporting Office (MLRO) within the CBI. The MLRO was recently formed in June/July 2006 and has a small but dedicated staff. The CBI and representatives from the United States are working together to build the MLRO’s 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 CBI and its MLRO finalized implementing regulations to the AMLA, which became effective September 15, 2006.

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 AMLA 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 AMLA have been reported to date.

The AMLA includes provisions for the forfeiture of any property. Such property includes, but is 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. The AMLA 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 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 the goods are 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.

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.

In 2006, in a challenging environment, the Government of Iraq continued to lay the foundation for anti-money laundering and counterterrorist finance regimes. In these efforts, there was strong cooperation with the U.S. Government. However, there is much work ahead. Iraq should become a party to the UN Conventions for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. It should take a more active part in MENAFATF and implement its recommendations. Iraq should continue its efforts to build capacity and actively implement the provisions of the AMLA and related authorities. As a priority, as Iraq's MLRO becomes fully functional, it should develop increased capacity to investigate financial crimes and enforce the provisions of the AMLA. Iraqi law enforcement, border authorities, and customs service should strengthen border enforcement and identify and pursue smuggling and trade-based money laundering networks. Increased border enforcement is also a prerequisite in combating terrorist finance. Iraq should also take concerted steps to combat corruption.

Ireland

Ireland is an increasingly significant European financial hub, with the international banking and financial services sector concentrated in Dublin's International Financial Services Centre (IFSC). Narcotics trafficking, fraud, and tax offenses are the primary sources of funds laundered in Ireland. Money laundering occurs in credit institutions, although launderers have also made use of money remittance companies, solicitors, accountants, and second-hand car dealerships. The most common laundering methods are: the purchase of high-value goods for cash; the use of credit institutions to receive and transfer funds in and out of Ireland; the use of complex company structures to filter funds; and the purchase of properties in Ireland and abroad.

The Shannon Free Zone was established in 1960 as a free trade zone, offering investment incentives for multinational companies. The Shannon Free Zone is supervised by "Shannon Development," a government-founded body. Reportedly, there are no indications that the Shannon Free Zone is being used in trade-based money laundering schemes or by financiers of terrorism.

The international banking and financial services sector concentrated in Dublin's International Financial Services Centre (IFSC). In 2006, 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 use of offshore bank accounts, the creation of shell corporations and trusts, all of which obfuscate the true beneficial owner are additional sources of money laundering that represent significant vulnerabilities common to

jurisdictions that offer offshore financial services. Casinos, including internet casinos, are illegal in Ireland. Private gaming clubs, however, operate casino-like facilities that fall outside the scope of the law.

Ireland criminalized money laundering relating to narcotics trafficking and all indictable offenses under the 1994 Criminal Justice Act. 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. There is no monetary threshold for reporting suspicious transactions. Designated entities submit suspicious transaction reports (STRs) to the Garda (Irish Police) Bureau of Fraud Investigation, Ireland's Financial Intelligence Unit (FIU). In 2003, a new legal requirement went into effect, mandating that covered institutions file STRs with the Revenue (Tax) Department in addition to the FIU.

Financial institutions are 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 Second European Union (EU) Money Laundering Directive. Ireland's Customer Due Diligence requires designated entities to take measures to identify customers when opening new accounts or conducting transactions exceeding 13,000 euros (approximately \$17,000). These requirements do not extend to existing customers prior to May 1995 except in cases where authorities suspect that money laundering or another financial crime is involved.

The Corporate Law, amended in 1999, requires that every company applying for registration in Ireland must demonstrate that it intends to carry on an activity in the country. Companies must maintain an Irish resident director at all times, or post a bond as a surety for failure to comply with the appropriate company law. In addition, the law limits the number of directorships that any one person can hold to 25, with certain exemptions. This limitation aims to curb the use of nominee directors as a means of disguising beneficial ownership or control.

The Company Law Enforcement Act 2001 (Company Act) established the Office of the Director of Corporate Enforcement (ODCE). The ODCE investigates and enforces provisions of the Company Act. Under the law, directors of a company must be named, and the ODCE has power to establish the company's beneficial ownership and control. 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 secured the conviction of 30 company directors and other individuals on 49 charges for breaching various requirements of the Company Act. In addition, 21 company officers were disqualified from eligibility for a lead position in companies for periods ranging from one to 10 years.

The Third EU Money Laundering Directive entered into force in December 2005 and must be transposed into Irish law by December 2007. The Government of Ireland (GOI) is likely to implement new legislation to address customer due diligence, the identification of beneficial owners, politically exposed persons, and the designation of trusts.

A Mutual Evaluation conducted in 2005 by the Financial Action Task Force (FATF) which was published in 2006 noted that Ireland's money laundering definition met the FATF requirements. The mutual evaluation report (MER) acknowledged that Ireland achieved a high standing in anti-money laundering legal structures and international cooperation, although the number of money laundering prosecutions and convictions was low.

The Irish Financial Services Regulatory Authority (IFSRA), the financial regulator, is a component of the Central Bank and Financial Services Authority of Ireland (CBFSAI) and is responsible for supervising the financial institutions for compliance with money laundering procedures. IFSRA is obliged to report to the FIU and the Revenue Commissioners regarding any suspected breaches of the

Criminal Justice Act 1994 by the institutions under its supervision. Such reports cover suspicion of money laundering and terrorism financing, 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. 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.

Ireland currently has no legislative requirement to report cross-border transportation of currency or bearer-negotiable instruments, although reportedly the government is likely to introduce customs reporting requirements in 2007 for those transporting more than euro 10,000 (approximately \$12,900) into or out of the EU. In addition, movements of gold, precious metals, and precious stones into or out of the EU when Ireland is the initial entry or final exit point must be reported to Irish Customs. The FIU will have access to these reports.

Ireland estimates that up to 80 percent of STRs may involve tax violations. Value Added Tax (VAT) Intra-Community Missing Trader Fraud is extensive within the EU, and there is evidence in several fraud investigations that conduit traders involved in the supply chain have been established in Ireland. This particular fraud is a systematic criminal attack on the VAT system, detected in many EU countries, in which criminals obtain VAT registration to acquire goods VAT free from other Member States. They then sell on the goods at VAT inclusive prices and disappear without remitting the VAT paid by their customers to the tax authorities.

Ireland's FIU analyzes financial disclosures, and disseminates them for investigation. There are no legal provisions, however, governing the time period within which an STR must be filed; rather, the requirement is to submit the STR before a suspicious transaction is finalized. The MER found that Ireland's FIU, as a whole, met the requirements of the FATF methodology, but had limited technical and human resources to manage and evaluate STRs effectively.

In 2005, the FIU received 10,735 STRs, in comparison with 5,491 in 2004 and 4,254 in 2003. 2005 saw eight prosecutions for money laundering and three convictions. In 2006, three people were convicted for money laundering. A conviction on charges of money laundering carries a maximum penalty of 14 years' imprisonment and an unlimited fine. The lengthiest penalty applied for a money laundering conviction to date has been six years. Under certain circumstances, the High Court can freeze, and, where appropriate, seize the proceeds of crimes.

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 the Garda, Tax, Customs, and Social Security Agencies. Under the 1996 Proceeds of Crime Act, specified property valued in excess of 13,000 euro (approximately \$17,000) may be frozen for seven years, unless the court is satisfied that all or part of the property is not criminal proceeds. In February 2005, the Proceeds of Crime (Amendment) Act 2005 came into effect, enabling the authorities, with the consent of the High Court and the parties concerned, to dispose of assets without having to await the expiry of seven years. To date, the authorities have executed five such consent orders. This Act also allows foreign criminality to be taken into account in assessing whether assets are the proceeds of criminal conduct. In 2005, the CAB obtained final and interim restraint orders on assets valued at approximately \$76 million. The Proceeds of Crime (Amendment) Act 2005 has a specific provision that allows the CAB to cooperate with agencies in other jurisdictions, which should strengthen Irish cooperation with asset recovery agencies in the UK, including Northern Ireland.

In March 2005, the Irish government enhanced its capacity to address international terrorism with the enactment of the Criminal Justice (Terrorism Offenses) Act. This legislation brought Ireland in line with United Nations Conventions and European Union Framework decisions on combating terrorism. In addition, the IFSRA works with the Department of Finance to draft guidance for regulated institutions on combating and preventing terrorist financing. The authorities revised and issued the

guidance to institutions upon the passage of the Criminal Justice Act in 2005. Implementation of the new antiterrorism legislation and its anti-money laundering law amendments, in addition to stringent enforcement of all such initiatives, should enhance Ireland's efforts to maintain an effective anti-money laundering program.

To date, there have been no prosecutions for terrorism offenses under the Criminal Justice Act. The 2006 FATF MER noted that the Act neglects to cover funding of either a terrorist acting alone or two terrorists acting in concert. The MER also noted inadequate implementation of UN Security Council Resolution (UNSCR) 1373, in that Ireland relies exclusively on an EU listing system without subsidiary mechanisms to deal with terrorists on the list who are European citizens (the EU Regulations do not apply for freezing purposes to such persons) or with persons designated as terrorists by other jurisdictions who are not on the EU list. The Criminal Justice (Terrorism Offenses) Act imposes evidentiary requirements contrary to obligations under UNSCR 1373 to freeze all funds and assets of individuals who commit terrorist acts, whether or not there is evidence that those particular funds are intended for use in terrorist acts.

The Garda can apply to the courts to freeze assets when certain evidentiary requirements are met. From 2001 through 2006, Ireland had reported to the European Commission the names of five individuals (most recently in 2004) who maintained a total of seven 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 was approximately \$6,400.

In July 2005, 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 that were concluded in 2003. The instruments signed by Ireland 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. In November 2006, Ireland extradited a U.S. citizen, the first successful case in the last eighteen requests. The new MLAT instrument signed in July 2005 provides for searches of suspect foreign located bank accounts, joint investigative teams, and testimony by video-link.

Ireland is a member of the FATF, and its 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.

The GOI should enact legislation to disallow the establishment of "shell" companies. 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. Ireland should increase the technical and human resources provided to the FIU in order to manage and evaluate STRs effectively. The GOI should enact legislation that covers funding of a terrorist acting alone and funding of two terrorists acting in concert, as well as legislation fully implementing UNSCR 1373. To this end, Ireland should remove the evidentiary requirements acting as obstacles to full compliance, as well as circulate the UN and the U.S. lists to its regulators and obligated entities.

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. 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.

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.

Money Laundering and Financial Crimes

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, real estate, gaming/lotteries, and insurance. In 2006, the FIU received approximately 1,625 suspicious transaction reports (STRs); in 2005 the FIU received 2,265 STRs and in 2004 it received 2,315 STRs. In 2006, the FIU referred approximately 16 percent of the STRs to the United Kingdom, 10 percent to other European jurisdictions and 15 percent to non-European jurisdictions as referrals to law enforcement for investigation. The Isle of Man's International Co-operation team responded to 70 letters of request (from January to November 2006), under Mutual Legal Assistance Treaties (MLATs). The International Co-operation team responded to 103 requests for information in 2005 and 115 requests in 2004. 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 2006, there were two individuals charged for money laundering offences involving narcotics. The FCU also has three additional investigations on-going relating to money laundering offences involving fraud.

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 revise its Criminal Justice Act along similar lines. The new amendments are under consideration and are expected to come into force in 2007.

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 should continue to protect the integrity of the Island's financial system by aggressively identifying, investigating, and prosecuting those involved with money laundering and other financial crimes. The Isle of Man should continue to work with international anti-money laundering authorities to deter financial crime and the financing of terrorism and terrorists.

Israel

Despite its relatively high GDP, per capita income, and developed financial markets, 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 the Far East. Reportedly, 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 financial crime investigations in 2006 were related to the intentional failure to report major financial transactions, or the falsification of transaction reports—particularly property transactions. Israel does not have free trade zones and is not considered an offshore financial center, as offshore

banks and other forms of exempt or shell companies are not permitted. Bearer shares, however, are permitted for banks and/or for companies.

In August, 2000, Israel enacted its anti-money laundering legislation, the “Prohibition on Money Laundering Law” (PMLL), (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 2001, Israel adopted 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) (approximately \$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 any other methods, including cash couriers. This offense is punishable by up to six months imprisonment or a fine of NIS 202,000 (approximately \$43,400), or ten times the amount that was not declared, whichever is higher. Alternatively, an administrative sanction of NIS 101,000 (approximately \$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 (approximately \$10,500), lowered the document retention threshold to NIS 10,000 (approximately \$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 (Shin Bet). The PMLL also authorized the issuance of regulations requiring financial service providers to identify, report, and keep records for specified transactions for seven years.

In April 2006, the Justice Ministry proposed an amendment to the PMLL that extends Israel’s Anti-Money Laundering (AML) regime to cover its substantial diamond trading industry. The amendment defines “dealers in precious stones” as those merchants whose annual transactions reach NIS 50,000 (approximately \$11,800). It places significant obligations on dealers to verify the identity of their clients, report all transactions above a designated threshold (and all unusual client activity) to IMPA, as well as maintain all transaction records and client identification for at least five years. This proposal has not yet been passed into legislation by the Knesset.

In October 2006, the Knesset Committee on Constitution, Law and Justice approved an amendment to the Banking Order and the Regulations on the Prohibition on Financing Terrorism. The Order and Regulations were additional steps in the legislation intended to combat the financing of terrorism

while maintaining correspondent and other types of banking relationships between Israeli and Palestinian commercial banks. Although the amendment to the Order and the Regulations impose serious obligations on banks to examine clients and file transaction reports, banks are still exempted from criminal liability if, *inter alia*, they fulfill all of their obligations under the order. The Banking Order was expanded to cover the prohibition on financing terrorism to include obligations to check the identification of parties to a transaction against declared terrorists and terrorist organizations, as well as obligations of reporting by size and type of transaction. The Banking Order sets the minimum size of a transaction that must be reported at NIS 5,000 (approximately \$1,180) for transactions with a high-risk country or territory. The order also includes examples for unusual financial activity suspected to be related to terrorism, such as transfers from countries with no anti-money laundering or counterterrorist finance (AML/CTF) regime to nonprofit organizations (NGOs) within Israel and the occupied territories.

Another new regulation added in 2006 allows the INP and the Shin Bet to use information provided to them by IMPA to investigate other offenses in addition to money laundering and terror financing. As Israel does not have legislation preventing financial service companies from disclosing client and ownership information to bank supervisors and law enforcement authorities, the new regulation establishes conditions for the use of such information in order to avoid its abuse and to set guidelines for the police and security services. Other legislative initiatives passed in 2006 include provisions to the Combating Criminal Organizations Law, which applies forfeiture and seizure provisions to criminal offenses resulting from trafficking-in-persons.

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 remained a priority objective of the INP in 2006. 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 INP reports no indications of an overall increase in financial crime relative to previous years. In 2006, IMPA reported 77 arrests and five prosecutions relating to money laundering and/or terrorist financing. In one of this year's major AML operations, the INP arrested three senior employees of the Mercantile Discount Bank branch in Ramleh, as well as 23 customers, under suspicion of conspiring to launder tens of millions of shekels earned from extortion and gambling. Another extensive investigation revealed an organized criminal operation that had gained control over several gas stations in the greater Jerusalem area, and was diluting gasoline with other liquids in order to increase profits. The investigation resulted in 12 arrests, property seizures, and an indictment against 28 defendants for filing fictitious invoices amounting to NIS 350 million, and money laundering among other offenses. IMPA reported six other large criminal cases in 2006 totaling over NIS 160 million (approximately \$37,749,310) in laundered money.

In December 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. The Law went into effect in August 2005. The Israeli 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. 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.

Israeli authorities regularly distribute the names of individuals and entities on the UNSCR 1267 Sanctions Committee consolidated list.

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 2006, IMPA received 9,400 suspicious transaction reports. During this period IMPA disseminated 384 intelligence reports to law enforcement agencies and to foreign FIUs in response to requests, and on its own initiative. 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 2006, the INP seized approximately \$12 million in suspected criminal assets, a significant decrease from the \$75 million seized in 2005. 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. In December 2006 Israel ratified the UN Convention against Transnational Organized Crime. Israel has signed but not yet ratified the UN Convention against Corruption. Israel is also in the final stages of domestic approval for its accession to the Second Additional Protocol to the Council of Europe Convention, which is designed to provide more effective and modern means of assisting member states in law enforcement matters. There is a Mutual Legal Assistance Treaty in force between the United States and Israel.

The Government of Israel continues to make progress in strengthening its anti-money laundering and terrorist financing regime in 2006. Israel should continue the aggressive investigation of money laundering activity associated with organized criminal operations and syndicates. Israel should also continue its efforts to address the misuse of the international diamond trade to launder money.

Italy

Italy is not an offshore financial center. Italy is part of the euro area and is fully integrated in the European Union (EU) single market for financial services. 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.

The heavy involvement in international narcotics trafficking of domestic and Italian-based foreign organized crime groups complicates counternarcotics activities. Italy is both 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 Italy and, in many cases, on to third countries. Additional important trafficking groups include other Balkan organized crime entities, as well as Nigerian, Colombian, and other South American trafficking groups.

In addition to the narcotics trade, laundered money originates from myriad criminal activities, such as alien smuggling, contraband cigarette smuggling, pirated goods, extortion, usury, and kidnapping. Financial crimes not directly linked to money laundering, such as credit card and Internet fraud, are increasing.

Money laundering occurs both in the regular banking sector and in the nonbank financial system, including in casinos, money transfer houses, and the gold market. Money launderers predominantly use nonbank financial institutions for the illicit export of currency—primarily U.S. dollars and euros—to be 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. Italy's underground economy in 2002 was an estimated 27 percent of Italian GDP, or approximately 200 billion euros.

According to a 2006 IMF evaluation, Italy's anti-money laundering and counterterrorist financing system is comprehensive. Money laundering is defined as a criminal offense when laundering 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. With approximately 600 money laundering convictions a year, Italy has one of the highest rates of successful prosecutions in the world.

Italy has strict laws on the control of currency deposits in banks. Banks must identify their customers and record any transaction that exceeds 12,500 euros (approximately \$15,000). Bank of Italy mandatory guidelines require the reporting of all suspicious cash transactions, and other activity—such as a third party payment on an international transaction—must be reported 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 or 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 record account data on their own standardized customer databases established within the framework of the anti-money laundering regulation. 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 entities.

Italy has addressed the problem of international transportation of illegal-source currency and monetary instruments by applying the \$15,000-equivalent reporting requirement to cross-border transport of domestic and foreign currencies and negotiable bearer instruments. Reporting is mandatory for cross-border transactions involving negotiable bearer monetary instruments. In any event, financial institutions are required to maintain a uniform anti-money laundering database for all transactions (including wire transfers) over \$15,000 and to submit this data monthly to the Italian Exchange Office (known in Italian as Ufficio Italiano dei Cambi, or UIC). The data is aggregated by class of transaction, and any reference to customers is removed. The UIC analyzes the data and can request specific transaction details if warranted.

In 2005, the UIC received 8,576 suspicious transaction reports (STRs) related to money laundering and 482 related to terrorism finance. Italian law requires that the Anti-Mafia Investigative Unit (DIA) and the Guardia di Finanza (GdF) be informed about almost all STRs, including those that the UIC does not pursue further. The UIC does, however, have the authority to perform a degree of filtering before passing STRs to law enforcement. Law enforcement opened 328 investigations based on STRs, which resulted in 103 prosecutions.

Because of Italy's 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 subject to anti-money laundering regulations. The list now includes accountants, 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. The required implementing regulations for the decree, as far as nonfinancial businesses and professions are concerned, were issued in February 2006 and came into force in April 2006 (Ministerial Decrees no. 141, 142 and 143 of 3.02.2006). However, while Italy now has comprehensive internal auditing and training requirements for its (broadly-defined) financial sector, implementation of these measures by nonbank financial institutions lags behind that of banks, as evidenced by the relatively low number of STRs filed by nonbank financial institutions. As of 2005, according to UIC data, banking institutions submit about

80 per cent of all STRs. Money remittance operators submit 13.5 per cent of the total number of STRs, and all other sectors together account for less than ten per cent.

The UIC, which is an arm of the Bank of Italy (BoI), receives and analyzes STRs filed by covered institutions, and then forwards them to either the Anti-Mafia Investigative Unit (DIA) or the Guardia di Finanza (GdF) (financial police) for further investigation. The UIC compiles a register of financial and nonfinancial intermediaries which carry on activities that could be exposed to money laundering. The UIC has access to the banks' customer database. Investigators from the GdF and other Italian law enforcement agencies must obtain a court order prior to being granted access to the archive. 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 branch of the GdF is the Italian law enforcement agency with primary jurisdiction for conducting financial investigations in Italy. STRs helped lead the GdF to identify \$14,400,000 in laundered money in 2003.

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 nonfinancial assets of organized crime groups can be forfeited. The law allows for forfeiture in both civil and criminal cases. Through October 2004, Italian law enforcement seized more than 160 million euro in forfeited assets due to money laundering.

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 and is involved in negotiations within the EU to enhance asset tracing and seizure.

In October 2001, Italy passed a law decree (subsequently converted into law) that created the Financial Security Committee (FSC), charged with coordinating GOI efforts to track and interdict terrorist financing. FSC members include the Ministries of Finance, Foreign Affairs, Home Affairs, and Justice; the BoI; UIC; CONSOB (Italy's securities market regulator); GdF; the Carabinieri; the National Anti-Mafia Directorate (DNA); and the DIA. The Committee has far-reaching powers that include waiving provisions of the Official Secrecy Act to obtain information from all government ministries.

A second October 2001 law decree (also converted into law) made financing of terrorist activity a criminal offense, with prison terms of between seven and fifteen years. The legislation also requires financial institutions to report suspicious activity related to terrorist financing. Both measures facilitate the freezing of terrorist assets. Per FSC data as of December 2004, 57 accounts have been frozen belonging to 55 persons, totaling \$528,000 under United Nations resolutions relating to terrorist financing. The GOI cooperates fully with efforts by the United States to trace and seize assets. Italy is second in the EU only to the United Kingdom in the number of individual terrorists and terrorist organizations the country has submitted to the UN 1267 Sanctions Committee for designation.

The UIC disseminates to financial institutions the EU, UN, and U.S. Government lists of terrorist groups and individuals. The UIC may provisionally suspend for 48 hours transactions suspected of involving money laundering or terrorist financing. The courts must then act to freeze or seize the assets. Under Italian law, financial and economic assets linked to terrorists can be directly frozen by

the financial intermediary holding them, should the owner be listed under EU regulation. Moreover, assets can be seized through a criminal sequestration order. Courts may issue such orders as part of criminal investigation of crimes linked to international terrorism or by applying administrative seizing measures originally conceived to fight the Mafia. 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. Law no. 15 of January 29, 2006, gave the government authority to implement the EU's Third Money Laundering Directive and to issue provisions to make more effective the freezing of nonfinancial assets belonging to listed terrorist groups and individuals.

In Italy, the term "alternative remittance system" refers to regulated nonbank institutions such as money transfer businesses. Informal remittance systems do exist, primarily to serve Italy's significant immigrant communities, and in some cases are used by Italy-based drug trafficking organizations to transfer narcotics proceeds.

Italy does not regulate charities per se. Primarily for tax purposes, in 1997 Italy created a category of "not-for-profit organizations of social utility" (ONLUS). Such organizations can be associations, foundations or fundraising committees. To be classified as an ONLUS, the organization must register with the Finance Ministry and prepare an annual report. There are currently 19,000 registered entities in the ONLUS category.

Established in 2000, the ONLUS Agency issues guidelines and drafts legislation for the nonprofit sector, alerts other authorities of violations of existing obligations, and confirms de-listings from the ONLUS registry. The ONLUS Agency cooperates with the Finance Ministry in reviewing the conditions for being an ONLUS. The ONLUS Agency has reviewed 1,500 entities and recommended the dissolution of several that were not in compliance with Italian law. Italian authorities believe that there is a low risk of terrorism financing in the Italian nonprofit sector.

Italian cooperation with the United States on money laundering has been exemplary. The United States and Italy have signed a customs assistance agreement, as well as extradition and mutual legal assistance treaties. Both in response to requests under the mutual legal assistance treaty (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. Currently, assets can only be shared bilaterally if agreement is reached on a case-specific basis. In May 2006, however, the U.S. and Italy signed a new bilateral instrument on mutual legal assistance as part of the process of implementing the U.S./EU Agreement on Mutual Legal Assistance, signed in June 2003. Once ratified, the new U.S./Italy bilateral instrument on mutual legal assistance will provide for asset forfeiture and sharing.

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 ratified the UN Convention against Transnational Organized Crime with the passage of Law no. 146 of March 16, 2006.

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. Italy 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.

The Government of 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 nonbank financial institutions, the GOI should improve its training efforts and supervision in this sector. Italian law enforcement agencies should take additional steps to understand and identify underground finance and value transfer methodologies employed by Italy's burgeoning immigrant communities. The GOI should also continue its active participation in multilateral fora dedicated to the global fight against money laundering and terrorist financing.

Jamaica

Jamaica, the foremost producer and exporter of marijuana in the Caribbean, is also a major transit country for cocaine flowing from South America to the United States and other international destinations. Because of its location as a major transit center for cocaine, payments for drugs pass through Jamaica in the form of cash shipments back to South America. The profits from these heavy illegal drug flows must be legitimated and therefore make Jamaica susceptible to money laundering activities and other financial crimes. In 2006, there was not a significant increase in the occurrence of financial crimes; however, there was a noticeable upsurge in advance fee scams and other related fraud schemes.

Jamaica is neither an offshore financial center, nor is it a major money laundering country. 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 majority of funds being laundered in Jamaica are from drug traffickers and elements of organized crime, mainly the profits obtained in their overseas criminal activities. Jamaican banking authorities do not license offshore banks or other forms of exempt or shell companies. However, nominee or anonymous directors and trustees are allowed for companies registered in Jamaica.

Due to scrutiny by banking regulators, 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, as well as legitimate businesses. There is a significant black market for smuggled goods, which is due to tax evasion. Further complicating the ability of the GOJ to track and prevent money laundering and the transit of illegal currency through Jamaica are the hundreds of millions of U.S. dollars in remittances sent home by the substantial Jamaican population overseas.

The two free trade zones that operate in Jamaica are in Montego Bay and Kingston. Due to the demise of the garment industry, the Kingston Free Zone is essentially dormant and only a small amount of warehouse space remains. The Montego Bay Free Zone has a small cluster of information technology companies. There is no indication that either free zone is being used for trade-based money laundering or terrorist financing. There is one gaming entity operating in the free zone; its license does not permit local betting. Domestic casino gambling is permitted in Jamaica.

The Money Laundering Act (MLA), as amended in February 2000, currently governs Jamaica's anti-money laundering regime. The MLA criminalizes money laundering related to narcotics offenses, fraud, firearms trafficking and corruption. Bank secrecy laws exist; however, there are provisions under GOJ law to enable law enforcement access to banking information.

Under the MLA, banks and a wide range of financial institutions (including wire-transfer companies, exchange bureaus, building societies, insurance companies and securities dealers) are required to report suspicious transactions of any amount to Jamaica's financial intelligence unit, the Financial Investigations Division (FID) of the Ministry of Finance. The MLA establishes a five-year record-keeping requirement and requires financial institutions to report all currency transactions over

\$50,000. Exchange bureaus have a reporting threshold of \$8,000. Jamaica's central bank, the Bank of Jamaica, supervises the financial sector for compliance with anti-money laundering provisions.

The FID has operated as the de facto FIU since 2001. Under the draft Proceeds of Crime Act, which is currently being debated before Parliament, the FID will be named as Jamaica's official FIU. Companion legislation to the Act has been drafted to allow the sharing of information with other FIUs. In preparation for its expanded investigative role once the Act is passed, the FID has embarked on a five-stage plan to enhance its capacity in 2006. This includes the installation of a new computer system to process and track cases.

The FID consists of 14 forensic examiners, six police officers who have full arrest powers, a director and five administrative staff. Suspicious transaction reports (STRs) or cash transaction reports (CTRs) that are deemed to warrant further investigation are referred to the Financial Intelligence Division within the FID. Efforts are underway to improve the cooperation between the Tax authorities (TAAD) and the FID. Both the FID and the TAAD units suffer from a lack of adequate resources; therefore, the TAAD's competing priorities—such as revenue collection obligations, a main focus of the GOJ—take precedence over assisting the FID with money laundering investigations.

Jamaica has an ongoing education program to ensure compliance with the mandatory STR requirements. Reporting individuals are protected by law with respect to their cooperation with law enforcement entities. The FID reports that nonbanking financial institutions have a 70 percent compliance rate with money laundering controls. In 2006, 18,311 STRs were filed; of these, 14 were referred to law enforcement for investigation. Since January 2006, seven persons have been arrested and charged with money laundering.

The Jamaican Parliament's 2004 amendments to the Bank of Jamaica Act, the Banking Act, the Financial Institutions Act, and the Building Societies Act improved the governance, examination and supervision of commercial banks and other financial institutions by the Bank of Jamaica. Amendments were also passed to the Financial Services Commission Act, which governs financial entities supervised by the Financial Services Commission. These measures expanded the powers of the authorities to share information, particularly with overseas regulators and law enforcement agencies. The amended Acts provide the legal and policy parameters for the licensing and supervision of financial institutions, and lay the foundation to complement the proposed reforms to the MLA through the enactment of the draft Proceeds of Crime Act.

The GOJ requires customs declaration of currency or monetary instruments over \$10,000 (or its equivalent). The Airport Interdiction Task Force, a joint law enforcement effort by the United States, United Kingdom, Canada and Jamaica, will begin operation in early 2007. The Task Forces focuses, in part, on efforts to combat the movement of large amounts of cash often in shipments totaling hundreds of thousands of U.S. dollars through Jamaica.

Currently, the FID and the Jamaica Constabulary Force (JCF) are the entities responsible for tracing and seizing assets. Law enforcement authorities are hampered by the fact that Jamaica has no civil forfeiture law. Under the 1994 Drug Offenses (Forfeiture of Proceeds) Act, a criminal drug-trafficking conviction is required prior 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.

The Proceeds of Crime Act, when passed, would incorporate the existing provisions of the MLA and would allow for the civil forfeiture of assets related to criminal activity. The Act would expand the confiscation powers of the GOJ and permit, upon conviction, the forfeiture of benefits assessed to have been received by the convicted party within the six years preceding the conviction. The Act would include a provision allowing for the forfeiture of assets related to human trafficking and terrorist financing, and would apply to 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. Under the Act, the proposed division of forfeited assets would distribute one-third of assets to the Ministry of National Security, one-third to the Ministry of Finance, and one-third to the Ministry of Justice.

There was an increase in the amount of both seizures and forfeitures of assets for 2006. In 2006, over \$2 million was seized and \$1.5 million was forfeited, a significant increase over the \$646,000 seized and \$476,000 forfeited in 2005. Nondrug related assets go to a consolidated or general fund, while drug related assets—which totaled \$560,000 in 2006—are placed into a forfeited asset fund, which benefits law enforcement.

The draft Proceeds of Crime Act addresses many of the shortcomings of the GOJ's current legislative anti-money laundering and asset forfeiture regime. However, despite a lack of major opposition to the bill, the Act has been under consideration for a year. The GOJ intends to pass the Act in early 2007.

The Terrorism Prevention Act of 2005 criminalizes the financing of terrorism, consistent with UN Security Council Resolution 1373. Under the Terrorism Prevention Act, the GOJ has the authority to identify, freeze and seize terrorist finance related assets. The FID has the responsibility for investigating terrorist financing. The FID is currently updating its FIU database and will be implementing a system to cross-reference reports from the U.S. Treasury Department's Office of Foreign Asset Control (OFAC) and the UN Sanctions Committee. 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 UN consolidated list have been identified in Jamaica.

The GOJ has not encountered any misuse of charitable or nonprofit entities as conduits for the financing of terrorism. The Ministry of Finance is currently finalizing its risk-assessment report on charitable organizations.

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 UN International Convention for the Suppression of the Financing of Terrorism, the Inter-American Convention against Corruption, and the UN Convention against Transnational Organized Crime. The GOJ has signed, but not ratified, the UN Convention against Corruption. Jamaica is a member of the Caribbean Financial Action Task Force (CFATF) and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The FID is not a member of the Egmont Group of financial intelligence units.

The Government of Jamaica should ensure the swift passage of legislation to improve its anti-money laundering efforts, as well as procedures to enhance asset forfeiture. Jamaica should ensure that the proposed legislative reforms allow for a fully functioning financial intelligence unit that meets the membership criteria of the Egmont Group and other international standards. A more aggressive effort is necessary to bring Jamaica's anti-money laundering and counterterrorist financing regime into line with international standards.

Japan

Japan is the world's second largest economy and 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 drug trafficking and financial crimes: illicit gambling, loan-sharking, extortion, abuse of legitimate corporate activities, internet fraud activities, and all types of property related crimes, often linked to Japan's criminal organizations. U.S. law enforcement investigations

periodically show a link between drug-related money laundering activities in the U.S. and bank accounts in Japan. The number of Internet-related money laundering cases involving Japan is also increasing. In some cases, criminal proceeds were concealed in bank accounts obtained through an Internet market. Laws enacted in 2004 make online sales of bank accounts illegal.

On November 17, 2005, the Japanese government's headquarters for the Promotion of Measures against Transnational Organized Crime and Other Related 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 FATF Forty Recommendations and the FATF Nine Special Recommendations on Terrorist Financing. It is now expected that these recommendations will be promulgated by April 1, 2007, given the probable timing for the Anti-Money Laundering Law currently being drafted by the National Police Agency. In accordance with the FATF Forty Recommendations of 2003, the new Anti-Money Laundering Law will include a wider range of sectors required to submit suspicious transaction reports (STR), including accountants, real estate agents, dealers in precious metals and stones, and certain types of company service providers. The government of Japan is also considering measures to implement the FATF's Special Recommendation Nine, which recommends cross-border currency reporting requirements.

Drug-related money laundering was first criminalized under the Anti-Drug Special Law that took effect July 1992. This law also mandates the filing of STRs 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 predicate offenses such as murder, aggravated assault, extortion, theft, fraud, and kidnapping when it passed the 1999 Anti-Organized Crime Law (AOCL), which took effect in February 2000. The law extends the confiscation laws to include 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.

The AOCL was partially revised in June of 2002 by the "Act on Punishment of Financing to Offences of Public Intimidation," which specifically added the financing of terrorism to the list of money laundering predicates. An amendment to the AOCL was submitted on February 20, 2004 to the Diet for approval, was resubmitted to the Diet in October 2005, 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 the Securities and Exchange Surveillance Commission supervises securities transactions. The FSA classifies and analyzes information on suspicious transactions reported by financial institutions, and provides law enforcement authorities with information relevant to their investigation. Japanese banks and financial institutions are required by law to record and report the identity of customers engaged in large currency transactions. There are no secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement authorities.

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 STRs to JAFIO, which analyzes and disseminates them as appropriate. At the end of 2005, Japan announced plans to transfer JAFIO from the FSA to the National Policy Agency, possibly on April 1, 2007, pending the successful passage of the new Anti-Money Laundering Law.

In 2006, JAFIO received 113,860 STRs, up from the 98,935 STRs received in 2005. In 2006, some 82 percent of the reports were submitted by banks, 7 percent by credit cooperatives, 9 percent from the country's large postal savings system, 0.7 percent from nonbank money lenders, and almost none from insurance companies. In 2006, JAFIO disseminated to law enforcement 71,241 STRs, up from 66,812 STRs disseminated in 2005.

JAFIO concluded international cooperation agreements during 2006 with the FIU's of Australia, Thailand, Hong Kong, Canada and Indonesia. In 2004, JAFIO concluded such cooperation agreements 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. Japanese financial institutions have cooperated with law enforcement agencies, including U.S. and other foreign government agencies investigating financial crimes related to narcotics. In 2006, Japan concluded a Mutual Legal Assistance Treaty (MLAT) with the Republic of Korea. 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. In a high-profile 2006 court case, however, the Tokyo District Court ruled to acquit a Credit Suisse banker of knowingly assisting an organized crime group to launder money despite doubts about whether the banker performed proper customer 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 \$16,950). 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. In January 2007, the Federal Reserve ordered Japan's Sumitomo Mitsui Banking Corp.'s New York branch to address anti-money laundering deficiencies, only a month after similarly citing Bank of Tokyo-Mitsubishi UFJ for anti-money laundering shortcomings.

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 \$8,475), 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 \$1,695) or six months' imprisonment. In January 2007, an amendment to the rule on Customer Identification by Financial Institutions came into

force, whereby financial institutions are now required to identify the originators of wire transfers of over 100,000 yen.

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, enacted in July 2002, added terrorist financing to the list of predicate offenses for money laundering, and provided for the freezing of terrorism-related assets. 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. There have been a large number of investigations into underground banking networks. Reportedly, substantial illicit proceeds have been transferred abroad, particularly to China, North and South Korea, and 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 fully 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. Ratification of this convention would require amendments to Japan's criminal code to permit charges of conspiracy, which is not currently an offense. Minority political parties and Japan's law society have blocked this amendment on at least three occasions. Japan is a member of the Financial Action Task Force. JAFIO joined the Egmont Group of FIUs in 2000. Japan is also a member of the Asia/Pacific Group against 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 money laundering regime, Japan should stringently enforce the Anti-Organized Crime Law. Japan should also enact penalties for noncompliance with the Foreign Exchange and Trade Law, adopt measures to share seized assets with foreign governments, and enact banker "due diligence" provisions. Japan should continue to combat underground financial networks. Since Japan is a major trading power and the misuse of trade is often the facilitator in alternative remittance systems, Japan should take steps to identify and combat trade-based money laundering. Japan should also become a party to the UN Transnational Organized Crime Convention.

Jersey

The Bailiwick of Jersey (BOJ) encompasses part of the Channel Islands and is a Crown Dependency of the United Kingdom. The majority of illicit money in Jersey is derived from foreign criminal activity. Local drug trafficking and corruption of politically exposed persons (PEP) are sources of

illicit proceeds found in the country. Jersey's sophisticated array of offshore services is similar to that of international financial services centers worldwide. Money laundering mostly occurs with Jersey's banking system, investment companies, and local trust companies. As of September 2006, the financial services industry consists of 47 banks, 908 trust companies, 175 insurance companies (largely captive insurance companies), and 1086 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.

The International Monetary Fund (IMF) conducted an assessment of the anti-money laundering regime of Jersey in October 2003. The IMF team found Jersey's Financial Services Commission (JFSC), the financial services regulator, to be in compliance with international standards, but provided recommendations for improvement.

The Jersey Finance and Economics Committee administers the law regulating, supervising, promoting, and developing the Jersey finance industry. The IMF report noted that the Finance and Economics Committee's power to give direction to the JFSC might appear to be a conflict of interest between the two agencies, and suggested that the BOJ establish a separate body to speak for the industry's consumers. The report proposed that Jersey authorities establish rules for banks dealing with market risk, along with a code of conduct for collective investment funds. The IMF report also recommended that the BOJ institute a contingency plan for the failure of a major institution.

Jersey is working to address the issues raised in the report. The JFSC reportedly intends to continue to strengthen its existing regulatory powers and amend the Financial Services Commission Law 1998 to provide legislative support for its inspections. The JFSC also plans to introduce monetary fines for administrative and regulatory breaches. Improvements will also include stricter industry guidelines and tighter enforcement of anti-money laundering and terrorist financing controls.

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 broadens 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 BOJ authorities to investigate terrorist offenses, to cooperate with law enforcement agencies in other jurisdictions, and to seize assets. Jersey passed the Corruption Law 2005 in alignment with the Council of Europe Criminal Law Convention on Corruption. Although the law was registered in May 2006, by the end of 2006 it had not yet come into force.

Suspicious transaction reporting 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 safe harbor provisions in the law. Record keeping requirements mandate that banks and other financial service companies maintain financial records of their customers for a minimum of 10 years. The JFSC has issued anti-money laundering (AML) Guidance Notes that the courts consider when determining whether or not an offense has been committed under the Money Laundering Order. Penalties for a money laundering conviction include imprisonment for a minimum of one year.

After consultation with the financial services industry, the JFSC issued a joint paper with Guernsey and the Isle of Man that recommended proposals to tighten the essential due diligence requirements for financial institutions with regard to their customers. The position paper states the JFSC's insistence on the responsibility of all financial institutions to verify the identity of their customers, regardless of

any intermediary. The paper also outlines a program to obtain verification documentation for customer relationships preceding the Proceeds of Crime (Jersey) Law. Working groups review specific portions of these principles annually and draft AML Guidance Notes to incorporate changes and improvements.

Approximately 31,162 Jersey companies are registered with the Registrar of Companies. In addition to public filings relating to shareholders, the JFSC requires each Jersey-registered company to file details regarding the ultimate beneficial owners. That information is held confidentially but is available to domestic and foreign investigators under appropriate circumstances and in accordance with the law.

A number of companies registered in other jurisdictions are administered in Jersey. "Exempt companies" do not pay Jersey income tax and are only available to nonresidents. Jersey does not provide offshore licenses. All financial businesses must have a presence in Jersey and their management must be located in Jersey. Alternate remittance systems reportedly are not prevalent.

Jersey has established a Financial Intelligence Unit (FIU) known as the Joint Financial Crime Unit (JFCU). This unit receives, investigates, and disseminates suspicious transaction reports (STRs). The unit includes a financial crime analyst as well as officers from Jersey's Police and Customs services. The JFCU received 1,034 STRs in 2006, and 1,162 in 2005. Approximately twenty-five percent of the STRs filed in 2005 and 2006 resulted in further police investigations.

The FIU, in conjunction with the Attorney General's Office, can trace, seize and freeze assets. It can obtain a confiscation order with a proven link to a crime. If the criminal has benefited from a crime, legitimate assets may be forfeited to meet a confiscation order. There is no maximum interval between the freezing of assets and when the assets are released. The Attorney General's Office may apply to the Court to confiscate assets previously frozen. Seized and forfeited proceeds from drug trafficking are placed in a separate fund which is then used to assist law enforcement in the fight against drug trafficking and to support harm reduction programs and education initiatives. Jersey allows limited civil forfeiture relating to cash proceeds of drug trafficking located at the ports and is considering introducing and implementing civil asset forfeiture powers.

Authorities in Jersey do not circulate the names of suspected terrorists and terrorist organizations listed on the United Nations Security Council Resolution (UNSCR) 1267 Sanctions Committee's consolidated list, nor do they circulate the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, the EU designated list, or any other designated list. Institutions in the BOJ are expected to gather information of designated entities from the internet and other public sources. Jersey authorities have implemented sanction orders freezing accounts of individuals connected with terrorist activity.

Jersey's authorities have extensive license to cooperate with other domestic and international law enforcement and regulatory agencies. The JFSC cooperates with regulatory authorities to ensure that financial institutions meet anti-money laundering obligations. In 2005, the JFSC and the Jersey FIU worked together 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. Internationally, the JFSC has 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 U.S.-UK Agreement Concerning the Investigation of Drug Trafficking Offenses and the Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking, as amended in 1994, was extended to Jersey in 1996. Jersey shares forfeited assets with the U.S. pursuant to this agreement, and its laws enable Jersey to share assets in nondrug cases as well. Application of the 1988 UN Drug Convention was extended to Jersey on July 7, 1997. Jersey's FIU is a member of the Egmont Group.

The Bailiwick of Jersey has established an anti-money laundering program that in some instances exceeds international standards, and addresses its particular vulnerabilities to money laundering.

However, Jersey should establish reporting requirements for the cross-border transportation of currency and monetary instruments, and set penalties for violations. Jersey should also take steps to force its obligated entities to obtain verification documents for customers preceding the 1999 requirements. The BOJ should introduce civil asset forfeiture, and implement its new corruption law. Jersey should also ensure that supervisory authorities exist to apply standards and regulations to its port activity and “exempt companies” that are identical to those used in the rest of the jurisdiction. Jersey should take steps toward a more proactive role in fighting terrorism financing by circulating the UNSCR 1267 list as well as other lists, instead of relying on the entities to research names through online public sources. Jersey should continue to demonstrate its commitment to fighting financial crime by enhancing its anti-money laundering/counterterrorist financing regime in these areas of vulnerability.

Jordan

Despite significant growth in its financial services sector, Jordan is neither a regional nor offshore financial center, and is not considered a major venue for international criminal activity. The banking and financial sectors, including money service businesses, are supervised by competent authorities.

The Government of Jordan (GOJ) has yet to enact a comprehensive anti-money laundering law (AML). A draft law has been approved by the legal committee of the lower house of Parliament and there is hope that Parliament will pass the law during the 2006-2007 winter session. Currently, the Central Bank’s suspicious transaction follow-up unit receives reports of suspicious financial activity from banks under the authority of Article 93 of the Banking Law of 2000, which obligates covered persons to notify the Central Bank of any transaction suspected of being related to any “crime or illegitimate act.” In order to comply with international best practices, the Central Bank issued Instructions No. 29/2006 for banks in May 2006 which include important obligations concerning customer due diligence, politically exposed persons, wire transfers, record keeping, suspicious activity reporting, and internal policies and procedures, including the mandatory designation of a money laundering reporting officer. Instructions No.10/2001 impose similar, though less stringent, obligations on money service businesses. Article 52 of the Insurance Regulatory Act of 1999 criminalizes money laundering using insurance instruments. 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.

In November 2006, Jordan’s Parliament enacted an Anti-Terrorism law that prohibits the collection of funds with the intent that they be used in terrorist acts, and Article 147 of the Jordanian Penal Code prohibits banking transactions related to terrorist activity. However, Jordan does not yet have a statutory basis for the administrative freezing of the assets of designated terrorists listed on the UNSCR 1267 Sanctions Committee’s consolidated list. Assets can be frozen and ultimately confiscated as part of a criminal investigation. 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.

Jordanian officials report that financial institutions file suspicious transaction reports and cooperate with prosecutors’ requests for information related to narcotics trafficking and terrorism cases. There have not been any prosecutions or convictions for money laundering or terrorist finance. Legislation creating a Financial Intelligence Unit (FIU) is pending.

Charitable organizations are regulated by the Ministry of Social Development, and are governed by the Charitable Associations and Social Organizations Act of 1966. In accordance with this Act, organizations must register with the Ministry, which has the right to accept or reject the registration and conduct on-site inspections and review financial records. Furthermore, the Collection of Charitable Donations Regulation No. 1 of 1957 requires that all donations must be deposited in a bank

as soon as the collection process ends, and that the Ministry must be informed of the deposit. According to Central Bank Instructions No. 29/2006, banks must verify the identity of any charitable organization wishing to open an account. Moreover, the Penal Code stipulates that whoever collects donations, subscriptions, or contributions for an illicit organization shall be imprisoned for a period not to exceed six months.

There are six public free trade zones (FTZs) operating in Jordan, as well as 26 private FTZs. The FTZs operate under the supervision of the Free Zones Corporation as well as the Customs Department and are governed by the Free Zones Corporation Investment Regulation No. 43 of 1987 as well as the Customs Law. Both the Law and the Regulation prohibit the entrance of illegal material into the zones. The Customs Law grants the Minister of Finance the right to form joint committees comprised of staff from the Customs Department and the Free Zones Corporation to verify and inspect goods to ensure that no contraband is found in free zones. The Customs Law considers removal of goods from the free zones without the necessary customs clearances a smuggling offence. Currently, there is no cross border cash declaration requirement, although such a provision is contained in the draft AML law.

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 yet 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. In January 2007, Jordan assumes the presidency of this FATF-style regional body.

The Government of Jordan should enact a comprehensive anti-money laundering law that adheres to international standards including criminalizing money laundering from all serious crimes. The legislation should establish a Financial Intelligence Unit capable of sharing financial information with foreign counterparts. Jordan should develop a rigorous regime for the freezing, seizing and forfeiture of criminal assets and assets related to the financing of terrorism. The GOJ should become a party to the UN Convention against Transnational Organized Crime. Jordanian law enforcement and customs should examine forms of trade-based money laundering.

Kenya

Kenya does not have an effective legal regime to address money laundering. The Government of Kenya (GOK) has no regulations to freeze/seize criminal or terrorist accounts, and has not passed a law that explicitly outlaws money laundering and creates a financial intelligence unit (FIU). As a regional financial and trade center for Eastern, Central, and Southern Africa, Kenya's economy has large formal and informal sectors. Many entities in Kenya are involved in exporting and importing goods, including a reported 800 registered international nongovernmental organizations (NGOs) managing approximately \$1 billion annually. Annual remittances from expatriate Kenyans are estimated at \$680 -780 million. Individual Kenyans and foreign residents also transfer money out of Kenya. Many transfers are executed via formal channels such as wire services and banks, but there is also a thriving network of cash-based, unrecorded transfers.

Kenya's use as a transit point for international drug traffickers is increasing. Domestic drug abuse is also increasing, especially in Coast Province. Narcotics proceeds are being laundered in Kenya, although the volume has not yet been determined.

Kenya has no offshore banking or Free Trade Zones. Kenya has a large informal sector and a thriving network of cash-based, unrecorded transfers, primarily used by expatriates to send and receive remittances internationally. The large Somali refugee population in Kenya uses a hawala system to send and receive remittances; however, the GOK has no means to monitor hawala transfers.

Section 49 of the Narcotic Drugs and Psychotropic Substance Control Act of 1994 criminalizes money laundering related to narcotics trafficking and makes it punishable by a maximum prison sentence of

14 years. However, no cases of the laundering of funds from narcotics trafficking have ever been successfully prosecuted. The Act, together with Legal Notice No. 4 of 2001, the Central Bank of Kenya (CBK) Guidelines on Prevention of Money Laundering and enabling provisions of other laws, make money laundering a criminal offense but do not create an effective anti-money laundering (AML) regime.

In November 2006, the GOK published a proposed Proceeds of Crime and Anti-Money Laundering Bill. This bill is a revised version of a draft law introduced in 2004. It declares itself to be “An act of Parliament to provide for the offence of money laundering and to introduce measures for combating the offence, to provide for the identification, tracing, freezing, seizure and confiscation of the proceeds of crime.” It defines “proceeds of crime” as any property or economic advantage derived or realized, directly or indirectly, as a result of or in connection with an offence. The draft legislation provides for both criminal and civil restraint, seizure and forfeiture. In addition, the proposed bill would authorize the establishment of an FIU and require financial institutions and nonfinancial businesses or professions, including casinos, real estate agencies, precious metals and stones dealers, and legal professionals and accountants, to file suspicious transaction reports above a certain threshold.

The bill also identifies 30 other statutes to be amended so that they will be consistent with the new bill when it is passed.

The new bill has some deficiencies. It does not mention terrorism, nor does it specifically define “offense” or “crime.” The proposed legislation does not explicitly authorize the seizing of legitimate businesses used to launder money. The requirement that only suspicious transactions above a certain threshold are reported is inconsistent with international standards, which call for suspicious transaction reports to have no monetary threshold. The bill generated more support than the 2004 draft legislation, and senior GOK officials have claimed it is a high priority. However, the GOK did not table the bill in Parliament until November 22, and the bill lapsed when Parliament recessed on December 8. The bill will likely be tabled early in 2007.

The CBK is the regulatory and supervisory authority for Kenya’s deposit-taking institutions and has responsibility for over 51 such entities, 95 foreign exchange bureaus, and mortgage companies and other financial institutions. Casinos are regulated by the Minister of Home Affairs, although its supervision of this sector is believed to be ineffective.

Forex bureaus were established and first licensed in January 1995 to foster competition in the foreign exchange market and to narrow the exchange rate spread in the market. As authorized dealers, forex bureaus conduct business and are regulated under the provisions of the Central Bank of Kenya Act (Cap 491). The CBK subsequently recognized that several bureaus were violating the Forex Bureau Guidelines, including dealing in third party checks and doing telegraphic transfers without the approval of the Central Bank. Those checks and transfers may have been used for fraud, tax evasion and money laundering. The CBK’s Banking Supervision Department therefore issued Central Bank circular No. 1 of 2005 instructing all forex bureaus to cease immediately dealing in telegraphic transfers and third party checks. These new guidelines are issued under Section 33K of the Central Bank of Kenya Act, and took effect on January 1, 2007. They address third party checks and telegraphic transfers, and are also expected to enhance competition among bureaus.

In October 2000, the CBK issued regulations that require deposit-taking institutions to verify the identity of new customers opening an account or conducting a transaction. The Banking Act amendment of December 2001 authorizes disclosure of financial information by the CBK to any monetary authority or financial regulatory authority within or outside Kenya. In 2002, the Kenya Bankers Association (KBA) issued guidelines requiring banks to report suspicious transactions to the CBK. These guidelines do not have the force of law, and only a handful of suspicious transactions have been reported so far. There have been no arrests or prosecutions for money laundering or terrorist financing. Under the regulations, banks must maintain records of transactions over \$100,000 and

international transfers over \$50,000, and report them to the CBK. These regulations do not cover nonbank financial institutions such as money remitters, casinos, or investment companies, and there is no enforcement mechanism behind the regulations. Some commercial banks and foreign exchange bureaus 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 CBK. A law enforcement agency can demand information from any financial institution, if it has obtained a court order. However, a court ruling to penalize a commercial bank in 2002 for disclosing information to the CBK, in response to a court order, made banks wary of reporting suspicious transactions. The contradiction highlights the need for “safe harbor” provisions and a robust anti-money laundering law.

Kenya has little in the way of cross-border currency controls. GOK regulations require that any amount of cash above \$5,000 be disclosed at the point of entry or exit for record-keeping purposes only, but this provision is rarely enforced. The CBK guidelines call for currency exchange bureaus 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.

Kenya’s vulnerability to money laundering was recently demonstrated by investigations revealing that Charterhouse Bank managers had conspired with depositors to evade import duties and taxes and launder the proceeds totaling approximately \$500 million from 1999 to 2006. In June 2006, a member of Parliament tabled a 2004 initial investigation report on Charterhouse Bank by a special CBK investigations team indicating account irregularities, tax evasion and money laundering by some of the bank’s clients. The Ministry of Finance temporarily closed the bank to prevent a run, and the CBK placed Charterhouse Bank under statutory management to preserve records and prevent removal of funds. Subsequent audits and investigations covering the period 1999-2006 found that Charterhouse Bank had violated the CBK’s know-your-customer procedures in over 80 percent of its accounts, and were missing basic details such as the customer’s name, address, ID photo, or signature cards.

Charterhouse Bank also violated the Banking Act and the CBK’s Prudential Guidelines by not properly maintaining records for foreign currency transactions. The bank management’s continual violation of CBK prudential guideline CBK/PG/08 requirements to report suspicious transactions, and its efforts to conceal them from CBK examiners, indicate strongly that bank officials were complicit in these suspicious transactions. Available evidence makes clear that the bank management had, on a large scale, consistently evaded and ignored normal internal controls by allowing many irregular activities to occur. The transfers of funds to the United States and the United Kingdom were done in increments just below reporting thresholds of the receiving banks for large currency transactions, indicating a clear understanding of anti-money laundering controls.

The CBK Governor recommended in October 2006 that the Ministry of Finance revoke Charterhouse Bank’s license so that CBK could liquidate the bank and compensate the innocent account holders. Charterhouse management and depositors filed numerous lawsuits to remove the statutory manager and reopen the bank. The Minister of Finance advised Charterhouse and the CBK that the Ministry would not renew the bank’s license to operate after December 31, 2006. (Bank licenses are annual and expire automatically at the end of each year if not renewed.) Charterhouse’s owners are expected to mount a legal challenge to the bank’s closure.

The Charterhouse Bank investigations revealed the proceeds of large-scale evasion of import duties and taxes had been laundered through the banking system since at least 1999. In addition, the smuggled and/or under-invoiced goods may have been marketed through the normal wholesale and retail sectors. This case indicates that criminals have been taking advantage of Kenya’s inadequate anti-money laundering regime for years by evading oversight and/or by paying off enforcement officials, other government officials, and politicians. There are strong indications that other Kenyan

banks are also involved in similar activities. Reportedly, Kenya's financial system may be laundering over \$100 million each year. However, in 2006 there was not any reported money laundering related arrests, prosecutions, or convictions.

Kenya has not criminalized the financing of terrorism as required by the United Nations Security Council Resolution 1373 and the UN Convention for the Suppression of Financing of Terrorism, to which it is a party. In April 2003, the GOK introduced the Suppression of Terrorism Bill into Parliament. After objections from some public groups that the bill unfairly targeted the Muslim community and unduly restricted civil rights, the GOK withdrew the bill. The GOK redrafted the Anti-Terrorism Bill in 2006 to revise the rejected texts, but Muslim and human rights groups remain convinced the government could use it to commit human rights violations. The draft bill contains provisions that would strengthen the GOK's ability to combat terrorism; however, the GOK has yet to publish the bill or submit it to Parliament.

The CBK does not circulate the list of individuals and entities that have been included on the United Nations (UN) 1267 Sanctions Committee's consolidated list or the United States Office of Foreign Asset Control (OFAC) designated list to the financial institutions it regulates. Instead, it uses its bank inspection process to search for names on the OFAC list of designated people/entities. The CBK and the GOK have no authority to seize or freeze accounts without a court warrant. To date, the CBK has not notified the United States Government of any bank customers identified on the OFAC list.

All charitable and nonprofit organizations are required to register with the government and submit annual reports to the GOK's oversight body, the National Non-Governmental Organization Coordination Bureau. NGOs that are noncompliant with the annual reporting requirements can have their registrations revoked; however, such penalties are rarely imposed. The government revoked the registration of some NGOs with Islamic links in 1998 after the bombing of the U.S. Embassy in Nairobi, only to later re-register them. The Non-Governmental Organization Coordination Bureau lacks the capacity to monitor NGOs and it is suspected that charities and other nonprofit organizations handling millions of dollars are filing inaccurate or no annual reports. The Bureau plans to strengthen its capacity to review NGO registrations and annual reports for suspicious activities in 2007.

Drug trafficking-related asset seizure/forfeiture laws and their enforcement are weak and disjointed. Some underlying money laundering activities are criminalized under various Acts of Parliament. Apart from the seizure of intercepted drugs and narcotics, seizures of assets are rare. 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), the Kenya Revenue Authority (KRA), and the Kenya Anti-Corruption Commission (KACC). Police must obtain a court warrant to demand bank account records or to seize an account. The police must present evidence linking the deposits to a criminal violation. This process is difficult to keep confidential, and as a result of leaks, serves to warn account holders of investigations. Account holders then move their accounts or contest the warrants. Although the KACC Director claimed that KACC had obtained court warrants to seize billions of shillings in 78 bank accounts belonging to corrupt politicians, businessmen and former senior civil servants in September 2006, no action was taken. There is currently no law specifically authorizing the seizure of the financial assets of terrorists.

Kenya 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. In the 2006 Transparency International Corruption Perceptions Index, Kenya is ranked 144 out of 163 countries measured. In 2004, Kenya 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 Financial Action Task Force (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 is developing into a major money laundering country. The Government of Kenya should pass the proposed Proceeds of Crime and Anti-Money Laundering bill that includes the creation of a FIU. The Central Bank, law enforcement agencies, and the Ministry of Finance should work together more closely to enforce existing laws and regulations to combat money laundering, tax evasion, corruption, and smuggling. The Minister of Finance should revoke or refuse to renew the license of any bank found to have knowingly laundered money, and encourage the CBK to tighten its examinations and audits of banks.

Kenyan law enforcement and customs authorities should be trained to recognize and investigate trade-based money laundering methodologies and informal value transfer systems. Kenya should criminalize the financing of terrorism. Kenya should pass a law specifically authorizing the seizure of the financial assets of terrorists. Kenyan authorities should take steps to ensure that NGOs and suspect charities and nonprofit organizations follow international recognized norms regarding transparency and file complete and accurate annual reports.

Korea, Democratic Peoples Republic of

This is a reprint of last year's report as we have received no new information for 2006.

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 SARL 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

The Republic of Korea (ROK) has not been considered an attractive location for international financial crimes or terrorist financing due to foreign exchange controls, although these are gradually being phased out by 2009. 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 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. 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 2006, the government implemented several measures to further strengthen 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 have been required to 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. Since January 2006, financial institutions have also been required to perform enhanced customer due diligence (CDD), thereby strengthening customer identification requirements set out in the Real Name Financial Transaction and Guarantee of Secrecy Act. Under the enhanced CDD guidelines, financial institutions must identify and verify customer identification data, including address and telephone numbers, when opening an account or conducting transactions of 20 million won (\$19,685) or more.

The STR system was strengthened in 2004 with the introduction of a new online electronic reporting system and the lowering of the monetary threshold under which financial institutions must file STRs from 50 to 20 million won (from \$49,213 to \$19,685). Improper disclosure of financial reports is punishable by up to five years imprisonment and a fine of up to 30 million won (\$29,528). Between January 1, 2002, and June 30, 2006, KoFIU received a total of 30,544 STRs from financial institutions. The number of such cases has continued to climb noticeably each year, from 275 STRs in 2002, to 1,744 in 2003, 4,680 in 2004, and 13,459 in 2005. In the first half of 2006, there were 10,386 STRs submitted to KoFIU, a 10 percent increase over the same period in 2005. Since 2002 through the first half of 2006, KoFIU has analyzed 29,626 of these reports and provided 4,268 reports to law enforcement agencies, including the Public Prosecutor's Office (PPO), National Police Agency (NPA), National Tax Service (NTS), Korea Customs Service (KCS), and the Financial Supervisory Commission (FSC). Of the 4,268 cases referred to law enforcement agencies, investigations have been completed in 1,643 cases, with nearly half of those (806 cases) resulting in indictments and prosecution for money laundering.

In addition, KoFIU supervises and inspects the implementation of internal reporting systems established by financial institutions and is charged with coordinating the efforts of other government bodies. 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. In 2006, KoFIU continued to strengthen advanced anti-money laundering measures (such as the STR and CTR systems) to meet global standards such as Clause 5.8 of the Methodology for Assessing Compliance with the Financial Action Task Force (FATF) 40 Recommendations. KoFIU encouraged financial institutions including small-scale credit unions and cooperatives to adopt a differentiated risk-based

CDD system, focusing on types of customers and transactions, by offering them comprehensive training programs.

Money laundering controls are applied to nonbanking financial institutions, such as exchange houses, stock brokerages, casinos, insurance companies, merchant banks, mutual savings, finance companies, credit unions, credit cooperatives, trust companies, and securities companies. Following the late-2005 arrest of a Korean business executive charged with laundering 8.3 billion won (\$8.17 million) to be used to bribe politicians and bureaucrats, KoFIU in 2006 began considering revisions to the Financial Transaction Reports Act to impose anti-money laundering obligations on casinos. 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 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. As of late 2006, two versions of a new counterterrorism bill are pending 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 circulates 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 continue to investigate the underground “hawala” system used primarily to send illegal remittances abroad by South Korea’s approximately 30,000 foreigners from the Middle East as well as thousands of undocumented foreign workers (mainly ethnic Koreans from Mongolia, Uzbekistan, and Russia). Currently, gamblers who bet abroad often use alternative remittance and payment systems; however, government authorities have criminalized those activities through the Foreign Exchange Regulation Act and other laws. According to an October 2006 Korea Customs Service report, 1,159 hawala cases worth 5.26 trillion won (\$4.2 billion) were recorded in 2002; 1,311 cases amounting to 2.2 trillion won (\$1.84 billion) in 2003; 1,917 cases totaling 3.66 trillion (\$3.2 billion) in 2004, and 1,901 cases worth 3.56 trillion won (\$3.47 billion) in 2005. The majority of early hawala cases were related to the U.S. through 2004, but in 2005 the bulk of cases involved Japan (45 percent or \$1.56 billion), followed by the U.S. (25 percent or \$867 million) and the PRC (19 percent or \$674 million).

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 Bank of Korea reported that through September 2006, there were 371 reported cases of counterfeit dollars worth \$36,450, compared to 1060 cases of \$105,440 worth in the first nine months of 2005. Bank experts confirm that the amount of forged U.S. currency is on a sharp decline, reflecting local bank findings that the number of counterfeit \$100 notes found during the first nine months of 2006 - about \$36,100-fell to about one third of that found in the same period of 2005. 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. However, no similar incidents were reported as of late 2006.

South Korea has a number of free economic zones (FEZs) that enjoy certain tax 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 November 2006, 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. In August, 2006, the FATF invited Korea to become an Observer to the organization- the first step in gaining full membership. 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 31 countries/jurisdictions-the latest being Hong Kong-in November 2006.

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. Among other priorities, the government should extend its anti-money laundering regime to nonfinancial institutions such as casinos and informal lending mechanisms widely recognized as potential blind spots. Just as importantly, 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 become increasingly important due to the rapid growth and greater integration of Korea's financial sector into the world economy.

Kuwait

Kuwait continues to experience unprecedented economic growth that is enhancing the country's regional financial influence. Money laundering is not believed to be a significant problem, and reportedly that which does take place is generated largely as revenues from drug and alcohol smuggling into the country and the sale of counterfeit goods. The potential for the financing of terrorism through the misuse of charities continues to be a concern.

Kuwait has ten private local 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 Boubyan Islamic Bank.

The Kuwaiti banking sector opened to foreign competition under the 2001 Direct Foreign Investment Law, and the Central Bank of Kuwait (CB) has already granted licenses to four foreign banks: BNP Paribas, HSBC, Citibank, and the National Bank of Abu Dhabi; at present, the National Bank of Abu Dhabi has a license but no office in Kuwait. However, while foreign banks may now operate in Kuwait, they are only allowed to open one branch.

On March 10, 2002, the Emir (Head of State) of Kuwait signed Law No. 35/2002, commonly referred to as Law No. 35, which criminalized money laundering. Law 35 does not specifically cite terrorist financing as a crime. The law stipulates that banks and financial institutions may not keep or open anonymous accounts or accounts in fictitious or symbolic names, and that banks must require proper identification of both 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 anti-money laundering and terrorist financing training to all levels of employees, and establish proper internal control systems.

Law No. 35 also requires banks to report suspicious transactions to the Office of Public Prosecution (OPP). The OPP is the sole authority that has been designated by law to receive suspicious transaction reports (STRs) and to take appropriate action on money laundering operations. Reports of suspicious transactions are then referred to the CB for analysis. The anti-money laundering 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.

The law includes articles on international cooperation and the monitoring of cash and precious metals transactions. Currency smuggling into Kuwait is also outlawed under Law No. 35, although cash reporting requirements are not uniformly enforced at ports of entry. Provisions of Article 4 of Law No. 35 require travelers to disclose to the customs authorities, upon entering the country, of any national or foreign currency, gold bullion, or other precious materials in their possession valued in excess of 3,000 Kuwaiti dinars (approximately \$10,000). However, the law does not require individuals to file declaration forms when carrying cash or precious metals out of Kuwait. Several cases have been opened under Law No. 35, but only two cases have gone to court. The cases reportedly involved money smuggling and failure to report currency transactions, and did not involve banks.

The National Committee for Anti-Money Laundering and the Combating of Terrorist Financing is responsible for administering Kuwait's AML/CTF regime. In April 2004, the Ministry of Finance issued Ministerial Decision No. 11 (MD No. 11/224), which transferred the chairmanship of the National Committee, formerly headed by the Minister of Finance, to the Governor of the Central Bank of Kuwait. The Committee is comprised of representatives from the Ministries of Interior, Foreign Affairs, Commerce and Industry, Finance, and Labor and Social Affairs; the Office of Public Prosecution; the Kuwait Stock Exchange; the General Customs Authority; the Union of Kuwaiti Banks; and CB.

Since its inception, the National Committee has pursued 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, 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's duties, responsibilities, and organization of its activities.

Kuwait, however, has been unable to implement fully its current anti-money laundering law due in part to structural inconsistencies within the law itself. Kuwait's Financial Intelligence Unit is not an independent body in accordance with the current international standards, but rather is under the direct supervision of the Central Bank of Kuwait. In addition, vague delineations of the roles and responsibilities of the government entities involved continue to hinder the overall effectiveness of Kuwait's anti-money laundering regime. Cognizant of these shortcomings, the National Committee is currently drafting a revision of Law No. 35 that would bring Kuwait into compliance with international standards, and would criminalize terrorist financing.

In addition to Law No. 35, anti-money laundering reporting requirements and other rules are contained in CB 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 CB all

cash transactions in excess of \$10,000 (Article 20). In addition, the CB 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. 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.

On June 23, 2003, the CB issued Resolution No. 1/191/2003, establishing the Kuwaiti Financial Inquiries Unit as an independent financial intelligence unit (FIU) within the Central Bank. The FIU is comprised of seven part-time CB officials and headed by the Central Bank Governor. The responsibilities of the FIU are to receive and analyze reports of suspected money laundering activities from the OPP, establish a database of suspicious transactions, conduct anti-money laundering training, and carry out domestic and international exchanges of information in cooperation with the OPP. Although the FIU should act as the country's financial intelligence unit, Law No. 35/2002 did not mandate the FIU to act as the central or sole unit for the receipt, analysis, and dissemination of STRs; instead, these functions were divided between the FIU and OPP.

Banks in Kuwait are required to file STRs with the OPP, rather than directly with the FIU. However, based on an MOU with the Central Bank, STRs are referred from the OPP to the FIU for analysis. The FIU conducts analysis and reports any findings to the OPP for the initiation of a criminal case, if necessary. The FIU's access to information is limited, due to its inability to share information abroad without prior approval from the OPP. Reportedly, Kuwaiti officials agree that the current limits on information sharing by the FIU will have to be addressed by amending the law, which is currently under revision by the National Committee.

There are about 130 money exchange businesses (MEBs) operating in Kuwait that are authorized to exchange foreign currency only. None of these MEBs are formal financial institutions, and therefore are under the supervision of the Ministry of Commerce and Industry (MOCI) rather than the Central Bank. The CB has reached an agreement that tasks the MOCI with the enforcement of all anti-money laundering (AML) laws and regulations in supervising such businesses. Furthermore, MOCI will work diligently to encourage MEBs to apply for and obtain company licenses, and to register with the CB.

The MOCI's Office of Combating Money Laundering Operations was established in 2003, and supervises approximately 2,500 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. All new companies seeking a business license are required to receive AML awareness training from the MOCI before a license is granted. 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. MOCI conducts both mandatory follow-up visits and unannounced inspections to ensure continued compliance. The Office of Combating Money Laundering Operations is also actively engaged in a public awareness campaign to increase understanding about the dangers of money laundering.

Businesses that are found to be in violation of the provisions of Law No. 35/2002 receive an official warning from MOCI 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 in 2005: one for operating without a license, and the other two for violating MOCI's instructions.

In August 2002, the Kuwaiti Ministry of Social Affairs and Labor (MOSAL) issued a ministerial decree creating the Department of Charitable Organizations (DCO). 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 DCO has established guidelines for charities explaining donation collection procedures and regulating financial activities. The DCO is also charged with conducting periodic inspections to ensure that charities maintain administrative, accounting, and organizational standards according to Kuwaiti law. The DCO mandates the certification of charities' financial activities by external auditors, and limits the ability to transfer funds abroad only to select charities approved by MOSAL. MOSAL also requires all transfers of funds 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 MOSAL. In addition, any such wire transactions must be reported to the CB, which maintains a monthly database of all transactions conducted by charities. Unauthorized public donations, including Zakat (alms) collections in mosques, are also prohibited.

In 2005, the MOSAL introduced a pilot program requiring charities to raise donations through the sale of government-provided coupons during the Muslim holy-month of Ramadan. MOSAL continued this program in 2006, and plans are underway to encourage the electronic collection of funds using a combination of electronic kiosks, hand-held collection machines, and text messaging. These devices will generate an electronic record of the funds collected, which will then be subject to MOSAL supervision.

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 CB hosted a training seminar for mutual evaluation assessors of MENAFATF members.

Kuwait is a party to the 1988 UN Drug Convention. In May 2006, Kuwait 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 Kuwait should significantly accelerate its ongoing efforts to revise Law No. 35/2002 to criminalize terrorist financing; strengthen charity oversight; develop an independent Financial Intelligence Unit that meets international standards including the sharing of information with foreign FIUs; and improve international information sharing, as well as sharing between the government and financial institutions. Kuwait should implement and enforce a uniform cash declaration policy for inbound and outbound travelers. Kuwait, like many other countries in the Gulf, relies on STRs to initiate money laundering investigations. Rather, Kuwaiti law enforcement and customs authorities should be more active in identifying suspect behavior that could be indicative of money laundering, such as underground financial systems. 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 mainland Southeast Asia's banking network. Laos is neither an important regional financial center, nor an offshore financial center, nor is it considered significant in terms of money laundering. However, illegal timber sales, corruption, cross-border smuggling of goods, and illicit proceeds from the methamphetamine (ATS) known

locally as “ya ba” (crazy medicine), and domestic crime are sources of laundered funds. The Lao 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. These 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. Reportedly, there is no notable increase in financial crime. While there is smuggling of consumer goods across the Mekong, this is not generally associated with money laundering. Rather, it is an easy way to avoid paying custom’s duties and the inconvenience of driving across the bridge between Vientiane and Thailand. A special economic zone exists in the south. It is not considered particularly successful and there is no indication it is currently used to launder money or finance terrorism.

Money laundering is a criminal offense in Laos and covered in at least two separate decrees. The penal code contains a provision adopted in November 2005 that criminalizes money laundering and provides sentencing guidelines. In March of 2006, the Prime Minister’s Office issued a detailed decree on anti-money laundering, based on a model law provided by the Asian Development Bank. Because of the unique nature of Lao governance, the decree is roughly equivalent to a law and is much easier to change than a law passed by the National Assembly. One provision of the decree criminalizes money laundering in relation to all crimes with a prison sentence of a year or more. In addition, the decree specifically criminalizes money laundering with respect to: terrorism; financing of terrorism; human trafficking and smuggling; sexual exploitation; human exportation or illegal migration; the production, sales, and possession of narcotic drugs; illicit arms and dynamite trafficking; concealment and trafficking of people’s property; corruption; the receipt and giving of bribes; swindling; embezzlement; robbery; property theft; counterfeiting money and its use; murder and grievous bodily injury; illegal apprehension and detention; violation of state tax rules and regulations; extortion; as well as check forgery and the illicit use of false checks, bonds, and other financial instruments.

The current Financial Intelligence Unit, a committee located within the Bank of Laos, was established in 2004 and supervises financial institutions for their compliance with anti-money laundering/counter terrorist financing decrees and regulations. The Bank of Laos expects that this committee will be replaced by an operational unit with dedicated staff by early 2007. The FIU has no criminal investigative responsibilities, and is currently working with partner commercial banks to develop a standardized suspicious transaction report (STR). The bank estimates STRs will begin in 2007. There were none in 2006, nor were there any arrests for terrorist financing or money laundering. A revision to the penal law in November 2005 includes Article 58/2 which makes financing terrorism punishable by fines of 10 to 50 million Kip (approximately \$10,000-\$50,000.), prison sentences from 10 to 20 years, and includes the death penalty. The Bank of Laos has circulated lists of individuals and entities on the UN 1267 sanction’s coordinated list.

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. When carrying cash across international borders, Laos requires a declaration for amounts over \$2000. Cash must be declared when brought into the country and when departing. Failure to show declaration of incoming cash when exporting could lead to seizure

of the money or a fine. The Prime Minister's decree on money laundering specifically authorizes asset seizures when connected to money laundering and related crimes. The authority is broadly worded. It is not clear which government authority has responsibility for asset seizures, although indications are that the Ministry of Justice would take the lead. The Lao continue to build a framework of law and institutions; however, at this stage of development, enforcement of enacted legislation and decrees is weak.

Laos' decree on money laundering authorizes the government to cooperate with foreign governments to deter money laundering of any sort, with caveats for the protection of national security and sovereignty. There are no specific agreements with the United States relating to money laundering.

The GOL is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. 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 in 2007. In order to comport with international standards, the Government of Laos should enact comprehensive anti-money laundering legislation, as decrees are not recognized by international organizations as the force of law. Laos should become a party to the UN Convention for the Suppression of Financing of Terrorism and ratify the UN Convention against Corruption.

Latvia

Latvia is a growing regional financial center that has a large number of commercial banks with a sizeable nonresident deposit base. 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. Casinos provide another source of laundered money. A significant amount of the proceeds of tax evasion are believed to originate from outside of Latvia. A portion of domestically-obtained criminal proceeds is thought to be derived from organized crime. Reportedly, Russian organized crime is active in Latvia. State Narcotics Police have reportedly not found a significant link between smuggled goods on the black market and narcotics proceeds. Although currency transactions involving international narcotics trafficking proceeds do not include significant amounts of United States currency and apparently do not derive from illegal drug sales in the United States, there are ties between U.S.-derived drug money and the Latvian financial sector, and criminals have reportedly set up shell companies to launder drug money through the country.

Latvia currently is not considered to be an offshore financial center. Four special economic zones exist in Latvia providing 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 Ventspils, Riga, and Liepaja, and in the inland city of Rezekne near the Russian and Belarusian Borders. Though there have been instances of reported cigarette smuggling to and from warehouses in the free trade zones, there have been no confirmed cases of the zones being used for money laundering schemes or by the financiers of terrorism. Latvia's Financial and Capital Market Commission states that the zones are covered by the same regulatory oversight and enterprise registration regulations that exist for nonzone areas.

The Government of Latvia (GOL) criminalized money laundering for all serious crimes in 1998. Latvia's anti-money laundering (AML) law, the Law on the Prevention of Laundering of Proceeds Derived from Criminal Activity, requires all institutions engaging in financial transactions to report suspicious activity to the financial intelligence unit (FIU). The legislation institutes customer

identification and record keeping requirements, as well as mandates the reporting of large cash transactions to the FIU. On February 1, 2004, Latvia adopted amendments to the AML law that expand the scope of reporting institutions to 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 block transactions for 45 days.

In addition to suspicious transactions, the law also mandates institutions to report unusual transactions to the FIU. Financial institutions receive a list of indicators that, when present, activate the reporting requirement for a financial institution. Many of the indicators are similar to those used to ascertain suspicious activities, and financial institutions are reportedly often uncertain which report is required to be filed. Most financial institutions rely on the list of indicators rather than evaluating transactions for suspicious activity. There is also a currency reporting requirement: obligated entities must report cash transactions, whether one large or several smaller, if the amount is equal to or exceeds 40,000 lats (approximately \$73,000). Reporting is also required if, due to indicators that suggest unusual transactions, there is cause for suspicion regarding 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. Negligent money laundering is illegal in Latvia.

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 criminalized the misrepresentation of the beneficial owner. 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 one another and with Latvia's banking regulator, the Financial and Capital Markets Commission (FCMC). In 2005, Latvia also passed a new Criminal Procedures Law, which removed many procedural hurdles that had served as obstacles to law enforcement agencies when they attempted to aggressively investigate and prosecute financial crimes. For example, prosecutors no longer need to prove willful blindness of the criminal origin of funds before charging a person or institution with a financial crime.

In November 2005, Latvia passed legislation instituting a cross-border currency declaration requirement, which took effect on July 1, 2006. The law stipulates that all persons transporting more than 10,000 euros (approximately \$12,787) in cash or monetary instruments into or out of Latvia, with the exception of into or out of other European Union member states, is obligated to declare the money to a customs officer, or, where there is no customs checkpoint, to a Border Guard. Because Latvia is part of the customs territory of the EU, people moving within the EU are not required to declare. Completing a declaration is mandatory for all who are transferring between Latvia and territory outside of the EU who have the requisite amount of cash or monetary instruments. Declarations are shared between Latvian government agencies.

Banks are not allowed to open accounts without conducting customer due diligence and obtaining client identification documents for both residents and nonresidents. When conducting due diligence on

legal entities, banks must collect additional information on incorporation and registration. In June 2005, the GOL increased sanctions against banks for noncompliance, providing for fines up to \$176,000. Latvia does not have secrecy laws that prevent the disclosure of client and ownership information to bank supervisors or law enforcement officers. Reporting individuals are protected by safe harbor provisions in the law.

Since July 2001, the Finance and Capital Market Commission (FCMC) has served as the GOL's unified public financial services regulator, overseeing commercial banks and nonbank financial institutions, the Riga Stock Exchange, and insurance companies. The Bank of Latvia supervises the currency exchange sector. The FCMC conducts regular audits of credit institutions and applies sanctions to companies that fail to file mandatory reports of unusual transactions. The FIU also works to ensure accurate reporting by determining if it has received corresponding STRs when suspicious transactions occur between Latvian banks.

The FCMC has distributed regulations for customer identification and detecting unusual and suspicious transactions, as well as regulations regarding internal control mechanisms that financial institutions should have in place. The May 2005 amendments to the AML law gave the FCMC the authority to share information with Latvian law enforcement agencies and receive data on potential financial crime patterns uncovered by police or prosecutors. The June 2005 amendments to the Criminal Procedures Law added an article criminalizing the deliberate provision of false information about a beneficiary to a credit or a financial institution.

In addition to the legislative and regulatory requirements in place, the Association of Latvian Commercial Banks (ALCB) plays an active role in setting standards on AML issues for Latvian banks. In May 2004, the ALCB adopted the regulations on the Prevention of Money Laundering as guidance. Under the leadership of the ALCB and at the urging of the FCMC, Latvian banks collectively reviewed existing customer relationships in the first half of 2005, which resulted in the closure of more than 100,000 accounts connected to customers unwilling or unable to comply with the enhanced due diligence requirements. 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 ALCB also adopted a voluntary measure, which all of the banks observed, to limit cash withdrawals from automated teller machines to 1,000 lats (approximately \$1,834) per day. Member banks respect the ALCB guidelines. In addition to acting as an industry representative to government and the regulator, the ALCB organizes regular education courses on anti-money laundering/ counter terrorism financing (AML/CTF) issues for bank employees.

The Office for the Prevention of the Laundering of Proceeds Derived from Criminal Activity, known as the Control Service, is Latvia's FIU. Although it is part of the Latvian Prosecutor General's Office, its budget is separate. The Control Service has the overall responsibility for coordination, application and assessment of Latvia's AML policy and its effectiveness. During 2006, the Control Service received more than 27,000 reports of suspicious and unusual transactions. The Control Service received 26,302 reports in 2005 and 16,479 reports in 2004. Approximately 53 percent of the reports received in 2005 and 2006 were for suspicious transactions and 47 percent were classified as unusual transactions.

The Control Service conducts a preliminary investigation of the suspicious and unusual reports and then may forward the information to law enforcement authorities that investigate money laundering cases. The Control Service can disseminate case information to a specialized Anti-Money Laundering Investigation Unit of the State Police; the Economic Police; and the Office for the Combat of Organized Crime. The FIU can also disseminate information to 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 Control Service has access to all state and municipal databases. It does not have direct access to the databases of financial institutions, but requests data as needed. The Control Service shares data with other FIUs and has cooperation agreements on information exchange with FIUs in thirteen countries. Latvia has also signed multilateral agreements with several EU countries to automatically exchange information with the EU financial intelligence units using FIU.NET.

The Prosecutor General's Office maintains a staff of seven prosecutors to prosecute cases linked to money laundering. The individuals comprising the staff have been subjected to a special clearance process. In the first eight months of 2006, the Prosecutor General's Office received nine new money laundering cases for prosecution; of these, it referred six cases to court for the criminal offense of money laundering. Three individuals received convictions, and sentences including time in jail, in two cases.

The adoption of Latvia's new Criminal Procedures Law in 2005 provided additional measures for the seizure and forfeiture of assets. The law allows law enforcement authorities to better identify, trace, and confiscate criminal proceeds. Investigators have the ability to initiate an action for the seizure of assets recovered during a criminal investigation concurrently with the investigation itself (previously this was possible only when the investigation was complete).

In 2006, the Latvian FIU issued 125 orders to freeze assets, freezing a total of 12,645,000 Lats (approximately \$23.5 million). Proceeds from any seizures or forfeitures pass to the State budget. Latvia's FIU reports that cooperation from the banking community to trace and freeze assets has been excellent.

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 United Nations Security Council Resolution (UNSCR) 1267. 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 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 and nonfinancial institutions, as well as to their supervisory bodies. 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), although authorities have found 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. Freezing of terrorist assets falls under the same mechanism as with other crimes, but includes involvement by the Latvian Security Police. Any associated investigations, asset or property seizures, and forfeitures are handled in accordance with the new Criminal Procedures Law. On June 1, 2005, Latvia amended its Criminal Law supplementing it with a new Article 88-1 that specifically criminalizes the financing of terrorism, meeting the requirements of UNSCR 1373.

Latvia took swift action to improve its AML/CTF regime after the United States outlined concerns in a Notices of Proposed Rulemaking against two Latvian banks on April 26, 2005, under Section 311 of the USA PATRIOT Act. Reportedly, there are some concerns regarding the willingness of the banking sector to comply with the government, as evidenced by the banking sector's response to the 2005 action. The United States issued a final rule imposing a special measure against only one of the two banks, VEF Banka, as a financial institution of primary money laundering concern, on August 14, 2006.

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. Alternative remittance services are reportedly prohibited in Latvia. The Control Service has not detected any cases of charitable or nonprofit entities used as conduits for terrorism financing in Latvia.

Latvia is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). Latvia underwent a joint International Monetary Fund (IMF)/MONEYVAL evaluation in March 2006 which assessed the country's AML regulatory and legal framework. This assessment was approved as MONEYVAL's third-round evaluation of Latvia in September 2006. The Control Service is a member of the Egmont Group and has agreements on information exchange with sixteen counterpart FIUs.

Latvia is a party to the UN International Convention for the Suppression of the Financing of Terrorism and eleven other multilateral counterterrorism conventions. Latvia is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. A Mutual Legal Assistance Treaty (MLAT) has been in force between the United States and Latvia since 1999.

The GOL should enact additional amendments to its legislation to tighten its AML framework. It should continue to implement and make full use of the 2005 amendments to its AML law and Criminal Procedures Law, taking steps to increase information sharing and cooperation between law enforcement agencies at the working level. The GOL should lower the threshold for the reporting of currency transactions. The GOL should also strengthen its ability to aggressively prosecute and convict those involved in financial crimes. Latvian authorities should also clarify the distinction between unusual transaction reports and suspicious transaction reports in its guidance to the obliged entities.

Lebanon

Lebanon is a financial hub for banking activities in the Middle East and eastern Mediterranean. It has one of the more sophisticated banking sectors in the region. The banking sector continues to record an increase in deposits. As of September 2006, there were 63 banks (54 commercial banks and nine investment banks) operating in Lebanon with total deposits of \$59.7 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 their belief that Lebanon is not a significant financial center for money laundering, but acknowledge that it does have a number of vulnerabilities. Lebanon imposes no controls on the movement of capital. It has a substantial influx of remittances from expatriate workers and family members, estimated by banking sources to reach \$3.5-4 billion yearly.

Laundered criminal proceeds come primarily from domestic criminal activity. Money laundering proceeds are largely controlled by organized crime. During 2006, the banking sector has seen two cases of bank fraud consisting of embezzlement by bank employees in branch offices and one case of fraud by a money dealer. 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 conducted outside of 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

information about the offshore company is retained. A draft law amending legislation on offshore companies to make it WTO compliant was still pending in Parliament as of early November 2006.

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 trade-based money laundering or terrorism finance, it reports it to Lebanon's financial intelligence unit (FIU), the Special Investigation Commission (SIC). Companies using the free trade zone must be registered and must submit appropriate documentation, which is kept on file for a minimum of five years. 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.

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 was designed to prevent the traffic in conflict diamonds, and allowed Lebanon to join the Kimberley Process on September 20, 2005. In August 2003, Lebanon passed a decree prohibiting imports of rough diamonds from countries that are not members of the Kimberley Process. However, in 2005, investigations by Global Witness, a nongovernmental organization, discovered that according to Lebanese customs data, Lebanon imported rough diamonds worth \$156 million from the Republic of Congo (ROC), a country removed from the Kimberley Process Certification Scheme for having a "massive discrepancy" between its actual diamond production and declared exports. This documented example of suspect imports from the ROC throw serious doubts on Lebanon's commitment to counter the trade in conflict diamonds. Moreover, there have been consistent reports that many Lebanese diamond brokers in Africa are engaged in the laundering of diamonds—the most condensed form of physical wealth in the world.

Lebanon has a large expatriate community that is found throughout the Middle East, Africa, and parts of Latin America. They often work as brokers and traders. Many Lebanese "import-export" concerns are found in free trade zones. Reportedly, many of these Lebanese brokers network via family ties and are involved with underground finance and trade-based money laundering. Informal remittances and value transfer in the form of trade goods add substantially to the remittance flows from expatriates via official banking channels. There are also reports that many in the Lebanese expatriate business community willingly or unwillingly give "charitable donations" to representatives of Hezbollah. The funds are then repatriated or laundered back to Lebanon.

Lebanon has continued to make progress toward developing an effective money laundering and terrorism finance regime by incorporating the Financial Action Task Force (FATF) Recommendations. In 2002, Lebanon was removed from the FATF's Non-Cooperative Countries and Territories list (NCCT), after Lebanon enacted Law No. 318 in 2001. Law No. 318 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 \$13,270). 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 (i.e., precious metals, antiquities) and real estate to also 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, and are required to have proper corporate governance, including audited financial statements. These organizations are also subject to the same suspicious reporting requirements.

All financial institutions and money exchange houses are regulated by the CBL. Law No. 318 clarified the CBL's powers to: require financial institutions to identify all clients, including transient clients; maintain records of customer identification information; request information about the beneficial owners of accounts; conduct internal audits; and exercise due diligence in conducting transactions for clients.

Law No. 318 also established 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. In spring 2006, the SIC started work on a self-assessment in order to further enhance compliance with FATF Recommendations, and to prepare for a potential assessment by international bodies, expected in late 2007 or early 2008.

Since its inception, the SIC has been active in providing support to international criminal case referrals. From January through October 2006, the SIC investigated 118 cases involving allegations of money laundering and terrorist financing activities. Of these cases, five were originated at U.S. Government request. Two of the 118 cases were related to terrorist financing. Bank secrecy regulations were lifted in 56 instances. Ten cases were transmitted by the SIC to the general state prosecutor for further investigation. As of early November 2006, no cases were transmitted by the general state prosecutor to the penal judge. The general state prosecutor reported three cases to the SIC for the freezing of assets. One case involved individuals convicted of terrorism charges, another case involved individuals related to Iraq's former regime, and the third case involved individuals convicted of drug charges. From January to October 2006, the SIC froze the accounts of 17 individuals in five of the 118 cases investigated. Total dollar amounts frozen by the SIC in these five cases is about \$1.4 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. As a result, dollar amounts frozen by the SIC amounted to \$22 million in 2005.

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, as well as with the office of the general state prosecutor. In 2005, a SIC Remote Access Communication (SRAC) system was put in place for the exchange of information between the SIC, Customs, the Internal Security Forces (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 2006.

In order to more effectively combat money laundering and terrorist financing, Lebanon also adopted two important laws in 2003: Laws 547 and 553. Law 547 expanded Article One of Law No. 318, 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, as well as the appropriation of such funds by fraudulent means, counterfeiting, or breach of trust by banks and financial institutions for such acts that fall 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.

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 law 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. Forfeitures are transferred to the Lebanese Treasury. In cases where proceeds are owed to a foreign government, the GOL returns the proceeds to the concerned government.

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. A third MENAFATF plenary was held in March 2006 in Cairo where, at Lebanon’s initiative, the U.S.-MENA Private Sector Dialogue (PSD) was launched. Lebanon assumed the presidency of the U.S.-MENA PSD for the first year.

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 cabinet approval. On October 31, 2006, the Banking Control Commission performed a self-assessment, to be completed before the end of January 2007. Banks are compliant with the Basel I Capital Accords and are preparing to comply with the three pillars of the Basel II recommendations. The CBL and the Banking Control Commission are issuing circulars to ensure the banking sector is compliant with Basel II recommendations by January 1, 2008.

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 as of early November 2006 had signed fifteen 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. Lebanon is not a party to the UN Convention against Corruption or 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. Yet prosecutions and convictions are still lacking. 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 Convention against Corruption and the UN International Convention for the Suppression of Terrorist Financing. Per Financial Action Task Force Special Recommendation Nine, the GOL should mandate and enforce cross-border currency reporting. Lebanese law enforcement authorities should examine domestic ties to the international network of Lebanese brokers and traders that are commonly found in underground finance, trade fraud, and trade-based money laundering.

Libya

Libya is not considered to be an important financial sector in the Middle East and northern Africa. The Libyan economy depends primarily upon revenues from the oil sector, which contribute practically all export earnings and about one-quarter of GDP. Oil revenues and a small population give Libya one of the highest per capita GDPs in Africa, but little of this income flows down to the lower levels of society. Libya has a cash-based economy and large underground markets. Libya is a destination for smuggled goods, particularly alcohol and black market/counterfeit goods from sub-Saharan Africa and from Egypt. Contraband smuggling includes narcotics, particularly hashish/cannabis and heroin. Libya is not considered to be a production location for illegal drugs, although its geographic position, long borders and lax immigration policies make it a transit point. Libya is also a transit and destination country for human trafficking originating in sub-Saharan Africa and Asia. Many victims willingly migrate to Libya en route to Europe with the help of smugglers. Reportedly, human smuggling networks force some victims into prostitution or to work as laborers and beggars to pay off their smuggling debts. Profits are laundered. Hawala and informal value transfer networks are present.

The Libyan banking system consists of a Central Bank, six state-owned commercial banks, forty-eight national banks and a handful of privately-owned Libyan banks. Libyan banks suffer from a lack of modern equipment and trained personnel, and substantial investment in both will be required to bring Libyan banks up to international standards. Libyan banks offer little in the way of services for their customers, and most Libyans make little use of the banking system. The Libyan Banking Law No. 1 of 2005 allows for the entry of foreign banks into Libya although with difficult entry and operating terms and requirements that, combined with a history of Libyan government policy reversals, have precluded foreign bank entry to date. Libya is not considered to be an offshore financial center. Offshore banks, international business companies and other forms of exempt/shell companies are not licensed by the Libyan government.

Libya has shown some commitment to privatize its public banks. During the past year, the ongoing privatization of Sahara Bank has resulted in the sale of approximately 40 percent of its shares to individual investors. The Central Bank continues to formulate a program of banking sector modernization and has hired western consulting firms to assist in reforms. Libya is also cooperating with both the IMF and World Bank by soliciting their advice and assistance for economic reforms. In general, training and resources are lacking for anti-money laundering awareness and countermeasure implementation. A considerable transition time is anticipated while Libya's banking system is reformed and gradually brought back into the international system following the lifting of UN and U.S. sanctions.

The Central Bank is responsible for the establishment of regulations relevant to combating money laundering and terrorist finance under the terms of Article 57 of Banking Law No. 1 of 2005. Money laundering is illegal in Libya, and terms and penalties are clearly laid out in Banking Law No. 2 of 2005 on Combating Money Laundering. This law does not make specific mention of drug-related money laundering. These crimes are dealt with under Libya's Penal Code, Criminal Procedures Law, and related supplementary laws. Penalties for money laundering under Law No. 2 include

imprisonment (for an unspecified duration) and a fine equal to the amount of relevant illegal goods/property. An increased penalty is used if the malefactor participated in the predicate offense, whether as a perpetrator or accomplice. Penalties ranging from 1,000 to 10,000 Libyan dinars (approximately \$770 to \$7,700) are also imposed on persons withholding information on money laundering offenses, persons warning offenders of an ongoing investigation and persons in violation of foreign currency importation regulations. The offense of falsely accusing others of money laundering offenses is punishable by imprisonment of no less than a year.

Banking Law No. 2 directs the Central Bank to establish a Financial Information Unit (FIU). It also establishes a National Committee for Combating Money Laundering to be chaired by the Governor or Deputy of the Central Bank. The National Committee will also include representatives from the Secretariat of the General People's Committee for Financial and Technical Supervision, the Secretariat of the General People's Committee for Justice, the Secretariat of the General People's Committee for Public Security, the Secretariat of the General People's Committee for Finance, the Secretariat of the General People's Committee for Economy and Trade, the Secretariat of the General People's Committee for Foreign Liaison and International Cooperation, the Customs Authority and the Tax Authority.

Libyan banks are required to record and report the identity of customers engaged in all transactions. Records of transactions are retained for a considerable (but indeterminate) period, although a lack of computerized records and systems, particularly among Libya's more than forty-eight regional banks and branches in remote areas of the country, negate reliable record-keeping and data retrieval.

Libya's Banking Law No.1 forbids "possessing, owning, using, exploiting, disposing of in any manner, transferring, transporting, depositing, or concealing illegal property in order to disguise its unlawful source." The broad scope of the law, and its complimentary relationship to existing criminal law, extends the scope of money laundering controls and penalties to nonbanking financial institutions. All entities, either financial or nonfinancial in nature, are required by law to report money laundering activity to Libyan authorities under penalty of law. The Central Bank is responsible for supervision of all banks, financial centers and money changing institutions. All banks are required to undergo an annual audit and establish an administrative unit called the "compliance unit" which is directly subordinate to the board of directors. The Central Bank's Banking Supervision Division is also responsible for examining banks to ensure that they are operating in compliance with law.

Libya established a Financial Information Unit (FIU) under the terms of Banking Law No. 2. The Central Bank is responsible for establishing and housing the Libyan FIU. The most recent reporting available indicates that the FIU is still in its formative stages, and individuals seconded by the Central Bank to the FIU require additional training in order to be fully effective.

The FIU is tasked to gather all reports on suspicious transactions from all financial and commercial establishments and individual persons. The FIU is authorized by law to exchange information and reports on cases suspected of being linked to money laundering activities with its counterparts in other countries, in accordance with Libya's international commitments. All banks operating in Libya are required by law to establish a "Subsidiary Unit for Information on Combating Money Laundering" responsible for monitoring all activities and transactions suspected of being linked to money laundering activities. The FIU is responsible for reporting this information to the Governor of the Central Bank for appropriate action. However, given the limitations of the Libyan banking sector both in terms of human and technological resources and the lead time necessary to establish new internal mechanisms, these subsidiary units are either non-existent or nonfunctional in most cases. All entities cooperating with the FIU and/or law enforcement entities are granted confidentiality. Furthermore, anyone reporting acts of money laundering before they are discovered by Libyan authorities is exempted from punishment under the law (safe harbor). There is no reliable information on the

number of suspicious transaction reports (STRs) issued in 2006, nor information on the scope of prosecutions and convictions on the part of Libyan government authorities.

It is illegal to transfer funds outside of Libya without the approval of the Central Bank. Cash courier operations are in clear violation of Libyan law. It is estimated that up to ten percent of foreign transfers are made through illegal means (i.e., not through the Central Bank). Libya is seeking foreign assistance to bring tighter control over these transactions. However, fund transfers by illegal immigrants (mainly from sub-Saharan Africa) are difficult for the Libyan government to monitor, particularly transfers by criminal organizations. It is estimated that there are currently up to two million illegal immigrants in Libya. It is illegal for these workers to take cash out of the country, however some do engage in smuggling and there are illicit transfers of goods and currency across Libya's long land borders.

Informal hawala money dealers (hawaladars) exist in Libya, and are often used to facilitate trade and small project finance. Libyan officials have indicated that they intend to require registration of all hawaladars in the near future. Many payments and transactions take place outside the banking system, often using cash, so as to avoid the scrutiny of the Libyan government. This is done largely for practical reasons, as Libya's socialist practices and commercial rivalries among regime insiders discourage disclosure of income and business transactions. Until the recent revision of the tax code, rates of up to 80-90 percent encouraged off-the-book transactions.

Reportedly, there is no evidence of extensive money laundering or terrorist financing taking place in the Free Trade Zone (FTZ) in the city of Misurata. Misurata, 210 kilometers east of Tripoli, is currently Libya's sole operating FTZ. Projects in the free zone enjoy standard "Five Freedoms" privileges, including tax and customs exemptions. At present, the zone occupies 430 hectares, including a portion of the Port of Misurata.

Libya is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Libya is a party to all 12 of the UN Conventions and Protocols dealing with terrorism, including the International Convention for the Suppression of the Financing of Terrorism. However, Libya has not criminalized terrorist financing. Nor is there any indication that Libya has circulated UN or U.S. lists of terrorist entities or made any effort to freeze, seize or forfeit assets of suspected terrorists or financiers of terrorism.

In 2006, the Department of State rescinded Libya's designation as a State Sponsor of Terrorism. The Government of Libya (GOL) should enact counterterrorist financing legislation and adopt anti-money laundering and counterterrorist finance policies and programs that adhere to world standards. Joining the Middle East and North Africa Financial Action Task Force would assist Libya in that regard. Libya should continue to modernize its banking sector and adopt full transparency procedures. Tax reform should continue so as to shrink the underground economy. Working with the international community, the Libyan FIU and financial police should avail themselves of training. Appropriate entities should become familiar with money laundering and terrorist finance methodologies. In particular, Libyan law enforcement and customs authorities should examine the underground economy, including smuggling networks, and informal value transfer systems. The GOL should adopt measures that combat corruption in government and commerce. Government statistics on the number of money laundering investigations, prosecutions, and convictions should be made publicly available.

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 and

tax evaders. Although the principality has made progress in its efforts against money laundering, accusations of misuse of Liechtenstein's banking and financial services sectors persist.

Liechtenstein's financial services sector includes 16 banks, three nonbank financial companies, 16 public investment companies, and a number of insurance and reinsurance companies. The three largest banks account for slightly less than 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 the January 2005 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 legislative revision also focused on the inclusion of measures to combat terrorist financing. For instance, the DDA expanded the scope of STR (suspicious transaction reporting) to including terrorist financing.

The GOL announced that by 2008 it would implement a new set of EU regulations requiring that money transfers above 15,000 euro (approximately \$17,680) 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.

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 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 set up a database to analyze its STRs and has access to various governmental databases, although it cannot seek additional financial 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 2005, the number of STRs decreased by 17.5 percent from the previous year to 193. Of these 193 reports, the majority were submitted by banks (54 percent) and professional trustees (38 percent). As in 2004, 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 decreased from 48 percent to 45 percent, while the share of STRs involving money laundering increased from 20 percent to 27 percent. There is no similar data available for 2006.

In 2005, the FIU forwarded 72 percent of the total number of STRs it received to prosecution authorities, compared with 79 percent in 2004 and 72 percent in 2003. In the reporting year, 22.3 percent of the beneficial owners indicated in STRs were German nationals, followed by Swiss and U.S. nationals with 14.5 percent each. Austrian, British, and Dutch citizens each accounted for 4.1 percent of beneficial owners indicated in STRs, and Liechtenstein nationals made up only 3 percent of beneficial owners mentioned. In terms of the location of the suspected predicate offense (as mentioned in STRs), Canada and the United States accounted for the most funds, with about \$403 million (500 million Swiss francs) and \$360 million (450 million Swiss francs) respectively.

In 2005, the EFFI received 89 inquiries from 13 foreign FIUs, 25 percent fewer than in 2004. In the same period, the EFFI submitted 103 inquiries to 18 different countries, down from 134 inquiries in 2004. The most frequent judicial cooperation requests originated from or were directed to the U.S., 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—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 by making it necessary for the defendant to prove that he had acquired assets legally (instead of the state 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 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.

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 and was reaffirmed through an exchange of diplomatic notes on July 14, and October 27, 2006. The U. S. Department of Justice has acknowledged Liechtenstein’s cooperation in the Al-Taqwa Bank case and in other fraud and narcotics cases. The EFFI has in place memoranda of understanding (MOUs) with the FIUs in Belgium, Monaco, Croatia, Poland, Russia, Switzerland, and Georgia. Further MOUs are being prepared with France, Italy, Canada, Malta, and San Marino.

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 progress in addressing 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 become a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Per FATF Special Recommendation Nine, Liechtenstein should require reporting of cross-border currency movements. The data should be shared with EFFI, the financial intelligence unit. Authorities should 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 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. There appears to be an over-reliance on STRs to initiate money laundering and financial crimes investigations; Liechtenstein law enforcement entities should become more pro-active in this regard. The GOL should criminalize "negligent money laundering" and should publish the annual number of arrests, prosecutions, and convictions for money laundering.

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 nearly \$ 2.2 trillion in domiciled assets, Luxembourg is the second largest mutual fund investment center in the world, after the United States. Luxembourg is considered an offshore financial center, with foreign-owned banks (many of which enjoy ring-fenced tax benefits) 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, Belgium, France, Italy, and Switzerland. For this reason (and also due to the proximity of three of these nations to Luxembourg), a significant share of Luxembourg's suspicious transaction reports (STRs) are generated from transactions involving clients in these countries. While Luxembourg is not a major hub for illicit drug distribution, the size and sophistication of its financial sector create opportunities for money laundering, tax evasion, and other financial crimes.

As of September 2006, 154 banks, with a balance sheet total reaching 824 billion euros (approximately \$1.05 trillion), were registered within Luxembourg. In addition, as of September 2006, a total of 2,158 "undertakings for collective investment" (UCIs), or mutual fund companies, whose net assets had reached over 1.7 trillion euros (approximately \$2.18 trillion) by the end of September 2006, were operating out of Luxembourg. Luxembourg has about 15,000 holding companies, 95 insurance companies, and 260 reinsurance companies. As of January 2006, the Luxembourg Stock Exchange listed over 36,000 securities issued by nearly 4,100 entities from about 100 different countries. Legislation passed in June 2004 permits the registration of venture capital funds (Societe d'investissement en capital a risqué, or "SICAR"). As of September 2006, 82 SICARs had been registered.

Luxembourg's financial sector laws are modeled 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 Law of April 5, 1993 implements the EU's 1991 First Anti-Money Laundering Directive and includes among its provisions customer identification, record keeping, and suspicious transaction reporting requirements. The Act of August 1, 1998 expands the list of covered entities and adds corruption, weapons offenses, and organized crime to the list of predicate offenses for money laundering. The Act of June 10, 1999 further expands anti-money laundering provisions. On May 23, 2005, a new law was passed which added corruption in the private sector to the list of money laundering predicate offenses. Fraud committed against the European Union has also been added to the list of offenses. Although only natural persons are currently subject to the law, the government has been preparing a draft bill that would add legal persons to its jurisdiction.

In an effort to bring Luxembourg into full compliance with the requirements of the EU's Second Money Laundering Directive, on November 12, 2004, Parliament approved legislation updating the nation's anti-money laundering laws. These legislative amendments formally transferred the requirements of the EU's Second Money Laundering Directive into domestic law. In October 2005, the Commission de Surveillance du Secteur Financier (CSSF) distributed a circular to the financial industry publicizing the November 2004 law and offering advice on suggested best practices. The 2004 amendments also broaden the scope of institutions subject to money laundering regulations. Under the current law, banks, pension funds, insurance brokers, UCIs, management companies, external auditors, accountants, notaries, lawyers, casinos and gaming establishments, real estate agents, tax and economic advisors, domiciliary agents, insurance providers, and dealers in high-value goods, such as jewelry and cars, are now considered covered institutions. AML law does not cover SICAR entities.

All covered entities are required to file STRs with the financial intelligence unit (FIU) and, though not legally required, are expected to send copies of their reports to their respective oversight authorities. The banking community generally cooperates with enforcement efforts to trace funds and seize or freeze bank accounts; the track record of cooperation by notaries and others is still being tested, given the legislation has only been in effect for the past year. Financial institutions are required to retain pertinent records for a minimum of five years; additional commercial rules require that certain bank records be kept for up to ten years. The AML law also contains "safe harbor" provisions that protect obliged individuals and entities from legal liability when filing STRs or assisting government officials during the course of a money laundering investigation. The 2004 amendments also contain new requirements regarding financial institutions' internal AML programs. They impose strict "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. If the transaction or business relationship is remotely based, the law details measures required for customer identification. Financial institutions must ensure adequate internal organization and employee training, and must also cooperate with authorities, proactively monitoring their customers for potential risk. "Tipping off" has also been prohibited.

Under Luxembourg law the secrecy rules are waived in the prosecution of money laundering and other criminal cases. No court order is required to investigate otherwise secret account information in suspected money laundering cases or when a STR is filed. Financial professionals are obliged to cooperate with the public prosecutor in investigating such cases.

The Commission de Surveillance du Secteur Financier (CSSF) is an independent government body under the jurisdiction of the Ministry of Finance that serves as the prudential oversight authority for banks, credit institutions, the securities market, some pension funds, and other financial sector entities covered by the country's anti-money laundering and terrorist financing laws. The Luxembourg Central Bank oversees the payment and securities settlement system, and the Commissariat aux Assurances (CAA), also under the Ministry of Finance, is the regulatory authority for the insurance sector. The identities of the beneficial owners of accounts are available to all entities involved in oversight functions, including registered independent auditors, in-house bank auditors, and the CSSF.

Under the direction of the Ministry of the Treasury, the CSSF has established a committee, the Comité de Pilotage Anti-Blanchiment (COPILAB), composed of supervisory and law enforcement authorities, the FIU, and financial industry representatives. The committee meets monthly to develop a common public-private approach to strengthen Luxembourg's AML regime.

No distinctions are made in Luxembourg's laws and regulations between onshore and offshore activities. Foreign institutions seeking establishment in Luxembourg must demonstrate prior establishment in a foreign country and meet stringent minimum capital requirements. Companies must maintain a registered office in Luxembourg, and background checks are performed on all applicants. A ministerial decree published in July 2004 modified the Luxembourg Stock Exchange's internal regulations to make it easier to list offshore funds, provided the fund complies with CSSF requirements as detailed in Circular 04/151. Also, a government registry publicly lists company directors. Although nominee (anonymous) directors are not permitted, bearer shares are permitted. Officials contend that bearer shares do not present a problem for money laundering because of know-your-customer laws, requiring banks to know the identity of the beneficial owner. Banks must undergo annual audits under the supervision of the CSSF (CSSF reg. No. 27). Independent auditors have established a peer review procedure in compliance with an EU recommendation on quality control for external audit work to assure the adherence to international standards on auditing.

Established within Luxembourg's Ministry of Justice, the Cellule de Renseignement Financier (FIU-LUX) consists of two full and one part-time officials and serves as Luxembourg's FIU, receiving and analyzing STRs and seizing and freezing assets when necessary. As part of modifications made in 2004 to Luxembourg's money laundering law, the FIU's official status as a division within the Ministry of Justice Public Prosecutor's Office was formalized. As a result, FIU officials spend a fair proportion of their time on nonfinancial crime cases. Some members of the financial community continue to call for the creation of an administrative FIU body separate from the Office of the Public Prosecutor. The FIU is responsible for providing members of the financial community with access to updated information on money laundering and terrorist financing practices. It also works closely with various regulatory bodies such as the CSSF and the CAA. The FIU and CSSF work together in investigations involving significant money laundering cases. The FIU does not have direct access to the records or databases of other government entities, but the response to its requests have proven to be efficient.

In order to obtain a conviction for money laundering, prosecutors must now prove criminal intent rather than negligence. Negligence, however, is still scrutinized by the appropriate sector oversight authority, with sanctions for noncompliance varying from 1,250 to 1,250,000 euros.

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 the past two years (832 STRs were filed in 2003, 631 in 2002, and 431 in 2001). The rate of STR filings began to decrease as legislation was being introduced in 2004 to add professional obligations covered by the anti-money laundering and terrorist financing law. The majority of STRs still originate from banks. Of 388 confirmed cases of suspicious activity in 2005, including those received by international rogatory commission, 55 specifically related to money laundering, 30 to organized crime, 11 to drug-related money laundering, 5 to corruption, and 9 to other offenses. Among the 2,471 individuals involved in STRs in 2004, 383 were residents in Luxembourg, 350 in France, 333 in Belgium, 250 in Germany, 221 in Italy, 111 in the United Kingdom, 132 in Russia, and 71 in the United States. Statistics for 2006 are not available.

There has only been one money laundering case prosecuted in Luxembourg. The case is still pending. There is one additional money laundering case scheduled for trial in 2007.

Luxembourg law only allows for criminal forfeitures and public takings. Drug-related proceeds are pooled in a special fund to invest in anti-drug abuse programs. Funds found to be the result of money laundering can be confiscated even if they are not the proceeds of a crime. The GOL can, on a case-

by-case basis, freeze and seize assets, including assets belonging to legitimate businesses used for money laundering. The government has adequate police powers and resources to trace, seize, and freeze assets without undue delay. Luxembourg has a comprehensive system not only for the seizure and forfeiture of criminal assets, but also for the sharing of those assets with other governments. On October 17, 2006, the United States and Luxembourg announced a sharing agreement in which they would divide equally €11,366,265.44 (approximately \$ 14,548,820) of seized assets of two convicted American narcotics traffickers which had been domiciled in Luxembourg bank accounts. Reportedly, there is a consistently high level of cooperation between Luxembourg and other foreign countries' law enforcement authorities on money laundering investigations.

Luxembourg authorities have been actively involved in bilateral and international fora and training in order to become more effective at fighting the financing of terrorism. In July 2003, Luxembourg's parliament passed a multifaceted counterterrorism financing law known as *Projet de Loi 4954*, designed to strengthen Luxembourg's ability to fight terrorism and terrorist financing. The law defines terrorist acts, terrorist organizations, and terrorism financing in the Luxembourg Criminal Code. In addition, the specific crimes, as defined, will carry penalties of 15 years to life. The law also extends the definition of money laundering to incorporate new terrorism-related crimes and provides an exception to notification requirements in selected wiretapping cases. The November 2004 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 now are required to report any transaction believed to be related to terrorist financing, regardless of the source of the funds.

The Ministry of Justice studies and reports on potential abuses of charitable and nonprofit entities to protect their integrity. Justice and Home Affairs ministers from Luxembourg and other EU member states agreed in early December 2005 to take into account five principles with regard to implementing FATF Special Recommendation VIII on nonprofit 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 the widespread use in Luxembourg of alternative remittance systems such as hawala, black market exchanges, or trade-based money laundering. Officials comment that existing AML rules would apply to such systems, and no separate legislative initiatives are being formally considered to address them.

In an effort to identify and freeze the assets of suspected terrorists, the GOL actively disseminates to its financial institutions information concerning suspected individuals and entities on the United Nations Security Council Resolution 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. Luxembourg does not have legal authority to independently designate terrorist groups or individuals. The government has been working on legislation with regard to this issue for some time now; however, the legislation remains in the early drafting process. Luxembourg's authorities can and do take action against groups targeted through the EU designation process and the UN.

Under the 2004 amendments to Luxembourg's AML law, bilateral freeze requests are limited to a new maximum of three months; designations under the EU, UN, or international investigation processes continue to be subject to freezes for an indefinite time period. Upon request from the United States, Luxembourg froze the bank accounts of individuals suspected of involvement in terrorism. Luxembourg has also independently frozen several accounts, resulting in court challenges by the account holders. Since 2001, over \$200 million in suspect accounts have been frozen by Luxembourg authorities pending further investigations (most of the assets were subsequently released).

Luxembourg cooperates with and provides assistance to foreign governments in their efforts to trace, freeze, seize and forfeit assets. Dialogue and other bilateral proceedings between Luxembourg and the

United States have been extensive. Luxembourg held the EU Presidency from January through June 2005. As part of its presidency agenda, Luxembourg placed a priority on making progress on the additional legal instruments the United States had signed with the European Union covering extradition and mutual legal assistance. The extradition agreement will modernize existing bilateral extradition treaties with each of the EU member states. The mutual legal assistance agreement contains cutting-edge provisions for future legal cooperation, including the ability to informally identify the existence of bank accounts in terrorism-related cases. To implement the EU-wide agreements, supplemental treaties between the U.S. and each EU member states are required. On February 1, 2005, bilateral instruments were signed to implement the U.S.-EU extradition and mutual legal assistance agreements between Luxembourg and the United States. Luxembourg was instrumental in using its EU presidency to push this process closer to completion with four additional EU members as well.

In its 2005 EU Presidency capacity, Luxembourg also oversaw new milestones in the recently-established U.S.-EU dialogue on terrorist finance issues. Prosecutors and investigators from the United States and the EU's Eurojust met for the first time in March 2005 at The Hague to discuss a suspect terrorist group that operated in a number of countries. The Luxembourg EU Presidency hosted a two-day workshop in April 2005 for U.S. and EU member state terrorist finance prosecutors, investigators, and designators (who met for the first time at this event). The dialogue continued throughout 2005 to expand U.S.-Luxembourg and U.S.-EU cooperation between experts dedicated to countering terrorist financing. This forum was determined to be quite useful, and was continued by the Finnish EU Presidency as the second workshop was held 27-28 September 2006.

As of September 2005, over \$22 million in illegal drug proceeds was frozen in Luxembourg at the request of U.S. authorities. Luxembourg worked with the United States Department of Justice throughout the year on several outstanding drug-related money laundering and asset forfeiture cases. On September 7, 2005, Luxembourg repatriated to the United States nearly \$1 million, based on a U.S. legal assistance request, to victims of a fraud involving a former Vice President of Riggs Bank in Washington, D.C.

Luxembourg laws facilitating international cooperation in money laundering include the Act of August 8, 2000, which enhances and simplifies procedures on international judicial cooperation in criminal matters; and the Law of June 14, 2001, which ratifies the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. During its EU Presidency, Luxembourg shepherded the draft of the Third Money Laundering and Terrorist Financing Directive through the EU's legislative process. The directive was published in the EU's Official Journal on November 25, 2005. EU member states must transpose this legislation into national law within the next two years.

Luxembourg is a party to the 1988 UN Drug Convention and but has not yet ratified the UN Convention against Transnational Organized Crime. In November 2003, Luxembourg ratified the UN International Convention for the Suppression of the Financing of Terrorism.

Luxembourg is a member of the European Union and the FATF. The Luxembourg FIU is a member of the Egmont Group and has negotiated memoranda of understanding with several countries, including Belgium, Finland, France, Korea, Monaco, and Russia. Luxembourg and the United States have had a mutual legal assistance treaty (MLAT) since February 2001. Luxembourg's Agency for the Transfer of Financial Technology (ATTF) has consistently provided training and acted as a consultant in money laundering matters to government and banking officials in countries whose regimes are in the development stage. Since 2001, ATTF has provided assistance to government and banking officials from Bosnia-Herzegovina, Bulgaria, Croatia, Cape Verde, China, the Czech Republic, Egypt, Macedonia, Romania, Russia, Ukraine, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, El Salvador, Kazakhstan, Laos, Moldova, Mongolia, Serbia and Montenegro,

Tunisia, Turkey, Uzbekistan, and Vietnam. Georgia was added to this list in 2006 and the hope is to add Azerbaijan in 2007.

According to the December 2004 International Monetary Fund (IMF) report Luxembourg: Report on the Observance of Standards and Codes—FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism, 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

The Government of Luxembourg has enacted laws and adopted practices that help to prevent the abuse of its bank secrecy laws, and it has enacted a comprehensive legal and supervisory anti-money laundering regime. However, further action should be taken to address the lack of a distinct legal framework for the financial intelligence unit. The financial intelligence unit staff should have its other judicial responsibilities curtailed and be freed to focus solely on financial crimes. Regarding regulations, Luxembourg should continue to strengthen enforcement to prevent abuse of its financial sector. Specifically, Luxembourg should pass legislation creating the authority for it to independently designate those who finance terrorism. Luxembourg should also enact legislation to address the continued use of bearer shares. Per FATF Special Recommendation Nine, Luxembourg should initiate and enforce cross-border currency reporting requirements and the data should be shared with the financial intelligence unit. Luxembourg’s anti-money laundering regime may be relying too heavily on the filing of suspicious transaction reports to generate investigations. Although Luxembourg has steadily enacted anti-money laundering and terrorist finance laws, policies, and procedures, the lack of prosecutions and convictions is telling, particularly for a country that boasts such a large financial sector.

Macau

Under the one country-two systems principle that underlies Macau’s 1999 reversion to the People’s Republic of China, Macau has substantial autonomy in all areas except defense and foreign affairs. Macau’s free port, lack of foreign exchange controls, 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.

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. On March 23, 2006, the Macau Special Administrative Region (MSAR) Government passed a 12-article bill on the prevention and repression of money laundering that incorporates aspects of the revised FATF Forty Recommendations. The law expands the number of sectors covered by Macau’s previous anti-money laundering (AML) legislation, calls for the establishment of a financial intelligence unit (FIU), and includes provisions on due diligence. The 2006 anti-money laundering law broadened the definition of money laundering to include all serious predicate crimes. The law provides for 2-8 years imprisonment for money laundering offenses, and if a criminal is involved in organized crime or triad-related money laundering, the penalties would increase by one-half. The new law also allows for fines to be added to the time served and eliminated a provision reducing time served for good behavior.

The 2006 law also extended the obligation of suspicious transaction reporting to lawyers, notaries, accountants, auditors, tax consultants and offshore companies. Covered businesses and individuals must meet various obligations, such as the duty to confirm the identity of their clients and the nature of their transactions. Businesses must reject clients that refuse to reveal their identities or type of business dealings. The law obliges covered entities to send suspicious transaction reports (STRs) to the relevant authorities and cooperate in any follow-up investigations. This law also requires casinos to submit STRs.

On March 30, 2006, the MSAR also passed new counterterrorism legislation aimed at strengthening measures to combat the financing of terrorism (CFT). The law generally complies with UNSCR 1373, making it illegal to conceal or handle finances on behalf of terrorist organizations. Individuals are liable even if they are not members of designated terrorist organizations themselves. The legislation also allows 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 suspected terrorists and terrorist organizations.

While Macau's new AML and CTF laws should create a more robust legal framework to combat money laundering, Macau will also need to enforce these laws. In an August 2002 "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 facilitated many of that regime's criminal activities, including circulating counterfeit U.S. currency. Macau's Monetary Authority has taken control of Banco Delta Asia and is cooperating with the U.S. Treasury Department in an ongoing investigation of the bank.

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. The Act 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.

Money Laundering and Financial Crimes

Macau is in the process of establishing a Financial Intelligence Unit (FIU). A Macau Monetary Authority official has been designated to head the FIU. As of October 2006, in addition to the FIU Head, the staff consisted of two officials (seconded from the Insurance Bureau and the Monetary Authority), a judiciary police official, and two information technology staff. The FIU is working on creating an operations manual, and is working with the Macau Police on dissemination of suspicious transaction reports (STRs) and with the Public Prosecutors Office on prosecution of cases. The FIU is currently working out of temporary office space but plans to move into permanent office space in January 2007 when it will begin accepting STRs.

The gaming sector and related tourism are critical parts of Macau's economy. Taxes from gaming comprised 73 percent of government revenue in the first eight months of 2006. Gaming revenue increased 12.6 percent during the first eight months of 2006, 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. . Macau now effectively has six separate casino licenses, three concession holders Sociedade de Jogos de Macau (SJM), Galaxy and Wynn and three subconcession holders Las Vegas Sands, MGM and PBL/Melco. Las Vegas Sands opened its first casino, the Sands, on May 18, 2004. In addition, MGM began constructing a casino in conjunction with Pansy Ho, the daughter of local businessperson Stanley Ho, the largest casino operator in Macau, whose company, Sociedade de Jogos de Macau (SJM), previously held a monopoly on casino operations. Wynn opened its casino in September 2006 and MGM and the Venetian are scheduled to open casinos in 2007. A consortium between Australia's PBL and Macau's Melco, led by Stanley Ho's son Lawrence Ho, as yet operates no casinos, but runs several slot machine rooms in Macau.

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 shielded 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 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 consolidated list provided by the UN 1267 Sanctions Committee 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 counterterrorism resolutions, and strengthens counterterrorist financing provisions. China signed the UN International Convention for the Suppression of the Financing of Terrorism on November 13, 2001, and the Standing Committee of the 10th National People's Congress ratified it in February 2006. The Instrument of Ratification was delivered to the UN on April

21, 2006, and stipulated that in accordance with Article 138 of the Basic Law of the Macao Special Administrative Region of the People's Republic of China, the Government of the People's Republic of China had decided that the Convention shall apply to the MSAR.

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 of STRs remains low. Macau's Judiciary Police received 107 STRs in 2003, 109 in 2004, 194 in 2005, and 396 STRs from January to September of 2006, from individuals, banks, companies, and government agencies. In 2003 Macau opened two money laundering cases and prosecuted one. In 2004 Macau opened ten money laundering cases and prosecuted zero. In 2005 Macau opened nine money laundering cases and prosecuted two. In the first half of 2006 Macau opened twelve money laundering cases and prosecuted one. 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 perform 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. In July 2006, the MSAR enacted the Law on Judicial Cooperation in Criminal Matters, enabling the MSAR to enter into more formal judicial and law enforcement cooperation relationships with other countries. The law became effective in November 2006.

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's Monetary Authorities are cooperating with the U.S. Treasury Department investigation of Banco Delta Asia. The Monetary Authorities have taken control of Banco Delta Asia and have frozen accounts linked to North Korea worth approximately US\$ 24 million. The Government of Macau announced in September 2006 that it would continue to maintain control over Banco Delta Asia for at least six more months as the Banco Delta Asia investigation continues.

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 ensure effective implementation of its new 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 regulations to prevent money laundering in casinos, including the VIP rooms. The MSAR should take steps to implement the new FATF Special Recommendation Nine, adopted by the FATF in October 2004, requiring countries to put in place 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 its financial intelligence unit meets Egmont Group standards for information sharing. It should expedite the drafting and issuance of implementing regulations to its new AML and CTF laws. The Government of Macau also should be more proactive in identifying and freezing accounts related to money laundering by weapons proliferators and counterfeiters.

Malaysia

Malaysia is not a regional center for money laundering. However, its financial sectors are vulnerable to abuse by narcotics traffickers, financiers of terrorism, and criminal elements. Malaysia's relatively lax customs inspection at ports of entry and free trade zones, and its offshore financial services center serve to increase its vulnerability. Though the Government of Malaysia (GOM) has established a "drug-free by 2015" policy and cooperation with the U.S. on combating drug trafficking is excellent, 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.

Malaysia, having enacted laws to combat money laundering, has a developed anti-money laundering system. Malaysia has endorsed the Basel Committee's Core Principles for Effective Banking Supervision, and generally follows international standards related to money laundering, including the Financial Action Task Force (FATF) Forty Recommendations on Money Laundering and the Nine Special Recommendations on Terrorist Financing. 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). The NCC also coordinates government-wide anti-money laundering and counterterrorist finance efforts.

Malaysia is a member of the Asia/Pacific Group on Money Laundering (APG). In 2001, the APG conducted a Mutual Evaluation of Malaysia and its offshore financial center, Labuan. The second round of evaluations is scheduled in February 2007. In preparation for the APG's second round, the NCC has established various working groups to review Malaysia's current anti-money laundering and counter terrorist finance (AML/CTF) measures, laws, regulations, guidelines and framework in an effort to identify possible gaps and to formulate corrective measures.

Subsequent to its 2001 mutual evaluation, Malaysia enacted the AMLA in January 2002, criminalizing money laundering and lifting bank secrecy provisions for criminal investigations involving more than 122 predicate offenses. In 2005, the number of money laundering predicate offences in the Second Schedule to the AMLA was increased from 168 to 185 serious offences from 27 pieces of legislation.

The new predicate offenses were from the Customs Act, Islamic Banking Act, Payment Systems Act, Takaful Act, Futures Industry Act, Securities Commission Act and the Securities Industry Act.

The AMLA also created a financial intelligence unit (FIU), the Unit Perisikan Kewangan, 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 cooperates with other relevant agencies to identify and investigate suspicious transactions. A comprehensive supervisory framework has been implemented to audit financial institutions' compliance with the AMLA. Currently, BNM maintains 300 examiners who are responsible for money laundering inspections for both onshore and offshore financial institutions. Malaysia's FIU has been a member of the Egmont Group since July 2003. This year Malaysia was elected to be the Asia Chair for the Egmont Committee.

Malaysia's financial institutions have 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 FIU. If the reporting institution deems a transaction suspicious it must report that transaction to the FIU regardless of the transaction size. In addition, cash threshold reporting (CTR) requirements above approximately \$13,600 were invoked on banking institutions. FIU officials indicate that they receive regular reports from the AMLA reporting institutions. 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 banker negligence (due diligence) 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, is subject to criminal sanction. All reporting institutions are subject to review by the FIU. Under the AMLA, reporting institutions include financial institutions from the conventional, Islamic, and offshore sectors as well as nonfinancial businesses and professions such as lawyers, accountants, company secretaries, and Malaysia's one licensed casino. In 2005, reporting obligations were invoked on licensed gaming outlets, notaries public, offshore trading agents and listing sponsors. Phased-in reporting requirements for stock brokers and futures brokers were expanded in 2005, and in 2006, reporting requirements were extended to money lenders, pawnbrokers, registered estate agents, trust companies, unit trust management companies, fund managers, futures fund managers, nonbank remittance service providers, and nonbank affiliated issuers of debit and credit cards.

According to a Ministry of Finance report released in September 2006, Islamic banking assets accounted for 11.8 percent of the total assets in the banking sector at the end of June 2006, up from 11.6 percent in June 2005. Malaysia's Islamic finance sector 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 in addition to robust regulation and supervision by BNM 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 from Malaysia. Onshore banks must record cross-border transfers over approximately \$1,360. Since April 2003, an individual form is completed for each transfer above approximately \$13,600. Recording is done in a bulk register for transactions between approximately \$1,411 and \$14,110. Banks are obligated to record the amount and purpose of these transactions.

While Malaysia's offshore banking center on the island of Labuan has different regulations for the establishment and operation of offshore businesses, it is subject to the same anti-money laundering

laws as those governing onshore financial service providers. Malaysia's Labuan Offshore Financial Services Authority (LOFSA) serves as a member of the Offshore Group of Banking Supervisors. Offshore banks, insurance companies, trust companies, trading agents and listing sponsors are required to file suspicious transaction reports under the country's anti-money laundering law. LOFSA is under the authority of the Ministry of Finance and works closely with BNM. 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 had 5,408 registered offshore companies as of June 30, 2006, of which 256 had registered since January this year. Bearer instruments are strictly prohibited in Labuan.

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. There is no requirement to publish the true identity of the beneficial owner of international corporations; however, LOFSA requires all organizations operating in Labuan to disclose information on its beneficial owner or owners, as part of its procedures for applying for a license to operate as an offshore company. LOFSA maintains financial information on licensed entities, releasing it either with the consent of those entities or upon investigation.

In November 2005, LOFSA revoked the license of the "Blue Chip Pathfinder" Private Fund for "evidence that Swift Securities & Investments Ltd had contravened the terms of the consent and acted in a manner that was detrimental to the interests of mutual fund investors." Eleven days later, LOFSA revoked the investment banking license of Swift Securities & Investments Ltd for "contravening the provisions of the license."

In April 2006, LOFSA announced that it had subscribed to a service which provides structured intelligence on high and heightened risk individuals and entities, including terrorists, money launderers, politically exposed persons, arms dealers, sanctioned entities, and others, to gather information on their networks and associates. LOFSA now uses this service as part of its licensing application process.

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 Government of Malaysia (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 in July 2006 concluded a Mutual Legal Assistance Treaty with the United States. Malaysia concluded a similar treaty among like-minded ASEAN member countries in November 2004. In October 2006, Malaysia ratified treaties with China and Australia regarding the provision of mutual assistance in criminal matters. An extradition treaty was also signed with Australia. The mutual assistance treaties enable States Parties to assist each other in investigations, prosecutions, and proceedings related to criminal matters, including terrorism, drug trafficking, fraud, money laundering and human trafficking.

In 2004, Malaysia made its first money laundering arrest. As of December 31, 2005, six individuals were being prosecuted for money laundering offences involving a total of 196 charges with fines amounting to approximately \$19.5 million. In December 2005, one person was convicted of a money laundering offence amounting to approximately \$23,423. From January through November 2006, 14 additional individuals had been charged, bringing the total number of people being prosecuted for money laundering to 20 with fines amounting to approximately \$71.97 million.

Malaysia cooperates with regional, multilateral, and international partners to combat financial crimes and permits foreign countries to check the operations of their bank branches.

The FIU has signed memoranda of understanding (MOUs) on the sharing of financial intelligence with the FIUs of Australia, Indonesia, Thailand, the Philippines and China. MOUs with the United Kingdom, United States, Japan, South Korea, Netherlands Antilles, Finland, Albania, Argentina, Cook Islands, Mexico, Sri Lanka, Ukraine, Peru and India are at various stages of negotiation.

Malaysia is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The GOM has agreed in principle to accede to the UN Convention for the Suppression of the Financing of Terrorism, and is expected to bring into force amendments to five different pieces of legislation. Parliament passed amendments to the Anti-Money Laundering Act, the Penal Code, the Subordinate Courts Act, the Courts of Judicature Act, and the Criminal Procedure Code. All five amendments have been accorded Royal Assent and are awaiting Ministerial instructions to bring these amendments into force. These amendments will increase penalties for terrorist acts, allow for the forfeiture of terrorist-related assets, allow for the prosecution of individuals who have provided material support for terrorists, expand the use of wiretaps and other surveillance of terrorist suspects, and permit video testimony in terrorist cases.

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 has the authority to identify and freeze the assets of terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, and has issued orders to all licensed financial institutions, both onshore and offshore, to do so. The Ministry of Foreign Affairs opened the Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT) in August 2003. The SEARCCT has hosted a series of counterterrorism courses and seminars, including training on counter terrorist finance.

BNM and SEARCCT jointly organized a series of workshops and dialogues for reporting institutions with the participation of regulatory and law enforcement agencies. Malaysia offers interactive computer-based training in anti-money laundering developed by the UN Office on Drugs and Crime and the World Bank. In addition, BNM together with members of the NCC has developed an eight-module Accreditation of Financial Investigators Program for AMLA investigators. Ongoing training enhances the capabilities of graduates of the computer-based programs, including the legal aspects of anti-money laundering, investigative procedures, analysis of net worth, forensic accounting, and computer forensics.

The GOM has rules regulating charities and other nonprofit entities. The Registrar of Societies is the principal government official who supervises and controls charitable organizations, with input from the Inland Revenue Board (IRB) and occasionally the Companies Commission of Malaysia (CCM). The Registrar mandates that every registered society of a charitable nature submits its annual returns, including its financial statements. Should activities deemed suspicious be found, the Registrar may revoke the nonprofit organization's (NPO) registration or file a suspicious transaction report. Registering as a NPO can be bureaucratic and time-consuming. One organization reported that getting registered took nine months and required multiple personal interviews to answer questions about its mission and its methods. Some NPOs reportedly register as "companies" instead, a quick and inexpensive process requiring capital of approximately 54 cents and annual financial statements. In

March 2006, the FIU completed a review of the nonprofit sector with the Registrar, the IRB, and CCM in an effort to ensure that the laws and regulations were adequate to mitigate the risks of nonprofit organizations as conduits for terrorism financing. BNM reports that the review did not show any significant regulatory weaknesses; however, the GOM is considering measures to enhance the monitoring of fundraising, including increased disclosure requirements of how funds are spent.

Malaysia's tax law allows a tax credit for contributions to mosques or Islamic charitable organizations (zakat, as required by Islam) encouraging the reporting of such contributions. There is no similar tax credit for non-Muslims. Islamic zakat contributions can be taken as payroll deductions, adding another tool to help prevent the abuse of charitable giving.

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) funded a team from Malaysia's FIU to run a workshop in Laos for two state-owned banks and to provide technical assistance in the drafting of Laos's anti-money laundering compliance procedures. This was completed in October 2006.

The Malaysian government continues to receive training towards the more effective use of existing "Aiding and Abetting" laws to prosecute drug kingpins and their organizations.

The Government of Malaysia (GOM) should enact an imminent effective date for the five recent amendments criminalizing the financing of terrorism. This also will allow Malaysia to accede to the UN International Convention for the Suppression of the Financing of Terrorism. Malaysia also should continue to enhance its cooperation with on a regional, multilateral, and international basis. The GOM should improve enforcement of regulations regarding its free trade zones, which remain vulnerable to the financing of terrorism and money laundering. Perhaps most importantly, the GOM should implement stricter border control measures.

Mexico

Mexico is a major drug-producing and drug-transit country; it also serves as one of the major conduits for proceeds from illegal drug sales leaving the United States. The illicit drug trade is believed to be the principal source of funds laundered through the Mexican financial system. Corruption, kidnapping, trafficking in firearms and immigrants, and other crimes are other major sources of illegal proceeds being laundered. 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 derived from illegal drug sales in the United States.

Currently, there are 29 commercial banks and 71 foreign financial representative offices operating in Mexico, as well as 86 insurance companies, 166 credit unions and 25 money exchange houses. Commercial banks, foreign exchange companies and general commercial establishments are allowed to offer money exchange services. Although the underground economy is estimated to account for 20-40 percent of Mexico's gross domestic product, the informal economy is considered to be much less significant with regard to money laundering than 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, offshore banks, lawyers, accountants, couriers and brokers are currently not subject to anti-money laundering (AML) reporting requirements.

In 2005, Mexico established three strategic financial zones: two in San Luis Potosi and one in Chiapas. These zones, similar to free trade zones, allow tax exemptions for inputs to exports that are imported

or produced locally. Additional strategic financial zones are planned to be established in the states of Queretaro, Quintana Roo and Lazaro Cardenas. The Mexican Customs agency certifies companies operating in these zones under the authority provided by Article 135 of the Customs Law. There is no indication that these zones are being used in trade-based money laundering or terrorist financing.

Since 2000, Mexicans have received more than \$100 billion in remittances. Approximately \$23.1 billion in remittances were received in 2006 alone. Many U.S. banks have partnered with their Mexican counterparts to develop systems to simplify and expedite the transfer of money, including wider acceptance by U.S. banks of the “matricula consular.” The matricula consular is an identification card issued by Mexican consular offices to Mexican citizens residing in the United States that has been criticized as insecure. In some cases, the sender or the recipient can simply provide the matricula consular as identification and pay a flat fee to receive a remittance; neither is required to open a bank account in the United States or Mexico. 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 systems open to potential money laundering and exploitation by organized crime groups. As a result of the increased availability of these electronic transfers, the U.S. embassy estimates that electronic transfers accounted for 90 percent of remittances to Mexico in 2006.

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 derived from drug transactions. Sophisticated and well-organized drug trafficking organizations based in Mexico are able to take full advantage of the extensive United States-Mexico border and the large flow of licit remittances. In addition, the combination of a sophisticated financial sector and weak regulatory controls facilitates the concealment and movement of drug proceeds. U.S. officials estimate that since 2003, as much as \$22 billion may have been repatriated to Mexico from the U.S. by drug trafficking organizations. In April 2006, the U.S. Department of Treasury issued a warning to the U.S. financial sector on the potential use of certain Mexican financial institutions, including Mexican casas de cambio, to facilitate bulk cash smuggling. Corruption is also a concern: in recent years, various Mexican officials have come under investigation for alleged money laundering activities.

In 2006, 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. As a result of the cooperation of Mexican Customs, SIEDO and various U.S. agencies, Mexico seized over \$25 million in 2006. As of November, SIEDO had initiated 142 criminal investigations into money laundering cases in 2006, 77 of which were brought to trial. The U.S. Treasury Department’s Office of Foreign Asset Control (OFAC) announced in June 2006 the designation of the Amezcua Contreras Organization as a Tier I target involved in significant narcotics trafficking under the Foreign Narcotics Kingpin Designation Act. In July and September 2006, OFAC also announced designations of 45 Tier II targets associated with the previously-designated Arrellano Felix and Arriola Marquez drug trafficking organizations. The designations are a result of cooperation among OFAC, other U.S. government entities and SIEDO. They allow 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 its efforts to create and implement an anti-money laundering program that meet such international standards 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 from 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 under the Ministry of the Treasury, which became known as the Unidad de Inteligencia Financiera (UIF) in 2004 with the consolidation of all the Treasury 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 and are comprised mostly of 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, credit institutions, exchange houses and money remittance businesses) to know and identify customers and maintain records of transactions. These entities must report to the UIF any suspicious transactions, transactions over \$10,000, and transactions involving employees of financial institutions who engage in unusual activity. Financial institutions with a reporting obligation also require occasional customers performing transactions equivalent to or exceeding \$3,000 in value to be identified, so that the transactions can be aggregated daily to prevent circumvention of the requirements to file cash transaction reports (CTRs) and suspicious transaction reports (STRs). 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 (SAT). As of 2006, nonprofit organizations are also subject to reporting requirements on donations greater than \$10,000. In 2005, the UIF received over 4 million CTRs and approximately 57,700 STRs from obligated entities; corresponding data for 2006 is not available.

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 and cover a wider range of monetary instruments (e.g. bank drafts) than those required by the United States.

Following the analysis of CTRs, STRs and reports on the cross-border movements of currency, the UIF sends reports that are deemed to require further investigation, and have been approved by Treasury's legal counsel, to the Office of the Attorney General (PGR). As of October, the UIF had sent 45 cases to the PGR in 2006. The PGR's special financial crimes unit is part of SIEDO, which works closely with the UIF in carrying out money laundering investigations. In addition to working with SIEDO, UIF personnel have initiated working-level relationships with other federal law enforcement entities, including the Federal Investigative Agency (AFI) and the Federal Preventive Police (PFP), in order to support the investigations of criminal activities with ties to money laundering. In 2006, the UIF signed memoranda of understanding (MOUs) with the Economy Secretariat and the immigration authorities that allows the UIF access to their databases. The UIF has also signed agreements with the National Banking Commission (CNBV) and the National Commission of Insurance and Finance (CNSF) to coordinate methods to prevent money laundering and terrorist financing, and is currently finalizing similar negotiations with the Treasury and the National Savings Commission (CNSAR).

Since undergoing its second mutual evaluation by the FATF in 2003, the GOM has been subject to monitoring by FATF and has submitted several reports on the progress made since its evaluation. The evaluation team found in 2003 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, reducing the delay in reporting transactions overall, and developing an overall anti-money laundering strategy. However, the FATF evaluation team also identified a number of deficiencies in the system. These deficiencies include the lack of a separate criminal offense of terrorist financing, and strict bank and trust secrecy, which are considered impediments to 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 and February 2006 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 approved in April and December 2005 now allow specific government entities, such as the PGR and the state attorneys general, to receive records directly from banks and credit institutions without prior approval from 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, the lower house failed to act on this bill. 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. If passed, this legislation would 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 still under consideration in the Senate.

While Mexico does not have a specific offense criminalizing the financing of terrorism, money laundering associated with terrorism is punishable under the existing Penal Code. The GOM has responded positively to U.S. Government efforts to identify and block terrorist-related funds. It continues to monitor suspicious financial transactions, although no assets related to terrorism have been frozen to date.

Although the United States and Mexico both have forfeiture laws and provisions for seizing assets abroad derived from criminal activity, U.S. requests of Mexico for the seizure, forfeiture and repatriation of criminal assets have not often met with success. Mexican authorities have difficulties forfeiting assets seized in Mexico if these assets are not clearly linked to narcotics. Although Mexican officials have made significant progress in modernizing their approach to asset seizure, actual asset forfeiture remains a challenge.

Mexico has developed a broad network of bilateral agreements 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. Mexico and the United States also 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 addition to its membership in the FATF, Mexico participates in the Caribbean Financial Action Task Force as a cooperating and supporting nation. In 2006, Mexico also became a member of the South American Financial Action Task Force (GAFISUD), after previously participating in GAFISUD as an observer member. The UIF is a member of the Egmont Group, and Mexico participates in 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 22 other financial intelligence units, including the U.S. financial intelligence unit, FinCEN.

To create a more effective AML regime, Mexico should fully implement and improve its mechanisms for asset forfeiture and money laundering cooperation with the United States and increase efforts to

control the bulk smuggling of currency across its borders. The GOM should also closely monitor remittance systems for possible exploitation by criminal or terrorist groups. Mexico should enact its proposed legislation to criminalize the financing and support of terrorists and terrorist organizations. Despite a strengthened regulatory framework, 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 combat money laundering, terrorist financing and other financial crimes.

Moldova

Moldova is not considered an important regional financial center. Moldova remains predominantly a cash-based society and people reportedly have little faith in banks. Criminal proceeds laundered in Moldova are derived from both domestic and foreign criminal activity. Organized crime syndicates are active in the country. Widespread corruption in both commerce and government exacerbates the situation. There is a large underground economy in Moldova. Smuggling of consumer goods, including counterfeit items, is common. Moldova is also recognized as a major source country for trafficking in persons. A rise in internet-related fraud schemes is evident. Moldova has approximately five casinos, but they are neither well regulated nor controlled.

Additional money laundering threats are found in the separatist region of Trans-Dniester—a narrow strip of land between the Dniester River and the Ukrainian border—which proclaimed independence from Moldova in 1990. Trans-Dniester contains most of Moldova's industrial infrastructure, but its economic potential is limited by its international isolation. The region is plagued by corruption, organized crime and smuggling. There are persistent reports of Trans-Dniester illegal arms sales, narcotics trafficking, and of being the base of operations for Russian and Ukrainian organized crime syndicates.

Money laundering became a criminal offense in Moldova November 2001, and the law was amended in June 2002. It remained unchanged when the new criminal code was adopted in June 2003. The legislation applies to proceeds of "all crimes," not just narcotics activity, with banks and nonbank financial institutions (NBFIs) required to report transactions over a certain amount to the Center for Combating Economic Crimes and Corruption (CCECC). On July 1, 2004, the Law on Money Laundering was amended to raise the reporting threshold from 100,000 lei to 300,000 lei (approximately \$8,040 to \$24,100) for individuals, and from 200,000 lei to 500,000 (approximately \$16,100 to \$40,200) for legal entities. However, the amendments still require reporting transactions under the threshold if, when combined with other transactions during a one-month period, they reach a total which crosses that threshold. This amendment may actually increase the amount of reporting required. Current anti-money laundering legislation also covers gold, gems, and precious metals.

Banks must maintain transfer records for a period of five years after an account opens or after any financial transaction takes place and seven years after foreign currency contract transactions, whichever is later. They have submitted suspicious transactions reports (STRs), as required, since the law was enacted. However, Moldovan legislation exempts foreign nationals from being subject to STR reporting. Both banks and NBFIs are protected from criminal, civil, and administrative liability asserted as a result of their compliance with the reporting requirements, and no secrecy laws exist that would prevent law enforcement or banking authorities from accessing financial records. A May 2003 amendment states that forwarding such information to law enforcement entities or the courts is not a breach of confidentiality, as long as it is done in accordance with the regulations. Current legislation contains provisions authorizing sanctions of commercial banks for negligence.

Government of Moldova (GOM) efforts against the international transportation of illegal-source currency and monetary instruments largely focus on cross-border currency reporting forms, completed at ports of entry by travelers entering Moldova. It is not clear if these efforts are successful.

The CCECC houses Moldova's Financial Intelligence Unit (FIU). In 2004, the CCECC established an FIU from within, by creating a money laundering section of ten investigators to pursue suspicious financial transactions. Under Moldovan criminal procedure, cases first undergo a preliminary investigation by operative investigators before being sent to criminal investigators and prosecutors who decide whether a full investigation will be launched. The FIU is not a member of the Egmont Group, although it has been a candidate for membership since 2004. Reportedly, the FIU has drafted a new anti-money laundering/counterterrorist financing (AML/CTF) law, which is to be submitted to Parliament in early 2007. The legislation was developed with technical assistance from the Council of Europe.

Moldova is not considered an offshore financial center, and only two foreign banks exist in Moldova: "Banca Comerciala Romana," a Romanian bank; and "Unibank," in which the Russian bank "Petrocomert" holds 100 percent of the shares. These banks are regulated in the same manner as Moldovan commercial banks. Offshore banks are permitted, so long as they are licensed and background checks are conducted on shareholders and bank officials. Nominee (anonymous) directors are not allowed, and banks do not permit bearer shares. The Ministry of Finance (MOF) currently licenses five casinos, although they are reportedly not well regulated or controlled.

Reportedly, the GOM is seriously considering a package of amendments to existing legislation that would allow Moldova to emerge as a significant offshore center in the region. The GOM has indicated publicly that the proposed changes are designed to attract substantial inflows of capital and provide a much-needed economic boost to one of the poorest countries in Europe. According to the current draft of the proposed amendments, the changes call for a sharp decrease in reporting requirements and an increase in financial secrecy, including the ability to establish "anonymous" stock companies. As drafted, neither banks nor law enforcement would be able to determine the beneficial owner of legal entities, and the law would provide what would effectively equate to a fee schedule for the "legalization" of money of dubious origin. If passed in their current form, the amended laws would violate FATF recommendations and call into question Moldova's compliance with and commitment to international AML/CFT standards.

Article 106 of the Moldovan criminal code, enacted June 12, 2003, relates specifically to asset seizure and confiscation. The article, titled "Special Seizures," describes a special seizure as the forced transfer of ownership of goods used during, or resulting from, a crime to the state. The article may be applied to goods belonging to persons who knowingly accept assets acquired illegally, even when prosecution is declined. However, it remains unclear whether asset forfeiture may be invoked against those unwittingly involved in or tied to an illegal activity. Money laundering crimes are the purview of the CCECC, while narcotics-related seizures are within the jurisdiction of the Ministry of Interior (MOI). The GOM currently lacks adequate resources, training, and experience to trace and seize assets effectively. There are no accurate statistics available on seizures or confiscation.

Moldova codified the criminalization of terrorist financing in the Law on Combating Terrorism, enacted November 12, 2001. Article 2 defines terrorist financing, and Article 8/1 authorizes suspension of terrorist and related financial operations. Current GOM capabilities to identify, freeze, and seize terrorist assets are rudimentary, with investigators lacking advanced training and resources. While the NBM receives and regularly distributes the UNSCR 1267 Sanctions Committee's consolidated list of suspected terrorists, no related assets have been identified, frozen, or seized in Moldova. Investigation into misuse of charitable or nonprofit entities is non-existent, as the GOM has neither the resources nor ability to perform these tasks. In December 2004, the Parliament amended the law on money laundering to include provisions on terrorist financing. Moldova has made no arrests for terrorist financing. Moldova is a party to the UN International Convention for the Suppression of the Financing of Terrorism.

No agreements, bilateral or otherwise, exist between the USG and the GOM regarding the exchange of records in connection with narcotics, terrorism, terrorist financing, or other serious criminal investigation. Current legislation does not prohibit cooperation on a case-by-case basis. GOM authorities continue to solicit USG assistance on individual cases and cooperate with U.S. law enforcement personnel when presented with requests for information/assistance. There are no known cases of GOM refusal to cooperate with foreign governments or of sanctions or penalties being imposed upon the GOM for a failure to cooperate.

Moldova is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime. Moldova has signed an agreement with CIS member states for the exchange of information on criminal matters, including money laundering. In 2004, the CCECC was accepted as an observer at the Eurasian Group on Combating Money Laundering and as a candidate in the Egmont Group. Moldova is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL).

In December, 2006 Moldova signed a \$24.7 million Threshold Country Program with the Millennium Challenge Account that focuses on anticorruption measures. The GOM requested funding to address areas of persistent corruption including in the judiciary, health care system, and tax, customs and police agencies. Moldova is listed as 79 out of 163 countries in Transparency International's 2006 Corruption Perception Index.

The Government of Moldova should enhance its existing anti-money laundering/counterterrorist financing regime. The regime should adhere to internationally accepted standards. Moldova should improve the mechanisms for sharing information and forfeiting assets. Additionally, Moldova should provide appropriate training for its law enforcement personnel involved in the asset forfeiture program. Border enforcement and antismuggling enforcement should be priorities. Moldova should take specific steps to counter corruption and should become a party to the UN Convention on Transnational Organized Crime and the UN Convention against Corruption. Moldova should not pursue proposed legislative changes on offshore that would make Moldova's financial sector less transparent and more vulnerable to money laundering, terrorist financing, and other forms of illicit finance. As a member of MONEYVAL, the Government of Moldova has committed to adhering to the international standards set by the Financial Action Task Force to combat money laundering and terrorist financing. Establishing an offshore shore financial sector would belie that commitment.

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. Money laundering offenses relate mainly to offenses committed abroad. Russian organized crime and the Italian Mafia reportedly have laundered money in Monaco. The principality reportedly does not face the ordinary forms of organized crime, and the crime that does exist does not seem to generate significant illegal proceeds, with the exception of fraud and offenses under the "Law on Checks." Monaco remains on an OECD list of so-called "noncooperative" countries in terms of provision of tax information.

Monaco has a population of approximately 32,000, of which fewer than 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 (approximately \$91 billion). Approximately 85 percent of the banking customers are nonresident. In 2005, the financial sector represented 15 percent of Monaco's economic activity. The high prices for land throughout the principality result in a real estate sector of considerable import. 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. The majority of entities in Monaco's banking sector concentrates on portfolio management and private banking. Subsidiaries of foreign banks operating in Monaco may withhold customer information from the parent bank.

Although the French Banking Commission supervises Monegasque institutions, Monaco shoulders the responsibility for legislating and enforcing measures to counter money laundering and terrorism financing. The Finance Counselor, located within the Government Council, is responsible for anti-money laundering (AML) implementation and policy.

Money laundering in Monaco has been 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." On November 9, 2006, Section 218-3 of the Criminal Code was modified to adopt an "all crimes" approach.

The original AML legislation requires banks, insurance companies, and stockbrokers 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 itself is subject to confiscation.

The 2002 amendments to Act 1.162 expanded the scope of AML reporting requirements to include corporate service providers, portfolio managers, some trustees, and institutions within the offshore sector. The Act instituted new procedural requirements regarding internal compliance, client identification, and records retention and maintenance. Sovereign Order 16.615 of January 11, 2005, and Sovereign Order 631 of August 10, 2006, mandate additional customer identification measures.

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 implement internal AML and counterterrorist financing (CTF) procedures. The FIU monitors these activities.

Banking laws do not allow anonymous accounts, but Monaco does permit the existence of alias accounts, which allow account owners to use pseudonyms in lieu of their real names. Cashiers do not know the clients, but the banks know the identities of the customers and retain client identification information.

Prior approval is required to engage in any economic activity in Monaco, regardless of its nature. The Monegasque authorities issue approvals based on the type of business to be engaged in, the location, and the length of time authorized. This approval is personal and may not be re-assigned. Any change in the terms requires the issuance of a new approval.

Monaco's FIU, known in French as the Service d'Information et de Contrôle sur les Circuits Financiers (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 supervises the implementation of AML legislation. Under Law 1.162, Article 4, SICCFIN may suspend a transaction for twelve hours and advise the judicial authorities to investigate. SICCFIN has received between 200 and 400 suspicious transaction reports (STRs) annually from 2000 to 2005. In 2005, SICCFIN received 375 STRs, about 60 percent of which

were submitted by banks and other financial institutions. SICCFIN received 63 requests for financial information from other FIUs in 2005.

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. Seven police officers have been designated to work on money laundering cases. Four prosecutions for money laundering have taken place in Monaco, which have resulted in three convictions.

Monaco's legislation allows for the confiscation of property of illicit origin as well as a percentage of co-mingled illegally acquired and legitimate property. Authorities must obtain a court order in order to confiscate assets. Confiscation of property related to money laundering is restricted to the offenses listed in the Criminal Code. Authorities have seized assets exceeding 11.7 million euros (approximately \$15.2 million) in value. Monaco has extradited criminals, mainly to Russia, and has largely completed negotiations with the United States on a seized asset sharing agreement.

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, as well as additional Sovereign Orders in April and August of that year importing into Monegasque law the obligations of the UN Convention for the Suppression of the Financing of Terrorism. In 2006, Monaco further amended domestic law to implement these obligations.

The Securities Regulatory Commissions of Monaco and France signed a memorandum of understanding (MOU) on March 8, 2002, on the sharing of information between the two bodies. The Government of Monaco considers this MOU an important tool to combat financial crime, particularly money laundering. SICCFIN has signed information exchange agreements with thirteen counterparts and is a member of the Egmont Group.

Monaco was admitted to the Council of Europe on October 4, 2004. In 2002, Monaco became a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). Monaco 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.

Monaco should amend its legislation to implement full corporate criminal liability. The Principality should continue to enhance its anti-money laundering and confiscation regimes by applying its AML reporting, customer identification, and record keeping requirements to all trustees, as well as Monegasque gaming houses. Monaco should also eliminate the ability to open and maintain accounts using an alias, and banks should include their cashiers in customer identification responsibilities. Monaco should become a party to the UN Convention against Corruption. SICCFIN should have the authority to forward reports and disseminate information to law enforcement even when the report or information obtained does not relate specifically to drug trafficking, organized crime, or terrorist activity or financing.

Montenegro

The Republic of Montenegro declared independence from the State Union of Serbia and Montenegro on June 3, 2006. Montenegro is located on the Balkan Peninsula in southeastern Europe, bordering the Adriatic Sea to the west, and sharing land borders with Croatia, Bosnia and Herzegovina, Serbia and Albania. Montenegro has a population of about 630,000.

Montenegro 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 capital city 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. In 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.

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. Currently, neither offshore entities, nor free trade zones, are authorized by Montenegro.

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 Criminal Code, business licenses of legal or natural persons may be revoked and business activities banned if the subject is found guilty of criminal activities, including narcotics trafficking or terrorist financing. In April 2004, Montenegro further amended its Criminal Procedure Code to bring it into conformity with the standards of the Council of Europe.

The Government of Montenegro (GOM) 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 currency transaction reports (CTRs) on all transactions exceeding 15,000 euros (approximately \$19,000). Financial institutions are also obliged to report suspicious transactions, regardless of the amount of the transaction. All reporting by banking institutions is forwarded electronically to Montenegro's financial intelligence unit (FIU), called the Administration for the Prevention of Money Laundering, or APML. Failure to report, according to the law, could result in fines up to \$26,000 as well as sentences of up to 12 years. Legislation in force since 2005 expanded Montenegro's money laundering law to include attorneys and exchange houses as obligated entities. A newly formed interagency working group is discussing and developing relevant amendments to the anti-money laundering legislation to bring it into conformity with the third EU Directive on Money Laundering.

Montenegro's FIU, the Administration for the Prevention of Money Laundering and Terrorist Finance (APML), is an independent agency which has the authority to collect, analyze and disseminate currency reports to the competent authorities for further action. The FIU became operational in November 2003 and began receiving reports of transactions in July 2004. However, APML has developed no guidelines regarding what should be considered a suspicious transaction.

The Montenegro FIU became an Egmont member in June 2005. It has executed a number of Memoranda of Understanding to exchange information with most established FIUs in the region, as well as with counterpart nonregional states, such as Russia and Ukraine. APML has also signed memoranda of cooperation with law enforcement bodies from the ministries of Justice and Customs, the tax authority and the Central Bank. However, the European Commission found that Montenegro must "substantially upgrade" its coordination and information exchange among these entities in order to effectively address money laundering issues.

In the first nine months of 2006, Montenegro's FIU received over 100,000 CTRs and 152 reports of suspicious transactions. Over 70,000 of the CTRs were filed by the stock exchange and nearly 30,000 were filed by banks. The FIU initiated the analysis of 106 transactions and referred 20 cases to other responsible government agencies for further action. The referrals resulted in 15 cases where subject accounts were blocked for 72 hours in order to permit further investigation of the transactions. In 2005, Montenegro blocked a total of \$10.9 million. During the first eight months of 2006, this figure had increased to \$23.4 million.

Montenegro can seize and forfeit assets. In September 2004, the Government of Montenegro seized over \$1 million 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 \$4 million in illicit funds through bank accounts in Montenegro. The two Chinese nationals' convictions were upheld on appeal, and on September 29, 2006 each was sentenced to one year in prison.

Montenegro is vulnerable to smuggling, particularly stolen cars, narcotics, cigarettes, and counterfeit goods. Customs and law enforcement authorities have expressed concern about trade-based money laundering. Customs is required to report cross-border movements of cash, checks, securities and precious metals and stones with values exceeding 15,000 euros.

Montenegro has criminalized the financing of terrorism and in March 2005 has subsequently adopted amendments to its laws on terrorism and terrorist financing in order 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 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. Montenegro has identified a small number of terrorism financing cases. These cases, however, were not related to entities sanctioned by the UN Security Council.

Because of the demise of the State Union of Serbia and Montenegro, Serbia became the legacy member of the United Nations and the Council of Europe. Montenegro has obtained UN membership and its membership in the Council of Europe is pending. Because of these events, the GOM is now an observer in the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) rather than a member. Montenegro is working on preparing an updated progress report on its achievements since MONEYVAL's first-round evaluation that was completed in 2003. This report will be presented to the plenary once Montenegro's membership is confirmed, which is expected to occur in early 2007. Likewise, the GOM is working toward ratification of the appropriate international conventions.

By the principle of state succession to the State Union of Serbia and Montenegro, Montenegro became a party to the 1988 UN Drug Convention, the UN International Convention on the Suppression of Financing of Terrorism, the UN Convention Against Transnational Organized Crime, and the UN Convention against Corruption on October 23, 2006.

The Government of Montenegro should strengthen its legislation to establish more robust asset seizure and forfeiture regimes, as well as upgrade its capacity to strengthen its criminal intelligence and investigative techniques. Montenegro should continue to ensure that sufficient resources are available for its FIU and law enforcement agencies to work together effectively and efficiently. The GOM 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.

Morocco

Morocco is not a regional financial center, and the extent of the money laundering problem in the country is unknown. Nonetheless, according to a joint 2005 study by the United Nations Office on Drugs and Crime (UNODC) and Morocco's Agency for Promotion of Economic and Social Development of the Northern Prefectures, Morocco remains an important producer and exporter of cannabis. The narcotics trade and the country's large informal economy are the primary catalysts of money laundering. In the past few years, the Kingdom has taken a series of steps to control the problem. A draft anti-money laundering (AML) bill was presented to the Parliament on November 20, 2006. Reportedly, passage of the AML law is expected to occur in 2007.

Remittances from abroad and cash-based transactions comprise Morocco's informal economic sector. There are unverified reports of trade-based money laundering, including bulk cash smuggling, under- and over-invoicing, and the purchase of smuggled goods; the cash-based cannabis sector is of particular concern. As in previous years, Morocco remains a principal producer of cannabis, with estimated revenues of over \$13 billion annually. While some of the narcotics proceeds are laundered in Morocco, most proceeds are believed to be laundered in Europe.

Unregulated money exchanges remain a problem in Morocco and were a prime impetus for the pending Moroccan AML legislation. Although the legislation is intended to curb this practice, the country's current financial structure provides opportunities for unregulated cash transfers. The Moroccan financial sector 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. There were no prosecutions for money laundering in Morocco in 2006. A key aspect of the pending AML legislation is the increase in responsibility for all entities, both public and private, to report suspect fund transfers, which will provide the legal basis to monitor and prosecute previously unregulated financial activity.

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.

While there have been no verified reports of international or domestic terrorist networks using the Moroccan narcotics trade to finance terrorist organizations and operations in Morocco, Moroccan security officials arrested over 50 suspects in August and September 2006 for their involvement in the Ansar Al Mahdi terrorist cell. At least two of the suspects were accused of providing financing to the cell.

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 and some accounts have been administratively frozen (based on the U.S. list of Specially Designated Global Terrorists, designated pursuant to Executive Order 13224). In 1993, a mutual legal assistance treaty between Morocco and the United States entered into force.

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. 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

creation of the MENAFATF is critical for pushing the region to improve the transparency and regulatory frameworks of its financial sectors.

Morocco is in the process of tightening anti-money laundering controls. Since 2003, Morocco has taken a series of steps to control money laundering. In December 2003, the CBM issued Memorandum No. 36, in advance of the pending AML legislation, which instructed banks and other financial institutions under its control to conduct internal analysis and investigations into financial transactions. The measures called for the reporting of suspicious transactions and the retention of suspicious activity reports, as well as mandating “know your customer” procedures. In June 2003, Morocco adopted a comprehensive counterterrorism bill. The bill provided the legal basis for lifting bank secrecy to obtain information on suspected terrorists, allowed suspect accounts to be frozen, and permitted the prosecution of terrorist finance-related crimes. The law also provided for the seizure and confiscation of terrorist assets, and called for increased international cooperation with regard to foreign requests for freezing assets of suspected terrorist entities. The law brought Morocco into compliance with UNSCR 1373 requirements for the criminalization of the financing of terrorism. Other money laundering controls include legislation prohibiting anonymous bank accounts and foreign currency controls that require declarations to be filed when transporting currency across the border.

Morocco’s anti-money laundering (AML) efforts will take a significant step forward with the implementation of long-awaited AML legislation, expected to occur in the first half of 2007. The legislation draws largely from recommendations made by the Financial Action Task Force (FATF). Once signed into law, the legislation reportedly will require the reporting of suspicious financial transactions by all responsible parties, public and private, who in the exercise of their work, carry out or advise on the movement of funds possibly related to drug trafficking, human trafficking, arms trafficking, corruption, terrorism, tax evasion, or forgery.

Morocco should enact AML legislation that adheres to international standards, including the establishment of a centralized Financial Intelligence Unit (FIU). The AML legislation should provide the legal basis for the government to monitor, investigate, and prosecute all suspect financial activities. Police and customs authorities, in particular, should receive training on recognizing money laundering methodologies, including trade-based laundering and informal value transfer and underground remittance systems.

The Netherlands

The Netherlands is a major financial center and an attractive venue 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. A recent report by the University of Utrecht commissioned by the Ministry of Finance has found that much of the money laundered in the Netherlands comes from abroad, but did not find evidence that it is predominantly 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. Reportedly, money laundering amounts to 18.5 million euros (approximately \$24.4 million) annually, or five percent of the Dutch GDP. 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, the GON enacted legislation specifically criminalizing the facilitating, encouraging, or engaging in money laundering. This eases 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 \$59,000), 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 \$59,000). Habitual money laundering may be punished with a maximum imprisonment of six years and a maximum fine of 45,000 euros (approximately \$59,000), 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 \$19,700), 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 \$14,775), 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 to the Services Identification Act and Disclosure Act that expand supervision authority and introduce punitive damages. The revised

legislation, which became effective on May 1, 2006, incorporates a terrorist financing indicator in the reporting system.

Financial institutions are also required by law to maintain records necessary to reconstruct financial transactions for at least five years after termination of the relationship. 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 mid-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 and all transactions totaling more than 2,000 euros (approximately \$2,630) must be reported to the MOT.

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 exchanges information nationally and internationally. Sharing of information by Dutch supervisors does not require formal agreements or memoranda of understanding (MOUs).

The financial intelligence unit (FIU) for the Netherlands is a hybrid administrative-law enforcement unit that in 2006 combined the traditional FIU, Meldpunt Ongebruikelijke Transacties (MOT), in English the Office for the Disclosure of Unusual Transactions, with its police counterpart, the Office of Operational Support of the National Public Prosecutor (BLOM). When MOT, established in 1994, and the BLOM merged, the resulting entity was integrated within the National Police (KLPD). The new unit is called the FIU-the Netherlands. This new FIU structure provides an administrative function that receives, analyzes, and disseminates the unusual and currency transaction reports filed by banks and financial institutions. It also provides a police function that serves as a point of contact for law enforcement. It forwards suspicious transaction reports with preliminary investigative information to the Police Investigation Service and to the FIU. This new organization responds to requests from foreign FIUs for financial and law enforcement information. Over the last five years, the MOT and the BLOM cooperated closely in responding to international requests for information, so this merger has not changed the nature of the Dutch reporting system. FIU-the Netherlands is part of the Egmont Group.

The MOT receives over 98 percent of unusual transaction reports electronically through its secure website. In 2004, the MOT received 174,835 unusual transaction reports, totaling over 3.2 billion euros (approximately \$4 billion) and forwarded 41,003 to the BLOM and other police services as suspicious transactions for further investigation. In 2005, the MOT received 181,623 reports, totaling over 1.1 billion euros (approximately \$1.4 billion), and forwarded 38,481 to the BLOM and other police services. The average amount reported was 29,000 euros (approximately \$36,500) in 2005, a decrease from the 79,000 euros (approximately \$94,500) average reported in 2004. Reportedly, this significant decrease was due to a few large transactions in the previous year.

In order to facilitate the forwarding of suspicious transactions, the MOT and BLOM created an electronic network called Intranet Suspicious Transactions (IST). Fully automatic matches of data from the police databases are included with the unusual transaction reports forwarded to the BLOM. 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. Since the money laundering detection system also covers areas outside the financial sector, the system is used for detecting and tracing terrorist financing activity. MOT/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 forfeiture. The 1992 Asset Seizure and Confiscation Act enables authorities to confiscate assets that are illicitly obtained or otherwise connected to criminal acts. The GON amended the legislation 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. All law enforcement investigations into serious crime may integrate asset seizure.

Authorities may seize any tangible assets, such as real estate or other conveyances that were purchased directly with the proceeds of a crime tracked to illegal activities. 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 a 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, the GON has instituted special court procedures. These procedures enable law enforcement to continue financial investigations in order to prepare confiscation orders after the underlying crimes have been successfully adjudicated. All police and investigative services 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 2005 amounted to 11 million euros (approximately \$14.5 million). The United States and the Netherlands have had an asset-sharing agreement in place since 1994. The Netherlands also has an asset-sharing treaty with the United Kingdom, and 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 took effect in 2006 and significantly increase BOOM’s capacity to handle asset forfeiture cases.

Terrorist financing is a crime in the Netherlands. In August 2004, the Act on Terrorist Crimes, implementing the 2002 EU framework decision on combating terrorism, became effective. The Act makes recruitment for the Jihad and conspiracy with the aim of committing a serious terrorist crime separate criminal offenses. In 2004, the government created a National Counterterrorism Coordinator’s Office to streamline and enhance Dutch counterterrorism efforts.

UN resolutions and EU regulations form a direct part of the national legislation on sanctions 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. United Nations Security Council Resolution (UNSCR) 1373 is implemented through Council Regulation 2580/01; listing is through the “Clearing-House” procedure. The 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 United Nations (UN) 1267 Sanctions Committee’s consolidated list or designated by the EU has been made a criminal offense. The Dutch have taken steps to freeze the assets of individuals and groups included on the UNSCR 1267 Sanctions Committee’s consolidated list. UNSCR 1267/1390 is implemented through Council Regulation 881/02. Sanctions Law 1977 also addresses this requirement parallel to the regulation in the Netherlands.

The Netherlands does not require a collective EU decision to identify and freeze assets suspected of being linked to terrorism nationally. In these cases, the Minister of Foreign Affairs and the Minister of Finance make the decision to execute the asset freeze. Decisions take place within three days after identification of a target. Authorities have used this instrument several times in recent years. In three cases, national action followed the actions taking place on the EU level. In one case, the entity was included on the UN 1267 list and was automatically included in the list that is part of EU regulation 2002/881. In two other cases, the Netherlands successfully nominated the entity/individual for inclusion on the autonomous EU list that is compiled pursuant to Common Position 2001/931.

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. In June 2004, the Dutch for the first time successfully convicted two individuals of terrorist activity allowing use of intelligence of the General Intelligence and Security Service (AIVD) as evidence. Nine individuals were convicted in March 2006 on charges of membership in a terrorist organization.

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 using the financial system (including churches and other religious institutions) is exempt from the identification requirement. Financial institutions must also inquire about the identity of the ultimate beneficial owners. The second step, provided by Dutch civil law, requires registration of all active foundations in the registers of the Chambers of Commerce. Each foundation’s formal statutes (creation of the foundation must be certified by a notary of law) must be submitted to the Chambers. Charitable institutions also register with, and report to, the tax authorities in order to qualify for favorable tax treatment. Approximately 15,000 organizations (and their managements) are registered in this way. The organizations must 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 2007 to improve Dutch efforts to fight fraud, money laundering, and terrorist financing.

Data about alternative remittance systems such as hawala or informal 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 informal banks and hawaladars in the Netherlands is rising. The Dutch Government plans to implement improved procedures for tracing and prosecuting unlicensed informal or hawala-type activity, with the Dutch Central Bank, FIOD/ECD, the Financial Expertise Center, and the Police playing a coordinating and central role. The Dutch Finance Ministry has participated 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.

The Netherlands is in compliance with all FATF Recommendations, with respect to both legislation and enforcement. The Netherlands also complies with the Second and Third EU Money Laundering Directives. The Dutch have implemented some obligations resulting from these directives, such as effective supervision of money transfer offices, trust and service provider companies, and the incorporation of reporting on terrorist financing.

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 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. 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). In March 2006, the Dutch hosted a major international terrorist financing conference.

The Netherlands is a member of the Financial Action Task Force and the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The Netherlands participates in the Caribbean Financial Action Task Force as a Cooperating and Supporting Nation. As a member of the Egmont Group, MOT has established close links with the U.S. Treasury's FinCEN as well as with other Egmont members, and is involved in efforts to expand international cooperation. The Netherlands is a party to the 1988 UN Drug Convention, and the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime.

The Netherlands should continue with its plans for a screening system for private and public-limited partnerships, and implement requirements for all charities to register with a state or state-sanctioned body that is set up to perform screening. The GON should also devote more resources toward getting better data and a better understanding of alternate remittance systems in the Netherlands, and channel more investigative resources toward underground banks. The Netherlands should also continue to its plans to implement improved procedures for tracing informal bank systems, including prosecution

procedures where appropriate, and improve coordination vis-à-vis the responsibilities of the various involved agencies.

Netherlands Antilles

The Netherlands Antilles is comprised of the islands of Curacao, Bonaire, Dutch Sint Maarten, Saba, and Sint Eustatius. Though a part of the Kingdom of the Netherlands, the Netherlands Antilles has autonomous control over its internal affairs. The Government of the Netherlands Antilles (GONA) is located in Willemstad, the capital of Curacao, which is also the financial center for the five islands. A significant offshore sector and loosely regulated free trade zones, as well as narcotics trafficking and a lack of border control between Sint Maarten (the Dutch side of the island) and St. Martin (the French side), create opportunities for money launderers in the Netherlands Antilles.

The islands have seven local commercial banks, four foreign commercial banks, 12 credit unions, six specialized credit institutions, one savings bank, four savings and credit funds, 15 consolidated international banks and 19 nonconsolidated international banks. There are 54 institutional investors operating in the Netherlands Antilles, including ten life insurance companies, 20 non-life insurance companies and 24 pension funds. There are also two life captive-insurance businesses, 15 non-life captive-insurance business and four professional re-insurers.

The Netherlands Antilles has a significant offshore financial sector with 229 trust service companies providing financial and administrative services to an international clientele, which includes offshore companies, mutual funds and international finance companies. As of September 2006, there were a total of 15,009 offshore companies registered with the Chamber of Commerce in the Netherlands Antilles, as is required by law. 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). The Netherlands Antilles also permits internet gaming companies to be licensed on the islands. There are currently 32 licensed internet gaming companies.

On February 1, 2001, the GONA approved proposed amendments to the free zone law to allow e-commerce activities into these areas (National Ordinance Economic Zone no.18, 2001). 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, five of which are designated for e-commerce. The remaining two e-zones, located at the Curacao airport and 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.

Money laundering is a criminal offence in the Netherlands Antilles. 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. Suspicious transactions are required by law to be reported to the financial intelligence unit (FIU), the Meldpunt Ongebruikelijke Transacties (MOT NA).

In recent years, the GONA has taken steps to strengthen its anti-money laundering regime by expanding suspicious activity reporting requirements to nonfinancial sectors; 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 Supervision of Fiduciary Business institutes the Supervisory Board

to oversee the international financial sector. At the same time, the GONA imposed know-your-customer rules upon the sector. A GONA interagency anti-money laundering working group cooperates with its Kingdom counterparts.

Both bank and nonbank financial institutions, such as company service providers and insurance companies, are under the obligation to report unusual transactions to the MOT NA. Each financial sector has its own reporting threshold amount. The GONA is currently amending its legislation to add new reporting entities, including lawyers, accountants, notaries, jewelers and real estate agents. It is expected that the legislation will be passed in 2007.

Through October 2006, 10,788 suspicious transaction reports totaling \$1.3 billion were received by the MOT NA. Of these, 283 were reported to the relevant law enforcement authorities. The MOT NA currently has a staff of nine, and is engaged in increasing the effectiveness and efficiency of its reporting system. Significant progress has been reported in automating unusual activity reporting. Additionally, the MOT NA has issued a manual for casinos on how to file reports and has started to install software in casinos that will allow reports to be submitted electronically.

The Central Bank of the Netherlands Antilles supervises all banking and credit institutions, including banks for local and international business, specialized credit institutions, savings banks, credit unions, credit funds and pension funds. The laws and regulations on bank supervision provide that international banks must have a physical presence and maintain records on the island. The Central Bank also supervises insurance companies, insurance brokers, mutual funds and administrators of these funds, all of which must be licensed by the Central Bank. As of 2003, supervision of the company service providers in the Netherlands Antilles was transferred to the Central bank.

The Central Bank updated its anti-money laundering guidelines in 2003. These guidelines are more closely focused on banks, insurance companies, pension funds, money transfer services, financial administrators, and company service providers and specifically include terrorism financing indicators. Entities under supervision must submit an annual statement of compliance. The Central Bank has provided training to different sectors on the guidelines. The Central Bank also established the Financial Integrity Unit to monitor corporate governance and market behavior.

As of May 2002, all persons entering or leaving one of the island territories of the Netherlands Antilles shall report money of NAF 20,000 (approximately US\$11,300) or more in cash or bearer instruments to Customs officials. This provision also applies to those entering or leaving who are demonstrably traveling together and who jointly carry with them money for a value of NAF 20,000 or more. Declaration of currency exceeding the threshold must include origin and destination. Violators may be fined up to NAF 250,000 (approximately \$142,000) and/or face one year in prison.

In 2000, the National Ordinance on Freezing, Seizing and Forfeiture of Assets Derived from Crime was enacted. The law allows the prosecutor to seize the proceeds of any crime proven in court.

Terrorist financing is not a crime in the Netherlands Antilles. However, in January 2002, the GONA enacted legislation allowing a judge or prosecutor to freeze assets related to the Taliban and Usama Bin Laden, as well as all persons and companies connected with them. 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 found. In October 2002, the Central Bank instructed the financial institutions under its supervision to continue these efforts and to consult the UN website for updates to the list.

Netherlands Antilles' law allows the exchange of information between the MOT NA and foreign FIUs by means of memoranda of understanding and by treaty. The MOT NA's policy is to answer requests within 48 hours of receipt. A tax information exchange agreement (TIEA) was signed between the Netherlands Antilles and the United States. As of the end of 2006, implementing legislation was pending the GONA parliament to allow this agreement to go into effect. The Mutual Legal Assistance

Treaty between the Netherlands and the United States applies to the Netherlands Antilles. The U.S.-Netherlands Agreement Regarding Mutual Cooperation in the Tracing, Freezing, Seizure and Forfeiture of Proceeds and Instrumentalities of Crime and the Sharing of Forfeited Assets also applies to the Netherlands Antilles.

The MOT NA is a member of the Egmont Group. The Netherlands Antilles is also a member of the Caribbean Financial Action Task Force (CFATF), and as part of the Kingdom of the Netherlands, participates in the Financial Action Task Force (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 to ratify the Convention.

The Government of the Netherlands Antilles has demonstrated a commitment to combating money laundering. The Netherlands Antilles should continue its focus on increasing regulation and supervision of the offshore sector and free trade zones, as well as pursuing money laundering investigations and prosecutions. The GONA should criminalize the financing of terrorism and 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. Nicaragua is not a major drug producing country, but continues to serve as a significant transshipment point for South American cocaine and heroin destined for the United States and—on a smaller scale—for Europe. There is evidence that the narcotics trade is increasingly linked to arms trafficking. This situation, combined with weak adherence to rule of law, judicial corruption, the politicization of the public prosecutor's office and insufficient funding for law enforcement institutions, makes Nicaragua's financial system an attractive target for narcotics-related money laundering. Nicaraguan officials have expressed concern that, as neighboring countries have tightened their anti-money laundering laws, established financial intelligence units (FIUs) and taken other enforcement actions, more illicit money has moved into the vulnerable Nicaraguan financial system. However, this concern has not translated into an appreciable 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 and porous border crossings to its north and south, makes it an area heavily used by transnational organized crime groups. These groups also benefit from Nicaragua's weak legal system and its ineffective fight against financial crimes, money laundering, trafficking of immigrants and the financing of 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. The current Prosecutor General and some Supreme Court justices advocate a narrow interpretation of money laundering law, claiming that, as written, Nicaraguan law only penalizes the laundering of proceeds of narcotics trafficking and not of other illegal activities. This position is believed to be politically motivated, as it would provide legal justification to overturn the conviction of former president Arnoldo Aleman for laundering the proceeds of corruption-related offenses. Regardless of this legally erroneous position, the Prosecutor General still refuses to prosecute narcotics offenders for money laundering despite ample evidence to support these types of cases. In the last 18 months, the National Prosecutor's Office has not prosecuted a single money laundering case, including those involving drug traffickers with large stashes of U.S. currency who have been arrested on Nicaraguan soil. This

enforcement problem is exacerbated by the fact that the country does not have an operational FIU. All attempts to correct this deficiency have been stalled in the National Assembly, awaiting final resolution of Arnoldo Aleman's money laundering conviction.

A number of foreign institutions own significant shares of the Nicaraguan financial sector. In 2005, GE Consumer Finance, one of the largest financial service firms in the world, bought a 49.99 percent stake in Banco de America Central (BAC), which operates in several Central American countries, including Nicaragua. In October 2006, Citibank purchased a significant share of Grupo Financiero Uno's Central American operations, which include credit cards, commercial banking, insurance and brokerage firms. The deal awaits regulatory approval. Banistmo, a Panamanian bank, operates in Nicaragua. Bancentro/Lafise, a financial institution covering all commercial banking and insurance services, maintains operations in El Salvador, Guatemala and Honduras. The entry into force on April 1, 2006, of the Central America/Dominican Republic Free Trade Agreement (CAFTA-DR) and increased pace of regional integration suggest growing involvement of Nicaraguan financial institutions with international partners and clients. Most large Nicaraguan banks already maintain correspondent relationships with Panamanian institutions.

Nicaragua does not permit direct offshore bank operations, but it does permit such operations through nationally chartered entities. Bank and company bearer shares are permitted. Nicaragua has a well-developed indigenous gaming industry, which remains largely unregulated. Two competing casino regulations bills are currently in the National Assembly; the main difference between the bills is whether regulatory authority will fall under the tax authority or if an independent institution will be established to supervise the industry. There are no known offshore or internet gaming sites in Nicaragua.

In 2005, the National Assembly reformed the law governing Nicaragua's general banks, nonbank financial institutions and financial groups, bringing it in line with Basel II international banking regulations. When enforced properly, the law will hold bank officials responsible for all of their institution's actions, including failure to report 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, which requires all financial institutions under the supervision of the Superintendence of Banks and Other Financial Institutions (SIBOIF) to report cash deposits over \$10,000 and suspicious transactions to the SIBOIF. The SIBOIF then forwards the reports to the Commission of Financial Analysis (CAF). All persons entering or leaving Nicaragua are also required to declare the transportation of currency in excess of \$10,000 or its equivalent in foreign currency. Law 285 is not, however, being used as an effective tool against money laundering crimes committed by organized crime groups. The National Prosecutor's and the Attorney General's legal positions on Law 285 differ significantly. The National Prosecutor, who also heads the CAF, 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 nondrug crimes.

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 does not analyze the information received, and is not considered to be a professional or independent unit. It is ineffective due to an insufficient budget, the politicization of its leadership, and a lack of 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 has claimed that of the suspicious activity reports received by the CAF from financial institutions, 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 which would better define the crime of money laundering, and a special bill to create a central FIU that would replace and enhance the functions of the CAF and establish more stringent reporting requirements.

Draft legislation to criminalize terrorist financing is under consideration by the National Assembly, without any sign of imminent passage. In spite of the lack of terrorist financing legislation, many elements of terrorist financing can theoretically be prosecuted under existing laws. Through five SIBIOF administrative decrees, Nicaragua also has the authority to identify, freeze and seize terrorist-related assets, but has not as yet identified any such active cases. However, Nicaragua has not yet established the financing of terrorism as a criminal offense, placing it in a position of noncompliance with international standards.

Reportedly, there are no hawala or other similar alternative remittance systems operating in Nicaragua, and Nicaragua has not detected any use of gold, precious metals or charitable organizations to disguise transactions related to terrorist financing. However, there are informal "cash and carry" networks for delivering remittances from abroad. Over 300 micro-finance institutions exist in Nicaragua, serving over 300,000 clients, dominating the informal economy and managing a significant portion of the remittances. This sector has grown steadily at about 25 percent per year since 1999. While currently unregulated, a bill to bring this sector under the authority of the SIBOIF will be presented to the National Assembly in 2007.

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 and thus increases 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 believed to be involved in drug trafficking were acquitted, and over \$300,000 in undeclared currency that Nicaraguan customs seized when they entered the country was returned to them. This case also involved a judge connected to the first drug-money scandal. Several judges have been exposed in the press for allegedly taking bribes to acquit drug traffickers at trials or to set aside their convictions on appeal. Other judges have been known to release drug defendants on bail for unsubstantiated medical reasons. Due to the rampant corruption in the Nicaraguan judiciary, the United States has cut off direct assistance to the Nicaraguan Supreme Court. U.S. anticorruption efforts have focused on creating a vetted Anti-Corruption Unit that would be housed within the NNP and include officials from the Attorney General's Office, with the aim of enhancing investigations and prosecutions of corruption, money laundering and related crimes.

In spite of corruption within the judicial branch, the SIBOIF is considered to be an independent and reputable financial institution regulator. The position of the Superintendent does not enjoy legal immunity, exposing the Superintendent to lawsuits from regulated institutions. Given the corrupt nature of the judicial system, this exposure can limit the willingness of SIBIOF to make "unpopular" decisions; however, the institution's financial experts have reached out to the NNP to work with them. For example, in December 2005, the SIBOIF closed down a business named Agave Azul that was allegedly operating an illegal Ponzi scheme. Agave Azul opened for business in May 2005, and by

December 2005, approximately \$8 million in U.S. currency had been deposited in its accounts in at least two U.S. banks. The SIBOIF notified the National Prosecutor about the scheme in early August 2005; however, the National Prosecutor has hampered the investigation through failure to act. 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 these failures, the case demonstrates the willingness of the SIBOIF and NNP to investigate financial crimes, and a substantial level of cooperation between the Attorney General's Office and the NNP on financial crimes and money laundering issues.

Nicaragua is a party to the 1988 United Nations Drug Convention, the UN International Convention on the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. On February 15, 2006, Nicaragua ratified the UN Convention against Corruption. Nicaragua has also ratified the Inter-American Convention on Mutual Legal Assistance in Criminal Matters and the Inter-American Convention against Terrorism. Nicaragua is a member of the Money Laundering Experts Working Group of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) and the Caribbean Financial Action Task Force (CFATF). CFATF, which monitors its members' compliance with the international anti-money laundering and counterterrorist financing standards established by the Financial Action Task Force (FATF), has criticized Nicaragua for its failure to prosecute money laundering beyond drug-related offenses, criminalize terrorist financing or create an effective FIU. Due to Nicaragua's failure to establish a functional FIU, it is the only country in Central America and one of the only countries in the Western Hemisphere that is not a member of the Egmont Group.

The Government of Nicaragua needs to enhance its limited efforts to combat financial crime by expanding the predicate crimes for money laundering beyond narcotics trafficking, criminalizing terrorist financing, allocating the necessary resources to develop an effective financial intelligence unit, and combating corruption. Nicaragua should develop a more effective method of obtaining information and cooperation from foreign law enforcement agencies and banks, take steps to immobilize its bearer shares and adequately regulate its gambling industry. These actions, coupled with increased enforcement, would significantly strengthen the country's financial system against money laundering and terrorist financing, and would bring Nicaragua closer to compliance with relevant international anti-money laundering and counterterrorist financing standards and controls.

Nigeria

The Federal Republic of Nigeria is the most populous country in Africa and is West Africa's largest democracy. Although Nigeria is not an offshore financial center; its large economy is a hub for the trafficking of persons and narcotics. Nigeria is a major drug-transit country and is a center of criminal financial activity for the entire continent. Individuals and criminal organizations have taken advantage of the country's location, weak laws, systemic corruption, lack of enforcement, and poor economic conditions to strengthen their ability to perpetrate all manner of financial crimes at home and abroad. Nigerian criminal organizations are 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, Nigeria continues to be plagued by crime. The establishment of the Economic and Financial Crimes Commission (EFCC) along with the Independent Corrupt Practices Commission (ICPC) and the improvements in training qualified prosecutors for Nigerian courts yielded some successes in 2005 and 2006.

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. Nigerian criminals initially

made the advance fee fraud scheme infamous. Today, nationals of many African countries and from a variety of countries around the world also perpetrate advance fee fraud. This type of fraud is referred to internationally as “Four-One-Nine” (419), 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 the payment of a fee by persuading them that they will receive a very large benefit in return, or by persuading them to pay fees to “rescue” or help a newly-made “friend” in some sort of alleged distress. . A majority of these schemes end after the victims have suffered monetary losses, but some have also involved kidnapping, and/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 and in April 2002, the United States 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 and to warn U.S. banks to give “enhanced scrutiny” to all financial transactions emanating from Nigeria or going to, or through it. In December 2002, 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.

In May 2006, the FATF visited Nigeria to conduct an evaluation of the revisions made to the government’s anti-money laundering regime. FATF recognized the progress Nigeria made in implementing AML policies, the establishment of a financial intelligence unit (FIU) and the progress on money laundering investigations, prosecution and convictions. As a result, Nigeria was removed from the NCCT but the FATF enhanced monitoring its efforts for compliance with international standards.

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 due diligence 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 noncompliance. Nigeria

has not yet detected a case of terrorist financing laundered through the banking system. The UNSCR 1267 Sanctions Committee's consolidated list is periodically distributed to Nigerian financial institutions.

Under the 2004 Money Laundering (Prohibition) Act and 1995 Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, money laundering controls apply to nonbanking financial institutions. These institutions include: dealers in jewelry, cars and luxury goods, chartered accountants, audit firms, tax consultants, clearing and settlement companies, legal practitioners, hotels, casinos, supermarkets and other such businesses as the Federal Ministry of Commerce may designate. To date, the oversight of compliance by the Ministry of Commerce has not been very rigorous or effective.

In 2004, the Economic and Financial Crimes Commission (Establishment) Act of 2002 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 nonfinancial 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 nondesignated 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. The NFIU fulfills a crucial role in receiving and analyzing STRs. As a result, banks have improved both their timeliness and quality in filing STRs reported to the NFIU. Under the EFCC Act, safe-harbor provisions are provided. 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 was part of Nigeria's efforts towards the removal of Nigeria 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. 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 Nigerian Police Force is incapable of handling financial crimes because of corruption and poor institutional capacity. Currently, 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. The EFCC also 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 and still faces 92 charges of money laundering and official corruption. Currently, two sitting state governors are 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 nonprofit entities as laundering vehicles, though no such case has yet been reported. There were 23 money laundering convictions in 2005 and 96 convictions through October 2006. 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. Since its establishment the EFCC has reportedly seized assets worth \$5 billion.

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. While the NDLEA has the authority to handle narcotics-related cases, it does not have adequate resources to trace, seize, and freeze assets. Cases of this nature are usually referred to the EFCC. There were no significant narcotics related assets seizures in 2006.

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, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. Nigeria ranks 146 out of 163 countries in Transparency International's 2006 Corruption Perception Index. 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 in preventing and pursuing money laundering both within and outside the country in 2006. It should continue to engage with the FATF and other relevant international organizations to identify and eliminate remaining anti-money laundering deficiencies. Nigeria 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, and prevent political encroachment. The supervision of banking and nonbanking financial institutions should be further strengthened and moved from the Ministry of Commerce. Nigeria should continue towards implementation of a comprehensive anti-money laundering regime that promotes respect the rule of law, willingly shares information with foreign regulatory and law enforcement agencies, is capable of thwarting money laundering and terrorist financing, and maintains compliance with all relevant international standards.

Pakistan

Pakistan is not considered a regional or offshore financial center; however, financial crimes related to narcotics trafficking, terrorism, smuggling, tax evasion and corruption are significant problems. Pakistan is a major drug-transit country. As a result of tighter controls in the financial sector, smuggling, trade-based money laundering, hawala, and physical cross-border cash transfers are the common 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. Pakistan has very little control of the border area, which allows the flow of smuggled goods to the Federally Administered Tribal Areas (FATA) and Balochistan. Goods such as foodstuffs, electronics, building materials, and other products that are primarily exported from Dubai to Karachi are falsely documented as destined for Afghanistan under the “Afghan Transit Trade Agreement,” which allows goods to pass through Pakistan to Afghanistan exempt from Pakistani duties or tariffs. Through smuggling, corruption, avoidance of taxes, as well as barter deals for narcotics, many of the goods destined for Afghanistan find their way to the Pakistani black market. The proliferation of counterfeit goods and intellectual property rights violations generate substantial illicit proceeds that are laundered. A group of private, unregulated charities has also emerged as a major source of illicit funds for international terrorist networks. Another issue is the use of madrassas as training grounds for terrorists. The lack of control of madrassas, similar to the lack of control of Islamic charities, allows terrorist organizations to receive financial support under the guise of support of Islamic education.

Money laundering and terrorist financing are often accomplished in Pakistan via the alternative remittance system called hundi or hawala. This system is also widely used by the Pakistani people for informal banking and legitimate remittance purposes. Free trade zones do operate in Pakistan. The government established its first Export Processing Zone (EPZ) in Karachi in 1989 and has subsequently created additional EPZs in the Sindh and Balochistan provinces. Although no evidence has emerged of EPZs being used in money laundering, over-or under-invoicing is common in the region and could be used by entities operating out of these zones. Fraudulent invoicing is typical in hundi/hawala countervaluation schemes.

Pakistan has adopted measures to strengthen its financial regulations and enhance the reporting requirements for the banking sector, in order to reduce its susceptibility to money laundering and terrorism financing. For example, financial institutions must report within three days any funds or transactions they believe are proceeds of criminal activity. However, this is largely not observed by financial institutions because. Pakistan has not yet formally established a Financial Intelligence Unit (FIU) to which such reports of suspicious transactions can be filed. Additionally, there is no safe harbor provision for financial institutions to protect them from civil and criminal liability for filing such reports.

Pakistan has had a comprehensive anti-money laundering law under consideration by its parliament since 2005 although such legislation has not yet been enacted. As a result, the offense of money laundering cannot be prosecuted in Pakistan. Several law enforcement agencies have responsibility to enforce laws against financial crimes. The National Accountability Bureau (NAB), the Anti-Narcotics Force (ANF), the Federal Investigative Agency (FIA), and the Customs authorities all oversee Pakistan's law enforcement efforts. The major laws in these areas include: The Anti-Terrorism Act of 1997, which defines the crime of terrorist finance and establishes jurisdiction and punishments; the National Accountability Ordinance of 1999, which requires financial institutions to report corruption related suspicious transactions to the NAB and establishes accountability courts; and The Control of Narcotics Substances Act of 1997, which also requires the reporting of narcotics related suspicious transactions to the ANF, contains provisions for the freezing and seizing of assets associated with narcotics trafficking, and establishes special courts for the offenses (including financing) involving illegal narcotics. Because Pakistan lacks a central repository for the reporting of suspicious transactions, due to confusion over which law enforcement agency should receive reports and the lack of protection from liability for reporting, suspicious transactions go largely unreported. The implementing laws for the law enforcement agencies such as NA, ANF, and FIA include provisions to allow investigators to access financial records and conduct financial investigations. However, none of these laws provides for the establishment and funding of a FIU.

Since 2002, the 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 standards. As of November 2006, draft AML legislation has been approved by the Cabinet and is currently being reviewed by the Standing Committee on Finance in the National Assembly. The draft law provides for the establishment of an FIU; however, the bill as it currently stands, does not meet international standards in several key respects. One problem is with the asset forfeiture scheme, particularly where its application is dependent upon a prosecution for the predicate offense. Another issue is with the filing of suspicious transactions reports, where the imposition of a threshold requirement—the minimum transaction amount to trigger a report—has yet to be determined. A provision for the exchange of information with the U.S. on all-source money laundering is contained in the draft AML bill.

The State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) are Pakistan's 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 nonbank financial institutions, has applied "know your customer" regulations to stock exchanges, trusts, and other nonbank 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 hawaladars 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 hawaladars 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 countries' increased awareness and regulation of hawala, post-September 11 changes in the behavior patterns of overseas Pakistanis, and a substantial increase in credit available in the formal financial sector.

Pakistan has criminalized the financing of terrorism under its Anti-Terrorism Act of 1997. It includes the provision that it is a crime to enter into or become part of an arrangement that facilitates retention

or control of terrorist property by or on behalf of another person, by concealment, removal from the jurisdiction, transfer to nominees, or in any other way. Pakistan, through the SBP, circulates to its financial institutions the list of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list as being linked with Usama Bin Laden, members of the al-Qaida organization or the Taliban. SBP has the ability to freeze bank accounts and property held by these individuals and entities. However, there have been some deficiencies concerning the timeliness and thoroughness of the asset freezing.

The Ministry of Social Welfare is drafting a Charities Registration Act bill. Under this bill, charities would have to prove the identity of their directors and open their financial statements to government scrutiny. Currently, charities can register under one of a dozen different acts, some dating back to the middle of the nineteenth century. The Ministry hopes that when the new legislation is enacted, it will be better able to monitor suspicious charities and ensure that they have no links to designated terrorists or terrorist organizations. The Act is not expected to be passed during the next year.

Reportedly, bulk cash couriers are the major source of funding for terrorist activities. According to the Pakistan Central Board of Revenue, cash smuggling is an offense punishable by up to five years in prison. It is illegal for passengers to carry more than \$10,000 per person. It is illegal to bring money into Pakistan except through legal banking channels; however, there are no reporting requirements upon entering the country. There are joint counters at international airports staffed by the SBP and Customs to monitor the transportation of foreign currency. However, enforcement is spotty and corruption rampant.

Pakistan enforces existing drug related asset seizure and forfeiture laws. Pakistan's Anti Narcotics Force shares information about seized narcotics assets and the number of arrests with the USG. Section 12 of the Control of Narcotic Substances Act of 1997 criminalizes the acquisition and possession of assets derived from drug money. The Act also makes it an offense to conceal or disguise the true nature, source, location, disposition, movement or ownership of such assets through false declaration. The suspected assets and properties shall also be liable to forfeiture. The SBP has the ability to freeze assets while the NAB, FIA, and ANF have the ability to seize assets.

Pakistan is an active member of the Asia/Pacific Group on Money Laundering (APG), although its failure to enact an AML law has called into question its commitment to membership, since the terms of reference of APG membership require a country to develop, pass and implement anti-money laundering and antiterrorist financing legislation and other measures based on accepted international standards. In 2005, the APG member states conducted a peer review of Pakistan's AML/CTF laws, rules and procedures. APG representatives identified a number of deficiencies and highlighted the need for a comprehensive AML law.

Pakistan is party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Crime and the UN Convention against Corruption. Pakistan is 142 out of 163 countries monitored in Transparency International's 2006 Corruption Perception Index. Pakistan has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

Five years after draft anti-money laundering (AML) legislation was first drafted, the Government of Pakistan should now 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 work quickly to 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. Per FATF Recommendation Nine, Pakistan should implement and enforce cross-border currency reporting requirements at a reporting threshold level that makes sense given the low-per capita income of the

Pakistani people. Customs and financial police should be trained in recognizing trade-based money laundering and value transfer. Pakistan should explore establishing a Trade Transparency Unit (TTU) that will work with its major trading partners to examine trade anomalies that may be indicative of customs fraud and/or trade-based-money laundering. The establishment of a TTU could bring needed revenue streams to the government. 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. Pakistan should take additional steps to address pervasive corruption at all levels of government and commerce.

Palau

Palau is an archipelago of more than 300 islands in the Western Pacific with a population of 20,900 and per capita GDP of about \$7,267. 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, securities brokers/dealers or casinos in Palau. The Authorities report that within the last year at least one trust company has been registered, though the scope and size of its business is unknown. Palauan authorities believe that drug trafficking and prostitution are the primary sources of illegal proceeds that are laundered.

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. Subsequently, Palau has prosecuted three more money laundering cases obtaining convictions in two of the cases. Two of the cases involved domestic proceeds of crime, while one of the cases involved criminal conduct both within and outside of Palau.

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 licensed banks in Palau and all are majority foreign owned. On November 7, 2006, the FIC closed the second largest and the only locally owned bank, Pacific Savings Bank, for illiquidity and insolvency. The Receiver has filed several civil actions against former bank insiders and the litigation is ongoing. An

amendment intended to strengthen the supervisory powers of the FIC and promote greater financial stability within Palau's bank market passed its first reading in the Senate in January 2005 but the Senate Committee on Ways and Means and Financial Matters did not report out the bill until December 2006 when the bill was referred back to the Committee for further study.

Other entities subject to the provisions of the MLPCA, such as the three money services businesses, four 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 were introduced in the Senate in 2004 and passed in March 2006. The amendments passed their first reading in the House of Delegates in March 2006 and were referred to the House Committee on Ways and Means and Financial Matters where they remain. 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. The bill passed the Senate in March 2006 and went to the

House of Delegates where it passed its first reading in the same month and was referred to the House Committee on Ways and Means and Financial Matters where, once again, it remains.

The Counter-Terrorism bill, which also has anti-money laundering provisions, was originally introduced in September 2002, but was not acted on by the Senate. An amended version of the Bill was reintroduced in January 2005 and the Senate passed it in January 2006. The bill is in the House of Delegates. 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 nonprofit 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 is particularly vulnerable to money laundering because of its proximity to Colombia and other drug-producing countries. Colombian nationals are able to enter Panama without visas, facilitating the investment of drug money into Panama's economy. 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.

Panama's sophisticated international banking sector, Colon Free Zone (CFZ), U.S. dollar-based economy, and legalized gambling sector are utilized to facilitate potential money laundering. The CFZ serves as an originating or transshipment point for some goods purchased with narcotics proceeds (mainly dollars obtained in the United States) through the Colombian Black Market Peso Exchange. There are approximately 1,400 businesses operating in the CFZ, facilitating opportunities for trade-based money laundering. Reports indicate that the amount of money passing through casinos increased by over 200 percent in 2006. The present construction boom also presents opportunities for money laundering. As many as 150 new high-rise buildings are currently being constructed. Some of the new construction is due to construction tax breaks which ended December 31, 2006.

Panama has the second highest number of offshore-registered companies in the world. Panama's large offshore financial sector includes international business companies, offshore banks, captive insurance companies and fiduciary companies. Law No. 42 of October 2000 requires Panamanian trust companies to identify to the Superintendence of Banks the real and ultimate beneficial owners of trusts. Executive Decree 213 of October 2000, amending Executive Order 16 of 1984 (trust operations), provides for the dissemination of information related to trusts to appropriate administrative and judicial authorities.

Law No. 41 (Article 389) of October 2000 amended the Penal Code by expanding the predicate offenses for money laundering beyond narcotics trafficking, to include criminal fraud, arms

trafficking, trafficking in humans, kidnapping, extortion, embezzlement, corruption of public officials, terrorism, and international theft or trafficking of motor vehicles. Law No. 41 establishes a punishment of 5 to 12 years' imprisonment and a fine. In June 2003, the Panamanian Legislative Assembly approved the Financial Crimes Bill (Law No. 45), which established criminal penalties of up to ten years in prison and fines of up to one million dollars for financial crimes that undermine public trust in the banking system, the financial services sector, or the stock market. The penalties criminalized a wide range of activities related to financial intermediation, including illicit transfers of monies, accounting fraud, insider trading, and the submission of fraudulent data to supervisory authorities. Law No. 1 of January 2004 added crimes against intellectual property as a predicate offense for money laundering.

Law No. 42 requires financial institutions to report to Panama's financial intelligence unit (FIU), the Financial Analysis Unit of the Treasury Ministry (Unidad de Análisis Financiero, or UAF), suspicious financial transactions and currency transactions in excess of \$10,000. Casinos, CFZ businesses, the national lottery, real estate agencies and developers, and insurance and reinsurance companies are also required report to the UAF currency or quasi-currency transactions that exceed \$10,000. Under Law No. 48 of June 2003 and Law No. 16 of May 2005, money remitters and pawnshops are also subject to anti-money laundering regulations. Resolutions Nos. 327 and 328 of August 2004 of the Ministry of Commerce and Industries similarly require promotional companies and real estate agents to identify their clients, declare cash transactions over \$10,000, and report suspicious transactions to the UAF.

In October 2000, Panama's Superintendent of Banks issued Agreement No. 9 that defines requirements that banks must follow for identification of customers, exercise of due diligence, and retention of transaction records. It also increased the number of inspections of finance companies it conducted. In 2005, the Superintendence of Banks modified that Agreement, in order to include fiduciary (offshore) companies within the measures of prevention of illegal use and to bring the Banking Center into line with the highest international standards, thus increasing compliance with the Financial Action Task Force (FATF) Recommendations.

The Autonomous Panamanian Cooperative Institute established a specialized unit for the supervision of loans and credit cooperatives regarding compliance with the requirements of Law No. 42. The National Securities Commission carried out numerous training sessions and workshops for its personnel and regulated entities. The CFZ possesses and issues a procedures manual for the users of the CFZ, outlining their responsibilities regarding prevention of money laundering and requirements under Law No. 42. In 2006, the UAF continued efforts to raise the level of compliance for reporting suspicious financial transactions, particularly by nonbank financial institutions and trading companies within 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." This Transparency Program is targeted, through enhanced communication and information flow, training programs and technology, at strengthening the capabilities of those government institutions responsible for preventing and combating financial crimes and terrorist financed activities. Employees from 14 different institutions have received training, including bank compliance officials, and representatives of the private sector, stock markets and credit unions. In addition, Panama has launched an educational campaign to prevent money laundering and terrorist financing. The program began in 2002 and is intended to raise consciousness of citizens regarding these crimes. This program has included hosting a hemispheric congress on the prevention of money laundering in 2004 and 2006.

In 2005, a pilot program was developed for money laundering prevention training, which was financed by the IDB and executed by the Caribbean Financial Action Task Force (CFATF). The training has reached over 5,000 public and private sector employees. Participants have been from various financial institutions, insurance companies, the CFZ and money order companies.

To increase GOP interagency coordination, the UAF and the 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 has enabled the UAF to begin more timely investigations. The creation of a joint airport interdiction task force at Tocumen, made up of members from the Panamanian National Police (PNP), Technical Judicial Police (PTJ), National Air Service (SAN), Customs and Immigration has produced significant seizures of undeclared currency. In 2006, a total of \$4.7 million in undeclared currency was seized. The most significant seizures were in two separate incidents where gold bars painted silver were seized from Mexican nationals traveling from Mexico through Panama en route to Colombia. The Task Force also participated in a continuous operation designed to interdict bulk cash smuggling ("Operation Firewall") in coordination with U.S. Embassy Narcotics Affairs Section and U.S. Immigration and Customs Enforcement (ICE).

Executive Order No. 163 of October 2000, which amended the June 1995 decree that created the UAF, allows the UAF to provide information related to possible money laundering directly to the Office of the Attorney General for investigation. Panama has initiated cases for domestic prosecution, and the UAF routinely transfers cases to the PTJ's Financial Investigations Unit for investigation. During 2006, Panama worked with the United States on two large cases. The first involved a gold and jewelry company in the CFZ that was used to launder money. Assets estimated at over \$30 million were seized in connection with this case. The second case was connected to an international narcotics trafficking case in which an entire trafficking organization was taken down. In Panama alone an estimated \$25 million in assets were seized. Both cases have ongoing investigations as a result of information obtained. Panama assists other Central American countries with investigations. For example, Panama assisted Nicaragua with the corruption case against former Nicaraguan President Arnoldo Aleman. Panama also assisted Costa Rica and Peru in investigating allegations against high ranking political figures in each country.

Panama identified the combating of money laundering as one of five goals in its five-year National Drug Control Strategy issued in 2002. The Strategy commits the GOP to devote \$2.3 million to anti-money laundering projects, the largest being institutional development of the UAF. The UAF currently maintains inter-institutional cooperation agreements with the Attorney General's Office and the Superintendence of Banks, and has signed a cooperation agreement with the Public Registry of Panama.

Terrorist financing is a criminal offense in 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. There are no legal impediments to the GOP's ability to prosecute or extradite suspected terrorists. Public security sources and the judicial system have limited resources to deter terrorists; however, there are several special investigations units capable of carrying out investigations.

In January 2003 the GOP entered into a border security cooperation agreement with Colombia and also increased funds to the Frontier Division of the National Police to assist in border security. The GOP and the Government of Colombia hold quarterly meetings to discuss border security initiatives of mutual interest to the two countries. The GOP has 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 (OAS) to investigate transnational issues, including money laundering. Panama has an implementation plan for compliance with the FATF 40 Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing.

In May 2005, the International Monetary Fund (IMF) conducted an assessment of Panama's Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) under the new FATF methodology. The assessment has also been accepted by the CFATF as its mutual evaluation of

Panama. Since its assessment, Panama has taken many steps to implement evaluator's recommendations, including providing adequate training to government officials and issuing new regulations to financial institutions to ensure that they continue filing suspicious transaction reports to the UAF.

The GOP remains active in international anti-money laundering efforts, including the multilateral Black Market Peso Exchange Group Directive. In March 2002, the GOP signed the cooperation agreement issued by the working group as part of a regional effort against the black market system. Panama is a member of the OAS Inter-American Drug Abuse Control Commission (CICAD), and served as the Chair of CFATF and the Central American Council of Superintendents of Banks, Insurance Companies and Other Financial Institutions during 2004 and 2005. Panama is currently the vice-president of the Association of Supervisors of Banks in the Americas (ASBA), with the term running through 2007. The GOP is also a member of the Offshore Group of Banking Supervisors. The UAF is a member of the Egmont Group.

Panama is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the Inter-American Convention against Terrorism. Panama is also a signatory to 11 of the UN terrorism conventions and protocols. 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. Executive Decree No. 163 authorizes the UAF to share information with FIUs of other countries, subject to entering into a memorandum of understanding (MOU) or other information exchange agreement. Panama currently has 37 such MOUs with other countries, including the United States.

During 2006, the Government of Panama has continued to make progress in strengthening its anti-money laundering regime. The GOP has been a cooperating partner to the United States and other countries throughout the world in investigating money laundering crimes that have a nexus in Panama. Panama should continue its regional assistance efforts. It should emphasize effective law enforcement actions that address Panama's continuing vulnerabilities such as smuggling, abuse of the real estate sector, trade-based money laundering, and the proliferation of nontransparent offshore companies.

Paraguay

Paraguay is a principal money laundering center, involving both the banking and nonbanking financial sectors. The multi-billion dollar contraband re-export trade that occurs on the borders 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. The GOP successfully prosecuted a major money laundering case in 2006 and has demonstrated an increased willingness to press money laundering charges against defendants notwithstanding the limitations of current laws.

Paraguay is particularly vulnerable to money laundering, as little personal background information is required to open a bank account or to conduct 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 Superintendence 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. A number of cooperatives function effectively as financial institutions and may have as much as 30 percent of financial system assets. These co-ops, as they are known, are not regulated by the Superintendent of Banks but are instead self-regulated. The industry organization charged with oversight—INCOOP—issues guidelines, but does not have regulatory authority to compel compliance with anti-money laundering or prudential measures.

The multi-billion dollar contraband re-export trade that occurs largely in the Triborder Area shared by Paraguay, Argentina, and Brazil facilitates money laundering in Paraguay. 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. The illicit proceeds from these crimes are an additional source of laundered funds. 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. Paraguay has taken some measures to tackle the "gray" economy and to develop strategies to implement a formal, diversified economy. The Ministry of Industry and Commerce's Specialized Technical Unit (UTE), working in close coordination with the Attorney General's Trademarks and Intellectual Property Unit, has effectively opened a number of significant investigations against groups involved in piracy.

On December 6, 2006, the U.S. Department of Treasury designated nine individuals and two entities in the Triborder Area that have provided financial or logistical support to Hizballah. The nine individuals operate in the Triborder Area and all have provided financial support and other services for Specially Designated Global Terrorist Assad Ahmad Barakat, who was previously designated by the U.S. Treasury in June 2004 for his support to Hizballah leadership. The two entities, Galeria Page and Casa Hamze, are located in Ciudad del Este and have been used to generate or move terrorist funds. The GOP has publicly disagreed with the designations, stating that the U.S. has not provided any new information that would prove terrorist financing activity is occurring in the Triborder Area.

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 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 defendants on money laundering charges because a sentence has already been issued for a predicate offense.

Law 1015 of 1996 also contains "due diligence" and "banker negligence" provisions and applies money laundering controls to nonbanking financial institutions, such as exchange houses. Bank secrecy laws do not prevent banks and financial institutions from disclosing information to bank supervisors and law enforcement entities. 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. 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, finance companies, insurance companies, exchange houses, stock exchanges and securities dealers, investment companies, trust companies, mutual and pension funds administrators, credit and consumer cooperatives, gaming entities, real estate brokers, nongovernmental organizations, pawn shops, and dealers in precious stones, metals, art and antiques 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 received over 3,000 suspicious activity reports from these entities in 2006, a significant improvement over previous years.

The UAF began operating in 1997 within the Secretariat to Combat 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, and as a result, cooperation between SEPRELAD and other government agencies on anti-money laundering issues has improved. Initially reluctant to seek SEPRELAD's assistance due to past weaknesses, most government entities are increasingly prepared to work with SEPRELAD. 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. In 2005 the UAF and the Superintendence of Banks' Risk Control Division, which 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, signed a memorandum of understanding (MOU) 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, which are included in Resolution 233 of 2005.

The UAF is seeking to strengthen its relationship with other financial intelligence units and has signed agreements for information exchange with regional FIUs. 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 2005, finding Paraguay to be noncompliant with counterterrorist financing standards and its legal framework for investigating cases deficient.

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 2004. This legislation has since been broken down and incorporated into three bills emerging through a multi-institutional legal reform commission. Proposed amendments to Paraguay's Penal Code, including enhanced legislation on money laundering, were introduced to Congress in October 2006. The other two bills addressing procedural reform and administrative structures should be introduced in early 2007. The proposed amendments also include legislation criminalizing the financing of terrorism. A bill on terrorist financing had been drafted in 2004, yet was not introduced until the amendments to the Penal Code were proposed.

In addition to confirming the UAF's role as the sole FIU, the new legislation establishes SEPRELAD as an independent secretariat or agency reporting directly to the Office of the President. The amendments to the Penal Code submitted to Congress in October establish money laundering as an autonomous crime punishable by a prison term up to 8 years, terrorism financing up to 15 years and terrorism punishable up to 30 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 maintain

registries of large currency transactions that equal or exceed \$10,000, in addition to complying with existing suspicious transaction reporting requirements.

Other provisions of the draft bills include penalties for failure to file, falsification of reports, enhanced “know-your-client” provisions, and standardized record keeping for a minimum of five -years. The UAF will continue to refer cases as appropriate for further investigation by Paraguay’s Anti-Drug Secretariat (SENAD) 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 bills further specify 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 investigations 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 legislation is enacted, most judges have little incentive to receive money laundering cases because many believe that sentencing on predicate offenses is sufficient punishment. 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 and designated by the United States as a financier of terrorism—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 case against Lebanese businessman Kassem Hijazi, suspected of having laundered proceeds from illicit activities in the Triborder Area and sending a portion of those funds to support Lebanese Hizbollah activities, is ongoing on the basis on tax evasion charges, not money laundering.

In spite of limitations in prosecuting Barakat and Hijazi, the GOP is making improvements in its ability to successfully investigate and prosecute some money laundering cases. Daniel Fretes Ventre, a former Inspector General under President Wasmosy in the 1990s, was sentenced by an Appeals Court to 12 years in prison and fined \$68,000 for money laundering and other crimes on October 24, 2006. Several members of his family were convicted on the same charges. Fretes and his accomplices laundered money through a family-established college and three family-owned businesses. In addition to the above-noted penalties, authorities confiscated 11 family-owned properties in Asuncion and Ciudad del Este. This case represents the most significant money laundering conviction—from less than a handful to date—and reinforces the fact that convictions are possible, although difficult under the current legal framework. Fretes Ventre has appealed this decision to the Supreme Court.

In cooperation with the U.S. Department of Homeland Security’s Office of Immigration and Customs Enforcement (ICE), Paraguay is in the process of developing a Trade Transparency Unit (TTU) that will examine discrepancies in trade data that could be indicative of customs fraud, trade-based money laundering, or the financing of terrorism. 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 counter valuation in transferring value and settling accounts.

Despite its low rating on corruption and other indices that prevented Paraguay from qualifying to participate fully in the Millennium Challenge Account (MCA) Compact Program, Paraguay was

invited to participate in the MCA's Threshold Program. In May, Paraguay signed a Threshold Program agreement to receive \$34.9 million in assistance to address the problems of impunity and informality, both of which hamper law enforcement efforts and contribute to money laundering. Paraguay's Millennium Challenge Account Threshold Program also supports the continued development of the "maquila" sector, which comprises businesses operating for export (of either goods or services) that enjoy special tax advantages. Since the GOP stepped up promotion beginning in 2004, the sector has experienced rapid growth. 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 or laws that regulate 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 nonbank 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. 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. The GOP is only just beginning to recognize and address the problem of the international transportation of currency and monetary instruments derived from illegal sources. Recently, though, the commercial banks operating in Paraguay have dropped exchange houses as clients based on pressure from either their home offices or correspondent banks in the United States, which have told them that they would sever the relationship if the banks maintained accounts of exchange houses. The principal state-owned bank was also forced to drop the accounts of the exchange houses rather than lose its correspondent relationship with a U.S. bank.

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. The GOP has worked with the U.S. Treasury and Justice Departments to trace, account for, and seek the return of the \$16 million diverted in 2002 to private accounts linked to the family of former President Luis Gonzalez Macchi. However, corruption charges against Macchi were dropped in November after the court failed to meet the deadline for hearing full testimony on the accusations. Under the current interpretation of laws, the GOP has limited authority to seize, or forfeit assets of suspected money launderers. In most cases, assets that the GOP is permitted to, 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 seizure" (which has the same effect as freezing) 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 seizure is set as the amount of liability of the suspect to the government. More recently, SENAD has been permitted to use on a temporary basis assets seized on cases not yet decided provided it pays no maintenance or repair costs. The new anti-money laundering legislation will, when passed, allow prosecutors to recommend that judges seize 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, which is not yet 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. To date, the GOP has not identified, seized, or forfeited any such assets linked to these groups or individuals. The current law also does not provide any measures for thwarting the misuse of charitable or nonprofit 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, terrorist association and terrorist financing. This draft legislation, also incorporated into the legal reforms to Paraguay's penal, procedural and administrative codes, will allow the GOP to conform to international standards on the suppression of terrorist financing. The anti-money laundering provisions of the proposed legal reforms also specifically criminalize money laundering tied to the financing of terrorist groups or acts.

The GOP 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, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime. Paraguay participates in the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) money laundering experts working group, and is a member of GAFISUD and the "3 Plus 1" Security Group between the United States and the Triborder Area countries. The UAF has been a member of the Egmont Group since 1998.

While the Government of Paraguay took a number of positive steps in 2006, 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 legislation that meets international standards and enables law enforcement authorities to more effectively investigate and prosecute money laundering and terrorist financing cases. Paraguay also should continue its efforts to combat corruption and increase information sharing regarding corruption among concerned agencies when and if the corruption issues arises. Paraguay does not have a counterterrorism law or a law criminalizing terrorist financing, and the GOP should take steps as quickly as possible to ensure that comprehensive counterterrorism legislation, including the terrorist financing legislation introduced in October 2006, is passed in the context of the penal and procedural code reform process. Further reforms in the selection of judges, prosecutors and public defenders are needed, as well as reforms to the customs agency 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. The GOP should also enter into a mutual legal assistance treaty with the United States.

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 in recent years. 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, estimates indicate that the cocaine trade generates in a range of one to two billion dollars per year, or up to 2.5 percent of Peru's GDP. 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.

Since 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.

Peru's financial intelligence unit, the Unidad de Inteligencia Financiera (UIF) began operations in June 2003 and today has 48 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. The entities obligated to report suspicious transactions to the UIF within 30 days include banks, 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. The UIF cannot receive STRs electronically; obligated entities must hand-deliver STRs to the UIF. The UIF received 209 STRs in 2004, 796 in 2005 (\$442.3 million), and 948 from January through October 2006. 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.

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. These reporting requirements are not being strictly enforced by the responsible GOP entities.

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.

Law 28.306 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. On July 25, 2006, the Government issued Supreme Decree 018-2006-JUS to better implement Law 28.306. The decree introduces the specific legal framework for the supervision of terrorism financing.

Supreme Decree 018-2006-JUS further strengthened the UIF by allowing it to participate in the on-site inspections performed by the supervisors of obligated entities. The UIF may also conduct the on-site inspections of the obligated entities that do not fall under the supervision of another regulatory body, such as notaries, money exchange houses, etc. The new regulations also detail the procedures by which compliance officials can obtain a secret code from UIF in order to maintain the secrecy of their identities. Supreme Decree 018-2006-JUS contains instructions for supervisors with prior UIF approval to establish which obligated entities must have a full-time compliance official (depending on each entity's size, patrimony, etc.), and allows supervisors to exclude entities with certain characteristics from maintaining currency transaction reports. If an obligated entity does not have a supervisor, the aforementioned faculties fall to the UIF. The UIF can also request that a supervisor review an obligated entity that is not under its supervision. The supervisors of the obligated entities must update their internal regulations with the provisions enacted by Supreme Decree 018-2006-JUS.

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 October 31, 2006, the UIF had sent 47 suspected cases (totaling over \$565.5 million) of money laundering stemming from STRs to the Public Ministry for investigation (9 in 2006, totaling \$13.9 million). Twenty-one of the 47 cases were linked to drug trafficking, seven involved official corruption, six involved tax fraud, and the remaining 13 had fraud, arms trafficking, contraband, kidnapping, or intellectual property violations as the predicate offenses. The UIF has also participated

in 18 joint investigations with the Public Ministry. The Public Ministry has so far presented seven money laundering cases to the judiciary (five stemming from STRs and two from the joint investigations), but there have not yet been any convictions.

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. Under Law 28.306, DINANDRO and the UIF may 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, the Superintendence of Banks only regulates money remittances that are done through special fund-transfer businesses (ETFs) that do more than 680,000 soles (about \$200,000) in transfers per year, and remittances conducted through postal or courier services are supervised by the Ministry of Transportation and Communications. Informal remittance businesses are not supervised. 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. 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. 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 nonprofit 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 Laden, 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 is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the Inter-American Convention on Terrorism. However, terrorism has not yet been specifically and correctly established as a crime under Peruvian legislation as mandated by the UN Convention. The only reference to terrorism as a crime is in Executive Order 25.475, which establishes the punishment of any form of collaboration with terrorism, including economic collaboration. There are several bills pending in the Peruvian Congress concerning the correct definition of the crime of terrorist financing. Peru is also 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 the Egmont Group of financial intelligence units. Although an extradition treaty between the U.S. Government and the GOP entered into force in 2003, there is no mutual legal assistance treaty or agreement between the two countries.

The Government of Peru has made 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. There are a number of bills under review in the Peruvian Congress that would lift bank secrecy provisions for the UIF in matters pertaining to money laundering and terrorist financing. Although there is an Executive Order criminalizing terrorist financing, Peru should also pass legislation establishing this particular crime. The Congress is also considering bills regarding the obligation of nongovernmental organizations to report the origins of their funds. 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 chemicals used in narcotics production in the Philippines are purchased using letters of credit. U.S. dollars are the preferred currency for international narcotics transactions. Drugs circulated within the Philippines are usually exchanged for local currency. Remittances and cash smuggling are also sources of money laundering.

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 \$60,000); 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 enacted 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 nonbank 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, evaluating covered and suspicious transactions and investigating reports for possible criminal activity. 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 allowed AMLC to electronically receive, store, and search CTRs filed by regulated institutions. Through 2006, the AMLC had received more than 6200 suspicious transaction reports (STRs) involving 13,474 suspicious transactions, and had received over 72 million covered transaction reports (CTRs). AMLC recently acquired 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 90 prosecutions underway in the Philippine court system that involved AMLC investigations or prosecutions, including 33 for money laundering, 22 for civil forfeiture, and the rest pertaining to freeze orders and bank inquiries. Although some of these cases may conclude shortly, the Philippines had its first conviction for a money laundering offense in early 2006.

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 2006, the AMLC has frozen funds in excess of 500 million Philippine pesos (approximately \$10,000,000).

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.

The AMLC continues to work to bring the numerous foreign exchange offices in the country under its purview. 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. This requirement reduced the number of foreign exchange dealers dramatically as many offices chose to close down rather than seek licensing. The remaining exchange dealers around the country have participated in more than 1500 training programs sponsored by the AMLC. 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.

In 2006, the AMLC requested 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 15 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 in the Philippines, though the country is a growing location for internet gaming sites that target overseas audiences in the region.

The Philippines has over 5,000 nongovernmental organizations (NGOs) that do not fall under the requirements of the AMLA. Charitable and nonprofit 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 seven 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 15 percent during the first ten months of 2006, and should exceed \$12 billion for the year, equal to 10 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 (APG) and hosted the 9th annual APG plenary in July, 2006. The Philippines FIU 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 and to all 12 international conventions and protocols related to terrorism, including the UN International Convention for the Suppression of the Financing of Terrorism). The Anti-Money Laundering Council must obtain a court order to freeze assets of terrorists and terrorist organizations placed 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. Although the Philippine House passed its version of the Anti-Terrorism Law in April 2006, the Senate version remains stalled due to political infighting and fear the government could use certain provisions against political opponents.

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 noncombatant 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 separate 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 each year. The Government of Poland (GOP) estimates that the unregistered or gray economy, used primarily for tax evasion, may be as high as 13 percent of Poland’s \$330 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 March 2006, 54 commercial banks were licensed for operation in Poland, as were 585 “cooperative banks” that primarily serve the rural and agricultural community. The GOP considers the nation’s banks, insurance companies, brokerage houses, and casinos to be important venues of money laundering.

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. Money laundering through trade in scrap metal and recyclable material is also a newly emerging trend. It is also believed that some money laundering in Poland originates in Russia or other countries of the former Soviet Union.

The genesis of Poland's anti-money laundering (AML) regime was November 1, 1992, when the President of the National Bank of Poland issued an order instructing banks how to deal with money entering the financial system through illegal sources. The August 29, 1997 Banking Act was followed by a 1998 Resolution of the Banking Supervisory Commission, adding customer identification requirements and instructions on registering transactions exceeding a certain threshold.

On November 16, 2000, a law went into effect that improves Poland's ability to combat money laundering (entitled the Act of 16 November, or the Act on Counteracting Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources and on Counteracting the Financing of Terrorism, as amended). 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 cash and suspicious transactions. 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.

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 to the Act of 16 November that broadened the definition of money laundering to encompass all serious crimes. In March 2003, Parliament further amended the law to broaden the definition of money laundering to include assets originating from illegal or undisclosed sources.

A major weakness of Poland's initial money laundering regime was that it did not cover many nonbank 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 (approximately \$1,200) 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, and the Polish Bar has mounted a challenge to some provisions, and submitted a motion to the Constitutional Tribunal to determine the consistency of certain regulations with ten articles in the Polish Constitution.

In 2002, Parliament adopted measures to bring the nation's anti-money laundering legislation into compliance with EU standards. Poland's customs law was amended in order to require the reporting of any cross-border movement of more than 10,000 euros (approximately \$12,000) in currency or financial instruments. Also, in addition to requiring that the GIIF be notified of all financial deals

exceeding 15,000 euros (approximately \$19,000), 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. During its first three years of operation, the GIIF received 3,326 suspicious transaction reports (STRs) which resulted in the development of 370 cases by the Prosecutor's Office. In 2005 and 2006, the number of STRs received by the FIU continued to increase with a total of 1,558 reports forwarded to the FIU, resulting in the development of 175 cases by the Prosecutor's Office. Between January and October 2006, the GIIF received more than 1,200 STRs, resulting in the creation of 182 cases with violations exceeding \$210 million. Banks filed ninety percent of the STRs submitted in 2005. At a minimum, all reports submitted by the GIIF to the Prosecutor's Office have resulted in the instigation of initial investigative proceedings. In 2005, the number of convictions for money laundering exceeded 30, a number of which were connected with fuel smuggling. There were four convictions under the money laundering law in 2004. Many of the investigations begun by the GIIF have resulted in convictions for other nonfinancial offenses. The GIIF receives approximately 1.8 million reports per month on transactions exceeding the threshold level.

The vast majority of required notifications to the GIIF are sent through a newly developed electronic reporting system. The system is very well developed and is considered to be one of Europe's finest electronic reporting systems, collecting more information than the paper version of the report. 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 efficient processing and analyzing of the large number of reports that are sent to the GIIF continues 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 has initiated work on a specialized IT program that will support complex data analysis and improve the FIU's efficiency in handling the increasing number of reports which it receives.

The GIIF also conducts on-site training and compliance monitoring investigations. In 2005, the GIIF carried out 25 compliance investigations, an increase over the 15 completed in 2004, and received several hundred follow-up reports from institutions responsible for routinely supervising covered institutions. The GIIF has also 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. In 2005, 3,443 individuals (mainly from obligated institutions) participated in the GIIF's new electronic learning course, with a total of 3,032 individuals passing the final test. 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 2005, it sent official requests to foreign financial intelligence units on 155 cases concerning 284 national and foreign

entities suspected of money laundering, while foreign FIUs sent 59 requests to the GIIF, concerning 164 national and foreign entities suspected of attempting to launder proceeds from crime. The most intensive exchange of information was conducted with the United States: In 2005 GIIF submitted 31 requests to the financial intelligence of the United States. The GIIF also actively exchanges with the German, Russian, British, and Ukrainian financial intelligence units.

The total number of suspected transactions sent by obliged institutions in 2005 was approximately 70,000. 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 2005, the GIIF suspended five transactions worth \$500,000 and blocked 34 accounts worth \$ 11 million. In 2006, the GIIF suspended four transactions worth \$2.3 million and blocked 85 accounts worth \$12.36 million.

The GOP has created an office of counterterrorist operations within the National Police, which coordinates and supervises regional counterterrorism units and trains local police in counterterrorism measures. Poland also has 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 as is required by UNSCR 1373, 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 continues to work on draft amendments to the criminal code that would criminalize terrorist financing as well as elements of all terrorism-related activity.

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). In 2006, MONEYVAL conducted its third round mutual evaluation of Poland. 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. In 2005, Poland twice hosted law enforcement, FIU and financial sector supervisors from the Former Yugoslav Republic of Macedonia on study visits designed to increase the operational capacities of the agencies and the people staffing them.

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 33 MOUs between 2002 and 2005. The MOU between the Polish FIU and the U.S. FIU was signed in fall 2003. The FIU is also currently in the process of negotiating MOUs with FIUs in Canada, Argentina, Turkey, Serbia and Montenegro, Belarus, China and Taiwan. Because Poland is an EU member state, the exchange of information

between the GIFF 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. Poland is also a party to 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 to implement a comprehensive anti-money laundering regime that meets international standards. Further improvements should 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, as it is obligated to do as a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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 nonfinancial institutions have a mandatory requirement to report all suspicious transactions to the Public Prosecutor regardless of threshold amount. The October 2006 Financial Action Task Force (FATF) Mutual Evaluation of Portugal stated, “the Portuguese legal framework for combating money laundering and terrorist financing is generally comprehensive.” The report notes that the Portuguese confiscation and seizure system is also “generally comprehensive.”

Act 11/2004, which implements the European Union’s Second Money Laundering Directive, broadened the GOP’s anti-money laundering regime. 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. Portugal employs an all-crimes approach to the predicate offense. “Tipping off” is prohibited and liability protection is provided for regulated entities making disclosures in good faith. Despite Law 5/2002, Article 2, which waives banking secrecy in cases related to organized crime and financial crime, in practice 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 until 2004.

If a regulated entity has knowledge of a transaction likely to be related to a money laundering offense, it must inform the GOP, which 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 must identify their customers, maintain records for a minimum of ten years, and demand written proof from customers regarding the origins and beneficiaries of transactions that exceed 12,500 euros (approximately \$16,533). Nonfinancial institutions, such as casinos, property

dealers, lotteries and dealers in high-value assets, must also identify customers engaging in large transactions, maintain records, and report suspicious activities to the Office of the Public Prosecutor. However, the 2006 FATF mutual evaluation team reported that the mechanism for determining the beneficial owner does not fully comply with FATF requirements. The National Registry of Legal Persons does not include all information to reveal the beneficial owners of legal persons. Requirements for obliged entities to identify beneficial owners are located in instructions and regulatory standards set forth by the Bank of Portugal (BdP) and the Portuguese Insurance Institute (ISP), and not stipulated by law as required by the Methodology; this raises the question of whether these regulations could be considered secondary legislation or other enforceable means. For some entities in the securities sector subject to the Securities Market Commission (CMVM) regulations rather than those from the BdP, the CMVM regulations do not explicitly comply with requirements regarding the identification of the beneficial owners of legal persons.

Decree-Law 295/2003 of November 2003 sets out reporting requirements for the transportation across borders of cash, nonmanufactured gold, and certain negotiable financial instruments, such as travelers' checks. When a person travels across the Portuguese border with more than 12,500 euros worth of such assets, a declaration must be made to Portuguese customs officials. The GOP expects to approve by year's end national legislation per EC Regulation 1899/2005 to more tightly control the movement of cash across borders.

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 facilitate enforcement of other financial crimes as well.

With regard to nonbanking financial institutions, namely financial intermediaries, the Portuguese Securities Market Commission issued 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 June 30 of the following year. The regulation entered into force on January 1, 2006. Regulation 2/2006 entered into force on May 26, 2006, further amending Regulation 12/2000, Articles 36 and 36-A (concerning internal auditing and supervision), to require additional information.

The three principal 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 regulated entities, which include casinos, realtors, dealers in precious metals and stones, accountants, notaries, statutory auditors and registry officials. Attorneys and solicitadores became obliged entities in 2004.

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 operates independently as a department of the Portuguese Judicial Police (Polícia Judiciária). The

UIF is comprised of 28 persons and 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. All suspicious transaction reports (STR's) received by the UIF come from the Attorney General's office, as that office is the designated competent authority to receive STRs. At the international level, UIF coordinates with other FIUs. The UIF has policing duties but no regulatory authority.

In 2002, obligated entities filed 166 STRs. In 2005, they had filed 330 STRs and 44,165 currency transaction reports (CTRs). From January to September 2006, UIF received 391 STRs and 13,806 CTRs. Credit institutions and the Central Bank were the source of the vast majority of STRs, with the former submitting 346 and the latter 25. Portugal's Gambling Inspectorate General was the source of 12,599 CTRs, as it reports all transactions at casinos above a certain threshold. In this same time period, UIF sent 203 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. Twelve cases resulted in proposals to freeze assets involving over 17 million euro (approximately \$22.5 million).

The FATF mutual evaluation report noted that sixteen persons were found guilty and convicted of money laundering from 2002 to 2005, receiving penalties ranging from one year to eight and one-half years' imprisonment. The GOP has not yet released statistics on arrests or prosecutions for money laundering or terrorist financing in 2006. However, the media reported in November that the Judicial Police detained seven individuals suspected of belonging to a money laundering network in 2006. Portuguese authorities believe these individuals were involved in the transfer of funds generated by illegal activities in Mozambique, Angola, and Dubai.

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 offense occurs 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. 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. It also addresses the criminal liability of legal persons regarding terrorism financing. However, the legislation does not extend the customer due diligence practices to risk association with terrorism financing. While the broadly-worded law covers both illicit and licit funds that support a terrorist act or organization, it does not extend coverage to the provision of funds to an individual terrorist. 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. Names of individuals and entities included on the United Nations Security Council Resolution 1267 Committee's consolidated list, or that the United States and EU have linked to terrorism, are passed to private sector entities 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. While Portugal does not have an administrative procedure to freeze assets independently of the relevant EU directive, judicial procedure exists for the Public Prosecutor to open a special inquiry and to freeze assets at the request of a foreign country. To date, no significant assets have been identified or seized. In its 2006 report on the mutual evaluation of Portugal, the FATF noted that it found “deficiencies in scope and time” as related to the freezing of terrorism-related funds.

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, similar to international business corporations, account for approximately 6,500 companies registered in Madeira. All entities established in the MIBC will remain tax exempt until 2011. Twenty-seven offshore banks are currently licensed to operate within the MIBC. The Madeira Development Company supervises offshore banks. There is no indication that MIBC has been used for money laundering or terrorist financing.

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.

According to the FATF mutual evaluation report, Portugal has undertaken many mutual legal assistance obligations, especially with regard to identification, seizure and confiscation of assets. Portugal is a member of the Council of Europe, the European Union, and the FATF. The GOP 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 has signed, but not yet ratified, the UN Convention against Corruption. Portugal is also a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Portugal’s FIU is a member of the Egmont Group.

The Government of Portugal has put into place a comprehensive and effective regime to combat money laundering. Laws passed in 2002 strengthen its ability to investigate and prosecute, and steps taken in 2003 extended the regime’s reach to terrorist financing. Legislative measures adopted in 2004 have consolidated the anti-money laundering legal framework, imposing on financial and nonfinancial institutions obligations to prevent the use of the financial system for the purpose of money laundering. The GOP continued to implement these measures in 2006 to effectively combat money laundering and terrorist financing. However, Portugal should collect and maintain more information and data regarding the number of money laundering and terrorism financing investigations, prosecutions and convictions as well as the amount of property and assets frozen, seized and confiscated as it relates to money laundering and terrorism financing. The GOP should work to correct any identified deficiencies regarding its asset freezing and forfeiture regime, improve its mechanisms to determine the beneficial owners, and ensure that the terrorism financing law covers financing to individuals. Lastly, the FIU should be the competent authority to receive and analyze all STRs.

Qatar

Qatar has a 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 16 licensed financial banks, including three Islamic banks and a specialized bank, the Qatar Industrial Development Bank. Qatar Financial Centre (QFC) allows major international financial institutions and corporations to set up offices and operate in a “free zone” environment. The QFC allows full repatriation of profits and 100 percent foreign ownership. Qatar has 19 exchange houses, three investment companies and one commercial finance company. Although Qatar still has a cash-intensive economy, authorities believe that cash placement by money launderers is a negligible risk due to the close-knit nature of the society 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, 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 fines and penalties of imprisonment of five to seven years. The law expanded the powers of confiscation 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. Article Two includes any activities related to terrorist financing. Article 12 authorizes the Central Bank Governor to freeze suspicious accounts for 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.

The law requires all financial institutions to report suspicious transactions 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 the State of Qatar to extradite convicted criminals in accordance with international or bilateral treaties.

The Anti-Money Laundering Law established the National Anti-Money Laundering Committee (NAMLC) to oversee and coordinate money laundering combating efforts. It is chaired by the Deputy Governor of the QCB and includes members from the Ministries of Interior, Civil Service Affairs and Housing, Economy and Commerce, Finance, Justice, Customs and Ports Authority and the State Security Bureau.

In February 2004, the Government of Qatar (GOQ) 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 crime. Qatar has a national committee to review the consolidated UN 1267 terrorist designation lists and to recommend any necessary actions against individuals or entities found in Qatar.

The QCB updates regulations regarding money laundering and financing of terrorism on a regular basis, in accordance with international requirements. The Central Bank aims to increase the awareness of all banks operating in Qatar with respect to anti-money laundering efforts by explaining money laundering schemes and monitoring suspicious activities.

In October, 2004, the GOQ established a Financial Intelligence Unit (FIU) known as the Qatar Financial Information Unit (QFIU). The FIU is responsible for receiving and reviewing all suspicious and financial transaction reports, identifying 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 if suspicious transactions or financial activities of concern are identified. The FIU also obtains additional information from the banks and other government ministries. The QCB, Public Prosecutor and the Criminal Investigation Division (CID) of the Ministry of the Interior work together with the FIU to investigate and prosecute money laundering and terrorism finance cases. The FIU also coordinates closely with the Doha Securities Market (DSM) to establish procedures and standards to monitor all financial activities that occur in

Qatar's stock market. The FIU coordinates the different regulatory agencies in Qatar. The Qatari FIU became a member of the Egmont Group in 2005.

In December 2004, QCB installed a central reporting system to assist the FIU in monitoring all financial transactions made by banks. All accounts must be opened in person. Banks are required to know their customers; the banking system is considered open in that in addition to Qatari citizens and legal foreign residents, nonresidents can open an account based on a reliable recommendation from his or her primary bank. Hawala transactions are prohibited by law in Qatar.

The Qatar Authority for Charitable Works monitors all charitable activity in and outside of Qatar. 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 nongovernmental 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 also regulates domestic charity collection.

Qatar does not have cross-border reporting requirements for financial transactions. Immigration and customs authorities are reviewing their policies in expanding their ability to enforce money declarations and detect trade-based money laundering.

Qatar is a party to the 1988 UN Drug Convention but not the UN Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime. Qatar is one of the original signatories of the memorandum of understanding governing the establishment of the Middle East and North Africa Financial Action Task Force (MENA-FATF), a FATF-style regional body that promotes best practices to combat money laundering and terrorist financing in the region.

The Government of Qatar has demonstrated a willingness to fight financial crimes, including terrorist financing, and to work cooperatively with other countries in doing so. Per FATF Special Recommendation Nine, Qatar should initiate and enforce in-bound and out-bound cross-border currency reporting requirements. The data should be shared with the FIU. The government should continue to work to ensure that law enforcement, prosecutors, and customs authorities receive the necessary training and technical assistance to improve their capabilities in recognizing and pursuing various forms of terrorist financing, money laundering and other financial crimes. Qatar should publish the number of annual money laundering investigations, prosecutions, and convictions. 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 central bank, the National Bank of Romania, estimates the dollar amount of financial crimes to range from \$1 billion to \$1.5 billion per year. Value-added tax (VAT) fraud has fallen to below 10 percent (down from 45 percent in previous years) of this total. Trans-border smuggling of counterfeit goods, fraudulent bankruptcy claims, tax fraud, and fraudulent claims in relation to consumer lending are additional types of financial crimes prevalent in Romania. Romania also has one of the highest occurrences of online credit card fraud in the world.

Laundered money comes primarily from international crime syndicates who conduct their criminal activity in Romania and subsequently launder their illicit proceeds through false limited liability companies. Another source of laundered money is the proceeds of illegally smuggled goods such as

cigarettes, alcohol, coffee, and other dutiable commodities. Widespread corruption in Romania's customs and border control and as well in several neighboring Eastern European countries also facilitates money laundering.

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, suspicious transaction reporting, and currency transaction reporting for transactions (including wire transfers) over 10,000 euros. The list of entities covered by Law No. 21/99 includes banks, nonbank financial institutions, attorneys, accountants, and notaries. Tipping off has been prohibited. Romanian law permits the disclosure of client and ownership information to bank supervisors and law enforcement authorities, and protects banking officials with respect to their cooperation with law enforcement.

In December 2002, Romania issued modifications to its anti-money laundering law with the passage of the Law on the Prevention and Sanctioning of Money Laundering (Law 656/2002). This law changed the list of predicate offenses to an all crimes approach. The 2002 law also expanded the number and types of entities subject to anti-money laundering (AML) regulations. Some of these new entities include art dealers, travel agents, privatization agents, postal officials, money service businesses, and real estate agents. Even though nonbank financial institutions are covered under Romania's money laundering law, regulatory supervision of this sector is weak and not nearly as rigorous as that imposed on banks.

In July 2005, Romania's money laundering law was further modified by the passage of 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 modified law also responds to Financial Action Task Force (FATF) Recommendations and establishes an STR reporting requirement for transactions linked to terrorist financing.

During 2006, several changes were made in Romania's laws in order to bring the country into harmony with FATF recommendations and EU Directives. Specifically, laws were changed to allow an increase in the level of fines in correspondence with the inflation rate; use of undercover investigators; reports to be sent from the FIU to the General Prosecutor's Office in an unclassified manner so that they may be used in operational investigations; confiscation of goods used in or resulting from money laundering activities; an increase in the length of time that bank accounts may be frozen from ten days up to one month.

In keeping with new international standards, Romania has taken steps to strengthen its know-your-customer (KYC) identification requirements. Romania has implemented KYC regulations that mandate identification of the client upon account opening and when single or multiple transactions meet or approach 10,000 euros (approximately \$13,000). In December 2003, Romania's central bank, the National Bank of Romania (BNR), introduced Norm No. 3, "Know Your Customer." This regulation strengthens information disclosure for outgoing wire transfers and correspondent banking by requiring banks to 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. In 2006, the BNR widened the scope of its KYC norms by extending their application to all other nonbanking financial institutions falling under its supervision. In 2005, the Insurance Supervision Commission instituted similar regulations for the insurance industry.

Romania's financial intelligence unit (FIU), the National Office for the Prevention and Control of Money Laundering (NOPCML), was established in 1999. All currency transaction reports and suspicious transaction reports must be forwarded to the FIU. The FIU oversees the implementation of anti-money laundering guidelines for the financial sector and works to ensure that adequate training is provided for all domestic financial institutions covered by the law. The FIU is also authorized to participate in inspections and controls in conjunction with supervisory authorities, having carried out 118 on-site inspections during the first ten months of 2006. In July 2006, the FIU Board issued regulations implementing KYC standards for nonfinancial reporting agencies that are not the subject of supervision by other national authorities. These norms are consistent with EU Directives and allow the FIU to increase supervision of entities (casinos, notaries, real estate brokers) previously unsupervised for compliance with AML regulations.

In 2006, the FIU received 46,725 currency transaction reports detailing 8,377,762 transactions exceeding the reporting threshold of 10,000 Euros. Of these transactions, 3.9 percent were carried out by individuals; the remainder was carried out by corporate entities. During the same period, the FIU also received 6,054 reports of foreign banking transfers detailing 753,674 transactions that exceed the reporting threshold. Of these transactions, 5.1 percent were carried out by individuals and the rest by corporations. The total number of suspicious transactions reported to the FIU dropped slightly from 2,826 in the first ten months of 2005 to 2,296 in the first ten months of 2006. Of this figure, reporting by banks and other credit institutions dropped from 1,993 in the first ten months of 2005 to 1,756 in the first ten months of 2006. During the first ten months of 2006, the FIU suspended two suspicious transactions totaling \$9.65 million and levied fines totaling \$81,273.

Upon completion of its analysis, the FIU forwards its findings to the appropriate government agency for follow-up investigation. During the first ten months of 2006, the number of files sent to the General Prosecutor's Office on suspicion of money laundering was 124, compared to 411 in 2005 and 501 in 2004. During the first ten months of 2006, the number of files sent to the National Anti-Corruption Department on suspicion of money laundering was seven, compared to 41 notifications in the first ten months of 2005, and 22 in 2004. With regard to terrorism financing, the FIU did not send any files to the Romanian Intelligence Service (SRI) during the first ten months of 2006. The FIU also sent six notifications to the Police General Inspectorate, three to the Financial Guard and three to the National Agency for Fiscal Administration in the first ten months of 2006.

Efforts to prosecute these cases have been hampered by a lack of specialization and technical knowledge of financial crimes within the judiciary. Moreover, coordination between law enforcement and the justice system remains limited. Between January 1, 2006 and December 31, 2006, 102 defendants were indicted by the Directorate for the Investigation of Organized Crime and Terrorism Offences (DIICOT) in 22 cases involving money laundering. Between January 1, 2006 and September 30, 2006, four persons received final convictions and one person was acquitted on charges originating in previous years. A conviction is not final in Romania until all appeals remedies have been exhausted.

Since its establishment, the NOPCML has had to deal with numerous operational and political challenges. However, in June 2004, the standing of Romania's FIU began to improve when the Government of Romania (GOR) appointed a new director to head the FIU. The new director significantly improved the office's operational efficiency and brought greater visibility to the importance of AML and counterterrorism financing CTF efforts in Romania. Some significant improvements made include the approval of a new organizational structure for the FIU (as mandated by Governmental Decision No. 1078/2004), as well as the passage of legislation that was designed to improve the procedures for analyzing STR information and the suspension of suspicious accounts and transactions.

In February 2006, the GOR again appointed a new director to head the FIU. The new director and the FIU's supervisory board have worked to improve the quality of cases forwarded to prosecutors for

judicial action. While the number of cases forwarded to the General Prosecutor's Office in 2006 has declined, the FIU believes that the number of indictments, and eventually convictions, will increase as the FIU has started to place a greater emphasis on the quality of reports produced as opposed to the quantity of reports forwarded to the Prosecutor's Office. In April 2006, the GOR approved a new organizational charter for the FIU that established a new division (Legal, Methodology, and Control Department) within the FIU and also allowed an increase in the FIU's staff from 84 to 120 people. In July 2006, the FIU moved to new facilities that will better accommodate staff growth and provide improved infrastructure for resource enhancements and security.

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 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 central bank, and the FIU. The GOR has also set up an inter-ministerial committee to investigate the potential use of the Romanian financial system by terrorist organizations.

The GOR announced a national anticorruption plan in early 2003 and passed a law criminalizing organized crime in April 2003. A new Criminal Procedure Code was passed and entered into force on July 1, 2003. The new Code contains provisions for authorizing wiretaps and intercepting and recording telephone calls in money laundering and terrorist financing cases.

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 GOR, and particularly the central bank, 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. 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 frozen. The FIU 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 central bank 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 for the forfeiture of assets used or provided to terrorist entities, together with finances resulting from terrorist activity. To date, no terrorist financing arrests, seizures, or prosecutions have been carried out.

The GOR recognizes the link between organized crime and terrorism. Romania is a member of and host country for the headquarters of the Southeast European Cooperative Initiative's (SECI) 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 FIU is a member of the Egmont Group and participates as a member in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). 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. The FIU has signed bilateral memoranda with Spain, Belgium, Poland, Czech Republic, Austria, Croatia, Slovenia, Italy, Serbia, Greece, Bulgaria, Ukraine, Turkey, South Korea, and Thailand. The NOPCML is currently working on finalizing an MOU with the United States. In an EU project completed in July 2005, the FIU worked closely with Italy to improve its efficiency and effectiveness.

Although Romania's AML legislation and regulations are comprehensive in scope, implementation lags. The FIU has improved in its ability to report and investigate cases in a timely fashion, and has improved the quality of its reporting. However, these investigations have resulted in only a handful of successful prosecutions to date. With the conclusion of the Romanian capital account liberalization in 2006, the risk of money laundering through nonbanking entities will increase. Romania should continue its efforts to ensure that nonbank financial institutions are adequately supervised and that the sector is trained on identification of suspicious transaction and reporting and record-keeping responsibilities. Romania should continue to improve communications between reporting and monitoring entities, as well as between prosecutors and the FIU. There is an over-reliance on financial reporting to initiate investigations. More effort should be made by Romanian law enforcement and customs authorities to recognize money laundering. Increased border enforcement and antismuggling measures are necessary. 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. Romania should take specific steps to combat corruption in commerce and government.

Russia

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. 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 occur. Experts believe that most of the illicit funds flowing through Russia derive from domestic criminal or quasi-criminal activity, including evasion of tax and customs duties and smuggling operations. Despite making progress in combating financial crime, 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 with low public confidence in it, and under-funding of regulatory and law enforcement agencies. However, due to rapid economic growth in various sectors, the number of depositors has steadily been increasing.

Russia has recently changed its laws to allow direct foreign ownership and investment in Russian financial institutions. Net private capital inflows for 2006 amounted to \$41.6 billion according to the Russian Central Bank, an increase from \$1.1 billion in 2005. In contrast to the capital flight that occurred during the 1990s, the majority of more recent outflows involved the legitimate movement of money to more secure and profitable investments abroad, which reflects the maturing of the Russian business sector. However, a portion of this money undoubtedly involved the proceeds of criminal activity. According to official statistics, the trend toward net capital inflows involves the transfer of assets from tax havens, such as Cyprus and the Virgin Islands, previously known to be popular destinations for Russian capital outflows in the 1990s.

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, respectively. Law RF 115-FZ obligates banking and nonbanking 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, institutions legally required to report include: banks, credit organizations, securities market professionals, insurance and leasing companies, the federal postal service, jewelry and precious metals merchants, betting shops, and companies managing investment and nonstate pension funds. Amendments to the law that came into force on August 31, 2004 extend the reporting obligation to real estate agents, lawyers and notaries, and to 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).

Various regulatory bodies ensure compliance with Russia's anti-money laundering and counterterrorism finance laws. 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 nongovernmental 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 (AML) 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. Banks must also adopt internal compliance rules and procedures and appoint compliance officers. The amendment to Law 115-FZ has required banks to identify the original source of funds and to report to the financial intelligence unit (FIU) all suspicious transactions since July 2004. 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.

All obligated financial institutions must monitor and report to the government: any transaction that equals or exceeds 600,000 rubles (approximately \$22,700) 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.

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 when conducting specific transactions. The CBR has also raised the standards for offshore financial institutions, resulting in a reduction in the number of such institutions. 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, as nominee or anonymous directors are prohibited under Russian law. 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 removing 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.

Article 8 of Law 115-FZ provides for the establishment of Russia’s FIU, called the Federal Service for Financial Monitoring (FSFM). FSFM is an independent executive agency administratively subordinated to the Ministry of Finance. All financial institutions with an obligation to report certain transactions must report the required information to the FSFM. The FSFM is also the regulator for the real estate and leasing, pawnshops, and gaming services sectors. An administrative unit, it has no law enforcement investigative powers. Depending on the nature of the activity, the FSFM provides information to the appropriate law enforcement authorities for further investigation, i.e., the Economic Crimes Unit of the Ministry of Interior (MVD) for criminal matters, the Federal Drug Control Service (FSKN) for narcotics-related activity, or the Federal Security Service (FSB) for terrorism-related cases.

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, comprised of twelve ministries and government departments. In addition to receiving, analyzing and disseminating information from the reporting entities, the FSFM has the responsibility of implementing the state policy to combat money laundering and terrorism financing. The Interagency Commission is chaired by the head of the FSFM and is responsible for monitoring and coordinating the government’s activity on money laundering and terrorism financing. FSFM authorities credit cooperation among Commission members for the conviction of 257 individuals on money laundering charges between January and June 2006.

Nearly 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 \$8 billion in the first three quarters of 2006. The FSFM receives approximately 30,000 transaction reports daily. Of these daily reports, 25 percent result from mandatory (currency) transaction reports, and 75 percent relate to 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 centers throughout Russia (St. Petersburg, Ekaterinburg, Nizhny Novgorod, Khabarovsk, Novosibirsk and Rostov-on-Don). The territorial offices coordinate with regional law enforcement and other authorities to enhance the 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, nonstate pension funds, gambling businesses, real estate agents, lawyers and notaries, persons rendering legal/accountancy services, and sellers of precious metals and jewelry.

During the first eight months of 2006, the FSFM carried out 2,700 financial investigations, referring 1,050 of them to law enforcement agencies for possible criminal investigations. According to the MVD, in the first half of 2006 Russian law enforcement investigated 6,300 cases of money laundering, sent 3,500 of the cases to court, and convicted 257 individuals on money laundering charges. Both the FSFM and MVD report that the number of suspicious transaction reports in 2006 has grown nearly ten-fold over the previous year, an increase which both agencies attribute to a greater focus government-wide on financial crimes and terrorism financing.

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 counter narcotics and economic crimes. This division cooperates closely with the FSFM in pursuing narcotics-related money laundering cases. From January through August 2006, the FSKN reportedly initiated 1,332 money laundering cases and referred over 340 of these cases to the General Procuracy for prosecution. 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. Through September 2006, the CBR revoked the licenses of 48 banks for failing to observe banking regulations. Of these, 25 banks lost their licenses for violating Russia's anti-money laundering laws. First Deputy Chairman Andrey Kozlov led the CBR's efforts to implement stronger anti-money laundering guidelines until his assassination in September 2006. He worked to implement the managerial and reporting requirements that made license revocation politically feasible, and had taken steps to prohibit individuals convicted of money laundering from serving in leadership positions in the banking community. This latter issue remains pending with the CBR. President Putin publicly committed to continuing Kozlov's work to preclude shadow economy groups from finding haven in the country's financial sector.

In October 2006, the Interior Ministry's Department for Economic Security reported that it had shut down a Georgian crime ring that had laundered as much as \$9 billion from April 2004 to January 2005 through as many as five Russian banks. The announcement stated that the FSFM's analysis and cooperation with law enforcement authorities in Germany, Austria, Latvia, Lithuania, and Israel provided sufficient information to freeze the crime ring's bank assets. According to Interior Ministry

representatives, two of the suspected banks' licenses had been revoked more than a year before the Department of Economic Security action.

Russian legislation provides for the tracking, seizure and forfeiture of criminal proceeds. None of this legislation is specifically tied to narcotics proceeds. Legislation provides for investigative techniques such as search, seizure, and the identification, freezing, seizing, and confiscation of funds or other assets. Authorities can also compel targets to produce documents. 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. The law allows the FSFM, in concert with banks, to freeze possible terrorist-related financial transactions for 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 transfer confiscated proceeds of crime to the foreign state whose court issued the confiscation order. However, Russian law still does not provide for the seizure of instruments of crime. Businesses can be seized only if it can be shown that they were acquired with criminal proceeds. Legitimate businesses cannot be seized solely on the basis that they were used to facilitate the commission of a crime.

The Presidential Administration as well as Russian law enforcement agencies have expressed concern about ineffective implementation of Russia's confiscation laws. The government has proposed amendments that are currently under review by the Duma (Parliament) 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. When this latter clause conflicted with existing domestic legislation, the Duma within the year approved an amendment to the anti-money laundering law, resolving the conflict and allowing banks to freeze assets immediately pursuant to UNSCR 1373. Article 205.1 of the criminal code, 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 (\$1.1 million) in support of federal counterterrorism programs and improvement of national security.

The FSFM reports that in regard to terrorism financing, it has compiled a list of 1,300 organizations and individuals suspected of financing terrorism, 400 of which were foreign. There are five sources of information that may designate entities for inclusion on the FSFM's list of proscribed organizations. International organizations' designations, such as the UN 1267 Sanctions Committee, constitute the first source. Second, Russian court decisions provide a basis for inclusion. Third, resolutions from the Prosecutor General can identify individuals and organizations for inclusion. Fourth, Ministry of Interior investigations serve as a basis for inclusion if subsequent court decisions do not dismiss the investigation's findings. Finally, bilateral agreements, which include information sharing regarding entities on the counterpart's entities list, may provide a basis for inclusion on the FSFM list. As of a year ago, the FSFM has uncovered 113 bank accounts related to organizations and individuals included on Russia's terrorist list.

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.

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 the United States. The FSFM has been an active member of the Egmont Group since June 2002, having sponsored candidate FIUs from the former Soviet republics, including current FIU members in Ukraine and Georgia. 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. This close cooperation between Russian and U.S. agencies has continued and strengthened in 2006.

Russia became a full member of the Financial Action Task Force in June 2003 and participates as an active member in two FATF-style regional bodies. It is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and was instrumental in the creation of the Eurasian Group on Combating Legalization of Proceeds from Crime and Terrorist Financing (EAG). The EAG Secretariat is located in Moscow. In December 2005, under the auspices of the EAG, the FSFM established the International Training and Methodological Center of Financial Monitoring (ITMCFM). The main function of the Center is to provide technical assistance to EAG member-states, primarily in the form of staff training for FIUs and other interested ministries and agencies involved in AML/CFT efforts. The ITMCFM also conducts research on AML/CFT issues. As Chairman of the EAG, Russia's FIU 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.

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, and ratified on May 9, 2006, the UN Convention against Corruption.

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. Given its role in the creation and maintenance of the EAG, Russia has also demonstrated the will and capability to improve the region's capacity for countering money laundering and terrorism financing.

Nevertheless, serious vulnerabilities remain. Russia is among the world's most sophisticated perpetrators of fraud and money laundering through electronic and internet-related means. To meet its 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, including making all offshore operations subject to the identical due diligence and reporting requirements as other sectors. 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. Additionally, Russia should work to increase the effectiveness of its confiscation laws and their implementation including enacting legislation providing for the seizure of instruments, in addition to 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. The MLPA has received 69 suspicious transaction reports as of September 2006. In 2003, Samoa established an independent and permanent Transnational Crime Unit (TCU) under the authority of the Ministry of the Prime Minister. 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." 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.” Reportedly, 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 “[i]f funds to be deposited or invested are being supplied by or on behalf of a third party, the identity of the third party (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 Samoa International Finance Authority, and the MLPA regulate the financial system. There are four locally incorporated commercial banks, supervised by the Central Bank. The Samoa International Finance Authority has responsibility for regulation and administration of the offshore sector. There are no casinos, but two local lotteries are in operation.

Samoa is an international offshore financial center, with six licensed international banks which have offices and employees. For entities registered or licensed under the various Offshore Finance Centre Acts, there are no currency or exchange controls or regulations, and no foreign exchange levies payable on foreign currency transactions. No income tax or other duties, nor any other direct or indirect tax or stamp duty is payable by registered/licensed entities. In addition to the six offshore banks, Samoa currently has 19,000 international business corporations (IBCs), three international insurance companies, six trustee companies, and 175 international trusts. Section 20 of the International Banking Act prohibits 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 International 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 information exchange requests. Samoa has reviewed 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, have prepared amendments to the Money Laundering Prevention Act of 2000 to strengthen and complement legislation that is being drafted or developed, including the Proceeds of Crime Bill, the Mutual Assistance in Criminal Matters Bill, the Extradition Amendment Bill and the Insurance Bill. These Bills are expected to be enacted in the first quarter of 2007.

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 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 assist a criminal in obtaining, concealing, retaining or investing funds, or to finance or facilitate the financing of terrorism.

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 international financial sector, principally the establishment of due diligence procedures for owners and directors of banks and the elimination of anonymous accounts. The Government of Samoa 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 has prepared the necessary changes to the Money Laundering Prevention Act to enable information exchange with overseas counterparts.

Samoa is a member of the Asia/Pacific Group on Money Laundering (APG) and the Pacific Island Forum. Samoa hosted the annual plenary of the Pacific Island Forum in August 2004. Samoa is a party to the 1988 UN Drug Convention. Samoa has not signed the UN Convention against Transnational Organized Crime.

The Asia Pacific Group on Money Laundering and the Offshore Group of Banking Supervisors (APG/OGBS) undertook a second Mutual Evaluation of Samoa's compliance with international standards in February 2006. The resulting Mutual Evaluation Report (MER) was adopted at the APG Annual Meeting in Manila, the Philippines in July 2006. The MER noted that the GOS has sought to remedy major deficiencies with only partial success. Major deficiencies were noted in the legal and regulatory systems of both the onshore and offshore sectors as well as with what appears to be lack of political will throughout the system. STRs have continuously declined in the past several years and none have been disseminated to the Police for investigation, with the result that there have been no prosecutions or convictions for money laundering. There are serious impediments to exchanging information domestically and internationally. In sum, Samoa's anti-money laundering/counterterrorist regime is not functioning. An offshore sector that enables the anonymous establishment of IBCs violates the fundamental principal of transparency that underlies all international standards. The Government of Samoa should take all necessary steps to establish a regime that comports with all international standards, to which it has committed to adhere by virtue of its membership in the APG. The GOS has stated that the main noncompliance issues raised in the MER will be addressed when the proposed pieces of legislation mentioned above are passed and enacted in early 2007. The Government of Samoa should become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Saudi Arabia

Saudi Arabia is a growing financial center in the Gulf Region of the Middle East. There is little money laundering in Saudi Arabia related to 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 Central Bank, the Saudi Arabian Monetary Agency (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 in Saudi Arabia are not primarily related to narcotics proceeds.

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 (STRs); 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; fund transfer systems be capable of detecting specially designated nationals; banks strictly adhere to SAMA circulars on opening accounts and dealing with charity and donation collection; and 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 (approximately \$26,670); and develop internal control systems and compliance systems. SAMA also issued “know your customer” guidelines, requiring banks to freeze accounts of customers who do not provide updated account information. Saudi law prohibits nonresident 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 the Saudi Arabia Financial Investigation Unit (SA FIU) under the oversight of the Ministry of Interior. Saudi banks are required to have anti-money laundering units with specialized staff to work with SAMA, the SA FIU, and law enforcement authorities. All banks are also required to report any suspicious transactions in the form of an STR to the SA FIU. The SA FIU collects and analyzes STRs and other available information and makes referrals to the Bureau of Investigation and Prosecution, the Mabathith (the Saudi Intelligence Service), and the Public Security Agency for further investigation and prosecution. The SA FIU is staffed by officers from the Mabathith and SAMA. In September 2006, the SA FIU had its final on-site review by FinCEN, one of the Egmont co-sponsors, for possible Egmont membership in 2007.

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 to create fast, efficient, high quality, and cost-effective fund transfer systems that have proven capable of attracting customers accustomed to using hawala. 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 more than \$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 has not issued new declaration forms, and therefore cannot enforce the current regulation.

Contributions to charities in Saudi Arabia usually consist of Zakat, which refers to an Islamic religious duty with specified humanitarian purposes. According to a 2002 report to the United Nations Security Council, over the past decade al-Qaida and other jihadist organizations collected between \$300 and \$500 million; and the majority of those funds originated from Saudi charities and private donors. The 9/11 Commission Report noted that the GOSA failed to adequately supervise Islamic charities in the country. To help address this problem, in 2002 Saudi Arabia announced its intention to establish the High Charities Commission to oversee Saudi charities with foreign operations. In 2004, the GOSA issued guidelines for the High Charities Commission (also known as the National Commission for Relief and Charitable Work Abroad). As of October 2006, GOSA has stated it is reviewing the role of the High Charities Commission and its relationship to Sharia law. The High Charities Commission has not been formally established, and the GOSA has made no further announcement of structure, leadership or staffing.

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 to track the operations of the charities. Banking rules implemented in 2003 that apply to all charities include stipulations which require charities to: only open accounts in Saudi Riyals; adhere to enhanced identification requirements; utilize one main consolidated account; and make payments only by checks payable to the first beneficiary and deposited in a Saudi bank. Regulations also forbid charities from using ATM and credit cards for charitable purposes, and making 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 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 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), a FATF-style regional body inaugurated in Bahrain in November 2004.

Saudi Arabia is working to implement 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 August 2006, the United Nations Security Council Resolution 1267 Sanctions Committee designated the International Islamic Relief Organization's (IIRO) branches in Indonesia and the Philippines, as well as the Kingdom's Eastern Province branch's Director, Abdulhamid Al-Mujil. Saudi Arabia is able to administratively freeze and seize terrorist assets. Saudi Arabia is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime.

The Government of Saudi Arabia is moving to monitor and enforce its anti-money laundering and terrorist finance laws, regulations and guidelines. However, Saudi Arabia should formally establish the High Commission for Charities. As with many countries in this region, there is still an over-reliance on suspicious transaction reporting to generate money laundering investigations. Law enforcement

agencies should take the initiative and proactively generate leads and investigations, and be able to follow the financial trails wherever they lead. Saudi Arabia'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. Charitable donations in the form of gold, precious stones and other gifts should be scrutinized. International charities should be made subject to the same government oversight as domestic charities, including the rules of both SAMA and the Charities Commission. Saudi Customs should issue cross-border currency declaration forms and enforce the reporting requirements. The GOSA should become a party to the UN International Convention for Suppression of the Financing of Terrorism.

Senegal

Senegal is vulnerable to money laundering. Reportedly, most money laundering involves domestically-generated proceeds from corruption and embezzlement. Dakar's hot real-estate market is largely financed by cash, and ownership of properties is nontransparent. The building boom and high property prices suggest that an increasing amount of funds with an uncertain origin circulates in Senegal. Other areas of concern include: cash, gold and gems transiting Senegal's airport and porous borders; real estate investment in the Petite Cote south of Dakar; and trade-based money laundering centered in the region of Touba, a largely autonomous and unregulated free-trade zone under the jurisdiction of the Mouride religious authority. This latter region reportedly receives between 550 and 800 million dollars per year in funds repatriated by networks of Senegalese vendors abroad. There is some evidence of increasing criminal activity by foreigners, such as drug trafficking by Latin American groups and illegal immigrant trafficking involving Pakistanis.

Seventeen commercial banks operate alongside a thriving micro-credit sector. Western Union, Money Gram and Money Express, associated with banks, are ubiquitous, suggesting that, while informal remittance systems exist, they are not a large threat to the business of the licensed remitters. The Central Bank of West African States (BCEAO), based in Dakar, is the Central Bank for the countries in the West African Economic and Monetary Union (WAEMU or UEMOA): Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal and Togo, all of which use the French-backed CFA franc (CFAF) currency, which is pegged to the euro. The Commission Bancaire, responsible for bank inspections, is based in Abidjan.

In 2004, Senegal became the first WAEMU country to enact the WAEMU Uniform Law on Money Laundering (the Uniform Law). The new legislation meets many international standards with respect to money laundering, but does not comply with all Financial Action Task Force (FATF) recommendations concerning politically-exposed persons, and lacks certain compliance provisions for nonfinancial institutions. The law does not deal with terrorist financing.

Senegal's Financial Intelligence Unit (FIU) became operational in August 2005. Since that date it has received 59 (11 in 2005 and 48 in 2006) suspicious declarations and has referred nine cases (three in 2005, six in 2006) to the Prosecutor General. All but two of the declarations have been made by banks. The other two came from Customs. Of the referrals, one concerns drug trafficking, one concerns diamond trafficking, one relates to tax fraud, and three are corruption related. No cases have concluded, although one arrest has been made. The FIU currently has a staff of 23, including six appointed members: the President of the FIU, who by law is chosen from the Ministry of Economy and Finance, and five others detailed from the Customs Service, the BCEAO, the Judicial Police, and the judiciary. The FIU also relies on liaison officers in relevant governmental institutions that can provide information relevant to the FIU's investigations. With French sponsorship, Senegal's FIU is a candidate for membership in the Egmont Group. Its candidacy is on hold pending the adoption of a terrorist financing law.

Official statistics regarding the prosecution of financial crimes are unavailable. There is one known conviction for money laundering since January 1, 2005. The conviction led to the confiscation of a private villa.

The BCEAO is working on a Directive against Terrorist Financing. If adopted, the member states would be directed to enact a law against terrorist financing, which most likely would be presented as a Uniform Law in the same manner as the AML law. Like the AML law, it is a penal law, and each national assembly must then enact enabling legislation to adopt the new terrorist finance law. In addition, the FATF-style regional body for the 15-member Economic Community of Western African States (ECOWAS), GIABA (African Anti-Money Laundering Inter-governmental Group) has drafted a uniform law, which it hopes to have enacted in all of its member states, not just the WAEMU states.

The UN 1267 Sanctions Committee consolidated list is circulated both by the FIU and by the BCEAO to commercial financial institutions. To date, no assets relating to terrorist entities have been identified. The WAEMU Council of Ministers issued a directive in September 2002 requiring banks to freeze assets of entities designated by the Sanctions Committee.

Senegal has entered into bilateral criminal mutual assistance agreements with France, Tunisia, Morocco, Mali, The Gambia, Guinea Bissau, and Cape Verde. Multilateral ECOWAS treaties deal with extradition and legal assistance. Under the Uniform Law, the FIU may share information freely with other FIUs in WAEMU. However, only Senegal and Niger have operational FIUs. The FIU has signed an MOU to exchange information with the FIUs of Belgium and Lebanon, and is working on other accords. In general, the Government of Senegal (GOS) has demonstrated its commitment and willingness to cooperate with United States law enforcement agencies. In the past the GOS has worked with INTERPOL, Spanish, and Italian authorities on international anticrime operations.

Senegal is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the 1999 UN International Convention for the Suppression of the Financing of Terrorism, and the Convention against Corruption. Senegal is listed as 70 out of 163 countries monitored in Transparency International's 2006 Corruption Perception Index.

Senegal has made considerable progress in establishing an operational FIU and raising the awareness of the threat of money laundering. However, a complicated political climate in advance of the 2007 elections, a generally nontransparent police and judiciary, and conflicting governmental interests in the banking sector threaten to retard any efforts to take this progress to the next level of actual prosecutions and convictions. Recent arrests of opposition politicians, journalists, and a corruption scandal that resulted in the early retirement, rather than prosecution, of the implicated judges, illustrate the weakness of the rule of law in Senegal.

The Government of Senegal should continue to work with its partners in WAEMU and ECOWAS to establish a comprehensive anti-money laundering and counterterrorist financing regime. Senegal should work on achieving transparency in its financial and real estate sectors. Senegal and the region should establish better control of cross-border currency transfers. Senegalese law enforcement and customs authorities should take the initiative to identify and investigate money laundering at the street level and informal economy. Senegal should pass an antiterrorist finance law.

Serbia

Serbia is not a regional financial center. At the crossroads of Europe and on the major trade corridor known as the "Balkan route," Serbia confronts narcotics trafficking, smuggling of persons, drugs, weapons and pirated goods, money laundering, and other criminal activities. Serbia continues to be a significant black market for smuggled goods. Illegal proceeds are generated from drug trafficking, official corruption, tax evasion and organized crime, as well as other types of crimes. Proceeds from

illegal activities are invested in all forms of real estate. Trade-based money laundering, in the form of over- and under-invoicing, is commonly used to launder money.

A significant volume of money flows to Cyprus, reportedly as the payment for goods and services. The records maintained by various government entities vary significantly on the volume and value of imports from Cyprus. According to official statistics from the National Bank of Serbia, over \$1 billion in payments in 2005, coded as being for goods and services, rank Cyprus among the top five exporters of goods or services to Serbia. The Serbian Statistical Office reflected imports from Cyprus of roughly \$40 million in 2005. According to Government of the Republic of Serbia (GOS) officials, much of the difference is due to payments made to accounts in Cyprus for goods, such as Russian oil, that actually originate in a third jurisdiction.

Serbia's banking sector is more than 80 percent foreign-owned. There is no provision in the banking law that allows the establishment of offshore banks, shell companies or trusts. Reportedly, there is no evidence of any alternative remittance systems operating in the country. Nor, reportedly, is there evidence of financial institutions engaging in currency transactions involving international narcotics trafficking proceeds. Serbia has 14 designated free trade zones, three of which are in operation. The free trade zones were established to attract investment by providing tax-free areas to companies operating within them. These companies are subject to the same supervision as other businesses in the country.

As the result of a public referendum on May 21, 2006, the State Union of Serbia and Montenegro (SAM) was dissolved and Montenegro became an independent country. The GOS became the legacy member of the Council of Europe and the United Nations. As a result, all treaties and agreements signed by the State Union are now applicable to Serbia, including the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The GOS is a party to all 12 UN Conventions and Protocols dealing with terrorism, including the UN International Convention for the Suppression of the Financing of Terrorism, although domestic implementation procedures do not provide the framework for full application. In December 2005, the GOS ratified the UN Convention against Corruption.

In September 2005, Serbia codified an expanded definition of money laundering in the Penal Code. This legislation gives police and prosecutors more flexibility to pursue money laundering charges, as the law broadens the scope of money laundering and aims to conform to international standards. The penalty for money laundering is a maximum of 10 years imprisonment. Under this law and attendant procedure, money laundering falls into the serious crime category and permits the use of Mutual Legal Assistance (MLA) procedures to obtain information from abroad.

On November 28, 2005, Serbia adopted a revised anti-money laundering law (AMLL), replacing the July 2002 Law on the Prevention of Money Laundering. The revised AMLL expands the number of entities required to collect certain information on all cash transactions over EUR 15,000 (approx. \$19,500), or the dinar equivalent, and to file currency transaction reports (CTRs) for all such transactions exceeding this threshold to the financial intelligence unit (FIU). Suspicious transactions in any amount must be reported to the FIU. The law expands those sectors subject to reporting and record keeping requirements, adding attorneys, auditors, tax advisors and bank accountants, currency exchanges, insurance companies, casinos, securities brokers, dealers in high value goods and travel agents to those already required to comply with the AMLL provisions. Required records must be maintained for five years. These entities are protected with respect to their cooperation with law enforcement entities. The AMLL requires obligated entities and individuals to monitor customers' accounts when they have a suspicion of money laundering, in addition to reporting to the FIU. The AMLL also eliminates a previous provision limiting prosecution to crimes committed within Serbian territory. Significant improvement has been noted in financial institution compliance, i.e., gathering

and keeping records on customers and transactions. The flow of information to the FIU has been steadily increasing, but not all entities are yet subject to implementing bylaws.

The Law on Foreign Exchange Operations, adopted in 2006, criminalizes the use of false or inflated invoices or documents to effect the transfer of funds out of the country. This law was enacted in part to counter the perceived problem of import-export fraud and money laundering. According to the law, residents and nonresidents are obliged to declare to Customs authorities all currency (foreign or dinars), or securities in amounts exceeding EUR 5,000 being transported across the border.

The National Bank of Serbia (NBS) has supervisory authority over banks, currency exchanges, insurance and leasing companies. The NBS has issued regulations requiring banks to have compliance and know-your-customer (KYC) programs in place and to identify the beneficial owners of new accounts. In June 2006, the NBS expanded its customer identification and record keeping rules by adopting new regulations mandating enhanced due diligence procedures for certain high risk customers and politically exposed persons. Similar regulations are being developed for insurance companies. The Law on Banks includes a provision allowing the NBS to revoke a bank's license for activities related to, among other things, money laundering and terrorist financing. To date, the NBS has not used this revocation authority. The legal framework is in place, but the NBS currently lacks the expertise needed for effective bank supervision. It is building these capacities through training and staff development.

The Securities Commission (SC) supervises broker-dealers and investment funds. The Law on Investment Funds and the Law on Securities and Other Financial Instruments Market provide the SC with the authority to "examine" the source of investment capital during licensing procedures. The SC is also charged with monitoring its obligors' compliance with the AML Laws. Regulations to implement this authority are being developed.

The Administration for the Prevention of Money Laundering serves as Serbia's FIU. The revised AMLL elevates the status of the FIU to that of an administrative body under the Ministry of Finance from its previous status as a "sector" in that Ministry. This provides more autonomy for the agency to carry out its mandate, as well as additional resources. One important change is that the FIU now has its own line item operating budget. The FIU currently has 24 employees. In accordance with the revised AMLL, the FIU developed listings of suspicious activity red flags for banks, currency exchange offices, insurance companies, securities brokers and leasing companies. Other significant changes include the authority of the FIU to freeze transactions for a maximum of 72 hours. The FIU has signed memoranda of understanding (MOU) on the exchange of information with the NBS and Customs and is negotiating one with the Tax Administration.

The FIU received 279 suspicious transaction reports (STRs) in 2005 and 361 through September 1, 2006. Virtually all of the STRs received by the FIU have been filed by commercial banks. Currency exchange offices have filed only seven STRs since 2003, and none in either 2005 or 2006. Since its inception in 2003, the FIU has opened 240 cases, 74 based on the STRs it received and 166 based on CTRs or referrals from other entities; 103 cases were referred to either law enforcement or the prosecutor's office for further investigation. Since 2004, authorities filed 41 criminal charges against 48 persons for money laundering violations. The most common predicate crime is "abuse of office". Of this number, eighteen are currently under investigation, six were dismissed or terminated; fourteen were indicted; and two court decisions have been reached to date. One person has been acquitted and the other was convicted, but has appealed the verdict.

Serbia introduced a value-added tax (VAT) in 2005, and the full impact of refund fraud associated with the administration of the VAT is still not clear. Serbia's Tax Administration lacks the audit and investigative capacity or resources to adequately investigate the large number of suspicious transactions that are forwarded by Serbia's FIU. In addition, current tax law sets a low threshold for auditing purposes and has increased the burden on the Tax Administration. 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.

The difficulty of convicting a suspect of money laundering without a conviction for the predicate crime 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. The Suppression of Organized Crime Service (SOCS) of the Ministry of Interior houses a new Anti-Money Laundering Section to better focus financial investigations.

In August 2005, the GOS established the Permanent Coordinating Group (PCG), an interagency working group originally tasked with developing an implementation plan for the recommendations from MONEYVAL's first-round evaluation in October 2003. A subgroup was 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 reporting to the FIU of transactions suspected to be terrorist financing. The PCG meets intermittently as required for completing specific tasks. The government still needs better interagency coordination to improve information sharing, record keeping and statistics.

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. The FIU is charged with enforcing the UNSCR 1267 provisions regarding suspected terrorist lists. A draft law on terrorist financing, now pending Parliamentary approval, will apply all provisions of the AML laws to terrorist financing and will implement a freezing mechanism based on UNSCR provisions. Although the FIU routinely provides the UN list of suspected terrorist organizations to the banking community, examination for suspect accounts have revealed no evidence of terrorist financing within the banking system and no evidence of alternative remittance systems. The SOCS, the Special Anti-Terrorist Unit (SAJ), and Gendarmerie, in the Ministry of Interior, are the law enforcement bodies responsible for planning and conducting the most complex antiterrorism operations. SOCS cooperates and shares information with its counterpart agencies in all of the countries bordering Serbia. Although Serbia has criminalized the financing of terrorism, the freezing, seizing and confiscation of assets of terrorists in accordance with UN Security Council resolutions still lacks a legal basis, pending enactment of the Anti-terrorism Finance legislation.

Serbia has no laws governing its cooperation with other governments related to narcotics, terrorism, or terrorist financing. Bases for cooperation include 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.

Serbia does not have a mutual legal assistance arrangement with the United States, but information exchange via a letter rogatory is standard. The 1902 extradition treaty between the Kingdom of Serbia and the United States remains in force. The GOS has bilateral agreements on mutual legal assistance with 31 countries. As a member of the Council of Europe, the GOS is an active member of the Council's MONEYVAL. In July 2003, the FIU became a member of the Egmont Group and actively participates in information exchanges with counterpart FIUs including FinCEN. The Serbian FIU has also signed information sharing memoranda of understanding (MOUs) with Macedonia, Romania, Belgium, Slovenia, Montenegro, Albania, Georgia, Ukraine, Bulgaria, Croatia, and Bosnia and Herzegovina.

Serbia should continue to work toward eliminating the abuses of office and culture of corruption that enables money laundering and financial crimes. Among the pending legal infrastructure necessary for Serbia to be fully compliant with international standards are laws providing for the liability of legal persons for money laundering and terrorist financing; regulations to apply all requirements of the

Revised AML Law to covered nonbank financial institutions; legislation to establish a robust asset seizure and forfeiture regime; and legislation providing for the sharing of seized assets. Serbia also needs to enact and implement proposed legislation needed to comply with UN Security Council resolutions regarding the freezing, seizing and confiscation of suspected terrorist assets and require suspicions of terrorist financing to be reported to the FIU.

The National Bank and other supervisory bodies need training and additional staff. The GOS should enforce regulations pertaining to money service businesses and obligated nonfinancial business and professions. The supervisory scheme should be completed, and implementing regulations should be binding, for the insurance and securities sectors. On an operational level, law enforcement needs audit and investigative capacity in order to investigate the STRs that the FIU disseminates. Training is also required for prosecutors and judges. Rather than address specific tasks as an ad hoc group, the PCG should meet on a regular basis to discuss issues and projects, and work to improve interagency coordination in such areas as information sharing, record keeping and statistics.

Seychelles

Seychelles is a not a major financial center. The existence of a developed offshore financial sector, however, makes the country vulnerable to money laundering. The Government of Seychelles (GOS), in efforts to diversify its economy beyond tourism, developed an offshore financial sector to increase foreign exchange earnings and actively markets itself as an offshore financial and business center that allows the registration of nonresident companies. As of September 2006, there were 31,000 registered international business companies (IBCs) and 157 trusts that pay no taxes in Seychelles, and are not subject to foreign exchange controls. The Seychelles International Business Authority (SIBA), a body with board members from both the government and the private sector, licenses and regulates offshore activities. The SIBA acts as the central agency for the registration for IBCs and trusts and regulates activities of the Seychelles International Trade Zone.

In addition to IBCs and trusts, Seychelles permits offshore insurance companies, mutual funds, and offshore banking. The GOS is currently in the process of establishing the Non-Bank Financial Services Authority, which will be responsible for regulating these sectors under the Mutual Funds Act, the Securities Act, and the Insurance Act. Three offshore insurance companies have been licensed: one for captive insurance and two for general insurance. Seychelles has one offshore bank to date: the Barclays Bank (Offshore Unit). The International Corporate Service Providers Act 2003, designed to regulate all activities of corporate and trustee service providers, entered into force in 2004.

In 1996, the GOS enacted the Anti-Money Laundering Act (AMLA), which criminalized the laundering of funds from all serious crimes, required covered financial institutions and individuals to report to the Central Bank transactions involving suspected cases of money laundering, and established safe harbor protection for individuals and institutions filing such reports. The AMLA also imposed record keeping and customer identification requirements for financial institutions, and provided for the forfeiture of the proceeds of crime. In October 2004, the International Monetary Fund (IMF) released a report on its 2002 financial sector assessment of the Seychelles. The IMF report noted deficiencies in the AMLA and practice, and recommended closing existing loopholes as well as updating the AMLA to reflect current international standards and best practices.

In May 2006, the Anti-Money Laundering Act 2006 came into force. This new legislation replaces the AMLA of 1996 and addresses many of the deficiencies cited by the IMF report. Under the new AMLA, money laundering controls, including the obligation to submit suspicious transaction reports (STRs), are applied to the same financial intermediaries as under the 1996 law, as well as nonbanking financial institutions, including exchange houses, stock brokerages, insurance agencies, lawyers, notaries, accountants, and estate agents. Offshore banks are also explicitly covered. Gaming operations, including internet gaming, are also obligated, but the law does not state explicitly that

offshore gaming is covered in an identical manner. Currently, no offshore casinos or Internet gaming sites have been licensed to operate. There is no cross-border currency reporting requirement. The 2006 AMLA discusses record-keeping and institutional protocol requirements, sets a maximum delay of two working days to file a suspicious transaction report, criminalizes tipping off, and sets safe harbor provisions. The new law also requires the identification of beneficial owners, but leaves open exceptions for “an existing and regular business relationship with a person who has already produced satisfactory evidence of identity”; for “an occasional transaction under R50,000” (\$9,200); and in other cases “as may be prescribed”.

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. Money laundering is sanctioned by imprisonment for up to fifteen years and/or R3,000,000 (\$554,500) in penalties. While there have been about thirty investigations, there have been no arrests or prosecutions for money laundering or terrorist financing since January 1, 2003. This is problematic.

The Financial Institutions Act of 2004, imposes more stringent rules on banking operations. The law, which was drafted in consultation with the International Monetary Fund, aims to ensure 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 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.

The Central Bank of the Seychelles has been acting as the financial intelligence unit (FIU) for the Seychelles in that it receives and analyzes suspicious activity reports and disseminates them to the competent authorities. It cannot freeze or confiscate property, but can get a court order to effect an asset freeze. The courts have the authority to freeze or confiscate money or property. Section 16 of the 2006 AMLA provides for the creation of an FIU within the Central Bank. This FIU will receive reports, have access to information in public or governmental databases and may request information from reporting entities, supervisory bodies and law enforcement agencies. The FIU will analyze the information and disseminate information to the appropriate entities if the FIU deduces that there is unlawful activity. The law provides for the FIU to have a proactive targeting section that will research trends and developments in not only money laundering, but also terrorism financing. The FIU will also perform examinations of the reporting entities and, in concert with regulators, issue guidance related to customer identification, identification of suspicious transactions, and record keeping and reporting obligations. The law provides for the possibility that the FIU would in the future perform training related to these matters. Authorities are also discussing the establishment of an AML interagency Task Force that would incorporate the FIU, Police, Customs, Immigration, and Internal Affairs.

Judges in the Supreme Court have the authority to restrain a target from moving or disposing of his or her assets, and will do so if a law enforcement officer requests it, provided that the Court is “satisfied that there are reasonable grounds” for doing so. The Court also has the authority to determine the length of time for the restraint order and the disposition of assets, should it become necessary. Should the target violate the order, he or she becomes subject to financial penalties. Law enforcement may seize property subject to this order to prevent property from being disposed of or moved contrary to the order. The Court also is authorized to order the forfeiture of assets.

In 2004, the GOS enacted the Prevention of Terrorism Bill. The legislation specifically recognizes the government’s authority to identify, freeze, and seize terrorist finance-related assets. The 2006 AMLA

also makes the legal requirements applicable to money laundering applicable to suspected terrorist financing transactions. 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 support other 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. The Prevention of Terrorism Act 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. Seychelles underwent a mutual evaluation review conducted by ESAAMLG in November 2006. The Seychelles 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. 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 prohibiting bearer shares and clarifying the new legislation regarding the complete identification of beneficial owners. Seychelles should also clarify the legislation to state explicitly that all offshore activity is covered in the same manner and to the same degree as onshore. Seychelles should continue to work towards the establishment of its FIU, ensuring that it develops with a degree of independence and autonomy from its parent agency, the Central Bank. The GOS should also consider codifying the ability to freeze assets rather than issuing restraining orders, and develop a currency reporting requirement for entry into its borders. Seychelles should continue to participate in ESAAMLG, and when the mutual evaluation report is finalized, work to address any further deficiencies outlined therein.

Sierra Leone

Sierra Leone has a cash-based economy and is not a regional financial center. Government of Sierra Leone (GOSL) officials have reportedly stated that money laundering activities are pervasive, particularly in the diamond sector. Although there have been some attempts at tighter regulation, monitoring, and enforcement, in some areas significant diamond smuggling still exists. Loose oversight of financial institutions, weak regulations, pervasive corruption, and a widespread informal money-exchange and remittance system also work to create an atmosphere conducive to money laundering.

The President signed the Anti-Money Laundering Act (AMLA) in July 2005. The AMLA incorporates international standards, including setting safe harbor provisions, know your customer and identification of beneficial owner requirements, as well as mandatory five-year record-keeping. There is a currency reporting requirement for deposits larger than 25 million leones (approximately \$8,330) and no minimum for suspicious transaction reporting. The law requires that international financial transfers over \$10,000 go through formal financial institution channels. The AMLA calls for cross-border currency reporting requirements for cash or securities in excess of \$10,000. The law designates the Governor of the Bank of Sierra Leone as the national Anti-Money Laundering Authority.

The AMLA applies to Sierra Leone's financial sector institutions such as depository and credit institutions, money transmission and remittance service centers, insurance brokers, investment banks and businesses including securities and stock brokerage houses, and currency exchange houses.

Designated nonfinancial businesses and professions such as casinos, realtors, dealers in precious metals and stones, notaries, legal practitioners, and accountants are also included.

A financial intelligence unit (FIU) exists but lacks the capacity to effectively monitor and regulate financial institution operations. Law enforcement and customs have limited resources and lack training. There have reportedly been a small number of arrests under the AMLA but no convictions due to lack of capacity by police investigators and judicial authorities.

The AMLA empowers the courts to freeze assets for seventy-two hours if a suspect has been charged with money laundering or if a charge is imminent. Upon a conviction for money laundering, all property is treated as illicit proceeds and can be forfeited unless the defendant can prove that possession of some or all of the property was obtained through legal means. The AMLA also provides for mutual assistance and international cooperation.

In July 2006, the Bank of Sierra Leone hosted a United Nations Office on Drugs and Crime and Group for Action Against Money Laundering (GIABA)-sponsored training workshop on strategy development for anti-money laundering and combating financing of terrorism. Workshop participants recommended that the Bank of Sierra Leone draft a national strategy and regulations for the operations of the FIU, establish a system for the receipt, analysis, and dissemination of financial disclosures, and develop a formal system to report suspicious financial transactions to the FIU.

Workshop participants also recommended creating a special unit comprised of two staff from the police's organized crime unit and two from the counterterrorism unit to deal with issues pertaining to anti-money laundering issues. They also recommended creating protocols to improve the exchange of information between government offices, including the Attorney General's Office, Police, National Revenue Authority, and Anti-Corruption Commission.

Sierra Leone is member of GIABA. It 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 Transnational Organized Crime. Sierra Leone is a party to the UN Convention against Corruption. Sierra Leone is listed 148 of 162 countries monitored in Transparency International's 2006 Corruption Perception Index.

Although the Government of Sierra Leone has passed anti-money laundering legislation, it remains to be effectively implemented or harmonized with other legislation relating to anti-money laundering and combating financing of terrorism, including the Anti-Corruption Act, National Drug Control Act, and Anti-Terrorism Act. The GOSL should ensure its antiterrorist finance countermeasures adhere to world standards, including the regular distribution to financial institutions of the UNSCR 1267 Sanctions Committee's consolidated list. The GOSL must increase the level of awareness of money laundering issues and allocate the necessary human, technical, and financial resources. Sierra Leone should continue its efforts to counter the smuggling of diamonds. Sierra Leone should take steps to combat corruption at all levels of commerce and government. It needs to 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, transnational criminals, terrorist organizations and their supporters seeking to launder money, as well as for flight capital.

Structural gaps remain in financial regulation that may hamper efforts to control these crimes. To address some of these deficiencies, Singapore is beginning to map out legal and regulatory changes to

implement the Financial Action Task Force's (FATF) revised recommendations on anti-money laundering (AML) and countering the financing of terrorism (CFT).

Singapore amended the Corruption, Drug Trafficking, and Other Serious Crimes (Confiscation of Benefits) Act (CDSA) in May 2006 to add 108 new categories to its "Schedule of Serious Offenses." The CDSA criminalizes the laundering of proceeds from narcotics transactions and other predicate offenses, including ones committed overseas that would be serious offenses if they had been committed in Singapore. Included among the new offenses are crimes associated with terrorist financing, illicit arms trafficking, counterfeiting and piracy of products, environmental crime, computer crime, insider trading, and rigging in commodities and securities markets. With an eye on Singapore's two new multibillion-dollar casinos slated to be operational in 2009, the list also addresses a number of gambling-related crimes. However, tax and fiscal offenses are still absent from the expanded list.

Singapore has a sizeable offshore financial sector. As of September 2006, there were 109 commercial banks in operation, including five local and 24 foreign-owned full banks, 45 offshore banks, and 35 wholesale banks. All offshore and wholesale banks are 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 Prime Minister's Office, serves as Singapore's central bank and financial sector regulator, particularly with respect to Singapore's AML/CFT efforts. MAS performs extensive prudential and regulatory checks on all applications for banking licenses, including whether banks are under adequate home country banking supervision. Banks must have clearly identified directors. Unlicensed banking transactions are illegal.

Singapore has increasingly become a center for offshore private banking and asset management. Total assets under management in Singapore grew 26 percent between 2004 and 2005 to \$450 billion, according to MAS. Private wealth managers estimate that total private banking and asset management funds increased nearly 300 percent between 1998 and 2004.

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 births 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, futures brokers and advisors, trust companies, approved trustees, and money changers and remitters.

Singapore is in the process of revising its AML/CFT regulations for banks and other financial institutions. The relevant Notices should further align certain parts of Singapore's AML/CFT regime more closely with FATF recommendations. Among the proposed regulations are new provisions that would proscribe banks from entering into, or continuing, correspondent banking relationships with shell banks; require originator information on cross-border wire transfers; clarify procedures for customer due diligence (CDD), including adoption of a risk-based approach; and mandate enhanced CDD for foreign politically exposed persons. Terrorist financing activities will also be addressed in the Notices for the first time. As part of this process, MAS issued for public comments draft regulations for banks in January 2005. In August 2006, it issued for public comments revised draft regulations for banks and new draft regulations for other financial institutions. Singapore is also

considering regulations governing designated nonfinancial businesses and professions to bring them into conformity with FATF recommendations.

In addition to banks that offer trust, nominee, and fiduciary accounts, Singapore has 12 trust companies. All banks and trust companies, whether domestic or offshore, are subject to the same regulation, record-keeping, and reporting requirements, including for 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 August 2006, MAS issued for public comments draft regulations that would require approved trustees and trust companies to complete all mandated CDD procedures before they could establish relations with customers. Other financial institutions are allowed to establish relations with customers before completing all CDD-related measures.

Singapore amended its Moneylenders Act in April 2006 to require moneylenders under investigation to provide relevant information or documents. The Act imposes new penalties for giving false or misleading information and for obstructing entry and inspection of suspected premises.

In April 2005, Singapore lifted its ban on casinos, paving the way for development of two integrated resorts scheduled to open in 2009. Combined total investment in the resorts is estimated to exceed \$5 billion. In June 2006, Singapore implemented the Casino Control Act. The Act establishes the Casino Regulatory Authority of Singapore, which will administer the system of controls and procedures for casino operators, including 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 legal changes that would allow for 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. Procedural regulations and bank secrecy laws limit STRO's ability to provide information relating to financial crimes. 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, Brazil, Canada, Greece, Hong Kong, Italy, Japan and Mexico. To improve its suspicious transaction reporting, STRO has developed 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 participate in this system.

Singapore is an important participant in the regional effort to stop terrorist financing in Southeast Asia. The Terrorism (Suppression of Financing) Act 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.

The International Monetary Fund/World Bank assessment of Singapore's financial sector published in April 2004 concluded that, because it is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the country imposes few restrictions on intergovernmental terrorist financing-related mutual legal assistance even in the absence of a Mutual Legal Assistance Treaty. However, the IMF urged Singapore to improve its mutual legal assistance for other offenses, noting serious limitations on assistance through the provision of bank records, search and seizure of evidence, restraints on the proceeds of crime, and the enforcement of foreign confiscation orders.

Based on regulations issued in 2002, MAS has broad powers to direct financial institutions to comply with international obligations related to terrorist financing obligations. 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 are periodically updated to include 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 September 2006, there were 395 money-changers and 95 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 provide information concerning 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). In August 2006, MAS issued for public comments draft regulations that would require licensees to establish the identity of all customers; currently, no such identification is mandatory for transactions in aggregate of up to S\$5,000 (approximately US\$3,000). MAS would also be required to approve any non face-to-face transactions.

Singapore has five free trade zones (FTZs), four for seaborne cargo and one for airfreight, regulated under the Free Trade Zone Act. The FTZs may be used for storage, repackaging of import and 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 1,807 registered charities as of December 2005. All charities must register with the Commissioner of Charities which, since September 1, 2006, has reported to the Minister for Community Development, Youth and Sports instead of the Minister for Finance. Charities must submit governing documents outlining their objectives and particulars of 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 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, effective 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 that 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, amounts transferred to persons outside Singapore, and names of recipients. The government issued 36 permits in 2005 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. Parliament amended the MACMA in February 2006 to allow the government to respond to requests for assistance even in the absence of a bilateral treaty, MOU or other agreement with Singapore. The MACMA provides for international cooperation on any of the 292 predicate “serious offenses” listed under the CDSA. 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 (Drug Designation Agreement or DDA). This was the first agreement concluded pursuant to the MACMA. The DDA, which came 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 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 mutual legal assistance agreements with Hong Kong in 2003 and with India in 2005. Singapore is a party to the ASEAN Treaty on Mutual Legal Assistance in Criminal Matters along with Malaysia, Vietnam, Brunei, Cambodia, Indonesia, Laos, the Philippines, Thailand, and Burma. The treaty will come into effect after ratification by the respective governments. Singapore, Malaysia, Vietnam and Brunei have ratified thus far.

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 adopt measures to regulate and monitor large currency and bearer negotiable instrument movements into and out of the country, in line with 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. Singapore should add tax and fiscal offenses to its schedule of serious offenses.

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. Singapore should lift its rigid bank secrecy restrictions to enhance its law enforcement cooperation in areas such as information sharing and to conform to international standards and best practices.

Slovak Republic

Slovakia is not 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, mineral oils, and people. 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.

In response to these problems, Slovakia has gradually strengthened the financial provisions of its criminal and civil codes through a series of amendments since 2000, which have resulted in an increased number of money laundering prosecutions. In 2006 a new Confiscation Law came into effect, strengthening the government's ability to seize assets gained through criminal activity. However, international monitors have suggested that the new law still contains significant loopholes. Despite a slight decline in staff resources, Slovakia's financial intelligence unit (FIU) and regional financial police have continued to increase filings, inspections, and the number of cases forwarded for prosecution.

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, all banks in Slovakia were ordered to stop offering 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 account holder for another five years. As of January 1, 2007, bearer passbook accounts will cease to exist.

Act No. 367/2000, On Protection against the Legalization of Proceeds from Criminal Activities, which came into force in January 2001, 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. However, the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) sent a team to

perform a third-round mutual evaluation in May 2005; the resulting September 2006 Mutual Evaluation Report (MER) called for guidelines for each sector, noting that some sectors, such as gaming, do not have an understanding of what “unusual” is for that sector. The National Bank of Slovakia (NBS) or the Financial Market Authority (FMA), in addition to the Financial Police, have supervisory authority over the various financial institutions.

Act No. 367/2000 also expands the list of entities subject to reporting requirements to include foreign bank subsidiaries, the Slovak Export-Import Bank, nonbank 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. The 2005 MONEYVAL MER stated that there was generally no reporting on the part of the designated nonfinancial business and professions (DNFBP), and that casinos and exchange houses had not reported at all. The Slovakian FIU estimated that out of approximately 100,000 obliged entities, only the banks and insurance companies have reported regularly, and the securities sector has produced a small number of reports. It is unclear whether the reporting obligations are understood by all the covered entities. Non profit organizations are generally exempt from reporting requirements.

As recommended in 2001 by a previous MONEYVAL (then called PC-R-EV) team 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.” However, the recent MONEYVAL MER noted that there was no apparent national strategy and an absence of leadership in the overall national fight against money laundering and terrorist financing.

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 approximately \$19,000 within a 12-month period is involved. Insurance sellers must identify all clients whose premium exceeds approximately \$1,200 in a year or whose one-time premium exceeds approximately \$3,200. 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.

As a result of these modifications, money laundering convictions under Article 252 of the Criminal Code have increased gradually in recent years, with 33 confirmed cases between 2002-2005. Detailed statistics on money laundering convictions are not available, but, according to the financial police, auto theft is the most commonly prosecuted money laundering offense. There were no autonomous cases of money laundering convictions, since the FIU and regional financial police tend to forward for prosecution money laundering cases that are tied with broader organized crime activities. Corporate liability for money laundering is still inapplicable in Slovakia.

Slovak law is less than effective regarding the beneficial ownership of legal persons. The 2005 MONEYVAL MER stated that “Slovakian law does not require adequate transparency concerning beneficial ownership and control of legal persons.” The law does not mandate identification on the Commercial Register for beneficial owners of a company purchasing or holding shares in another registered company, and information is unavailable for foreign companies registered in Slovakia.

According to the MER, corporate liability is inapplicable under Slovakian law. There is no broad requirement to give any special attention to business relationships or transactions with legal or actual persons from countries not applying, or insufficiently applying, the FATF recommendations.

Spravodasjaká Jednotka Financnej Policie, was established on November 1, 1996, as a law enforcement style financial intelligence unit within the Police. Under a 2005 police reorganization, the FIU, which had been a department within the Financial Police, was downgraded to one of eight divisions of the Bureau of Organized Crime. As a result, it is no longer headed at the director level, and has seen its numbers of staff decrease. The MONEYVAL team questioned the degree of autonomy and operational independence of the FIU since the change.

The FIU, or the Office to Fight Organized Crime (OFOC), 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), and four substantive units: the unusual business transactions unit, the obliged entities supervision unit, the unit for international cooperation and the unit for property checks. 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. All supervisory authorities must inform the FIU of any violation immediately upon discovery. 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 for 48 hours; however, the decision to delay transactions comes at the discretion of the financial institution and authorities acknowledge that transactions are rarely delayed. The FIU can also submit the case to the state prosecutor's office for investigation and prosecution. The MONEYVAL team found that the FIU's powers and duties were not clearly defined in legislation and not made distinct from other police powers and duties.

In 2005, the FIU received 1,273 reports alleging unusual financial transactions worth \$341 million. It submitted 16 proposals for criminal prosecution (including six from previous years) with a value of \$612 million and 341 proposals for tax prosecution (including 137 from previous years). In addition, the Financial Police regional units submitted 159 proposals for criminal prosecutions. In 2005, the OFOC conducted or started 97 on-site inspections of "obliged persons" and levied penalties in 36 cases with a total value of \$143,000. Most criminal prosecution cases involved credit fraud. Most tax prosecution and on-site inspections uncovered abuse of Slovakia's value added tax system by local business owners.

Through the first ten months of 2006, the FIU received 1,158 reports with a total value of \$315,000. Eight of these cases were submitted for prosecution, plus two outstanding cases from 2005. Financial Police regional units have submitted a further 177 cases for prosecution. A growing number of these cases involve organized groups transferring funds from neighboring countries (primarily Ukraine and Hungary) to Slovakia. The OFOC has carried out 68 on-site inspections during this timeframe, resulting in fines with a total value of \$45,000.

The OFOC also has a supervisory role. Under section 10 of the AML law, the FIU has supervisory duty over the implementation of AML measures in financial institutions, and to this end, inspects these institutions. It also has sole supervisory authority over designated nonfinancial covered entities. The FIU has six officers in this unit, exercising supervisory responsibility over 100,000 institutions.

The Public Prosecutor Service is independent from executive power and supervises criminal prosecution measures performed by police and investigators. According to the MONEYVAL team, there is some cooperation and coordination taking place at the working level, but overall, this is a weakness in Slovakia's AML regime. The team also concluded that law enforcement is empowered,

but needs more training, as well as policy and practical guidance, to ensure proactive financial investigations as well as to generate more cases and obtain convictions and confiscation orders.

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. To clarify ambiguities related to *inter alia* seizure and confiscation of proceeds, Slovakia amended both the Criminal Procedure Code and the Criminal Code in late 2005. The new law provides for mandatory forfeiture of proceeds of crime. It does not, however, allow for forfeiture from third party beneficiaries, and there are some concerns about the legal structure of the asset freezing and seizure regime to ensure that all indirect proceeds may be liable for confiscation. Shortly after the law entered into force on January 1, 2006, police officers involved with criminal investigations, as well as prosecutors and judges, were trained in substantive provisions of the new laws. The new laws also provides for specific sentencing guidelines for crimes, including 2-20 years for legalization of proceeds from criminal activity, and 2-8 years for not reporting unusual business transactions by obliged persons. No criminal prosecutions under the new law have been completed as of yet, though several have been forwarded by the FIU this year.

The Public Prosecutor Service also provides orders for the seizure of accounts within the pre-trial proceedings stage, and can order the use of information technology for enhanced investigations under Criminal Procedure Code Articles 79c, 88 and 88e. There is also a Special Prosecutor Office and a Special Court, established by Act 258/2003 and which began operations on September 1, 2004. Act 258/2003 amends the Criminal Procedure Code to give this new Special Prosecutor jurisdiction over public officials, but also over the general public, for corruption; establishing, plotting, and supporting criminal and terrorist groups; extremely serious criminal offenses including those committed with a terrorist group; and economic criminal offense in excess of a designated threshold. Some money laundering cases have met these parameters and have been adjudicated by the Special Prosecutor's Office.

On June 23, 2005, Parliament approved the Law on Proving the Origin of Property, which came into force on September 1, 2005. According to the law, an undocumented increase in property exceeding an amount 200 times the minimum monthly wage would be scrutinized and could be considered illegal. Anyone who has suspicions that property that may have been acquired illegally may report it to the police. The police 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. Despite its approval, the new law was still controversial, and its implementation was frozen by the Constitutional Courts on October 6, 2005. The Constitutional Court has not yet taken a final decision on this law.

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. However, the reporting obligation with respect to terrorist financing is not sufficiently clear in the law. In addition, covered institutions have not received any guidance and no reports involving terrorist financing have been filed. The Criminal Code provides for an offense covering someone who "supports" a terrorist group. Authorities have acknowledged the possibility of proceeding for the aiding and abetting an offense of terrorism or the establishment of a terrorist group, but there is no jurisprudence on these points. The MONEYVAL team advised the authorities that the criminalization of terrorist financing solely on aiding and abetting is not in line with the standards set forth in the methodology. The MER also stated that the provisions are not wide enough to clearly criminalize collections of funds: with intention to carry out terrorist acts

(whether they are used or not), for any activities undertaken by terrorist organizations, and with unlawful intent to be used by an individual terrorist.

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 listed on the UNSCR 1267 Sanctions Committee's, the EU's consolidated lists, and those provided by the United States. The lists, however, are not distributed, but posted online. Obligated institutions have the responsibility to look at the names on the website and report if they have a match to any names on the list. Guidance and communication with the financial intermediaries and DNFBP community is weak. 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 and protocols 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. After consultations with the Ministry of Finance, the Ministry of Interior, and the National Bank of Slovakia, the FIU has been tasked with drafting new legislation to comply with the Third Directive. The new legislation would also grant the FIU broader authority to work directly with prosecutors, tax authorities, and the regular police.

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 and in March 2003, Slovakia elected to fully incorporate into its laws several optional terms of the convention. 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. In June 2006, it also ratified 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 carried out its Second Evaluation Round in early 2006, based on 17 recommendations made by GRECO in 2004. In its report issued in May 2006, GRECO concluded that Slovakia had implemented satisfactorily or dealt with in a satisfactory manner just under half of the 17 recommendations made by GRECO in 2004. GRECO evaluators were particularly concerned with the lack of mechanisms to fight corruption in the public sphere. Slovakia is a member of the Council of Europe and since 1997 has actively participated in the MONEYVAL Committee.

The Government of Slovakia (GOS) 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. Authorities should ensure that property and proceeds are equivalent in Article 252 and that this definition is contained in the law to avoid confusion on this issue. Slovakia should also provide guidance to, and improve supervision of its nonfinancial sectors to ensure that reporting requirements are followed. Slovakia should implement formal AML supervision for exchange houses. 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, and work to enhance cooperation and coordination among these agencies and other competent authorities. Although all supervisory authorities need more staff and training, the FIU in particular needs to increase the number of staff so that the staffing is commensurate with its supervisory role. Slovakia should also take steps to include in its legislative framework the FATF-prescribed definition and treatment of beneficial owners. Authorities should consider criminal, civil or administrative sanction for money laundering in relation to legal persons.

With regard to fighting terrorism financing, the GOS should hone its legal framework to clarify the reporting obligation with respect to terrorist financing and issue guidance to covered institutions. Authorities can also amend the Criminal Code to ensure that criminalization of terrorist financing parallels international standards, including widening the parameters to sanction criminally collections of funds: with intention to carry out terrorist acts (used or not), for any activities undertaken by terrorist organizations, and with unlawful intent to be used by an individual terrorist.

In addition, the GOS can make the lists produced and circulated by the UN and the U.S. more readily accessible to obliged institutions by distributing them to the institutions instead of posting them online. This would also serve to enhance communication and provide an opportunity to give guidance to covered institutions.

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, Taiwanese groups, Lebanese trading syndicates, and the Russian mafia have all been identified as operating in South Africa, along with South African criminal groups. The fact that a high number of international crime groups operate in South Africa and that there are few reported money laundering prosecutions indicate that South Africa remains a money laundering jurisdiction of concern. 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, stolen cars, 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 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 \$16,700,000) or imprisonment for up to 30 years. Regulations require suspicious transaction reports to be sent to the South African financial intelligence unit (FIU), the Financial Intelligence Centre (FIC). Both of these Acts contain criminal and civil forfeiture provisions.

In 2005, the Protection of Constitutional Democracy Against Terrorist and Related Activities Act came into effect. The Act criminalizes 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 nonprofit organizations operating in South Africa. The Act requires financial institutions to report suspected terrorist activity to the FIC. The FIC distributes the list of individuals and entities included on the United Nations 1267 Sanctions Committee's consolidated list.

The FIC began operating in February 2003. 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 is 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, the lack of actual cases prosecuted indicates problems in reporting process, analysis, investigations, and/or commitment.

From March 2005 through March 2006, the FIC received 19,793 suspicious transaction reports (STRs), an increase of 25 percent from the previous year's 15,757 STRs. The FIC reports that this increase is due to the development and distribution of its batch-reporting tool and not related to an increase in financial institutions detecting suspicious transactions. Precise information is not available on how many of these STRs led to criminal investigations. However, the number of financial crime and terrorist finance investigations, prosecutions, and convictions is believed to be extremely low. In addition, the quality and consistency of the STRs remains uneven. This is problematic for a country which has vast experience in implementing international banking standards. The FIC and South Africa's banks struggle to provide effective and comprehensive training programs relating to STR reporting and there has been no evidence of an increase in the quality of suspicious transaction reports. This calls into question the political will of the South African government towards implementing an effective and transparent AML/CFT regime

Many banks state that the reporting requirements hamper their efforts to attract new customers. For example, if the customer has never traveled outside the country, they may not have supporting documentation (no driver's license or passport) to properly satisfy the due diligence laws. Also, retroactive due diligence requirements mean those account holders who do not present identifying documents in person risk having their accounts frozen. These requirements were fully implemented in September 2006, after which date transactions with accounts owned by still-unidentified persons were blocked. Reporting requirements were specifically waived for brokers assisting clients with a one-time

amnesty offer according to the Exchange Control and Amnesty and Amendment of Taxation Laws 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. Hawala networks in South Africa have direct ties to South Asia and the Middle East. Currently, there is no legal obligation requiring alternative remittance systems to report cash transactions within the country. The South African Revenue Service (SARS) requires large cash amounts to be declared only at entry and exit points. Smuggling and border enforcement are major problems in South Africa.

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 yet to take 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 held 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.

South Africa 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 FATF Special Recommendation Nine and establish control over cross-border currency movement. It should regulate and investigate the country's alternative remittance systems. South Africa should increase steps to bolster border enforcement and should examine forms of trade-based money laundering and informal value transfer systems. It should fully implement the new law (Protection of Constitutional Democracy against Terrorist and Related Activities Act) against terrorist activity and terrorist financing. South Africa should publish the annual number of money laundering and terrorist financing investigations, prosecutions, and convictions.

Spain

Spain is not a European financial center. Spain plays a significant role in money laundering as a key point of entry and European base for the proceeds of Colombian narcotics trafficking organizations. Drug proceeds from other regions enter Spain as well, particularly proceeds from hashish trafficking and smuggling entering from Morocco and heroin money entering from Turkey.

Tax evasion in internal markets and smuggling of goods along the coastline also continue to be sources of illicit funds in Spain. Reportedly, Spanish authorities believe that tax evasion in cell phone and property industries is currently the most serious financial crime. The smuggling of electronics and tobacco from Gibraltar remains an ongoing issue. Airline personnel traveling between Spain and Latin America smuggle out bulk cash. Additional money laundering methodologies found in Spain include Colombian companies purchasing goods in Asia and sell them legally at drug cartel-run stores in Europe. Credit card balances are paid in Spanish banks for charges made in Latin America, and money deposited in Spanish banks is withdrawn in Colombia through ATM networks

An unknown percentage of the proceeds from drug-trafficking is invested in Spanish real estate, particularly in the booming coastal areas in the south and east of the country. Twenty-five percent of the 500 euro notes in use in Europe are in circulation in Spain. Reportedly, this is directly linked to the

purchase of real estate to launder money. There are no known currency transactions of significance involving large amounts of U.S. currency and/or direct narcotics proceeds from U.S. sales.

In September 2006, Spanish police arrested eight people of Spanish and Colombian nationality for drug trafficking and money laundering. Government of Spain (GOS) officials estimate that the individuals may have laundered more than 13.5 million euro (approximately 17.8 million dollars). The investigation began at the end of 2003 after a money laundering organization was dismantled when a vessel carrying 412 kilos of cocaine was intercepted in Togo.

In May 2006, 21 people were arrested and accused of being members of an international money laundering and drug-trafficking gang. Police seized 193 kilos of cocaine, weapons, money, and luxury vehicles imported from Germany and then sold in Spain to launder the proceeds. It is estimated that the criminal organization had laundered a total of 360 million euro (approximately 475 million dollars) since 2000. The arrested members are also implicated in other offenses such as corruption of minors, forgery, and fraud.

Although little of the money laundered in Spain is believed to be used for terrorist financing, money from the extortion of businesses in the Basque region is moved through the financial system and used to finance the Basque terrorist group. ETA informal nonbank outlets (such as “Locutorios”), make small international transfers for the immigrant community, and continue to be used to move money in and out of Spain. Spanish regulators also note the presence of hawala networks in the Islamic community.

Spain is not considered to be an offshore financial center, and does not operate any Free Trade Zones. Spanish law states that an entity can perform banking activity if its registered office, administration, and management reside within Spanish territory. Spanish law does not prohibit financial institutions from entering into banking relationships with shell banks. Financial institutions have no requirement to determine whether a respondent financial institution in a foreign country allows accounts used by shell banks. The GOS has no accurate estimate of the numbers of offshore banks, offshore international business companies, exempt companies, or shell companies. Spanish law does not recognize trusts, including those created in foreign countries. Offshore casinos and internet gaming sites are forbidden. However, online casinos often run from servers located outside of Spanish territory. GOS politicians have been critical of Gibraltar’s role in this regard. Regulation can only occur through mutual judicial assistance or international agreements.

Money laundering was criminalized by Article 301 of the Penal Code. 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. The law was expanded in 1995 to cover all serious crimes that required a prison sentence greater than three years. Amendments to the code on November 25, 2003, which took effect on October 1, 2004, made all forms of money laundering financial crimes; any property, of any value, can form the basis for a money laundering offence, and a conviction or a prosecution for a predicate offense is not necessary to prosecute or obtain a conviction for money laundering. 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. Spanish authorities can also prosecute money laundering from a predicate offense in another country, if the offense would be illegal in Spain.

Law 19/2003 regulating the movements of capital and foreign transactions implements the European Union (EU) Money Laundering Directive. The law obligates financial institutions to make monthly reports on large transactions. Banks are required to report all international transfers greater than 30,000 euros (approximately \$39,600). The law also requires the declaration and reporting of internal transfers of funds greater than 80,500 euros (approximately \$106,300). Individuals traveling internationally are required to report the importation or exportation of currency greater than 6,000

euros (approximately \$7,900). Foreign exchange and money remittance entities must report on transactions above 3,000 euro (approximately \$3,960). Reporting on transactions exceeding 30,000 euro from or with persons in countries or territories considered to be tax havens is also required. 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 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.

Money laundering controls apply 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. The 2003 amendments add lawyers and notaries as covered entities. Previously, notaries and lawyers were required to report suspicious cases, but now they are considered part of the financial system that is under the supervision of appropriate regulators. As of April 2005, most categories of designated nonfinancial businesses and professions (DNFBP) are subject to the same core obligations as the financial sector. The list of DNFBPs includes casinos, realty agents, dealers in precious metals and stones, as well as in antiques and art, legal advisors, accountants and auditors.

Article 3.2 of Law 19/1993 mandates that reporting entities should examine and commit to writing the results of an examination of any transaction, irrespective of amount, which by its nature may be linked to laundering of proceeds. Law 12/2003 reaffirms the obligation of reporting suspicious activities. Reporting entities are required to report to suspicious individual transactions to the Financial Intelligence Unit, or FIU. Financial institutions also have an obligation to undertake systematic reporting of unusual transactions, including physical movements of cash, travelers' checks, and other bearer instruments/checks drawn on credit institutions above 30,000 euro (approximately \$39,600). The reporting obligation applies to the laundering of proceeds of all illicit activity punishable by a minimum of three years imprisonment, including terrorism or terrorist financing. Non Bank Financial Institutions (NBFIs) such as insurers, investment services firms, collective investment schemes, pension fund managers, and others are subject to these requirements.

Article 4 of Law 19/1993 and Article 15 of RD 925/1995 protect financial institutions and their staff for breach of any restriction on disclosure of information when reporting suspicious transactions. Reporting units must also take appropriate steps to conceal the identity of employees or managers making suspicious transaction reports.

Law 19/1993 and RD 925/1995 established The Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC), to act as Spain's FIU. 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. SEPBLAC is an interdepartmental body chaired by the Secretary for Economic Affairs, and all of the agencies involved in the prevention of money laundering participate. The representatives include the National Drug Plan Office, the Ministry of Economy, Federal Prosecutors (Fiscalia), Customs, Spanish National Police, Civil Guard, CNMV (equivalent to the SEC), Treasury, Bank of Spain, and the Director General of Insurance and Pension Funds.

SEPBLAC coordinates the fight against money laundering in Spain. Its primary mission is to receive, analyze and disseminate suspicious and unusual transaction reports from financial institutions and DNFBPs. SEPBLAC also has supervisory and inspection functions and is directly responsible for the

supervision of a large number of regulated institutions. For this reason, SEPBLAC has memoranda of understanding with the Bank of Spain, the National Securities Market Commission, and the Director General of Insurance and Pension Funds, in order for these regulators to supervise their sectors.

In June 2006, the Financial Action Task Force (FATF) released the third-round mutual evaluation report (MER) for Spain. The evaluation team noted some areas where Spain is not in full compliance with the Forty Recommendations and Nine Special Recommendations. The FATF MER called the FIU's supervisory capabilities ineffective because of limited resources; it also expressed concern regarding SEPBLAC's independence from the Bank of Spain.

SEPBLAC has access to the records and databanks of other government entities, financial institutions, and has formal mechanisms in place to share information domestically and with other FIUs, including FINCEN. SEPBLAC has been an active member of the Egmont Group since 1995. SEPBLAC received 493 requests for information from other FIUs in 2005, and made 143 requests to Egmont members. SEPBLAC received 2,502 suspicious transaction reports (STRs) in 2005. Thirty-seven STRs were used to initiate investigations.

Any member of the Commission may request an investigation. However, the FATF MER noted some concerns about the effectiveness of SEPBLAC's investigations, stating that at certain stages of the investigative process, obtaining account files can be time-consuming. The National Police and Anticorruption Police informed the evaluation team that they receive too many reports, and the reports they do receive are not adequate to serve as the basis for an investigation. SEPBLAC 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.

Under Spain's currency control system, individuals and companies must declare the amount, origin, and destination of incoming and outgoing funds. Cash smuggling reports are shared between host government agencies. Provisional measures and confiscation provisions apply to persons smuggling cash or monetary instruments that are related to money laundering or terrorist financing. Gold, precious metals, and precious stones are considered to be merchandise and are subject to customs legislation. Failing to file a declaration for such goods may constitute a case of smuggling and would fall under the responsibility of the customs authorities.

All legal charities are placed on a register maintained by the Ministry of Justice. Responsibility for policing registered charities lies with the Ministry of Public Administration. If the charity fails to comply with the requirements, sanctions or other criminal charges may be levied.

The Penal Code provides for two types of confiscation: generic (Article 127) and specific, for drug-trafficking offences (Article 374). Article 127 of the Penal Code allows for broad confiscation authorities by applying it to all crimes or summary offenses under the Code. The effects, instruments used to commit the offense, and the profits derived from the offense can all be confiscated. Article 127 also provides for the confiscation of property intended for use in the commission of any crime or offence. It also applies to property that is derived directly or indirectly from proceeds of crime, regardless of whether the property is held or owned by a criminal defendant or by a third party. Article 374 of the Penal Code calls for the confiscation of goods acquired through drug trafficking-related crimes, and of any profit obtained. This allows for the confiscation of instruments and effects used for illegal drug dealing, as well as the goods or proceeds obtained from the illicit traffic. Consequently, all assets held by a person convicted of drug trafficking may be confiscated if those assets are the result of unlawful conduct.

A judge may impose provisional measures concerning seizures from any type of offense by virtue of the code of criminal procedure. Effects may be seized and stored by the judicial authorities at the beginning of an investigation. The Fund of Seized Goods of Narcotics Traffickers receives seized assets. This agency was established under the National Drug Plan. The proceeds from the funds are divided, with equal amounts going to drug treatment programs and to a foundation that supports officers fighting narcotics trafficking. The division of assets from seizures involving more than one country depends on the relationship with the country in question. EU working groups determine how to divide the proceeds for member countries. Outside of the EU, bilateral commissions are formed with countries that are members of Financial Action Task Force (FATF), FATF-like bodies, and the Egmont Group, to deal with the division of seized assets. With other countries, negotiations are conducted on an ad hoc basis.

The banking community cooperates with enforcement efforts to trace funds and seize/freeze bank accounts. The law is unclear as to whether or not civil forfeitures are allowed. The GOS enforces existing drug-related seizure and forfeiture laws. Spain has adequate police powers and resources to trace, seize, and freeze assets. Spain disseminates limited statistics on money laundering and terrorist financing investigations, prosecutions and convictions as well as on property frozen, seized and confiscated. As of mid 2005, 36,105,720 euro (approximately 47.6 million dollars) had been seized.

The FATF MER team noted some shortcomings in the areas of customer due diligence, beneficial ownership of legal persons, and bearer shares. Anonymous accounts and accounts in fictitious names are precluded by Spanish legislation. Bearer shares are permitted in Spain, although not as many as in the past. Spanish authorities have taken steps to neutralize them, since 1998 ensuring that mere possession cannot serve as proof of ownership. However, they still exist, and it appears that the authorities are learning more about legal persons using such shares. The MER team cited the requirements to determine the beneficial owner as “inadequate.”

The FATF MER gives Spain a good overall review with regard to terrorist financing. Spain has long been engaged in fighting terrorist organizations, including ETA, GRAPO and more recently, al-Qaida. Spanish law enforcement entities have identified several methods of terrorist financing: donations to finance nonprofit organizations (including ETA and Islamic groups); establishment of publishing companies that print and distribute books or periodicals for the purposes of propaganda, which then serve as a means for depositing funds obtained through kidnapping or extortion; fraudulent tax and subvention collections; the establishment of “cultural associations” used to facilitate the opening of accounts and provide a cover for terrorist finance activity; and alternate remittance system transfers.

Spain complies with all EU regulations concerning the freezing of terrorist assets. 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. On March 6, 2001, Spain’s Council of Ministers adopted a decision requesting the implementation of UNSCR 1373 in the Spanish legal framework. EU Council Regulation (EC) 881/2002, which obliges covered countries such as Spain to execute UNSCR 1373, is implemented through EC No. 2580/of 27 December 2001. Terrorist financing issues are governed by a separate code of law and commission, the Commission of Vigilance of Terrorist Finance Activities (CVAFT). This commission was created under Law 12/2003 on the Prevention and Blocking of the Financing of Terrorism. In addition to the EU Council Regulations, Law 12/2003, when implemented, will allow the freezing of any type of financial flow so as to prevent the funds from being used to commit terrorist acts. Spanish authorities’ ability to freeze accounts granted in the most recent law is more aggressive than that of most of their European counterparts. Though many laws are transposed from European Union (EU) directives, Law 12/2003 on the prevention and freezing of terrorist financing surpasses EU Council requirements. However, the implementing regulations have yet to be announced.

As with all of the European Union countries, the obligation to freeze assets under UNSCR 1267 has also been implemented through the Council. Spain regularly circulates to its financial institutions the list of individuals and entities that have been included on the UN 1267 Sanctions Committee consolidated list. There were six actions taken against individuals or entities in 2005 under 1267 and/or 1373, for a total value of 83.75 euro (\$106). The Terrorist Finance Watchdog Commission is charged with issuing freezing orders.

Spain is a member of the FATF, and co-chairs the FATF Terrorist Finance Working Group. Spain is a participating and cooperating nation to the South American Financial Action Task Force (GAFISUD), and a cooperating and supporting nation to the Caribbean Financial Action Task Force (CFATF). Spain is a major provider of counterterrorism assistance. SEPBLAC is a member of the Egmont Group and currently chairs the Outreach Committee Working Group. Spain provides anti-money laundering and counterterrorist finance assistance, particularly to Spanish speaking countries in Latin America.

The GOS has signed criminal mutual legal assistance agreements with Argentina, Australia, Canada, Chile, the Dominican Republic, Mexico, Morocco, Uruguay, and the United States. Spain's Mutual Legal Assistance Treaty with the United States has been in effect since 1993, and provides for sharing of seized assets, provided the request is made to the Spanish court hearing the case, rather than administratively. Spain has also entered into bilateral agreements for cooperation and information exchange on money laundering issues with fourteen countries around the world, as well as with the United States. SEPBLAC has bilateral agreements for cooperation and information exchange on money laundering issues with twenty-one FIUs around the world.

Spain actively collaborates with Europol, supplying and exchanging information on terrorist groups. In 2006, U.S. law enforcement agencies also reported excellent cooperation with their Spanish counterparts.

Spain is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the UN International Convention for the Suppression of the Financing of Terrorism. Spain adheres to all EC policy directives on crime, money laundering, and the financing of terrorism.

The scale of money laundering and the sophisticated methods used by criminals create a significant law enforcement problem in Spain. The Government of Spain (GOS) has passed and enacted legislation designed to help eliminate and prosecute financial crimes. In light of the findings of the 2006 FATF mutual evaluation, Spain should review its supervisory regime with a view toward maximizing the coordination of inspections as well as interagency cooperation. Spain should also review the resources available for industry supervision. The GOS should work to close potential loopholes that FATF identified, including those in the areas of customer due diligence, beneficial ownership of legal persons, and bearer shares. Spain should also work to implement Law 12/2003, which will greatly enhance Spain's capabilities to combat terrorism financing. Spain should maintain and disseminate statistics on investigations, prosecutions and convictions, including the amounts and values of assets frozen or confiscated.

St. Kitts and Nevis

The Government of St. Kitts and Nevis (GOSKN) is a federation composed of two islands in the Eastern Caribbean. The federation is at major risk for corruption and money laundering, due to the high volume of narcotics trafficking activity and the presence of known traffickers on the islands. The offshore financial sectors of both islands are vulnerable to money laundering. An inadequately regulated economic citizenship program compounds the problem.

Each island has the authority to organize its own financial structure. As a Federation, there is offshore legislation governing both St. Kitts and Nevis. However, with most of the offshore financial activity

concentrated in Nevis, it has developed its own offshore legislation independently. As of September 2006, Nevis has one offshore bank (a subsidiary of a domestic bank), 61 licensed insurance companies, 1,014 international trusts, 29 foundations and 54 corporate service providers. There are two types of international companies eligible for incorporation: international business companies (IBCs) and limited liability companies (LLCs). Current figures indicate there are 12,773 IBCs and 3,732 LLCs registered in Nevis. Reports from 2006 indicate that St. Kitts' offshore sector consists of 1,019 exempt companies, 203 exempt foundations, four trust companies, two investment companies, 21 corporate service providers, and three licensed internet gaming companies that must incorporate as IBCs. According to reports from 2004-2005, St. Kitts also has four domestic banks, 120 credit unions, four domestic insurance companies, and two money remitters. There are no free trade zones in St. Kitts and Nevis.

The GOSKN licenses offshore banks and businesses. Bearer shares are permitted, provided that bearer share certificates are retained in the safe custody of persons or financial institutions authorized by the Minister of Finance as approved custodians. Authorized service providers serve as a company's first directors or trustees; this information is made public. Subsequent to incorporation or registration, the authorized persons transfer such duties to other persons. This information is restricted to only the regulator and authorized persons who have access to the information. Reportedly, extensive background checks on all proposed licensees are conducted by a third party on behalf of the GOSKN before a license is granted. Under the Nevis Offshore Banking Ordinance 1996, as amended in 2002, the Eastern Caribbean Central Bank (ECCB) is required to review all applications for licenses and report its recommendations to the Minister of Finance prior to consideration of the application. By law, all licensees are required to have a physical presence in St. Kitts and Nevis. All authorized persons are required to obtain proper documents on shareholders or beneficial owners before incorporating IBCs or other offshore companies.

The Proceeds of Crime Act (POCA) 2000 criminalizes money laundering for serious offenses and imposes penalties ranging from imprisonment to monetary fines. The POCA 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 anti-money laundering measures include the Financial Services Commission Act 2000, the Nevis Offshore Banking (Amendment) 2000, the Anti-Money Laundering Regulations 2001, the Companies (Amendment) Act 2001, the Anti-Money Laundering (Amendment) Regulations 2001, the Nevis Business Corporation (Amendment) 2001, and the Nevis Offshore Banking (Amendment) 2001.

The ECCB has direct responsibility for regulating and supervising the offshore bank in Nevis, as it does for domestic banks in St. Kitts and Nevis, and for making recommendations regarding approval of offshore bank licenses. The St. Kitts and Nevis Financial Services Commission, with regulators on both islands, regulates nonbank financial institutions for anti-money laundering compliance. The GOSKN has issued regulations requiring financial institutions to identify their customers upon request, maintain a record of transactions for up to five years, report suspicious transactions, and 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 is authorized to carry out anti-money laundering examinations. The St. Kitts and Nevis Gaming Board is responsible for ensuring compliance of casinos.

The Financial Intelligence Unit (FIU) Act No. 15 of 2000 authorized the creation of an FIU. The FIU began operations in 2001 and receives, analyzes and investigates suspicious activity reports (SARs) from reporting entities in both St. Kitts and Nevis. All financial institutions, including nonbank financial institutions, are required by law to report suspicious transactions. Anti-money laundering regulations and the FIU Act provide protection for reporting entities and its employees, officers, owners or representatives who forward SARs to the FIU. In 2006, the FIU received 50 SARs. Of these, 20 SARs were referred to law enforcement for appropriate action. There have been no reports of

further action taken on these referrals. The Royal St. Kitts and Nevis Police Force is responsible for investigating financial crimes, but does not have adequate staff or training to effectively execute its mandate. The FIU has direct and indirect access to records of other government agencies through memoranda of understanding (MOU). The FIU Act has provisions for sharing information, both domestically and with foreign counterparts and law enforcement agencies.

Under the POCA legitimate businesses can be seized by the FIU if proven to be connected to money laundering activities. The FIU can freeze an individual's bank account for a period not to exceed five days in the absence of a court order. The freeze orders obtained from the court at times ascribe an expiration of six months or more. The law only allows for criminal forfeiture; civil forfeiture is considered unconstitutional. The POCA provides for a forfeiture fund under the administration and control of the Financial Secretary in St. Kitts and the Permanent Secretary in the Ministry of Finance in Nevis. All monies and proceeds from the sale of property forfeited or confiscated are placed in the fund to be used for the purpose of anti-money laundering activities in both St. Kitts and Nevis.

The POCA limits and monitors the international transportation of currency and monetary instruments. Any person importing or exporting a value exceeding US\$10,000 or its equivalent in Eastern Caribbean currency needs to declare it with Customs. In addition, the Customs Control and Management Act criminalizes cash smuggling. Customs and law enforcement share cash smuggling reports.

St. Kitts and Nevis enacted the Anti-Terrorism Act (ATA) No. 21, effective November 27, 2002. Sections 12 and 15 of the Act criminalize the financing of terrorism. Under the ATA, the FIU and Director of Public Prosecutions have the authority to identify, freeze, and/or forfeit assets related to terrorist financing. The ATA also implements various UN Conventions against terrorism. The GOSKN circulates to financial institutions the names of individuals and entities that have been included on the UN 1267 Sanctions Committee's lists. To date, no terrorist-related funds have been identified. The ATA does not provide the FIU with the authority to receive disclosures relating to potential financing of terrorism from reporting entities. The GOSKN has some existing controls that apply to alternative remittance systems, but has not undertaken initiatives that apply directly to the potential terrorist misuse of charitable and nonprofit entities.

A Mutual Legal Assistance Treaty (MLAT) between the GOSKN and the United States entered into force in early 2000, but cooperation over the last three years has been stalled by the GOSKN. 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 (OAS/CICAD) Experts Group to Control Money Laundering. St. Kitts and Nevis is a party to the UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. The GOSKN has signed, but not yet ratified, the Inter-American Convention against Terrorism, and has neither signed nor ratified the UN Convention against Corruption. The FIU became a member of the Egmont Group in 2004.

St. Kitts and Nevis should devote sufficient resources to effectively implement its anti-money laundering regime, giving particular attention to its offshore financial sector. St. Kitts and Nevis should determine the exact number of Internet gaming companies present on the islands and provide the necessary oversight of these entities. St. Kitts and Nevis should amend the Anti-Terrorism Act to provide the FIU with the authority to receive disclosures relating to potential financing of terrorism from reporting entities. Additionally, St. Kitts and Nevis should improve its cooperation with foreign counterparts, particularly the timely information sharing on money laundering and financial crime activity and the implementation of bilateral agreements. St. Kitts should become a party to the UN Convention against Corruption.

St. Lucia

St. Lucia has developed an offshore financial service center that increases the island's vulnerability to money laundering and other financial crimes. Transshipment of narcotics (cocaine and marijuana), unregulated money remittance businesses, cash smuggling, and bank fraud, such as counterfeit U.S. checks and identity theft, are among the other primary vulnerabilities for money laundering in St. Lucia.

Currently, St. Lucia has four offshore banks, 1,912 international business companies (IBCs), seven private mutual funds, two public mutual funds, 43 international trusts, 24 international insurance companies, 24 trust companies, two money remitters, three mutual fund administrators, 13 registered agents and four registered trustees (service providers), and a total of 30 domestic financial institutions. Shell companies are not permitted. The Government of St. Lucia (GOSL) also has one free trade zone where investors may establish businesses and conduct trade and commerce within the free trade zone or between the free trade zone and foreign countries. There are no casinos or internet gaming sites in St. Lucia. Reportedly, the GOSL does not plan to consider the establishment of gaming enterprises.

In 1999, the GOSL 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 fund business may not be registered without the approval of the Minister responsible for international financial services. An IBC may be struck off the register on the grounds of carrying on business against the public interest.

The GOSL 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. As of October 31, 2006, administrative procedures were implemented, but the unit is not yet fully functional. The Eastern Caribbean Central Bank regulates St. Lucia's domestic banking sector.

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. Reporting individuals (bankers and other financial institutions) are protected by the law with respect to their cooperation with law enforcement entities. 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 (MLPA), which criminalizes the laundering of proceeds with respect to 15 predicate offenses, including abduction, blackmail, counterfeiting, extortion, firearms and narcotics trafficking, forgery, corruption, fraud, prostitution, trafficking in persons, tax evasion, terrorism, gambling and

robbery. The MLPA mandates suspicious transaction reporting requirements and imposes record keeping requirements. In addition, the MLPA 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." Currently steps are being taken to implement legislation to regulate money remitters.

The Financial Intelligence Authority Act No. 17 of 2002 authorizes the establishment of St. Lucia's financial intelligence unit (FIU), which became operational in October 2003. Pursuant to legislation passed in September 2003, the Money Laundering (Prevention) Authority, which had previously been responsible for monitoring compliance with the anti-money laundering provisions of the MLPA, was merged with the FIU. The FIU is responsible for receiving, analyzing and disseminating suspicious transaction reports (STRs) from obligated financial institutions, and has regulatory authority to monitor compliance with anti-money laundering requirements. The FIU is also able to compel the production of information necessary to investigate possible offenses under the 1993 Proceeds of Crime Act and the MLPA. 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 FIU has access to relevant records and databases of all St. Lucian government entities and financial institutions. However, no formal agreement exists for sharing information domestically and with other FIUs.

In 2006, the FIU received 27 STRs. There are no recorded cases of money laundering within St. Lucia's banking sector for 2006. However, there has been an increase in bank fraud, such as counterfeit U.S. checks and identity theft.

Customs laws criminalize cash smuggling, and customs officials are aware of cash courier problems. Cash smuggling reports are shared with the FIU, Police, Director of Public Prosecutions and the Attorney General.

Under current legislation, instruments of crime, such as conveyances, farms, and bank accounts, can be seized by the FIU. Substitute assets can also be seized. The legislation also applies to legitimate businesses if used to launder drug money, support terrorist activity, or are otherwise used in a crime. There is no legislation for civil forfeiture or sharing of seized narcotics assets. If the individual or business is not charged, then assets must be released within seven days. Approximately \$100,000 of nonterrorist related assets were frozen in 2006.

The GOSL has not criminalized the financing of terrorism. However, St. Lucia circulates lists to financial institutions of terrorists and terrorist organizations 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 Government of St. Lucia has the legislative power to freeze, seize and forfeit terrorist finance related assets. 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.

The GOSL has been cooperative with the USG in financial crime investigations. 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.

St. Lucia is a member of the Caribbean Financial Action Task Force (CFATF) and the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The FIU is not yet a member of the Egmont Group. St. Lucia is a party to the 1988 UN

Drug Convention and has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the Inter-American Convention against Terrorism. The GOSL has not signed the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Corruption.

The Government of St. Lucia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. In order to meet international standards, St. Lucia should criminalize the financing of terrorism. The GOSL should continue to enhance and implement its money laundering legislation and programs, including adopting civil forfeiture legislation and ensuring that its FIU meets the Egmont Group membership requirements. The rapid expansion of the island's offshore financial services sector should be counterbalanced by efforts that increase transparency. The GOSL also needs to improve their record of investigating, prosecuting and sentencing money launderers and those involved in other financial crimes.

St. Vincent and the Grenadines

As a result of their status as a transit point for illicit narcotics and its growing offshore sector, St. Vincent and the Grenadines (SVG) are vulnerable to money laundering and other financial crimes. Money laundering is most often associated with the production and trafficking of marijuana in SVG, as well as the trafficking of other narcotics from South America. The illicit narcotics proceeds are laundered through various financial institutions, including banks (both domestic and offshore), money remitters, cash couriers and casinos. Over the past year, there has been an increase in fraud and the use of counterfeit instruments, such as tendering counterfeit checks or cash.

The domestic sector is comprised of two commercial banks, a development bank, two savings and loan banks, a building society, 16 insurance companies, 10 credit unions and two money remitters. The offshore sector includes 6 offshore banks; 7,655 international business corporations (IBCs), an increase of more than 1,000 IBCs since 2005; 16 offshore insurance companies; 39 mutual funds; 33 registered agents; and 126 international trusts. No physical presence is required for offshore financial institutions and businesses. Nominee directors are not mandatory except when an IBC is formed to carry out banking business. Bearer shares are permitted for IBCs but not for banks. There are no free trade zones in SVG. There are no offshore casinos, and no internet gaming licenses have been issued. The Government of St. Vincent and the Grenadines (GOSVG) eliminated its economic citizenship program in 2001.

The Eastern Caribbean Central Bank (ECCB) supervises SVG's domestic banks. The International Banks (Amendment) Act 2002 provides the ECCB with the authority to review and make recommendations regarding the approval of offshore bank licenses. The International Financial Services Authority (IFSA) regulates the international financial sector and oversees the process of licensing and supervision of the sector, which includes conducting on-site inspections to evaluate the financial soundness and anti-money laundering programs of offshore banks.

The International Banks (Amendment) Act of October 2000 provides the GOSVG with 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. In 2002, the International Business Companies Amendment Act No. 26 of 2002 was enacted to immobilize and register bearer shares. The Exchange of Information Act No. 29 of 2002 authorizes and facilitates the exchange of information, particularly among regulatory bodies.

The Proceeds of Crime and Money Laundering (Prevention) Act 2001 criminalizes money laundering, and requires financial institutions and other regulated businesses to report suspicious transactions. Customers are required to complete a source of funds declaration for any cash transaction over

\$10,000 ECD (approximately \$3,800). However, it is not mandatory to report other noncash transactions exceeding \$10,000 ECD. The Proceeds of Crime (Money Laundering) Regulations were published in January 2002 and establish mandatory record keeping rules and limited customer identification requirements. Financial institutions are required to maintain all records relating to transactions for a minimum of seven years.

The Financial Intelligence Unit Act No. 38 of 2001 (FIU Act) establishes the financial intelligence unit (FIU). Operational as of 2002, the FIU investigates and prosecutes money laundering cases. As of November 2006, the FIU had received 97 suspicious transaction reports (STRs) for the year and almost 600 STRs since its inception. The FIU is also the main body that supervises the compliance of financial and nonfinancial institutions with anti-money laundering and counterterrorist financing laws and regulations. The FIU conducts anti-money laundering and counterterrorist financing awareness training to educate these entities of the legal reporting requirements. Reporting entities are protected by law if fully cooperative with the FIU. There were five money laundering cases pending in 2005. Two of these cases resulted in convictions in 2006.

The FIU Act, as amended, permits the sharing of information at the investigative or intelligence stage, but the FIU does not have direct access to the records or databases of other government agencies. The FIU Act allows for the exchange of information with other FIUs. An updated extradition treaty and a Mutual Legal Assistance Treaty (MLAT) between the United States and the GOSVG entered into force in September 1999. The FIU executes the MLAT requests. In 2003, the GOSVG reintroduced a customs declaration form to be completed by incoming travelers. Incoming travelers are required to declare currency over \$10,000 ECD (approximately \$3,800).

Existing anti-money laundering legislation allows for the forfeiting of intangible and tangible property. Drug trafficking offenses may also be liable to forfeiture pursuant to the Drug (Prevention and Misuse) Act and the Criminal Code. There is no period of time during which the assets must be released. Frozen assets are confiscated by the FIU upon conviction of the defendant. Proceeds from asset seizures and forfeitures are placed by the FIU into the Confiscated Assets Fund established by the Proceeds of Crime and Money Laundering (Prevention) Act. Legitimate businesses can also be seized if used to launder drug money, support terrorist activity, or are otherwise used in a crime. At this time, only criminal forfeiture is permitted; however, a civil forfeiture bill is currently being debated. In 2006 the GOSVG froze or seized approximately 666,693 ECD (approximately \$251,600) in assets. Of this amount, approximately 51,000 ECD (\$19,200) worth of assets were forfeited.

The GOSVG enacted the United Nations Terrorism Measures Act in 2002. In July 2006, parliament enacted amendments to the Act and the FIU Act to ensure compliance with international standards and require financial institutions to report suspicious activity related to the financing of terrorism to the FIU. The GOSVG circulates lists of terrorists and terrorist entities to all financial institutions in SVG. To date, no accounts associated with terrorists have been found. The GOSVG has not undertaken any specific initiatives focused on the misuse of charitable and nonprofit entities.

The GOSVG is a member of the Caribbean Financial Action Task Force (CFATF) and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The FIU became a member of the Egmont Group in 2003. The GOSVG is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. The GOSVG has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the Inter-American Convention against Terrorism. The GOSVG has not signed the UN Convention against Corruption.

The GOSVG has strengthened its anti-money laundering regime through legislation and the establishment of an effective FIU. The GOSVG should insist that the beneficial owners of IBCs are known and listed in a registry available to law enforcement; immobilize all bearer shares; and properly supervise and regulate all aspects of its offshore sector. The GOSVG should continue to provide

training to its regulatory, law enforcement, and FIU personnel in money laundering operations and investigations. The GOSVG should pass civil forfeiture legislation and consider the utility of special investigative techniques.

Switzerland

Switzerland is a major international financial center, with some 338 banks and a large number of nonbank 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—first codified in 1934—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 these issues and are sensitive to the importance of financial services to the Swiss 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, terrorism financing, 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. Due to the large amount of foreign asset management within Switzerland, the likelihood of illicit funds being held in Switzerland is relatively high, despite measures taken to combat this phenomenon. Recent examples of public figures that have been the subject of money laundering allegations or investigations include a former President of Kyrgyzstan, a former Russian Minister of Atomic Energy, and the family of the Nigerian dictator Sani Abacha in connection with the funds (approximately \$748 million) that Abacha had hidden in Swiss banks between 1993 and 1998. In June 2005, the former Swiss Ambassador to Luxembourg was sentenced to three and a half years in jail for money laundering and other crimes.

The Financial Action Task Force (FATF) conducted a mutual evaluation of Switzerland's anti-money laundering and counterterrorist financing regime in 2005. The mutual evaluation report (MER) concluded that Switzerland was at least partially compliant in most areas. However, the evaluators found Switzerland's anti-money laundering regime to be less than compliant with respect to correspondent banking and cash couriers.

Money laundering has been a criminal offense in Switzerland since 1998, when the Federal Act on the Prevention of Money Laundering in the Financial Sector (MLA) entered into effect. Swiss law, however, currently does not recognize certain types of criminal offenses as part of the eighty "serious crimes" that serve 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. Fiscal offenses do not constitute "serious crimes," so they are not considered to be predicate offenses.

Switzerland has significant AML legislation in place, subjecting banks and other financial intermediaries to strict know-your-customer (KYC) and reporting requirements, including the requirement to identify the beneficial owner of accounts. Negligence in this area is punishable under

Swiss law. 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 nonbank financial institutions. The Federal Banking Commission (FBC), the Federal Office of Private Insurance, and the Swiss Federal Gaming Board serve as the 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). SROs are nongovernmental self-regulating organizations authorized by the Swiss government to oversee implementation of AML measures by their members. 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 Bankers Association (SBA) had employed customer due diligence (CDD) provisions as part of the industry standard in its Code of Conduct prior to any anti-money laundering legislation. The Code of Conduct was implemented by the SBA and enforced by the FBC, the supervisory authority over the banks. The FBC later implemented a "Policy on Prevention and Fight Against Money Laundering," establishing guidelines for the banking industry to employ in fighting money laundering. With the MLA, the Code of Conduct, CDD provisions and money laundering policy were extended to the entire financial sector. 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 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 those 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 FINMA. The draft bill is expected to be adopted by Parliament during the 2007 winter session, and enforced 12-18 months later, possibly by the end of 2008.

Switzerland's banking industry offers the same account services for both residents and nonresidents. 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 opportunities for organized crime to transfer stolen art or to use art to launder criminal funds. The United States is Switzerland's most important trading partner in this area, having purchased \$253 million worth of art from Swiss sources 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.

In January 2005, the Federal Council submitted a proposal for revisions based on the amended FATF Recommendations; the Federal Council revised this proposal in September. The October FATF mutual evaluation followed, and identified areas for improvement. In September 2006, the Federal Council instructed the Federal Department of Finance (FDF) to submit two papers addressing the FATF's proposal for improvements in the Swiss system; the proposal is designed to keep Swiss money laundering legislation current in the face of new challenges posed by international financial crime and to allow Swiss legislation to more thoroughly conform to international standards. The first paper, released at the end of 2006, addressed the proposal for revision of insider criminal law provisions on an accelerated basis. The second, due in mid-2007, will address other points from the FATF proposal. These points include: the creation of new predicate offenses for money laundering; the extension of the MLA to terrorist financing; the introduction of the obligation to report, if money laundering is suspected, that which prevents the establishment of a business relationship; and better legal protections against reprisals for financial intermediaries who report suspected money laundering. The paper also seeks to add some measures, including the introduction of an information system on cross-border transportation of currency valued in excess of CHF 25,000 (\$20,500); the obligation to verify identification for financial intermediaries of representatives of legal entities; the obligation for the financial intermediary to establish the purpose and nature of the business relationship desired by the customer; and unlimited extension of the ban on tipping-off.

Established in 1998 by the MLA, the Money Laundering Reporting Office Switzerland (MROS) is Switzerland's financial intelligence unit (FIU), charged with receiving, processing and disseminating suspicious transaction reports (STRs). Although it is located in the Federal Office of Police, MROS is an administrative unit and does not have any investigative powers of its own, nor can it obtain additional information from reporting entities after receiving a STR. Under the MLA, MROS has five working days to process reports. In 2005, MROS received 729 reports involving approximately \$536 million, an 11.2 per cent decrease in the number of reports compared to 2004. Whereas the decline in the number of reports in 2004 was mainly in the category of money transmitters, the decrease in 2005 was evident in nearly all categories of regulated entities. Unlike in the period 2002-2004, in 2005 the number of STRs filed by banks decreased.

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, or 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. Examining magistrates may order accounts to be frozen. Under Swiss law, suspect assets may be frozen for five days while a prosecutor investigates the suspicious activity. Since the MLA entered into force, CHF 423m (\$348 million) have been frozen. Articles 58-60 of the Criminal Code outline measures relation to the confiscation of illicitly-obtained assets. 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.

Revisions to the Swiss Penal Code regarding terrorist financing 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 2005 mutual evaluation team found Switzerland to be "largely compliant" with FATF Special Recommendation II regarding the criminalization of terrorist financing. The FATF team noted, however, that the Swiss Penal Code criminalizes the financing of an act of criminal violence but not the financing of an individual, independent of a particular act.

Since September 11, 2001, Swiss authorities have been alerting Swiss banks and nonbank financial intermediaries to check their records and accounts against lists of persons and entities with links to terrorism. The accounts of these individuals and entities are to be reported to the Ministry of Justice as suspicious transactions. Based on the "state security" clause of the Swiss Constitution, the authorities have ordered banks and other financial institutions to freeze the assets of suspected terrorists and terrorist organizations on the United Nations Security Council Resolution 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 Laden and al-Qaida under relevant UN resolutions. Switzerland has also participated in joint task forces targeting the financing of al-Qaida cells. The

Swiss Attorney General also separately froze 41 accounts representing approximately \$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 is not clear.

MROS received 20 STRs relating to terrorist financing in 2005; the aggregate sum of money associated with these reports was 46 million Swiss francs (approximately \$58 million). This represents an increase over the 11 reports related to terrorist financing submitted in 2004; these 11 reports involved a total of 900,000 Swiss francs (approximately \$700,000). The higher number of reports in 2005 can be explained by the fact that several reports involved the same people or families and that one report alone involved 28.5 million Swiss francs (approximately \$36 million). With the exception of 2 cases, MROS forwarded all the reports to the respective law enforcement agencies, which, in 6 of the 18 cases, did not investigate further.

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 ratified the 1988 UN Drug Convention on September 14, 2005, and the UN Convention against Transnational Organized Crime on October 27, 2006. Switzerland has signed, but not yet ratified, the UN Convention against Corruption and the International Convention for the Suppression of Acts of Nuclear Terrorism.

Swiss authorities cooperate with counterpart bodies from other countries. 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 law enforcement purposes. Switzerland has been a member of FATF since its inception, and helped to shape the CDD and identification standards that the FATF adopted. Switzerland is also actively involved with the Basel Committee on Banking Supervision, establishing through it in 1988 the first international code of conduct for banks to prevent abuse of the industry by money laundering. MROS is a member of the Egmont Group. 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. However, on the principles of dual criminality, Switzerland has no legal basis to grant mutual legal assistance to foreign states where money laundering is based on fiscal offenses, because these do not serve as predicate offenses for money laundering in Switzerland.

The Government of Switzerland has stated that it hopes to correct the country's image as a haven for illicit banking services and works to improve its oversight on the banking and financial service sectors. The Swiss believe that their system of self-regulation, which incorporates a "culture of cooperation" between regulators and banks, equals or outperforms that of other countries. The primary orientation of the Swiss system is the aversion of risk 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, in 2005 MROS forwarded 69 percent of the STRs to law enforcement for further investigation.

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 by enacting the revisions developed in response to the FATF mutual evaluation. Switzerland should also continue to work toward full implementation of existing laws and regulations and should ratify the UN Convention against Corruption.

Syria

Syria 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 is not a fully convertible currency. However, there continue to be significant money laundering and terrorism financing vulnerabilities in Syria's financial and nonbank financial sectors that have not been addressed by necessary legislation or other government action. In addition, Syria's black market moneychangers are not adequately regulated, and the country's borders remain porous. Regional hawala networks are intertwined with smuggling and trade-based money laundering and raise significant concerns, including involvement in the finance of terrorism. Most of the indigenous money laundering threat involves 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 is ranked 97 out of 163 countries on Transparency International's 2006 Corruption Perception Index. The U.S. Department of State has designated Syria as a State Sponsor of Terrorism.

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), with four additional public free zones scheduled to begin operation in 2007, including in Homs, Dayr al Zu, the Port of Tartous, and al-Hasakeh near the northeastern segment of the Syrian-Iraqi border.

An Iranian free trade zone is to be co-located within the Homs free trade zone, and a Chinese free trade zone will shortly be operating within the Adra free trade zone. In May 2005 the first private free zone was licensed to be established in al-Kesweh, a Damascus areas suburb, but has not started operations. The volume of goods entering the free zones is estimated to be in the billions of dollars and is growing, especially with the increasing demand for automobiles and automotive parts, which enter the zones free of customs tariffs before being imported into Syria. While all industries and financial institutions in the free zones must be registered with the General Organization for Free Zones, which is part of the Ministry of Economy and Trade, the Syrian General Directorate of Customs continues to lack strong procedures to check country of origin certification or the resources to adequately monitor goods that enter Syria through the zones. There are also continuing reports of Syrians using the free zones to import arms and other 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 approximately 75 percent of all deposits and controls most of the country's foreign currency reserves. With growing competition from the private banks, 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—have been preparing a broader range of retail services and more competitive interest rates.

However, these banks still primarily focus on financing Syria's ill-performing public enterprises. In April 2006 the U.S. Department of Treasury issued a final ruling that imposes a special measure against 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 information that the CBS has been used by terrorists or persons associated with terrorist organizations, as a conduit for the laundering of proceeds generated from the illicit sale of Iraqi oil, and continued concerns that the CBS is exploited by criminal enterprises.

The Syrian Arab Republic Government (SARG) 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. There are now seven private banks, including Banque BEMO Saudi Fransi, the International Bank for Trade and Finance, Bank Audi,

Arab Bank, Byblos Bank, and Syria Gulf Bank. The sector's total capitalization is more than approximately \$300 million, reported an approximate 95 percent in growth in 2006 in their deposit accounts, and are playing an increasing role in providing the business sector with foreign currency to finance imports and as a source of credit for businesses and individuals. However, the sector's development is hampered by the continuing lack of human capacity in the finance sector, regulations that limit Syrian banks' ability to make money on their liquidity, and restrictions on foreign currency transactions. A new law was enacted in May 2005 that allows for the establishment of Islamic banks, and three have already obtained licenses, including the Syrian International Islamic Bank, the Al-Sham Islamic Bank, and the Al-Baraka Bank. While these Islamic banks are expected to begin operations by early 2007, they potentially face problems because of the lack of an adequate regulatory and auditing structure in Syria's finance sector.

Legislation approved in the last few years 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 (Commission), which was established in May 2004. In response to international pressure to improve its anti-money laundering and counterterrorism financing (AML/CTF) regulations, the SARG passed Decree 33 in May 2005, which strengthens the Commission and empowers it to act as a Financial Intelligence Unit (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 Stock Market once the Market is operational.

Under Decree 33, all banks and nonfinancial institutions are required to file Suspicious Activity Reports (SARs) with the Commission for transactions over \$10,000, as well as suspicious transactions regardless of amount. They are also required to use "know your customer" (KYC) procedures to follow up on their customers every three years and maintain records on closed accounts for five years. The chairmen of Syria's private banks continue to report that they are employing internationally recognized KYC procedures to screen transactions and also employ their own investigators to check suspicious accounts. Nonbank financial institutions must also file SARs with the Commission, but many of them continue to be unfamiliar with the requirements of the law. The Commission has organized workshops for these institutions over the past year, but more time is needed 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 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/CTF 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. It is unclear whether terrorist financing is a predicate offense for money laundering or otherwise punishable under Decree 33.

While a SAR is being investigated, the Commission can freeze accounts of suspected money launderers for a nonrenewable period of up to eighteen days. 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 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, including freezing the assets of one Syrian individual listed on the 1267 list in 2006.

In the first 11 months of 2006, the Commission reported 162 suspicious transactions cases, 24 from banks, up from approximately 90 cases in 2005. The Commission has investigated and sent approximately 5 cases from 2005 and 33 cases in 2006 to the court system; however, all of these cases are still pending and there have not yet been arrests or convictions. Most Syrian judges are not yet familiar with the evidentiary requirements of the law. Furthermore, the slow pace of the Syrian legal system and political sensitivities are delaying quick adjudication of these issues. The Commission itself continues to be seriously hampered by human resource constraints, although it has increased its staff from six in 2005 to ten in 2006, and hopes to expand to 30 by the end of 2007. The Commission has also organized multiple training sessions, including with the World Bank, over the course of 2006, in Syria and abroad, on issues of AML/CTF detection. A small number of customs officials attended these sessions. However, the lack of expertise on AML/CTF issues, further undermined by a lack of political will, continues to impede effective implementation of existing AML/CTF regulations.

Although Decree 33 provides the Central Bank with a foundation to combat money laundering, most Syrians still do not maintain bank accounts or use checks, credit cards, or ATM machines. The Syrian economy remains primarily cash-based, and Syrians use moneychangers, some of whom also act as hawaladars, for many financial transactions. Estimates of the volume of business conducted in the black market by Syrian moneychangers range between \$15-70 million a day. Even 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. The SARG also passed a Moneychangers Law in 2006 to try to regulate the sector, requiring moneychangers to receive a license. However, it is unlikely that black market currency transactions will enter the formal sector because the SARG has still not offered adequate incentives; there is a 25 percent tax on these transactions, inadequate enforcement mechanisms, and continuing restrictions on foreign currency transfers. The Commission does have the authority to monitor the sector under Decree 33, but it reports that as moneychangers have until the end of 2006 to license their operations, they have not yet begun investigating these operations. The hawaladars in Syria's black market remain a source of concern for money laundering and terrorist financing.

The SARG has not updated its laws regarding charitable organizations to include strong AML/CTF language. A promised updated draft law is still pending. The SARG decided at the end of 2004 to restrict charitable organizations to only distributing nonfinancial assistance, but the current laws do not require organizations to submit detailed financial information or information on their donors. While the Commission says that it is seeking to increase cooperation with the Ministry of Social Affairs and Labor, which is supposed to approve all charitable transactions, to-date this remains a largely unregulated area.

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, Iraqi, and Jordanian borders. Most of the smuggling involves the Syrian pound, as a market for Syrian currency exists among expatriate workers and tourists in Lebanon, Jordan, and the Gulf countries. U.S. dollars are also commonly smuggled in the region. Some of the smuggling may involve the proceeds of narcotics and other criminal activity. In addition to cash smuggling, there also is a high rate of

commodity smuggling out of Syria, particularly of diesel fuel, prompted 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 while it has started to enact some limited reforms, including the computerization of border outposts and government agencies, problems of information-sharing remain. Customs also announced in 2005 that it planned to develop a special office to combat AML/CTF in coordination with the Ministry of Finance and Syria's security services, but this has not yet become operational. Additionally, Customs currently lacks the infrastructure to effectively monitor or control even the legitimate movement of currency across its borders. The Commission and Customs have developed a joint form for individuals to declare currency when entering or exiting the country, but it has not yet been implemented. Additionally, once the new form is in place, it will remain a voluntary procedure. To combat corruption among customs officers, the General Directorate of Customs announced in December 2005 that it planned 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 these programs have still not been realized.

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, Syria underwent a mutual evaluation by its peers in MENAFATF which will be released shortly. Syria participated as an observer at the Egmont Group meeting in June 2006 and has formally applied to become a full member. 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 some effort in 2006 to implement AML/CTF regulations that govern its formal financial sector, including ratifying a law to regulate black market currency transactions, nonbank financial institutions and the black market continue to be vulnerable to money laundering and terrorist financiers. Syria should continue to modify its AML/CTF legislation and enabling regulations so that they adhere to global standards. The General Directorate of Customs, the Central Bank, and the judicial system in particular continue to lack the resources and the political will to effectively implement AML/CTF measures. Although the SARG has stated its intention to create the technical foundation through which different government agencies could 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. In addition, it is doubtful that the SARG has the political will to punish terrorist financing, to classify what it sees as legitimate resistance groups as terrorist organizations, or to address the corruption that exists at the highest levels of government and business. All these issues remain obstacles to developing a comprehensive and effective AML/CTF regime in Syria.

Taiwan

Taiwan's modern financial sector and its role as a hub for international trade make it susceptible to money laundering. Its location astride international shipping lanes makes it vulnerable to transnational crimes such as narcotics trafficking and smuggling. There is a significant volume of informal financial activity through unregulated nonbank 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, and other general crimes.

Taiwan's anti-money laundering legislation is embodied in the Money Laundering Control Act (MLCA) of April 23, 1997, which was amended in 2003. Its major provisions include a list of predicate offenses for money laundering, customer identification and record keeping requirements, disclosure of suspicious transactions, international cooperation, and the creation of a financial intelligence unit, the Money Laundering Prevention Center (MLPC). In 2006, the Ministry of Justice began drafting another amendment to the MLCA, which would revise the scope of predicate crimes for money laundering, among other proposed changes.

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. In 2005, the MLPC received 1,028,834 currency transaction reports. 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 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. The proposed second amendment to the MLCA would prolong the permitted period of freezing the proceeds of money laundering from 6 months to 1 ½ years. 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. From January to October 2006, the MLPC received 1,085 suspicious transaction reports and 443 of them resulted in prosecutions.

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 retain photocopies of the identification cards 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. According to Taiwan's Central Bank of China (CBC), from January to August 2006, Taiwan hosted 33 local branches of foreign banks, two trust and investment companies, and 67 offshore banking units.

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 688 cases involving money laundering from January to October 2006, compared with 947 cases involving financial crimes during the same period of 2005. Among the 688 cases, 631 involved unregistered stock trading, credit card theft, currency counterfeiting or fraud. Among the 57 other money laundering cases, 11 were corruption-related and one was drug-related.

Individuals are required to report currency transported into or out of Taiwan in excess of TDW 60,000 (approximately \$1,850); or \$10,000 in foreign currency; 20,000 Chinese renminbi; or gold worth more than \$20,000. 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). Starting August 1, 2006, those who transfer funds over TDW 30,000 at any bank in Taiwan must produce a photo ID and the bank must record the name, ID number and telephone number of the client.

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 July 2006 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 MJB, 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/remitee is on a terrorist list. Although as

noted above Taiwan does not yet 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. The Ministry of Interior (MOI) is in charge of overseeing foundations and charities. In 2004 and in 2006, the MOI assigned public accountants to audit the financial management of nationwide foundations.

Article 3 of Taiwan's Free Trade Zone Establishment and Management Act defines a Free Trade Zone (FTZ) as a controlled district of an international airport or an international seaport approved by the Executive Yuan. The FTZ coordination committee, formed by the Executive Yuan, has the responsibility of reviewing and examining the development policy of the FTZ; the demarcation and designation of FTZs; and inter-FTZ coordination.

There are five FTZs in Taiwan which have opened since 2004, including Taipei Free Trade Zone, Taichung Free Trade Zone, Keelung Free Trade Zone, Kaohsiung Free Trade Zone, and Taoyuan Air Cargo Free Trade Zone. These FTZs were designated with different functions, so that Keelung and Taipei FTZs focus on international logistics; Taoyuan FTZ on adding value to high value added industries; Taichung FTZ on warehousing, transshipment and processing of cargo; and Kaohsiung FTZ on mature industrial clusters. According to the Center for Economic Deregulation and Innovation (CEDI) under the Council for Economic Planning & Development, by September 2006 there were 11 shipping and logistics companies listed in the Kaohsiung Free Trade Zone, seven logistics companies in Taichung Free Trade Zone, eight logistics and shipping companies in Keelung Free Trade Zone, one logistics company in Taipei Free Trade Zone, and 46 manufacturers and enterprises in Taoyuan Air Cargo Free Trade Zone. There is no indication that FTZs in Taiwan are being used in trade-based money laundering schemes or by the financiers of terrorism. According to Article 14 of the Free Trade Establishment and Management Act, any enterprise applying to operate within an FTZ shall apply to the management authorities of the particular FTZ by submitting a business operation plan, the written operational procedures for good control, customs clearance, and accounting operations, together with relevant required documents. Financial institutions may apply to establish a branch office inside the FTZ and conduct foreign exchange business, in accordance with the Banking Law of the ROC, Securities and Exchange Law, Statute Governing Foreign Exchange, and the Central Bank of China Act.

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. An offshore banking unit may operate a related business under the Offshore Banking Act, but cannot conduct any domestic financial, economic, or commercial transaction in New Taiwan Dollars.

Taiwan has promulgated drug-related asset seizure and forfeiture regulations which provide that in accordance with treaties or international 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. In March, 2006, Taiwan authorities announced that they had confiscated \$625 million, arrested 22 men and had frozen approximately NT\$1.7 billion (\$438 million), in the island's largest money laundering operation. 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 regarding alternate remittance systems. Taiwan should enact legislation pending since 2003 that explicitly criminalizes the financing of terrorism.

Tanzania

Tanzania is not an important regional financial center. Tanzania, however, is vulnerable to money laundering. Tanzania has weaknesses in its anti-money laundering/counterterrorism financing (AML/CTF) regime, specifically in its financial institutions and law enforcement capabilities. A weak financial sector along with an under-trained, under-funded law enforcement apparatus and the lack of a functioning financial intelligence unit (FIU) make money laundering impossible to track and prosecute. Real estate and used car businesses appear to be vulnerable trade industries involved in money laundering. With little or lax regulations and enforcement, the emerging casino industry is becoming an area of concern for money laundering. Money laundering is even more likely to occur in the informal nonbank financial sector, as opposed to the formal sector, which is largely undeveloped. Front companies are used to launder funds including hawaladars and bureaux de change, especially on the island of Zanzibar, where few 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 smuggling. The likely sources of illicit funds are from Asia and the Middle East and, to a lesser extent, Europe. Such transactions rarely include significant amounts of U.S. currency. There are no

indications that Tanzania's two free trade zones are being used in trade-based money laundering schemes or by financiers of terrorism.

The Proceeds of Crime Act of 1991 criminalizes narcotics-related money laundering; however, the Act does not adequately define money laundering. The law has been used only to prosecute corruption cases and over the past year there have been no arrests or prosecutions for money laundering or terrorist financing. The law requires 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 due diligence or negligence laws for banks. If an 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 voluntary, not mandatory. 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 requires all financial institutions to inform the government each quarter in a calendar year of any assets or transactions that may be associated with a terrorist group. 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. In 2004, the Government of Tanzania (GOT) took action 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 exchanges counterterrorism information. There are no specific laws in place allowing Tanzania to exchange records with the U.S. on narcotics transactions or narcotics-related money laundering.

Tanzania made progress in 2006 with its proposed anti-money laundering (AML) legislation. The national multi-disciplinary committee, established with the help of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), finalized the AML bill in 2005 after gaining input from a wide range of stakeholders. In June 2006, President Kikwete's Cabinet approved the AML bill and tabled it in Parliament. Reportedly, officials expect Parliament to pass the bill by February 2007. Among its other provisions, the proposed legislation provides for the creation of a 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 do not currently apply to nonbank 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 the use of 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 nonbank financial institutions to report suspicious transactions. There is currently no cross-border currency reporting requirement, 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 GOT 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 Corruption. In May 2006, the GOT became a party to the UN Convention against Transnational Organized Crime. In 2006, Tanzania was listed 93 out of 163 countries in Transparency International's Corruption Perception Index. Tanzania is a member of ESAAMLG and continues to play a leading role in the operation of

this FATF-style regional body. Tanzania also continues to host the annual ESAAMLG task force meetings and has detailed personnel to the ESAAMLG Secretariat which it hosts.

The Government of Tanzania should enact and implement the anti-money laundering law that has been under review for several years. Tanzania should also increase the reporting requirements for informing the government of assets or transactions that may be associated with a terrorist group. Currently the GOT requires quarterly reporting requirements regarding terrorist financing. The importance of stopping terrorist acts should mandate a shorter reporting interval in this arena. The GOT should continue to work through the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) to establish the FIU mandated in the draft law and to develop a comprehensive anti-money laundering regime that comports with international standards. Per the Financial Action Task Force Special Recommendation Nine, the GOT should enact mandatory cross-border currency reporting requirements. Tanzania should also enact and enforce anti-money laundering regulations within the casino industry.

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 nonbanking 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 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 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, murder, migrant smuggling, counterfeiting, and 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). Among other functions it serves as 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 following criticisms that AMLO had been politicized, 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.

AMLO, the Royal Thai Police (RTP) Special Branch, and the Royal Thai Police Crimes Suppression Division are responsible for investigating financial crimes. They initiated 1,215 financial crimes investigations in 2005 resulting in a total of 57 convictions. During the 2006 fiscal year (10/05-09/06), AMLO prosecuted 79 cases of civil asset forfeiture and realized Bt459 million or \$11.8 million. Eleven cases remain under investigation. 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 nonterrorist 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.

The Ministry of Justice also houses a criminal investigative agency, the Department of Special Investigations (DSI), which is separate from the RTP 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 RTP all have authority to identify, freeze, and/or forfeit terrorist finance-related assets.

AMLO shares information with other Thai law enforcement agencies and vice versa. It has a memorandum of understanding with the Royal Thai Customs, pursuant to which Royal Thai Customs shares information and evidence of smuggling and customs evasion involving goods or cash exceeding Bt 1 million (approximately USD25,600).

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 stand-alone secrecy laws but

the Commercial Bank Act B.E. 2505 (1962), regulated by Bank of Thailand, has a provision providing for bank secrecy to prevent disclosure of client financial information. However, AMLA overrides this provision. Therefore, financial institutions must disclose their client and ownership information to AMLO if requested. .

The Bank of Thailand (BOT), Securities and Exchange Commission (SEC), and AMLO are empowered to supervise and examine financial institutions for compliance with anti-money laundering/counterterrorist financial laws and regulations. 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 to train officers in conducting compliance audits, and in 2007 AMLO is expecting to setup an on-and-off site audit team with assistance from the BOT, although no such audits have yet to occur.

Anti-money laundering controls are also enforced by other Royal Thai Government regulatory agencies, including the Board of Trade 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 nonbanking business. The land registration offices are also required to report on any transaction involving property of Bt5 million or greater, or a cash payment of Bt2 million or greater, for the purchase of real property.

The Exchange Control Act of B.E. 2485 (1942) states that foreign currencies can be brought into Thailand without limit. However, any person receiving foreign currencies is required to surrender foreign currencies to an authorized bank or to deposit the same in a foreign currency account within 7 days from receipt, except foreigners temporarily staying in Thailand for not more than three months, foreign embassies, and international organizations. (In November 2006, the BOT amended the surrender period from 7 days to 15 days but the amendment is pending the Ministry of Finance's approval.) Meanwhile, there is no restriction on the amount of Thai currency (Baht) that may be brought into the country. However, a person traveling to Thailand's bordering countries including Vietnam is allowed to take out Thai Baht up to Bt500,000 or \$12,820 and to other countries up to Bt50,000 (\$1,282) without authorization.

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. BIBFs are subject to the AMLA. However, in mid October 2006, the last BIBF license was returned to the Bank of Thailand due to the BOT's "one presence" policy for all financial institutions. Some of these qualified stand alone BIBFs have upgraded to either full branches or subsidiaries, while Thai commercial banks with BIBF licenses had to surrender their licenses to the BOT. Most BIBFs simply exited the market.

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), under the Ministry of Commerce, 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 Bt2 million (approximately \$52,000), and property transactions exceeding Bt5 million (approximately \$130,000), have been in place since October 2000. In 2007, the AMLO Board will again 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. Previous proposals would have imposed mandatory reporting requirements regarding transactions with nonregular customers involved in business transactions worth more than Bt1 million (or \$25,600) or would have imposed mandatory reporting requirements on shops engaging in annual transactions in excess of Bt 100 million (or \$2,560,000). 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 (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 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.

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 facilitate crime such as vehicles or farms (when not proceeds) cannot be forfeited under AMLA and 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.

In 2004, 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 continuing 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. However, in November 2006, the Minister of Justice recommended that the Prime Minister rescind the reward regulation, and the U.S. is encouraged that appropriate action will occur in early 2007 to eliminate this system.

Thailand 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 (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. Implementing legislation must be enacted before Thailand can ratify either Convention. 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 as possibly terrorist-related and has initiated investigations of possible terrorist activities using nongovernmental or nonprofit organizations as a front.

Thailand has Mutual Legal Assistance Treaties (MLATs) with 10 countries, including the United States and is a party to the regional ASEAN Mutual Legal Assistance Agreement. AMLO has memoranda of understanding on money laundering cooperation with 27 other financial intelligence units (Belgium, Brazil, Lebanon, Indonesia, Romania, UK, Finland, Republic of Korea, Australia, Portugal, Andorra, Estonia, Italy, Philippines, Poland, Mauritius, Netherlands, Georgia, Monaco, Malaysia, Bulgaria, St. Vincent and the Grenadines, Ukraine, Myanmar, Nigeria, Japan, and Ireland). AMLO is currently pursuing FIU agreements with 15 more FIUs. 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. Nonbank 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 and the UN Convention Against Corruption. 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 law enforcement agencies that engage in similar reward schemes, 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. The current "interim" government has declared that it will limit itself to a term of around one year (i.e. until September 2007) and focus on drafting a new constitution. Its willingness and ability to pass new anti-money laundering laws and regulations are, therefore, extremely constrained.

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.

Money laundering takes place in banks, nonbank financial institutions, and the underground economy. Money laundering methods in Turkey include: the cross-border smuggling of currency; bank transfers into and out of the country; trade fraud, and the purchase of high value items such as real estate, gold, and luxury automobiles. It is believed that Turkish-based traffickers transfer money and sometimes gold via couriers, the underground banking system, and bank transfers to pay narcotics suppliers in Pakistan or Afghanistan. Funds are often transferred to accounts in the United Arab Emirates, Pakistan, and other Middle Eastern countries. A substantial percentage of money laundering that takes place in Turkey involves fraud and tax evasion. Informed observers estimate that as much as 50 percent of the economy is unregistered. In 2005, the Government of Turkey (GOT) passed a tax administration reform law, with the goal of improving tax collection.

Turkey first criminalized money laundering in 1996. 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.

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.

Under a Ministry of Finance banking regulation circular all banks, including the Central Bank, securities companies, post office banks, and Islamic financial houses are required 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 mandates that a tax identity number be used in all financial transactions. The requirements are intended to increase the GOT'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. Individuals and corporate bodies from whom

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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. The Banking Regulatory and Supervisory Agency (BRSA) conducts periodic anti-money laundering and compliance reviews under the 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. In 2005, 352 STRs were filed, up from 288 in 2004 and 177 in 2003. The 2006 statistics are not available.

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 (approximately 71,300 Turkish new liras) or its equivalent in foreign currency notes (including transfers from foreign exchange deposits). Travelers may take up to \$5,000 (approximately 7,130 Turkish new liras) or its equivalent in foreign currency notes out of the country. Turkey does have cross-border currency reporting requirements. Article 16 of the recently-enacted MASAK law (see below) gives customs officials the authority to sequester valuables of travelers who make false or misleading declarations and imposes fines for such declarations.

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. MASAK has three functions: regulatory, financial intelligence, and investigative. MASAK plays a pivotal role between the financial community and Turkish law enforcement, investigators, and judiciary.

In October 2006, Parliament enacted a new law reorganizing MASAK along functional lines, explicitly criminalizing the financing of terrorism, and providing safe harbor protection to the filers of STRs. The law also expands the range of entities subject to reporting requirements, to include art dealers, insurance companies, lotteries, vehicle sales outlets, antique dealers, pension funds, exchange houses, jewelry stores, notaries, sports clubs, and real estate companies. It also specifies sanctions for failure to comply. The law gives MASAK the authority to instruct a number of different inspection bodies (such as the bank examiners, the financial inspectors or the tax inspectors) to initiate an investigation if MASAK has reason to suspect financial crimes. Likewise, MASAK can refer suspicious cases to the Public Prosecutor and the Public Prosecutor can ask MASAK to conduct a preliminary investigation prior to referring a case to the police for criminal investigation.

However, neither the current draft of the legislation, nor a June 2006 set of amendments to Turkey's antiterrorism laws, expanded upon Turkey's narrow definition of terrorism applicable only in terms of attacks on Turkish nationals or the Turkish state.

According to MASAK statistics, as of December 31, 2005 it had pursued 2,231 money laundering investigations since its 1996 inception, but fewer than ten cases resulted in convictions. Moreover, all of the convictions are reportedly under appeal. Most of the cases involve nonnarcotics criminal actions or tax evasion; as of December 31, 2005 41 percent of the cases referred to prosecutors were narcotics-related.

The GOT enforces existing drug-related asset seizures 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 nonbank 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.

MASAK's General Communiqué No. 3, requires that a special type of STR be filed by financial institutions in cases of suspected terrorist financing. However, until the amendments to the criminal code were enacted in June 2006, terrorist financing was 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 people is illegal under the provisions of the Law No. 4422 on the Prevention of Benefit-Oriented Criminal Organizations. The GOT distributes to GOT agencies and financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee consolidated list, as well as U.S.-designated names.

Another area of vulnerability in the area of terrorist financing is the GOT's supervision of nonprofit organizations. The General Director of Foundations (GDF) issues licenses for charitable foundations and oversees them. The Ministry of Interior regulates charitable nongovernmental associations (NGOs). Both the GDF and the Ministry of Interior keep central registries of the charitable organizations they regulate and they require charities to verify and prove their funding sources and to have bylaws. Charitable foundations are audited by the GDF and are subject to being shut down if they act outside the bylaws. Charitable organizations are required to submit periodic financial reports to the regulators. The regulators and the police closely monitor monies received from outside Turkey. The police also monitor NGO's for links to terrorist groups.

Alternative remittance systems are illegal in Turkey, and in theory only banks and authorized money transfer companies are permitted to transfer funds. Trade-based money laundering, fraud, and underground value transfer systems are also used to avoid taxes and government scrutiny. There are 21 free trade zones operating in Turkey. The GOT closely controls access to the free trade zones. Turkey is not an offshore financial center.

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 Council of Ministers promulgated a decree (2482/2001) to freeze all the funds and financial assets of individuals and organizations included on the UNSCR 1267 Sanctions Committee's consolidated list. 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 UN consolidated list. Even for names on the list, Turkey's decree-based system of freezing 1267-listed names was challenged in court. In July 2006, a chamber of the Council of State (administrative court) ruled that the GOT lacked the

authority to freeze assets by decree since property rights are protected under the Turkish constitution. The assets of the 1267-listed individual continue to be frozen and this ruling is under appeal.

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 2006, Turkey became a party to the UN Convention against Corruption.

With the passage of several new pieces of legislation, the Government of Turkey took steps in 2005 and 2006 to strengthen its anti-money laundering and counterterrorist financing regime. It now faces the challenge of aggressively implementing these laws. 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. Turkey should consider expanding its narrow legal definition of terrorism. Turkey should continue tax reform that will help minimize the underground economy. 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). The 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. The 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 its large offshore financial services sector, as well as its bank and corporate secrecy laws and internet gaming activities. As of 2006, the TCI's offshore sector has eight banks, four of which also offer offshore banking; approximately 2,500 insurance companies; 20 trusts; and 17,000 "exempt companies" that are IBCs.

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. These institutions are subject to on-site examination to determine compliance with TCI laws and regulations. In 2006, the Financial Services Commission employed a staff of 21, including four regulators. The FSC became a statutory body under the Financial Services Commission Ordinance 2001 and became operational in March 2002. It now reports directly to the Governor, as well as the Minister of Finance. The FSC is in the process of adopting a risk-based examination approach to better assess, identify, measure, monitor and control threats associated with potential money laundering and terrorist financing.

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 with assistance from the UK Government.

The 1998 Proceeds of Crime Ordinance (PCO) criminalizes money laundering related to all crimes and provides “safe harbor” protection for good faith compliance with reporting requirements. The PCO allows for the criminal forfeiture of assets related to money laundering and other offenses, although civil forfeiture is not permitted. The PCO 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 its 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 banks, insurance companies, trusts, mutual funds, money remitters, investment dealers and issuers of credit cards. However, money remitters and investment dealers have no supervisory or regulatory authority to oversee compliance with the regulations. Other sectors, such as gambling, jewelers, real estate companies and currency exchange companies, are not subject to the Money Laundering Regulations. Although the customer identification requirements only apply to accounts opened after the Regulations came into force, TCI officials have indicated that banks would be required to conduct due diligence on previously existing accounts by December 2005.

In 1999, the FSC, acting as the secretary for the MLRA, issued nonstatutory Guidance Notes to the financial sector, in order to help educate the industry regarding money laundering and the TCI’s anti-money laundering requirements. Additionally, it provided practical guidance on recognizing suspicious transactions. The Guidance Notes instruct institutions to send SARs to either the Royal Turks & Caicos Police Force or the FSC. Officials forward all SARs to the Financial Crimes Unit (FCU) of the Royal Turks and Caicos Islands Police Force, which analyzes and investigates financial disclosures. The FCU also acts as the 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 not 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.

As a UK territory, the TCI is subject to the United Kingdom Terrorism (United Nations Measure) (Overseas Territories) Order 2001. However, the Government of the TCI has not yet implemented domestic orders that would criminalize the financing of terrorism. The UK’s ratification of the International Convention for the Suppression of the Financing of Terrorism has not been extended to the TCI.

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 has put in place a comprehensive system to combat money laundering with the relevant legislative framework. The FSC has made steady progress in developing its regulatory capability and has some experienced senior staff. Notwithstanding, the current regulatory structure is not fully in accordance with international standards. The Turks and Caicos Islands should extend existing regulations to all sectors, bring all obligated entities under the supervision of a regulatory body, and enhance its on-site supervision program. The Turks and Caicos Islands should take the necessary steps to ensure that its FIU is eligible for membership in the Egmont Group of financial intelligence units. The Government of the TCI should criminalize the financing of terrorists and terrorism. Turks and Caicos Islands should expand efforts to cooperate with foreign law enforcement and administrative authorities. Turks and Caicos Islands should also 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 Islands' financial sector.

Ukraine

Corruption, organized crime, prostitution, smuggling, tax evasion, trafficking in persons, drugs and arms, and other organized criminal activity continue to be sources of laundered funds in Ukraine. As of June 30, 2006, Ukraine has approximately 160 active banks, two of which are state-owned. There are no offshore financial centers or facilities under Ukraine's jurisdiction.

In January 2001, the Government of Ukraine (GOU) enacted the "Act on Banks and Banking Activities," which imposes some anti-money laundering (AML) requirements upon banking institutions. The Act prohibits banks from opening accounts for anonymous persons, requires the reporting of large transactions and suspicious transactions to state authorities, and provides for the lifting of bank secrecy pursuant to an order of a court, prosecutor, or specific state body. In August 2001, the President signed the "Law on Financial Services and State Regulation of the Market of Financial Services." This law establishes regulatory control over nonbank financial institutions that manage insurance, pension accounts, financial loans, or "any other financial services involving savings and money from individuals." The law defines financial "institutions" and "services," imposes record keeping requirements on obligated entities, and identifies the responsibilities of regulatory agencies. The law established the State Commission on Regulation of Financial Services Markets, which, along with the National Bank of Ukraine (NBU) and the State Commission on Securities and the Stock Exchange, has responsibility for regulating financial services markets.

When the Financial Action Task Force (FATF), placed Ukraine on the list of noncooperative countries and territories (NCCT) in September 2001, it noted that Ukraine lacked (1) a complete set of anti-money laundering (AML) laws, (2) an efficient mandatory system for reporting suspicious transactions to a Financial Intelligence Unit (FIU), (3) adequate customer identification requirements, and (4) adequate resources at present to combat money laundering. Following the FATF action, the U.S. Treasury Department issued an advisory to all U.S. financial institutions instructing them to "give enhanced scrutiny" to all transactions involving Ukraine.

On November 28, 2002, President Kuchma signed into law Ukrainian Law No. 249-IV, an anti-money laundering package entitled "On Prevention and Counteraction of the Legalization (Laundering) of the

Proceeds from Crime” (the Basic AML Law). The Basic AML Law establishes a two-tiered system of financial monitoring consisting of initial financial monitoring (i.e. obligated entities that carry out financial transactions) and state financial monitoring (i.e. government agencies charged with regulation and supervision of the financial institutions). Overall regulatory authority is vested in the State Committee for Financial Monitoring (SCFM), in accordance with Article 4 of the AML law.

In December 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. In December 2002 and February 2003, in response to the imminent threat of countermeasures, Ukraine passed further legislative amendments in accordance with FATF recommendations.

Legislation enacted in February 2003 requires banks and other financial service providers to implement AML compliance programs, conduct due diligence to identify beneficial account owners prior to allowing the opening an account or conducting certain transactions, report suspicious transactions to the SCFM and maintain records on suspicious transactions and the people carrying them out for a period of five years. The legislation includes a “safe harbor” provision that protects reporting institutions from liability for cooperating with law enforcement agencies. Immediately upon passage of the February amendments, the FATF withdrew its call for members to invoke countermeasures and the United States followed suit on April 17, 2003, by revoking Ukraine’s designation under Section 311 of the USA PATRIOT Act as a jurisdiction of primary money laundering concern. In August 2003, the State Commission established the State Register of financial institutions, and by October 2006, the State Register contained information on 1375 nonbank financial institutions.

By passing comprehensive anti-money laundering legislation, Ukraine initiated the process of NCCT de-listing. At the FATF plenary in September 2003, Ukraine was invited to submit an implementation plan, and an on-site visit to assess Ukraine’s progress in developing its AML regime was conducted on January 19-23, 2004. The positive results of the on-site visit by the FATF evaluation team were reported to the European Review Group (ERG), and Ukraine was removed from the NCCT list at the FATF plenary on February 25, 2004. As a condition of de-listing, Ukraine continued to undergo monitoring by the FATF on implementation of its AML regime. Since November 2004, the GOU has made several efforts to pass a set of amendments to the AML law in order to bring Ukraine’s regime into compliance with FATF’s revised Forty plus Nine recommendations. The Rada, or Parliament, twice rejected the government’s draft in 2005. The government has redrafted the law, narrowing its scope to the FATF recommendations, and omitting provisions introducing new SCFM authority and other bureaucratic changes that had drawn opposition in the Parliament. Among other provisions, the new legislation would expand the sectors subject to primary monitoring to include retail traders, lawyers, accountants, and traders of precious metals. The law, entitled “On Amending Some Legislative Acts of Ukraine on Prevention to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing”, was registered in the Verkhovna Rada on December 28, 2006. The bill was also referred to a special expert committee called the Main Scientific Expertise Department, which provided commentary, along with the recommendation that the Rada address some problems mainly regarding terminology, and then approve the bill on its first reading.

In 2004, authorities reduced the monetary threshold beyond which transactions and operations are subject to compulsory financial monitoring from Ukrainian Hryvnias (UAH) 300,000 (approximately \$59,650) for cashless payments and UAH 100,000 (approximately \$19,900) for cash payments, to UAH 80,000 (approximately \$15,900) for payments using either method. The compulsory reporting threshold exists only if the transaction also meets one or more suspicious activity indicators as set forth in the law. Any transaction suspected of being connected to terrorist activity must be reported to the appropriate authorities immediately.

Money Laundering and Financial Crimes

Beginning in August 2005, as a result of amendments to the “Resolution on the Adoption of Instructions Regarding Movement of Currency, Precious Metals, Payment Documents, and Other Banking Documents over the Customs Border of Ukraine,” the law mandates that travelers declare cross-border transportation of cash sums exceeding \$3,000. Cash smuggling is substantial in Ukraine, although it is reportedly related more to unauthorized capital flight rather than to criminal proceeds or terrorist funding.

In 2005, the GOU sought to combat smuggling and corruption by reducing import duties, introducing new procedures for the Customs Service, and implementing transparent procedures for the privatization of state enterprises. Ukraine’s 2005 budget eliminated the tax and customs duty privileges available in eleven Free Economic Zones and nine Priority Development Territories that operated within Ukraine. However, in August 2006, the government announced its intention to restore tax and customs privileges for businesses operating in the SEZs beginning in 2007. Although legislation implementing this policy decision had not yet passed the Parliament by the end of 2006, the GOU asserts that the SEZs will avoid the problems of the past.

Ukraine enacted Law 3163-IV in January 2006; this law amended the initial AML laws. Under the new Law, the entities obligated to conduct initial financial monitoring must be able to provide proof that they are fulfilling all Know Your Customer (KYC) identification requirements. Ukraine also granted state agencies enhanced authority to exchange information internationally, improved rules on bank organization, and implemented a screening requirement at the level of financial institutions. On September 14, 2006, Ukraine enacted amendments to the “Law on Banks and Banking” that require all banks to be formed as open joint-stock companies or as cooperatives. This measure strengthens disclosure requirements on the identity of the beneficial owners of banks. These amendments apply to all newly formed banks and provide a three-year period for existing banks to comply. As a result of these and other improvements to its legal framework, in February 2006, the FATF suspended its direct monitoring of Ukraine, which had been in place since December 2002.

The Criminal Code of Ukraine has separate provisions criminalizing drug-related and nondrug-related money laundering. Amendments to the Code adopted in January 2003 included willful blindness provisions and expanded the scope of predicate crimes for money laundering to include any action punishable under the Criminal Code with imprisonment of three years or more, excluding certain specified actions.

The SCFM is Ukraine’s financial intelligence unit (FIU). The December 10, 2001 Presidential Decree “Concerning the Establishment of a Financial Monitoring Department” mandated the establishment of the SCFM as Ukraine’s FIU. The SCFM became operational on June 12, 2003. At that time, the SCFM was an independent authority administratively subordinate to the Ministry of Finance and the sole agency authorized to receive and analyze financial information from financial institutions. On March 18, 2004, Ukraine’s Rada granted the SCFM the status of a central executive agency, subordinate to the Cabinet of Ministers rather than to the Ministry of Finance. This change became effective on January 1, 2005. As of October 1, 2006, the SCFM had established 21 local branches in Ukraine’s regions.

The SCFM is an administrative agency with no investigative or arrest authority. It is authorized to collect suspicious transaction reports 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 the authority to conclude interagency agreements and exchange intelligence on financial transactions involving money laundering or terrorist financing with other FIUs. As of October 2006, the SCFM had concluded memoranda of understanding (MOUs) with the FIUs of thirty countries, and was working on fourteen additional MOUs.

The SCFM has processed, analyzed, and developed cases reportedly to the point of establishing the equivalent of probable cause prior to referral to law enforcement. It has become a regional leader with

regard to the volume of case information exchanged with counterpart FIUs. The SCFM acknowledges the existence and use of alternative remittance systems in Ukraine, and its 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 2005, the SCFM received 786,251 transaction reports, which include STRs and automatic threshold reports. The majority of these were submitted by banks. The SCFM designated approximately 11 percent of these for “active research” and sent 321 separate cases to law enforcement agencies. From January to November 2006, the SCFM received a total of 692,280 transaction reports. Over that same period, the SCFM referred 31 cases to the Prosecutor General’s Office, 115 cases to the State Tax Administration, 127 cases to the Ministry for Internal Affairs, and 154 cases to the State Security Service of Ukraine. As a result of subsequent investigation of these 427 cases, law enforcement agencies initiated 161 criminal cases. Of these, prosecutors brought 8 cases to trial, with one conviction.

Although the reporting system is effective and the SCFM has generated a substantial number of cases, law enforcement authorities and prosecutors did not succeed in obtaining a large number of convictions. Observers reportedly believe the key problem to be local prosecutors who close money laundering investigations and cases prematurely or arbitrarily, possibly because of corruption and possibly because of a weak understanding of money laundering crimes on the part of authorities—for example, authorities are inclined to include tax crimes as money laundering. Ukraine has been working with the European Commission and Council of Europe to increase its capacity to fight money laundering and terrorism financing. The first such undertaking took place from 2003-2005 and was called “Project Against Money Laundering in Ukraine,” or MOLA-UA. Those involved decided it was so successful that in September 2006, a follow-up “Project Against Money Laundering and Terrorist Financing in Ukraine” (MOLA-UA2) was established, with a focus on education, training and cooperation. MOLA-UA2 will run through April 2009 and focus on three areas: getting Ukraine’s legislative framework up to international standards; enhancing the human capacities of key institutions and agencies; and developing the organizational and technical infrastructure of the system.

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 person convicted for grave and especially 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.

On December 10, 2003, the Cabinet of Ministers issued Decree No. 1896, establishing a Unified State Information System of Prevention and Counteraction of Money Laundering and Terrorism Financing. Through this system, fourteen ministries and agencies share information by providing each other with monthly database updates. The Government is planning to automate this information sharing in 2007 by establishing a secure electronic network linking these agencies.

Law 3163-IV, which entered into force on January 1, 2006, enhanced Ukraine’s ability to exchange information internationally and placed greater obligations on banks to combat terrorist financing. This Law requires banks to adopt procedures to screen parties to all transactions using a SCFM-issued list of beneficiaries of, or parties to, terrorist financing. Banks must freeze assets for two days and immediately inform the FIU and law enforcement bodies whenever a party to a transaction appears on the list. The FIU can extend the freeze to five days. During the first half of the year, banks developed their screening capabilities. On October 25, 2006, the Cabinet of Ministers approved the SCFM’s list, drawn from three sources: the United Nations 1267 Sanctions Committee’s consolidated list, information from the Ukrainian Security Service on individuals and entities suspected of violating article 258 of the Ukrainian Criminal Code concerning terrorism, and the lists compiled by those countries that have bilateral agreements with Ukraine on mutual recognition of terrorist designations. On September 21, 2006, the Rada enacted revisions to Article 258 of the Criminal Code, adding

Article 258-4 which explicitly criminalizes terrorist financing. The revised text mandates imprisonment from three to eight years for financing, material provision, or provision of arms with the aim of supporting terrorism. The revisions also amend the criminal procedure code to empower the State Security Service (SBU) with primary responsibility for investigation of terrorist financing.

The GOU has cooperated with U.S. efforts to track and freeze the financial assets of terrorists and terrorist organizations. The NBU, the State Commission for the Regulation of Financial Services, the Securities Exchange Commission, the State Tax Administration, the SBU, and the Ministries of Finance, Internal Affairs, and Foreign Affairs are informed about the U.S.-designation of suspected terrorists and terrorist organizations under E.O. 13224 and other U.S. authorities. Through their regulatory agencies, banks and nonbank financial services also receive these U.S.-designations, and are instructed to report any transactions involving designated individuals or entities.

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 UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Ukraine is a signatory to the UN Convention against Corruption. Ukraine is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), a FATF-style regional body (FSRB). It is also an observer and technical assistance donor to the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG), another FSRB. The SCFM is a member of the Egmont Group.

Ukraine has strengthened and clarified its newly adopted laws. With the SCFM, the NBU, and other actors in the financial and legal sectors, Ukraine has established a comprehensive AML regime. To date, however, Ukraine's ability to implement this regime through consistent successful criminal prosecutions has yet to be proven. The Prosecutor General's office should address the deficiencies of that office, such as limited professional experience with money laundering among staff, which can result in prosecutors' limited commitment to criminal prosecution. The GOU should take action to establish oversight capabilities of local investigators, prosecutors, and judges to insure that cases are vigorously pursued and prosecuted. 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. Ukraine should become a party to the UN Convention against Corruption and prosecute and convict corrupt public officials.

United Arab Emirates

The United Arab Emirates (UAE) is an important financial center in the Persian Gulf region. Although the financial sector is modern and progressive, the UAE remains a largely cash-based society. Dubai, in particular is a major international banking center. The country also has a growing offshore sector. The UAE's robust economic development, political stability, and liberal business environment have attracted a massive influx of people, goods, and capital. The UAE is particularly susceptible to money laundering due to its geographic location as the primary transportation and trading hub for the Gulf States, East Africa, and South Asia; and its expanding trade ties with the countries of the former Soviet Union and lack of transparency in its corporate environment. The potential for money laundering is exacerbated by the large number of resident expatriates (roughly 80 percent of total population) from the aforementioned regions to the UAE who send remittances to their homelands. Given the country's proximity to Afghanistan, where most of the world's opium is produced, narcotics traffickers are increasingly reported to be attracted to the UAE's financial and trade centers. Other

sources of money laundering in the UAE include hawala, trade fraud, the real estate boom, the misuse of the international gold trade, conflict diamonds and smuggling.

Following the September 11, 2001 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 national and emirate-level officials have gone on record as recognizing the threat money laundering activities in the UAE pose to the nation's reputation and 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 the Anti-Money Laundering Law No. 4/2002, and the Anti-Terrorism Law No. 1/2004. Both pieces of legislation, in addition to the Cyber Crimes Law No. 2/2006, serve as the foundation for the country's anti-money laundering and counterterrorist financing efforts.

Law No. 4 of 2002 criminalizes all forms of money laundering activities. The law calls for stringent reporting requirements for wire transfers exceeding 2000 dirhams (approximately \$545) and currency imports above 40,000 dirhams (approximately \$10,900). The law imposes stiff criminal penalties for money laundering that includes up to seven years in prison plus a fine of up to 300,000 dirhams (approximately \$81,700), as well as a seizure of assets upon conviction. The law also provides safe harbor provisions for reporting officers.

Prior to the passage of the Anti-Money Laundering Law, the National Anti-Money Laundering Committee (NAMLC) was established in July 2000 to coordinate the UAE's anti-money laundering policy. The NAMLC was later codified as a legal entity by Law No. 4/2002, and is chaired by the Governor of the Central Bank. Members of the NAMLC include representatives from the Ministries of Interior, Justice, Finance, and Economy, the National Customs Board, Secretary General of the Municipalities, Federation of the Chambers of Commerce, and five major banks and money exchange houses (as observers).

Administrative Regulation No. 24/2000 provides guidelines to financial institutions for monitoring 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. Financial institutions must verify the customer's identity and maintain transaction details (i.e., 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.

In July, 2004, the UAE government strengthened its legal authority to combat terrorism and terrorist financing by passing Federal Law Number No. 1/2004. The Law specifically criminalizes the funding of terrorist activities and terrorist organizations. It 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 "nonconventional weapons" and their components that are intended for use in a terrorist activity.

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," regardless if 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 were no reported criminal convictions for money laundering or terrorist financing under either the 2002 or the 2004 laws.

Law No. 1/2004 also established the “National Anti-Terror Committee” (NATC) to serve as the government’s interagency liaison with respect to implementing the United Nations Security Council Resolutions on terrorism, and sharing information with its foreign counterparts as well as with the United Nations. Representatives from Ministries of Foreign Affairs, Interior, Justice, and Defense; Central Bank; State Security Department; and Federal Customs Authority comprise the NATC

The Anti-Money Laundering and Suspicious Case Unit (AMLSCU) was established in 2002 as the UAE’s financial intelligence unit (FIU), and was housed within the Central Bank. In addition to receiving Suspicious Transaction Reports, the AMLSCU is authorized to send and receive information requests from foreign regulatory authorities in order to conduct its preliminary investigations based on suspicious transaction report data. The AMLSCU joined the Egmont Group in June 2002, and has regularly exchanged information with foreign FIUs on a reciprocal basis. It has also provided information by request to foreign FIUs (including the United States) regarding investigations being conducted in other countries. As of October 2006, the AMLSCU has received and investigated a total of 3954 suspicious transactions reports (STRs), 829 of which were received between December 2005 and October 2006. Based on AMLSCU and law enforcement investigations from these STRs, a total of 27 freeze orders were issued by the Central Bank between December 2000 (prior to the establishment of the FIU) and October 2006, one of which was issued in 2006. Of these 27 cases of freeze orders, 9 cases are currently in the process of prosecution for money laundering and confiscation of criminal proceeds. The Central Bank also ensures that it circulates an updated UNSCR 1267 Sanctions Committee’s consolidated list of suspected terrorists and terrorist organizations to all the financial institutions under its supervision. Since 2000, the Central Bank has frozen a total of \$1,348,381 from 17 separate bank accounts based on the names contained in the UNSCR 1267 list.

Several amendments were made to the Central Bank Regulations 24/2000 in July 2006. First, the regulations added the term “terrorism financing” to any references made to the term “money laundering.” Second, the Regulations required financial institutions to freeze transactions that they believe may be destined for funding terrorism, terrorist organizations, or for terrorist purposes. The Regulations also require financial institutions to notify the financial intelligence unit (FIU) in writing of such transactions “in case of any doubt”. Finally, the enhanced due diligence requirements for charities were made requiring banks to obtain a certificate from the Minister of Social Affairs before opening or maintaining any charitable organization-type account.

In 2006, the UAE enacted Law No. 2/2006 of the Cyber Crimes. Article 19 of the law criminalized the electronic transfer of money or property through the internet in which the true sources of such assets are either concealed or linked to criminal proceeds. Violations are punishable by up to seven years imprisonment and fines ranging from approximately \$8,170 to \$54,500. Article 21 of the law outlaws the use of the internet to finance terrorist activities, promote terrorist ideology, disseminate information on explosives, or to facilitate contact with terrorist leaders. Any violation of Article 21 is punishable by up to 5 years imprisonment.

The Central Bank is responsible for supervising the UAE financial sectors, which include banks, exchange houses, and investment companies. It is authorized to issue licenses and impose

administrative sanctions for compliance violations. The Central Bank also has the authority to issue instructions and recommendations to financial institutions as it deems appropriate, and to take any measures as necessary to ensure the integrity of the UAE's financial system

Some money laundering in the UAE is known to occur through the numerous money exchange houses. However, hawala is where money laundering activity is likely more prevalent due to the largely undocumented nature of this informal remittance system. Dubai is a regional hawala center. Hawala is an attractive mechanism for terrorist and criminal exploitation due to the nontransparent and highly resilient nature of the system to law enforcement and regulators. In 2002, the Central Bank issued new regulations to help improve the oversight of hawala. The new regulations required hawala brokers (hawaladars) to register with the Central Bank, submit the names and addresses of all originators and beneficiaries of funds, and to file suspicious transaction reports on a monthly or quarterly basis. However, since the inception of the program, there reportedly have not been any suspicious reports filed by hawaladars.

As of November 30, 2006, the Central Bank issued 201 licenses to hawaladars, with an additional 38 applicants currently working to complete their licensing requirements. Once issued a formal license, the Central Bank conducts one-on-one training sessions with each registered hawaladar to ensure that dealers understand the record-keeping and reporting obligations. The registered hawaladars are also required to use an account they open at the Central Bank to process their transactions. Currently, 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 with the Central Bank. The UAE has hosted three international Conferences on hawala, and plans to host a fourth in March 2007.

The UAE has not set any limits on the amount of cash that can be imported into or exported from the country. No reporting requirements exist for cash exports. However, the Central Bank requires that any cash imports over \$10,900 must be declared to Customs; otherwise undeclared cash may be seized upon attempted entry into the country. Upon seizing any undeclared cash, UAE authorities have the jurisdiction to conduct an investigation into the source of these funds. All cash forfeiture cases are handled at the judicial level because there are no administrative procedures to handle forfeited cash. Since the UAE is a cash-based economy, it is not unusual for people to carry significant sums of cash in general. As a result, customs officials, police, and judicial authorities tend to not regard large cash imports as potentially suspicious or criminal type activities.

The UAE authorities have admitted the need to better regulate "near-cash" items such as gold, jewelry, and gemstones, especially in the burgeoning markets located 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 a quasi-governmental organization charged with issuing Kimberly Process (KP) certificates in the UAE, and employs four full-time individuals 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 with the new KP requirements. Under the new KP regulations, UAE customs officials are authorized to delay or even confiscate those diamonds entering the UAE from another KP member country that does not have the proper certificates.

In 2006, Russian customs officials reportedly apprehended an air passenger from Dubai after he tried to smuggle 2.5 kilos of diamonds into the country. There are also reports that diamonds are increasingly being used as medium to provide countervaluation in hawala transfers, particularly between Dubai and Mumbai. Also in December 2006 a UN report noted that UAE authorities released a suspicious shipment of diamonds after a scientific examination proved that the origin of the

diamonds had been falsified. The UN group felt there were reasonable grounds to pursue a judicial investigation rather than releasing the diamonds to the importer.

The Securities and Commodities Authority (SCA) supervises the country's two stock markets. In February 2004, the SCA issued anti-money laundering guidelines to all brokers that included identity verification instructions for new customer accounts, a reporting requirement for cash transactions above \$10,900, and a minimum five-year record keeping requirement for all customer account information. The SCA also instructed brokers to file suspicious transaction reports with the SCA for initial analysis before they are forwarded to the AMLSCU for further action.

Dubai's real estate market continued to show significant growth during 2006, making this sector another area that is susceptible to money laundering abuse. In 2002, Dubai began to allow three real estate companies to sell "freehold" properties to noncitizens. Since then, several other emirates have followed suit. For instance, Abu Dhabi has passed a property law, which provides for a type of leasehold ownership for noncitizens. In addition, citizens of GCC countries have the right to purchase and trade land within designated investment areas, while other expatriates are permitted to invest in real estate properties for a 99-year leasehold basis. Due to the intense interest in and reported cash purchases of such properties, the potential for money laundering has become of increased concern to the UAE Government. As a result, developers have stopped accepting cash purchases for these properties.

Since the September 11, 2001 terrorist attacks, the UAE Government has been more sensitive to regulating charitable organizations and accounting for funds 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.

Charities in Abu Dhabi and the Northern Emirates are regulated by the UAE Ministry of Social Affairs, which is responsible for licensing and monitoring registered charities in these emirates. The Ministry also requires these charities to keep records of all donations and beneficiaries, and to submit financial reports annually. Charities in Dubai are licensed and monitored by the Dubai Department of Islamic Affairs and Charitable Activities. Some charities however, particularly those located in the Northern Emirates, are only registered with their local emirate authority and not the federal Ministry. In July 2006, Regulation 24/2000 was amended, requiring charities from all emirates to obtain a certificate from the Minister of Social Affairs before being permitted to open or maintain bank accounts in the UAE. This amendment effectively required that all charities must be registered federally and no longer at just the emirate level. In November 2006, the UAE hosted a United Kingdom/Gulf Cooperation Council conference on charities, and made a proposal to hold biannual meetings going forward with the UK and GCC on charities oversight.

The UAE has both free trade zones (FTZs) and financial free zones (FFZs). The number of free trade zones (FTZs) is growing, with 26 operating in Dubai and six more in the other emirates. Every emirate except Abu Dhabi has at least one functioning FTZ. The free trade zones are monitored by the local emirate rather than federal authorities.

There are over 5,000 multinational companies located in the FTZs, and thousands more 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 considered offshore or foreign entities for legal purposes. However, UAE law prohibits the establishments of shell companies and trusts, and does not permit nonresidents to open bank accounts in the UAE. The larger FTZs in Dubai (such as Jebel Ali free zone) are well-regulated. Although some

trade-based money laundering undoubtedly occurs in the large FTZs, a higher potential for financial crime and exists in some of the smaller FTZs located in the northern emirates.

In March 2004, the UAEG passed Federal Law No. 8, regarding the Financial Free Zones (FFZs) (Law No. 8/2004). Although the new law exempts FFZs and their activities from UAE federal, civil, and commercial laws, FFZs and their operations are still subject to federal criminal laws including the Anti-Money Laundering Law (Law No. 4/2002) and the Anti-Terror Law (Law No. 1/2004). As a result of Law 8/2004 and a subsequent federal decree, the UAE's first financial free zone (FFZ), known as the Dubai International Financial Center (DIFC), was established in September 2004. By September 2005, the DIFC had opened its securities market or the Dubai International Financial Exchange (DIFX).

Law No. 8/2004 limits the issuance of 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 FFZ from dealing in UAE currency (i.e., dirham), or taking "deposits from the state's markets." Further, the law 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, as well as the licensing of any UAE stock broker. Insurance activities conducted in the FFZ are limited by law to reinsurance contracts only. The law further gives competent authorities in the Federal Government the power to inspect financial free zones and submit their findings to the UAE cabinet.

DIFC regulations provide for an independent regulatory body, namely the Dubai Financial Services Authority (DFSA), to report its findings directly to the office of the Dubai Crown Prince and an independent Commercial Court. According to DFSA regulators, the DFSA due diligence process is a risk-based assessment that examines a firm's competence, financial soundness, and integrity. Prior to the inauguration of the DIFC in 2004, several observers called into question the independence of the DFSA as a result of the high profile firings of the chief regulator and the head of the regulatory council (i.e., the supervisory authority). Subsequent to the firings, Dubai passed laws that gave the DFSA more regulatory independence from the DIFC, although these laws have not yet been tested. The DFSA, who modeled its regulatory regime after the United Kingdom, is the sole authority responsible for issuing licenses to those firms providing financial services in the DIFC.

The DFSA has licensed 94 financial institutions to operate within the DIFC. The DFSA prohibits offshore casinos or internet gaming sites in the UAE, and requires firms to send suspicious transaction reports to the AMLSCU (along with a copy to the DFSA). To date, there have been 9 suspicious transaction reports issued from firms operating in the DIFC (8 in 2006). Although firms operating in the DIFC are subject to Law No. 4/2002, the DFSA has issued its own anti-money laundering regulations and supervisory regime, which has caused some ambiguity about the Central Bank's and the AMLSCU's respective authorities within the DIFC. Ongoing discussions continue between the DFSA and the UAE Central Bank to create a formal bilateral arrangement. The DFSA has undertaken a campaign to reach out to other international regulatory authorities to facilitate information sharing. As of December 2006, the DFSA has MOUs with 16 other regulatory bodies, including the UK's Financial Services Authority (FSA), the Emirates Securities and Commodities Authority, and the U.S. Commodity Futures Trading Commission (CFTC).

The UAE is a party to the 1988 UN Drug Convention and to all twelve UN conventions and protocols relating to the prevention and suppression of international terrorism. It has signed and ratified the UN Convention against Corruption. The UAE has signed, but has not yet ratified the UN Convention against Transnational Organized Crime. The UAE supported the creation of the Middle East and North

Africa Financial Action Task Force (MENAFATF), and, in November 2004, was one of its original charter signatories.

The Government of the UAE has demonstrated progress in constructing a far-reaching anti-money laundering and counterterrorist finance program. Information sharing between the AMLSCU and foreign FIUs has substantially improved. However, several areas requiring further action by the UAEG remain. The most troublesome is the lack of prosecutions and convictions. Law enforcement and customs officials also need to proactively recognize money laundering activity and develop cases based on investigations, rather than wait for case referrals from the AMLSCU that are based on SARs. Additionally, law enforcement and customs officials should conduct more thorough inquiries into large and undeclared cash imports into the country, as well as require—and enforce—outbound declarations of cash and gold. All forms of trade-based money laundering must be given greater scrutiny by UAE customs and law enforcement officials, including customs fraud, the trade in gold and other commodities related to hawala transactions, and the misuse of trade to launder narcotics proceeds. The UAE should increase the resources it devotes to investigation of AML/CFT both at the federal level at the AMLSCU and at the emirate level law enforcement. The UAE's initiatives in the registration of hawaladars should be coupled with investigations. The cooperation between the Central Bank and the DFSA needs improvement, and lines of authority need to be clarified. The UAE should conduct more follow-up with financial institutions and the MSA regarding the recent tightening of regulations on charities to ensure their registration at the federal level. The UAE should also continue its regional efforts to promote sound charitable oversight, and engage in a public campaign to ensure all local charities are aware of registration requirements. The UAE 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 narcotics 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. The use of bureaux de change, cash smugglers (into and out of the UK), and gatekeepers (including solicitors and accountants), 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 (EU) 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 has been criminalized by subsequent legislation. Banks and nonbank financial institutions in the UK must report suspicious transactions.

In 2001, money laundering regulations were extended to money service bureaus (e.g., bureaux de change, money transmission companies), and in September 2006, the Government published a review into the regulation and performance of money service businesses in preventing money laundering and terrorist financing. Since 2004, more business sectors are subject to formal suspicious activity reporting (SAR) requirements, including attorneys, solicitors, accountants, real estate agents, and dealers in high-value goods such as cars and jewelry. Sectors of the betting and gaming industry that are not currently regulated are being encouraged to establish their own codes of practice, including a requirement to disclose suspicious transactions.

The Proceeds of Crime Act 2002 (POCA), enacted in February 2003, creates a new criminal offense of failing to disclose suspicious transactions in respect to all crimes, not just “serious,” narcotics- or terrorism-related crimes, as was the case previously. This is applicable to all regulated sectors. Along with the Act came an expansion of investigative powers relative to large movements of cash in the UK. Sections 327 to 340 of the Act address possession, acquisition, transfer, removal, use, conversion, concealment or disguise of criminal or terrorist property, inclusive of but not limited to money. The POCA also criminalizes tipping off. In 2003, the Financial Secretary to the treasury laid down the “Money Laundering Regulations 2003,” along with amending orders for the POCA and the Terrorism Act. The Regulations impose requirements on various entities, including attorneys, and introduce a client identification requirement, requirements on record keeping, internal reporting procedures and training. These regulations came into force on March 1, 2004. In June 2006, a solicitor was sentenced to fifteen months’ imprisonment when he was found to have “closed his eyes to the obvious” and been willfully blind to the money laundering offenses committed by his client.

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 regulates some 29,000 firms, which include European Economic Area (EEA) firms passporting into the UK (firms doing business on a cross-border basis), ranging from global investment banks to very small businesses, and around 165,000 individuals. 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 October 2006, the financial services sector adopted National Occupational Standards of Competence in the fields of compliance and in anti-money laundering.

Effective July 1, 2005, the Serious Organized Crime and Police Act of 2005 (SOCAP) made changes to the money laundering provisions in the POCA. One of these changes was the creation of the Serious Organized Crime Agency (SOCA), which became the UK’s financial intelligence unit (FIU). On April 1, 2006, SOCA took over all FIU functions from the National Criminal Intelligence Service (NCIS). In light of that change SARs are now filed with SOCA. In the context of the SARs regime, SOCAP gives SOCA all the FIU powers and functions that were inherited from NCIS. SOCA has three functions: the prevention and detection of serious organized crime; the mitigation of the consequences of such crime; and the function of receiving, storing, analyzing and disseminating information. Under the law, SOCA’s functions are not restricted to serious or organized crime but potentially bear on all crimes, and those functions are to include assistance to others in the discharge of their enforcement responsibilities. In 2005, SOCA’s precursor agency NCIS received just under 200,000 SARs and has seen a steady increase each year since 2001. The new law also affected reporting requirements: requirements were relaxed slightly to allow banks to proceed with low value transactions (not exceeding 250 pounds) involving suspected criminal property without requiring specific consent to operate the account. However, the reporting of every such transaction is still required, and other obligated entities were not granted these relaxed standards. Another change that the SOCAP made was that acts would no longer be considered to be money laundering if the act and the property gained took

place in a foreign jurisdiction where the conduct in question was not contrary to the law of the foreign jurisdiction.

The Third Money Laundering Directive was adopted under the UK's presidency of the EU in October 2005. It represents Europe's commitment to fighting the international problems of money laundering and terrorist financing by implementing the global standards produced by the Financial Action Task Force in 2003. The UK Government must implement the Directive into UK law by December 2007. In July 2006, Her Majesty's Treasury released a consultative document discussing how the government seeks to implement the directive. It identifies the areas in which changes need to be made to the Money Laundering Regulations and areas where the Government has flexibility over implementation, and discusses the options available.

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. In light of this, Her Majesty's Revenue and Customs (HMRC) 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 approximately \$96.6 million in 2004 and approximately \$149.6 million in 2005. The Assets Recovery Unit had announced additional seizures worth approximately \$30 million in 2006 with an additional \$200 million under restraint pending the outcome of court cases.

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 March 2006, the Terrorism Act received Royal Assent. This Act aims to impede the encouragement of others to commit terrorist acts, and amends existing legislation. Changes include: the introduction of warrants to enable police to search any property owned or controlled by a terrorist suspect, the extension of terrorism stop and search powers to cover bays and estuaries, with improved search powers at ports, the extension of police powers to detain suspects after arrest for 28 days (although intervals exceeding two days must be approved by a judicial authority), and the increased flexibility of the proscription regime, including the power to proscribe groups that glorify terrorism. As of October 2006, the UK had frozen a total of 188 accounts and approximately \$966,000 in suspected terrorist funds.

As a direct result of the events of September 11, 2001, the FID established a separate National Terrorist Financing Investigative Unit (NTFIU), to maximize the effect of reports from the regulated sector. The NTFIU chairs a law enforcement group to provide outreach to the financial industry concerning requirements and typologies. The NTFIU is now under the remit of SOCA. The

operational unit that responds to the work and intelligence development of the NTFIU 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.

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 Government intends to revise its reporting requirements in 2007 to develop a risk-based approach to monitoring with a new serious incident reporting function for charities.

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. In February 2006, the UK ratified both the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. The UK is a member of the FATF. SOCA 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 United Kingdom should develop legislation and implementing regulations to ensure that the gaming and betting industries are completely covered in the same manner as the financial and designated nonfinancial businesses and professions. This should include a legal requirement to disclose suspicious transactions rather than relying on the industries' own codes of practice. In addition, authorities should track and examine the effects of the SOCAP change regarding acts and assets in or from foreign jurisdictions, and revisit this legislation to determine whether it has been effective, or whether it has enabled exploitation.

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 may have diminished the attractiveness of Uruguayan financial institutions for money launderers in the medium term. However, Uruguay's status as an offshore financial center and partially dollarized economy may increase the risk of money laundering and terrorist financing activity.

Fiduciary (offshore) companies called "SAFIs" are 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 this year. 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 Government of Uruguay (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 and 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. Recent U.S. law enforcement investigations have also revealed suspected funds from the Triborder Area between Argentina, Brazil and Paraguay moving through money remittance companies located in Uruguay.

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. Money laundering is considered a crime separate from underlying offenses.

The courts have the power to seize and confiscate property, products or financial instruments linked to money laundering activities. The Central Bank also has the authority to freeze assets for 72 hours, pending a judicial decision. The banking community generally cooperates well with enforcement efforts. There is no specific system for sharing assets with foreign counterparts, but in theory it would be allowed under the provisions of treaties and agreements signed by Uruguay. There is, however, close cooperation with the United States in the sharing of intelligence related to investigations and proceedings. A recent case involving the largest cocaine seizure in Uruguay's history was aided by an unprecedented level of cooperation with U.S. and other foreign law enforcement authorities.

In September 2004, the Uruguayan Congress approved Law 17,835, which significantly strengthens the GOU's money laundering regime. 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, and the case is still pending. A more recent high profile case, involving money laundering linked to Uruguay's largest cocaine seizure, is at the initial stage. Indications are that this case has invigorated the GOU's efforts to fight money laundering and to push for increased reporting of suspicious activities.

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), the Financial Information and Analysis Unit (UIAF) of the Central Bank, the role of receiving and analyzing SARs, and disseminating those reports that warrant further investigation to judicial authorities, such as the National Police or the Ministry of the Public Prosecutor. The UIAF also has the authority to request additional related information from obligated reporting entities. Central Bank Circular 1722 of 2000, which created the UIAF, provides the authority to respond to requests for international cooperation. The UIAF is also empowered to issue instructions to the institutions supervised by the Central Bank for them to bar, for a period of up to 72 hours, all transactions involving individuals or legal entities under reasonable suspicion of being linked to the crimes of money laundering and related offenses. The decision must be communicated immediately to the competent criminal court, which will determine, if needed, the freezing of the assets of the parties involved.

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. Central Bank regulations require all banks, currency exchange houses, stockbrokers and insurance companies to implement anti-money laundering policies. These policies include thoroughly identifying customers, recording transactions over \$10,000 in internal databases, and reporting suspicious transactions to the UIAF. Law 17,835

makes the implementation of these policies a legal obligation extended to all financial intermediaries, including casinos, dealers in art and precious stones and metals, and real estate and fiduciary companies. The law also extends legal protection to reporting institutions for filing SARs. Additionally, Law 17,835 extends the reporting requirement to all persons entering or exiting Uruguay with over \$10,000 in cash or in monetary instruments. Regulations for Law 17,835 have been issued by the Central Bank for all entities it supervises, and are being issued by the Ministry of Economy and Finance for all other reporting entities, such as casinos, real estate brokers and art dealers. Although now deemed obligated entities by law, many sectors—including insurance companies, securities firms, money remitters, casinos and most designated nonfinancial businesses—do not yet report suspicious transactions to the UIAF.

The UIAF received 62 SARs in the first 9 months of 2006, almost double the amount received over the same period in 2005. Over the first 9 months of 2006, the UIAF also received 9 action requests from the courts and 15 information requests from foreign FIUs. While the level of staffing at the UIAF is not considered to be adequate, the Central Bank has hired additional staff and established a timeline to reach full staffing. The recent high profile narcotics money laundering case is expected to provide a boost to the Central Bank's efforts.

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 in anti-money laundering efforts, 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.

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 Center for Training on Money Laundering Issues (CECPLA) has served as the GAFISUD Executive Secretary. In 2005, the International Monetary Fund (IMF), in conjunction with GAFISUD, concluded the second mutual evaluation of Uruguay's anti-money laundering and counterterrorist financing regime. Their report was presented at the GAFISUD plenary meeting in July 2006. The evaluation recognized Uruguay's advances with its new legislation but pointed out that some regulations still needed to be drafted in order to fully implement the legislative reforms. The evaluation team did not consider the UIAF to be fully operational due to understaffing and limited resources.

The GOU has taken steps to bring Uruguay 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 partially met by Law 17,835. Law 17,835 establishes a prison term of three to 18 years for terrorist financing, requires financial institutions inform the UIAF of funds that may be connected to persons

on the United Nations 1267 Sanctions Committee list and individual country lists, and allows for the freezing of terrorist funds. However, as noted by the IMF and GAFISUD mutual evaluation team, terrorist financing is a crime only to the extent that funds are collected or solicited for terrorist acts. The provision of funds to terrorists or terrorist groups, for purposes other than planned or committed acts of terrorism, is not specifically criminalized. Although terrorism is considered a predicate offense for money laundering, terrorism is not criminalized under Uruguayan law; Law 17,835, however, does establish criteria for determining the “terrorist nature” of an offense. Nonprofit organizations are not assessed for terrorist financing risk, and oversight of these institutions was deemed by the IMF/GAFISUD evaluation team to be insufficient.

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, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. It has signed, but not yet ratified, the UN Convention against Corruption and the Inter-American Convention against Terrorism. The GOU is a member of GAFISUD and the OAS Inter-American Drug Abuse Control Commission (CICAD) Experts Group to Control Money Laundering. The United States and Uruguay are parties to extradition and mutual legal assistance treaties that entered into force in 1984 and 1994, respectively.

In 2006, the Government of Uruguay continued to implement the reforms it began in 2004 and 2005 to strengthen its anti-money laundering and counterterrorist financing regime. The passage of legislation criminalizing terrorist financing, albeit limited only to the financing of terrorist acts, places Uruguay ahead of many other nations in the region. Nevertheless, the GOU should amend its legislation to make the funding of terrorists or terrorist organizations a crime. Uruguay is one of only two countries in South America that is not a member of the Egmont Group of financial intelligence units. Membership in the Egmont Group would provide the GOU with greater access to financial information that is essential to its efforts to combat money laundering and terrorist financing. The UIAF’s membership in the Egmont Group, as well as the GOU’s continued implementation, enhancement 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 nature of the Government of Uzbekistan’s (GOU) financial control system, the fear of GOU seizure of one’s assets, and the 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. Citizens only deposit funds they are required to deposit and often resort to subterfuge to avoid depositing currency. The Central Bank of Uzbekistan (CB) asserts that deposits from individuals have been increasing over the past four years.

Proceeds from narcotics and black market smuggling are primary sources of money laundering. 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, property, 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 of funds 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 CB, Ministry of Finance, General Prosecutor's Office (GPO), and 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 Uzbek soum and U.S. dollars. Moreover, drug dealers and others can transport their criminal proceeds in currency across Uzbekistan's porous borders for deposit in the banking systems of other countries, such as Kazakhstan, Russia or the United Arab Emirates.

Laundering the proceeds of drug-trafficking and other criminal activities is a criminal offense. Article 41 of the Law on Narcotic Drugs and Psychotropic Substances (1999) provides 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. Although the law has been in effect for more than five years, the GOU has been unable to provide sufficient information to fully assess the implementation and use of this legislation. The GOU has not adopted "banker negligence" laws that hold individual bankers responsible if their institutions launder money.

The CB, GPO, 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 CB 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 five years. The law contains a safe harbor provision, protecting reporting individuals with respect to their cooperation with law enforcement entities.

In 2004, Uzbekistan's Parliament passed the Law on the Fight Against Legitimization of Proceeds of Crime and Combating Terrorism Financing, which went into effect on January 1, 2006. The law requires certain entities to report cash transactions above \$40,000 (approximately), as well as suspicious transactions. Banks, credit unions and other lending institutions are covered entities. The law also covers some nonbanking financial institutions, such as investment funds, depositaries and other types of investment institutions; exchange houses; insurers; organizations which render leasing and other financial services; postal organizations; pawnshops; gaming houses; 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

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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. Additionally, under a new 2006 Presidential decree and subsequent Cabinet of Ministers' resolution on the disclosure of information related to money laundering, it is mandatory for organizations involved in monetary and other transactions to report such transactions to a new Financial Intelligence Unit within the GPO (discussed below).

Existing controls on transportation of currency across borders would, in theory, facilitate detection of the international transportation of illegal source currency. When entering or exiting the country, foreigners and Uzbek citizens are required to report all currency they are carrying. Residents and nonresidents may bring the equivalent of \$10,000 into the country tax-free. Amounts in excess of this limit are assessed a one-percent duty. Nonresidents may take out as much currency as they brought 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 CB. International cash transfers to or from an individual person are limited to \$5,000 per transaction; there is no monetary limit on international cash transfers made by legal entities, such as corporations. However, direct wire transfers to or from other Central Asian countries are not permitted; a third country must be used.

International business companies are permitted to have offices in Uzbekistan and are subject to the same regulations as domestic businesses, if not stricter. Offshore banks are not present in Uzbekistan and other forms of exempt or shell companies are not officially present.

In April 2006, the President of Uzbekistan signed a decree entitled, "On Actions to Strengthen Combating Financial, Economic and Tax Crimes and Legalization of Criminally Gained Income." This decree expands the mandate of the General Prosecutor's Office for Combating Tax and Hard Currency Crimes to include combating money laundering, and established the Department on Combating Tax, Currency Crimes and Legalizations of Criminal Proceeds under the GPO. This Department, which will serve as Uzbekistan's Financial Intelligence Unit (FIU), will conduct operational, analytical and investigative work in the areas of tax and hard currency crimes, money laundering and terrorism financing. The FIU is charged with monitoring and preventing money laundering and terrorist financing. It will analyze information received from banks and financial institutions, create and keep electronic databases of financial crimes, and, when warranted, pass information to the CB, tax and law enforcement authorities, or other parts of the GPO for investigation and prosecution of criminal activity. Authorities envisage a staff of 22 people in the FIU. The Department of Investigation of Economic Crimes within the Ministry of Internal Affairs (MVD) and a specialized structure within the NSS also are authorized to conduct investigations of money laundering offenses.

In the coming year, the new FIU analysts and investigators, as well as authorities in related ministries and agencies, will require training and capacity building for the FIU. Uzbekistan has entered into agreements with supervisors to facilitate the exchange of supervisory information including on-site examinations of banks and trust companies operating in the country. Since September 2006, the Uzbek financial supervisory authorities, along with law enforcement officers, have been attending World Bank-sponsored workshops to acquaint them with the AML/CFT law. These workshops will continue into May 2007.

In July 2006, the Uzbek Cabinet of Ministers adopted a resolution on the submission of data to the FIU related to money laundering and terrorism financing.

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. MVD officials claim to have opened nine money laundering-related cases in 2005 and six cases in the first six months of 2006. No information was provided on the ultimate disposition of these cases. In March 2006, an opposition activist was convicted for money laundering and other economic crimes, but the defendant was freed in May and the sentence was suspended, reportedly due to human rights questions surrounding the case. Overall, 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 CB, which has, in turn, forwarded these lists to banks operating in Uzbekistan. According to the CB, 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, nor are any legislative initiatives addressing alternative remittance under consideration. Although officially there is complete currency convertibility, in reality convertibility requests can be significantly delayed or refused. The GOU took additional steps in the second half of 2005 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 nonprofit 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 nonprofits, and the level of threat Uzbekistan perceives from the Islamic Movement of Uzbekistan (IMU) and other extremist organizations, 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. There appears to be no new legislation or changes to current law 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) was deposited into this fund, roughly \$80,000 of which was 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 procedures, each agency manages the assets it seizes. There is also a specialized fund within the MVD 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 bilateral agreements for 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 within the framework of the CIS and under the Shanghai Cooperation Organization (SCO). 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 USG law enforcement agencies and other governments investigating financial crimes and several important terrorist-related cases. However, cooperation in these areas has become increasingly problematic in an atmosphere of deteriorating U.S.-Uzbekistan bilateral relations.

Uzbekistan joined the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG), a FATF-style regional body, at the group’s December 2005 plenary meeting. In April 2006, at the invitation of the Prosecutor General of Uzbekistan, the EAG Chairman visited Tashkent to discuss, in part, Uzbekistan’s partnership in the EAG, the progress the country has made in establishing an AML/CFT regime, and technical assistance that will be required. Uzbekistan is scheduled to have an EAG mutual evaluation in 2008.

The GOU is an active party to the relevant agreements concluded under the CIS, CAEC, ECO, SCO, and the “Six Plus Two” Group. In December 2005, Uzbekistan hosted the SCO in Tashkent to discuss issues relating to and the overall prevention of money laundering. Uzbekistan is also a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime.

A lack of trained personnel, resources, and modern equipment continues to hinder Uzbekistan’s efforts to fight money laundering and terrorist financing. The GOU should ensure that those with supervisory authority and those charged with investigating potential money laundering and terrorism financing have the training and resources necessary to be effective. This includes legal resources as well: the GOU should continue to refine its pertinent legislation to adhere 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. Furthermore, while the establishment of a Financial Intelligence Unit is a positive step, its effectiveness will depend on the unit's authority as the sole repository and analytical tool for suspicious transaction reporting. The FIU's ability to effectively cooperate with other GOU law enforcement and regulatory agencies in receiving and disseminating information on suspicious transactions will be critical to the success of an AML/CFT regime. The GOU should ensure that the FIU has the appropriate resources, including the technical requirements for a database, training on analytical, legal and technical elements for the staff, and the authority and bureaucratic tools to meet international standards and accomplish its mandate.

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 pieces of legislation relative to money laundering and terrorist financing during its last session of Parliament in November 2005. The four pieces of legislation affected 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 Organized Crime Act No. 29 of 2005, and the Proceeds of Crime Act (Amendment) Act No. 30 of 2005.

Vanuatu's financial sector includes four domestic licensed banks (that carry out domestic and offshore business); one credit union; seven international banks; five insurance providers (both life and general); and eight foreign exchange instrument dealers, money remittance dealers and bureaux de change, all of which are regulated by the Reserve Bank of Vanuatu. Since the passage of the International Banking Act of 2002, the Reserve Bank of Vanuatu regulates the offshore banking sector that includes the seven international banks and approximately 4,700 international business companies (IBCs), as well as offshore trusts and captive insurance companies. These institutions were once regulated by the Financial Services Commission. IBCs are now registered with the Vanuatu 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 "noncompliant" with many international standards.

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 Financial Transaction Reporting Act (FTRA) of 2000 established Vanuatu's Financial Intelligence Unit (FIU) within the State Law Office. The FIU receives suspicious transaction reports (STRs) filed by banks and distributes them to the Public Prosecutor's Office, the Reserve Bank of Vanuatu, the Vanuatu Police Force, the Vanuatu Financial Services Commission, and law enforcement agencies or supervisory bodies outside Vanuatu. The FIU also issues guidelines to, and provides training programs for, financial institutions regarding record keeping for transactions and reporting obligations. The Act also regulates how such information can be shared with law enforcement agencies investigating financial crimes. Financial institutions within Vanuatu must establish and maintain internal procedures to combat financial crime. Every financial institution is required to keep records of all transactions. Five key pieces of information are required to be kept for every financial

transaction: the nature of the transaction, the amount of the transaction, the currency in which it was denominated, the date the transaction was conducted, and the parties to the transaction.

Although the amendments have been withdrawn from Parliament twice, FTRA amendments were finally passed in November 2005 and enacted in late February 2006. 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 FIU 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.

The amended FTRA defines financial institutions to include casinos licensed under the Casino Control Act No.6 of 1993, lawyers, notaries, accountants and trust and company service providers. The scope of the legislation is so broad that entities such as car dealers and various financial services that currently do not exist in Vanuatu (and are unlikely to in the future) are covered. Applications by foreigners to open casinos are subject to clearance by the Vanuatu Investment Promotion Authority (VIPA) which reviews applications and conducts a form of due diligence on the applicant before issuing a certification of the department of Customs and Revenue to issue an appropriate license. The Department of Customs and Inland Revenue receives applications from local applicants directly.

The Vanuatu Police Department and the FIU are the primary agencies responsible for ensuring money laundering and terrorist financing offences are properly investigated in Vanuatu. The Public Prosecutions Office (PPO) is responsible for the prosecution of money laundering and terrorist financing offences. The Vanuatu Police Department has established a Transnational Crime Unit (TCU), and is responsible for investigations involving money laundering and terrorist financing offences, the identification and seizure of criminal proceeds, as well as conducting investigations in cooperation with foreign jurisdictions.

Supervision of the financial services sector is divided between three main agencies: the Reserve Bank of Vanuatu (RBV), the Vanuatu Financial Services Commission (VFSC) and the Customs and Revenue Branch of the Ministry of Finance. The RBV is responsible for supervising and regulating domestic and off-shore banks. The VFSC supervises insurance providers, credit unions, charities and trust and company service providers, but is unable to issue comprehensive guidelines or to regulate the financial sectors it has responsibility for.

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) retained the criminalization of the laundering of proceeds from all serious crimes, criminalized the financing of terrorism, and included full asset forfeiture, 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 continued to conduct international banking business after December 31, 2003, in violation of Section 4 of the Act, the licensee is 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, which it is now in the final stages of completing. The new legislation will cover disclosure of information with other regulatory authorities, capital and solvency requirements, and "fit and proper" requirements. In 2005, Vanuatu enacted Insurance Act No. 54, drafted in compliance with standards set by the International Association of Insurance Supervisors.

International Business Companies (IBC) 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. Section 125 of the International Companies Act No. 31 of 1992 (ICA), provides a strict secrecy provision for information disclosure related to shareholders, beneficial ownership, and the management and affairs of IBCs registered in Vanuatu. This provision, in the past, has been used by the industry to decline requests made by the FIU for information. However, section 17(3) of the new amended FTRA clearly states that the new secrecy-overriding provision in the FTRA overrides section 125 of the ICA.

In November 2005, Vanuatu passed the Counter-Terrorism and Transnational Organized Crime Act (CTTOCA) No. 29 of 2005. The CTTOCA was brought into force on 24 February 2006. 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. Terrorist financing is criminalized under section 6 of the CTTOCA. Section 7 of the CTTOCA makes it an offence to "directly or indirectly, knowingly make available property or financial or other related services to, or for the benefit of, a terrorist group." The penalty upon conviction is a term of imprisonment of not more than 25 years or a fine of not more than VT 125 million (\$1 million), or both. Section 8 criminalizes dealing with terrorist property. The penalty upon conviction is a term of imprisonment of not more than 20 years or a fine of not more than VT100 million (\$USD 876,500), or both. There were no terrorist financing or terrorism-related prosecutions or investigations in 2006.

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 International Convention for the Suppression of the Financing of Terrorism in October 2005, and acceded to both the UN Convention against Transnational Organized Crime and the 1988 UN Drug Convention on January 4, 2006. The FIU has a memorandum of understanding with Australia.

In March 2006, the APG conducted a mutual evaluation of Vanuatu, the results of which were reported at the APG plenary meeting in November 2006. The APG evaluation team found that Vanuatu had improved its anti-money laundering and counterterrorist financing regime since its first evaluation in 2000 by criminalizing terrorist financing, requiring a wider range of entities to report to the FIU and enhancing supervisory oversight of obligated entities. However, some deficiencies remain: the GOV has not taken a risk-based approach to combating money laundering and terrorist financing; a person who commits a predicate offense for money laundering cannot also be charged with money laundering; and current law does not require the names and addresses of directors and shareholders to be provided upon registration of an IBC.

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.

Venezuela

Venezuela is one of the principal drug-transit countries in the Western Hemisphere, with an estimated 250-300 metric tons of cocaine passing through the nation during 2006. Venezuela's proximity to drug producing countries, weaknesses in its anti-money laundering regime, refusal to cooperate with the United States on counternarcotics activities, and rampant corruption throughout the law enforcement, judicial, banking, and banking regulatory sectors continue to make Venezuela vulnerable to money laundering. The main source of money laundering is believed to be from proceeds generated by 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 55 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.

Money laundering in Venezuela is criminalized under the 2005 Organic Law against Organized Crime, the passage of which broadened the legal mechanisms provided by the 1993 Organic Drug Law. Under the Organic Law against Organized Crime, money laundering is an autonomous offense, punishable by a sentence of eight to twelve years in prison. Those who cannot establish the legitimacy of possessed or transferred funds, or are aware 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 an autonomous predicate offense, the Organic Law against Organized Crime 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. This law,

coupled with the new 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.

In spite of the advances made with the passage of the Organic Law against Organized Crime in 2005, three major gaps remain. First, the financing of terrorism has yet to be specifically criminalized and there is still no independent financial investigative unit. One year after promulgation, there are no money laundering cases being tried under the new law. Many, if not most, judicial and law enforcement officials remain ignorant of the Law against Organized Crime and its specific provisions. Second, widespread corruption within the judicial and law enforcement sectors undermines the effectiveness of the law as a tool to combat the growing problem of money laundering. Finally, there is little evidence that the Government of Venezuela (GOV) has the will to effectively enforce the legislation it has promulgated.

Under the Organic Law against Organized Crime and Resolution 333-97 of the Superintendent of Banks and Other Financial Institutions (SBIF), anti-money laundering controls have been implemented requiring strict customer identification requirements and the reporting of both currency transactions over a designated threshold and suspicious transactions. These controls apply to all banks (commercial, investment, mortgage, and private), insurance and reinsurance companies, savings and loan institutions, financial rental agencies, currency exchange houses, money remitters, money market funds, capitalization companies, frontier foreign currency dealers, 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). Financial institutions are required to maintain records for a period of five years.

The UNIF was created under the SBIF in July 1997 and began operating 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 has a staff of approximately 55 and has undergone multiple bureaucratic changes, with five different directors presiding over the UNIF since 2004. The SBIF and the UNIF have little credibility within the financial sector, with credible reports indicating that both are used by the government to investigate political opponents.

The UNIF receives suspicious transaction reports (STRs) and reports of currency transactions (CTRs) exceeding 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. 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. 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 “habitual behavior” in the types and amounts of transactions they conduct—to be excluded from currency transaction reports filed with the UNIF. SBIF Circular 3759 of 2003 requires financial institutions that fall under the supervision of the SBIF to report suspicious activities related to terrorist financing; however, terrorist financing is not a crime in Venezuela.

In addition to STRs and CTRs, the UNIF also receives reports on the domestic transfer of foreign currency exceeding \$10,000, the sale and purchase of foreign currency exceeding \$10,000, and summaries of cash transactions that exceed approximately \$2,100. The UNIF does not, however, receive reports on the transportation of currency or monetary instruments into or out of Venezuela. A system has been developed for electronic receipt of CTRs, but STRs must be filed in paper format.

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Obligated entities are forbidden to reveal reports filed with the UNIF or suspend accounts during an investigation without official approval, and are also subject to sanctions for failure to file reports with the UNIF.

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). According to the UNIF, it forwards approximately 30 percent of the STRs it receives to the Attorney General's Office. The Attorney General's office 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, the Attorney General's office, a judge can waive these rights, making Venezuela one of least restrictive countries in Latin America from an investigatory standpoint.

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 Attorney General's office, which is the only entity legally capable of initiating money laundering investigations. As a result of the limited resources and expertise of the drug prosecutors who previously handled money laundering investigations, 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 is supposed to be established, the General Commission against Organized Crime, with specialized technical expertise in the analysis and investigation of money laundering and other financial crimes. This commission has not been established to date. The Organic Law against Organized Crime also expanded Venezuela's mechanisms for freezing assets tied to illicit activities. A prosecutor may now solicit judicial permission to freeze or block accounts in the investigation of any crime included under the law. However, to date there have been no significant seizures of assets or successful money laundering prosecutions as a result of the law's passage.

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). 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, which entered into force in March 2004.

The Government of Venezuela took several steps to expand its anti-money laundering regime in 2006 with the implementation of the 2005 Organic Law against Organized Crime. The enactment 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 undercut the credibility and effectiveness

of the unit. 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 compliance with international standards for combating financial crimes. However, without the political will to implement its anti-money laundering regime, "paper" enhancements to its regime will be ineffective.

Vietnam

Vietnam is not an important regional financial center. Vietnam remains a largely cash-based economy and both U.S. dollars and gold are widely used as a store of value and means of exchange. Real estate prices are commonly quoted in gold. Remittances are a large source of foreign exchange, exceeding annual disbursements of development assistance and rivaling foreign direct investment in size. Remittances from the proceeds of narcotics in Canada and the United States are also a source of money laundering as are proceeds attributed to Vietnam's role as a transit country for narcotics.

The Vietnamese banking sector is in the opening phase a transition from a state-owned to a partially privatized industry. At present, approximately 80 percent of the assets of the banking system are held by state-owned commercial banks which allocate much of the available credit to state-owned enterprises. Almost all trade and investment receipts and expenditures are processed by the banking system, but neither trade nor investment transactions are monitored effectively. As a result, the banking system could be used for money laundering either through over or under invoicing exports or imports or through phony investment transactions. Official inward remittances in the first six months of 2006 were estimated to be approximately \$2 billion. These amounts are generally transmitted by wire services and while officially recorded, there is no reliable information on either the source or the recipients of these funds. Financial industry experts believe that actual remittances may be double the official figures. There is evidence that large amounts of cash are hand carried into Vietnam, which is legal as long as the funds are declared. The GVN does not require any explanation of the source or intended use of funds brought into the country in this way.

The U.S. Drug Enforcement Agency (DEA) is engaged in a number of investigations targeting significant ecstasy and marijuana trafficking organizations, composed primarily of Vietnamese legal permanent residents in the United States and Vietnamese landed immigrants in Canada as well as naturalized U.S. and Canadian citizens. 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 into Vietnam. The drug investigations have also identified multiple United States-based money remittances businesses that have remitted over \$100 million annually to Vietnam. It is suspected that the vast amount of that money is derived from criminal activity. Law enforcement agencies in Australia and the United Kingdom have also tracked large transfers of drug profits back to Vietnam.

Article 251 of the Amended Penal Code criminalizes money laundering. The Counter-Narcotics Law, which took effect June 1, 2001, makes two narrow references to money laundering in relation to drug offenses: it prohibits the "legalizing" (i.e., laundering) of monies and/or property acquired by committing drug offenses (article 3.5); and, it gives the Ministry of Public Security's specialized counter narcotics 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 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 nonbanking financial

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institutions. The State Bank of Vietnam (SBV) and the Ministry of Public Security (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 in one day with aggregate value of VND 200 million (approximately \$13,000) or more, or equivalent amount in foreign currency or gold. The threshold for savings transactions is VND 500 million (approximately \$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 of 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 under the State Bank of Vietnam (SBV). Similar to a Financial Intelligence Unit (FIU), the 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. This center was formally established and began operations since February 2006. The Director of the center is appointed by the Governor of the SBV and reports directly to the Governor on anti-money laundering issues. 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.

The Anti-Money Laundering Information Center will have a separate office with equipment and computers funded by a loan from French Development Assistance. The Center has five full time staff members. Since the Center became operational, it has not detected any suspicious activity.

The MPS is responsible for investigating money laundering related offences. There is no information on investigations, arrests, and prosecutions for money laundering or terrorist financing. MPS is 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 1999 International Convention for the Suppression of the Financing of Terrorism. Reportedly, Vietnam plans to draft separate legislation governing counter terrorist financing, though it will not set a specific time frame for this drafting. Currently SBV circulates to its financial institutions the list of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list. 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.

Vietnam has signed but not ratified the UN Convention against Corruption and is ranked 111 out of 163 countries in Transparency International’s 2006 Corruption Perception Index. The Government of Vietnam should promulgate all necessary regulations to fully implement the 2005 decree 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 Conventions against Transnational Organized Crime and Corruption. Vietnamese law enforcement authorities should investigate money laundering, trade fraud, alternative remittance systems, and other financial crimes in Vietnam’s shadow economy. Vietnam should become a member of the Asia/Pacific Group on Money Laundering and take additional steps to establish an anti-money laundering/counterterrorist financing regime that comports with international standards.

Yemen

The Yemeni financial system is not yet well developed and the extent of money laundering is not known. Although financial institutions are technically subject to limited monitoring by the Central Bank of Yemen (CBY), alternative remittance systems, such as hawala, in practice, are not subject to scrutiny and are vulnerable to money laundering. The banking sector is relatively small with 17 commercial banks, including four Islamic banks. The CBY supervises the banks. Local banks account for approximately 62 percent of the total banking activities, while foreign banks cover the other 38 percent.

Yemen’s parliament passed a comprehensive anti-money laundering legislation (Law 35) in April 2003. The legislation criminalizes money laundering for a wide range of crimes, including narcotics offenses, kidnapping, embezzlement, bribery, fraud, tax evasion, illegal arms trading, and monetary theft, and imposes penalties of three to five years of imprisonment. Yemen has no specific legislation relating to terrorist financing, although terrorism is covered in various pieces of legislation that treat terrorism and terrorist financing as serious crimes.

Law 35 requires banks, financial institutions, and precious commodity dealers to verify the identity of individuals 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 the Anti-Money Laundering Information Unit (AMLIU), an information-gathering unit within the CBY. This unit acts as the financial intelligence unit (FIU), which in turn reports to the Anti-Money Laundering Committee (AMLC) within the CBY.

The AMLIU is understaffed with a total of three employees at the main office. The 18 field inspectors for banking supervision also serve as investigators for the AMLIU. The AMLIU 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 the lack of capacity hampers any attempts by the AMLIU to control illicit activity in the formal financial sector.

The AMLC is composed of representatives from the Ministries of Finance, Foreign Affairs, Justice, Interior, and Industry and Trade, the Central Accounting Office, the General Union of Chambers of Commerce and Industry, the CBY, and the Association of Banks. The AMLC is authorized to issue regulations and guidelines and provide training workshops related to combating money laundering efforts.

Law 35 also grants the AMLC the right to exchange information with foreign entities that have a signed a letter of understanding with Yemen. The head of the AMLC is empowered by law to ask local judicial authorities to enforce foreign court verdicts based on reciprocity. Also, the law permits

the extradition of non-Yemeni criminals in accordance with international treaties or bilateral agreements.

Prior to passage of the anti-money laundering law, the CBY issued Circular 22008 in April 2002, instructing banks and financial institutions that they must verify the legality of all proceeds deposited in or passing through the Yemeni banking system. The circular stipulates that financial institutions must positively identify the place of residence of all persons and businesses that establish relationships with them. The circular also requires that banks verify the identity of persons or entities that wish to transfer more than \$10,000, when they have no accounts at the banks in question. The same provision applies to beneficiaries of such transfers. The circular also prohibits the transfer of more than \$10,000 cash in or out of the country without prior permission from the CBY, although this requirement is not strictly enforced. Banks must also take every precaution when transactions appear suspicious, and report such activities to the AMLIU. The circular has been 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 2006, however, no reports of suspicious type activity were filed with the AMLIU, and there were no prosecutions.

In September 2003, the CBY responded to the UNSCR 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, and Yemen's Council of Ministers' directives, by issuing two circulars (75304 and 75305) to all banks operating in Yemen. Circulars 75304 and 75305 directed banks to freeze the accounts of 144 persons, companies, and organizations, and to report any findings to the CBY. As a result, one account was immediately frozen. Circular No. 75304 also contained a consolidated list of all persons and entities belonging to al-Qaida (182) and the Taliban (153). In 2006, the CBY began issuing a circular every three months containing an updated list of persons and entities belonging to al-Qaida and the Taliban. Since the February 2004 addition of Sheikh Abdul Majid Zindani to the UNSCR 1267 Sanctions Committee's consolidated list, the Yemeni government has made no known attempt to enforce the sanctions and freeze his assets.

A law was passed in 2001 governing charitable organizations. This law entrusts the Ministry of Labor and Social Affairs with overseeing their activities. The law also imposes penalties of fines and/or imprisonment on any society or its members convicted of carrying out activities or spending funds for other than the stated purpose for which the society in question was established. The CBY Circular No. 33989 of June 2002, and Circular No. 91737 of November 2004, ordered banks to abide by the enhanced controls regulating the opening and management of the accounts of charities. This was in addition to keeping these accounts under continuous supervision in coordination with the Ministry of Labor and Social Affairs.

During 2006, the CBY has been active in educating the public and the financial sector, including money services businesses and money laundering reporting officers, about the proper ways and means of detecting and reporting suspicious financial transactions. They have done so through public forums and workshops. In 2005, the AMLC distributed an anti-money laundering procedural directory to all public and private financial institutions. The directory explains how to monitor and report suspected money laundering cases.

Yemen is one of the original signatories of the memorandum of understanding governing the establishment of the Middle East and North Africa Financial Action Task Force (MENAFATF). Yemen is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Yemen is a party to the Arab Convention for the Suppression of Terrorism.

Yemen has a large underground economy. The smuggling of trade goods and contraband are profitable. The use of khat is common in Yemen and there have been a number of investigations over the years of khat being smuggled from Yemen and East Africa into the United States and profits laundered and repatriated via hawala networks. Yemen is rated 119 out of 163 countries in Transparency International's 2006 Corruption Perception Index.

The Government of Yemen (GOY) should continue to develop an anti-money laundering regime that adheres to international standards, including the FATF recommendations. In particular, banks and nonbank financial institutions should enhance their capacity to detect suspicious financial transactions and should report such transactions to a strengthened AMLIU for analysis and possible investigation by Yemeni law enforcement. Yemen should examine the prevalence of alternative remittance systems such as hawala and how the hawala networks are used in money laundering and value transfer. Law enforcement and customs authorities should also examine trade-based money laundering and customs fraud. As a next step, Yemen should enact specific legislation with respect to terrorist financing and forfeiture of the assets of those suspected of terrorism. Yemen should ratify the UN Convention against Transnational Organized Crime and should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism. Yemen should enforce the sanctions and freeze the assets of Sheikh Abdul Majid Zindani who was added to the UN 1267 Sanctions Committee Consolidated list in February 2004.

Zimbabwe

Zimbabwe is not a regional financial center, but as the pace of economic contraction accelerates, it faces a serious, growing problem with official corruption and other risk factors associated with money laundering, such as a flourishing parallel exchange market; widespread evasion of exchange controls by legitimate businesses; and company ownership through nominees. Deficiencies in the Government of Zimbabwe's (GOZ) regulatory and enforcement framework contribute to Zimbabwe's potential as a money laundering destination. These deficiencies include: an increasingly understaffed bank supervisory authority; a lack of trained regulators and lack of investigators to investigate and enforce violations and financial crime; financial institutions 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.

In December 2003, the GOZ submitted the "Anti-Money Laundering and Proceeds of Crime Act" to Parliament, which enacted the legislation. This bill criminalized money laundering and implemented a six-year record keeping requirement. In 2004, the GOZ adopted more expansive legislation in the "Bank Use Promotion and Suppression of Money Laundering Act" ("The Act") that extended the anti-money laundering law to all serious offenses. The Act mandated a prison sentence of up to fifteen years for a conviction. It also criminalized terrorist financing and authorized the tracking and seizure of assets. The Act has reportedly raised human rights concerns due to the GOZ's history of selective use of the legal system against its opponents, but its use to date has not been associated with any reported due process abuses or provoked any serious public opposition. The Exchange Control Order, enacted in 1996, obligates banks to require individuals who deposit foreign currency into a foreign currency account to submit a written disclosure of sources of the funds.

The Reserve Bank of Zimbabwe (RBZ) is the lead agency for prosecuting money laundering offenses. In May 2006, the RBZ issued new Anti-Money Laundering Guidelines that outlined and reinforced requirements established in the Act for financial institutions and designated nonfinancial businesses and professions. These binding requirements make provisions regarding politically exposed persons and include the obligation to gather and make available to regulators more personal data on these high-profile clients. Financial institutions must now keep records of accounts and transactions for at least

ten years, and report any suspicious transactions to the financial intelligence unit (FIU). The Act also criminalizes tipping off. Failure to report suspected money laundering activities carries a possible fine of Z\$5 million (approximately \$20,000), and violating rules on properly maintaining customer data carries a possible fine of Z\$1 million (approximately \$4,000).

The 2004 Act provides for the establishment of an FIU. The Financial Intelligence Inspectorate and Evaluation Unit (FIIIE) is housed within the RBZ. The FIIIE receives suspicious transaction reports (STRs), issues guidelines such as those issued in May 2006, and enforces compliance with procedures and reporting standards for obligated entities.

According to the Governor of the RBZ, the GOZ has been working throughout 2006 on legislation to address problems with cybersecurity and cybercrime, including money laundering via electronic means. However, the legislation has not been passed. During the year, the RBZ sharpened limits on daily cash withdrawals for individuals and companies, ostensibly in an effort to curtail money laundering but more likely to inhibit private sector parallel foreign exchange activities. In November, the Zimbabwe dollar was trading on the parallel market at a historic premium of about 700 percent above the official exchange rate. The central bank began monitoring all payments by financial institutions of more than Z\$1 million (approximately \$4,000 at the official exchange rate). When requested, the local banking community has cooperated with the GOZ in the enforcement of asset tracking laws. However, increasingly burdensome GOZ regulations and the resulting hostile business climate have led to growing circumvention of the law by otherwise legitimate businesses.

The GOZ continued to arrest prominent Zimbabweans for activities that it calls “financial crimes.” Prosecutions for such crimes, however, have reportedly been selective and politically motivated. The government often targets persons who have either fallen out of favor with the ruling party, or individuals without high-level political backing. To date, the Act has not been employed in the prosecution of individuals for such offenses. The GOZ prefers to prosecute financial crimes under the Criminal Procedures and Evidence Act, rather than the Anti-Money Laundering Act, because it allows for those charged to be held in custody for up to 28 days. During the year, the authorities made two high-profile arrests of persons (both Nigerian nationals) attempting to smuggle significant sums of foreign currency out of the country.

Most of these crimes involved violations of currency restrictions that criminalize the externalization of foreign exchange. In light of the inability of the vast majority of businesses to access foreign exchange from the RBZ, most companies privately admit to externalizing their foreign exchange earnings or to accessing foreign currency on the parallel market. Moreover, the GOZ itself, through the RBZ, has been a major purchaser of foreign currency on the parallel market. Citing “nonperformance and defiant behavior by most players” in the money transfer sector, in October the RBZ canceled the licenses of all money transfer agencies (MTAs). The MTAs reportedly were exchanging foreign currency at the parallel market rate. Many observers speculated this move would fuel an even greater use of already popular alternative remittance systems.

In August, the GOZ implemented a currency re-denomination program that slashed three zeros from Zimbabwe’s currency (so that Z\$100,000 became Z\$100). The purpose of the campaign was to assert greater GOZ control over the financial sector and to attempt to reassure a public concerned about the 1200 percent inflation within their country. The RBZ gave all holders of the old currency 21 working days to deposit their cash holdings into the banking system, and set limits for cash deposits either without proof of the source of funds, or without depositors being interrogated on the origins of their money. Although the campaign had nothing to do with cracking down on money laundering, when the holder of cash could not prove a legitimate source of funds, the cash was deposited into zero-interest “anti-money laundering coupons,” and the case was referred to the RBZ’s Suppression of Money Laundering Unit for further investigation. To evade these requirements, those with an excess of cash, such as entrepreneurs, have purchased high-value commodities to retain their wealth. During the

changeover period, there were numerous reports of police arbitrarily seizing cash without issuing receipts or filing official documentation with the authorities. The government claimed that more than 2,000 persons were arrested for “money laundering” in this period and charged under the Exchange Control Act. The government has not provided any additional information about the status or resolution of any of these cases.

The 2001 Serious Offenses (Confiscation of Profits) Act establishes a protocol for asset forfeiture. The Attorney-General may request confiscation of illicit assets. The Attorney-General must apply to the court that has rendered the conviction within six months of the conviction date. The court can then issue a forfeiture order against any property. Despite the early date of this law compared to the money laundering legislation that followed, this law does define and incorporate money laundering among the bases for the GOZ to confiscate assets.

With the country in economic collapse and increasingly isolated, Zimbabwe’s laws and regulations remained ineffective in combating money laundering. The May 2006 guidelines notwithstanding, the government’s anti-money laundering efforts throughout the year appeared to be directed more at securing the government’s own access to foreign currency than to ensuring compliance. Despite having the legal framework in place to combat money laundering, the sharp contraction of the economy, growing vulnerability of the population, and decline of judicial independence raise concerns about the capacity and integrity of Zimbabwean law enforcement. The banking community and the RBZ have cooperated with the United States 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 or the African Union Anti-Corruption Convention. 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 2003 and in August 2006, assumed the Presidency for ESAAMLG for the 2006/2007 administrative year.

Transparency International ranks the Government of Zimbabwe at 130 of 163 countries on its Corruption Perception Index. The GOZ leadership should work to develop and maintain transparency, prevent corruption, and to subscribe to practices ensuring the rule of law. The GOZ must also work toward reducing the rate of inflation, halting the financial collapse, and rebuilding the economy to restore confidence in the currency. The GOZ can illustrate its seriousness in combating money laundering and terrorism financing by using its legislation for the purposes for which it was designed, instead of using it to persecute opponents of the regime and nongovernmental organizations with which it opposes. Once these basic prerequisites are met, the GOZ should endeavor to develop and implement an anti-money laundering/counterterrorist regime that comports with international standards.