



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

International Narcotics Control Strategy Report

**Volume I
Drug and Chemical
Control**

March 2008

***Embargoed until
February 29, 2008
12:00 p.m.***

Table of Contents

Volume I

Introduction.....	1
<i>Legislative Basis for the INCSR.....</i>	<i>3</i>
<i>Presidential Determination.....</i>	<i>7</i>
Policy and Program Developments	13
<i>Overview for 2007.....</i>	<i>15</i>
<i>Demand Reduction.....</i>	<i>28</i>
<i>Methodology for Estimating Illegal Drug Production.....</i>	<i>30</i>
<i>Worldwide Illicit Drug Cultivation.....</i>	<i>32</i>
<i>Worldwide Potential Illicit Drug Production.....</i>	<i>33</i>
<i>Parties to the 1988 UN Convention.....</i>	<i>35</i>
USG Assistance.....	39
<i>Department of State (INL) Budget.....</i>	<i>41</i>
<i>FY 07—09 Budget Spread (\$000).....</i>	<i>41</i>
<i>International Training.....</i>	<i>45</i>
<i>Drug Enforcement Administration.....</i>	<i>48</i>
<i>United States Coast Guard.....</i>	<i>58</i>
<i>U.S. Customs and Border Protection.....</i>	<i>61</i>
Chemical Controls.....	65
<i>Executive Summary.....</i>	<i>67</i>
<i>Background.....</i>	<i>69</i>
<i>Major Chemical Source Countries and Territories.....</i>	<i>77</i>
<i>Significant Drug Manufacturing Countries.....</i>	<i>87</i>
<i>Methamphetamine Chemicals.....</i>	<i>92</i>
<i>Combat Methamphetamine Epidemic Act (CMEA) Reporting.....</i>	<i>93</i>
<i>Major Exporters and Importers of Pseudoephedrine and Ephedrine.....</i>	<i>94</i>
South America	101
<i>Argentina.....</i>	<i>103</i>
<i>Bolivia.....</i>	<i>107</i>
<i>Brazil.....</i>	<i>114</i>
<i>Chile.....</i>	<i>118</i>
<i>Colombia.....</i>	<i>121</i>
<i>Ecuador.....</i>	<i>130</i>
<i>Paraguay.....</i>	<i>135</i>
<i>Peru.....</i>	<i>138</i>
<i>Uruguay.....</i>	<i>145</i>
<i>Venezuela.....</i>	<i>148</i>
Canada, Mexico and Central America.....	153
<i>Belize.....</i>	<i>155</i>
<i>Canada.....</i>	<i>158</i>
<i>Costa Rica.....</i>	<i>163</i>

<i>El Salvador</i>	166
<i>Guatemala</i>	169
<i>Honduras</i>	173
<i>Mexico</i>	176
<i>Nicaragua</i>	183
<i>Panama</i>	186
The Caribbean	189
<i>The Bahamas</i>	191
<i>Cuba</i>	194
<i>Dominican Republic</i>	198
<i>Dutch Caribbean</i>	202
<i>Eastern Caribbean</i>	206
<i>French Caribbean</i>	212
<i>Guyana</i>	214
<i>Haiti</i>	217
<i>Jamaica</i>	221
<i>Suriname</i>	225
<i>Trinidad and Tobago</i>	229
Southwest Asia	233
<i>Afghanistan</i>	235
<i>Bangladesh</i>	244
<i>India</i>	248
<i>Nepal</i>	257
<i>Pakistan</i>	261
<i>Sri Lanka</i>	269
Southeast Asia	273
<i>Australia</i>	275
<i>Burma</i>	278
<i>Cambodia</i>	286
<i>China</i>	291
<i>Hong Kong</i>	298
<i>Indonesia</i>	303
<i>Japan</i>	309
<i>Laos</i>	312
<i>Malaysia</i>	319
<i>Mongolia</i>	322
<i>North Korea</i>	324
<i>The Philippines</i>	326
<i>Singapore</i>	332
<i>South Korea</i>	336
<i>Taiwan</i>	339
<i>Thailand</i>	342
<i>Vietnam</i>	348
Europe and Central Asia	353
<i>Albania</i>	355
<i>Armenia</i>	359
<i>Austria</i>	362
<i>Azerbaijan</i>	366
<i>Belarus</i>	369

<i>Belgium</i>	373
<i>Bosnia and Herzegovina</i>	378
<i>Bulgaria</i>	382
<i>Croatia</i>	385
<i>Cyprus</i>	389
<i>Czech Republic</i>	393
<i>Denmark</i>	398
<i>Estonia</i>	401
<i>Finland</i>	405
<i>France</i>	410
<i>Georgia</i>	414
<i>Germany</i>	417
<i>Greece</i>	420
<i>Hungary</i>	423
<i>Iceland</i>	428
<i>Ireland</i>	432
<i>Italy</i>	436
<i>Kazakhstan</i>	440
<i>Kyrgyz Republic</i>	444
<i>Latvia</i>	448
<i>Lithuania</i>	451
<i>Macedonia</i>	454
<i>Moldova</i>	457
<i>Montenegro</i>	461
<i>Netherlands</i>	464
<i>Norway</i>	473
<i>Poland</i>	476
<i>Portugal</i>	479
<i>Romania</i>	482
<i>Russia</i>	485
<i>Serbia (includes Kosovo)</i>	492
<i>Slovakia</i>	499
<i>Slovenia</i>	502
<i>Spain</i>	504
<i>Sweden</i>	508
<i>Switzerland</i>	513
<i>Tajikistan</i>	519
<i>Turkey</i>	526
<i>Turkmenistan</i>	529
<i>Ukraine</i>	533
<i>United Kingdom</i>	538
<i>Uzbekistan</i>	544

Africa and the Middle East..... 549

<i>Angola</i>	551
<i>Benin</i>	553
<i>Egypt</i>	555
<i>Ethiopia</i>	558
<i>Ghana</i>	561
<i>Guinea</i>	567
<i>Iran</i>	569
<i>Iraq</i>	577
<i>Israel</i>	579
<i>Jordan</i>	584

Lebanon 588
Morocco 592
Mozambique..... 597
Namibia 601
Nigeria 603
Saudi Arabia 608
South Africa 612
Syria..... 618
Togo..... 622
United Arab Emirates..... 625

Common Abbreviations

ARS	Alternative Remittance System
ATS	Amphetamine-Type Stimulants
CARICC	Central Asia Regional Information Coordination Center
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
FBI	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
ILEA	International Law Enforcement Academy
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
MAOC-N	Maritime Analysis and Operations Centre-Narcotics
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 2008 INCSR, published in March 2008, covers the year January 1 to December 31, 2007 and is published in two volumes, the second of which covers money laundering and financial crimes. In addition to addressing the reporting requirements of section 489 of the FAA (as well as sections 481(d)(2) and 484(c) of the FAA and section 804 of the Narcotics Control Trade Act of 1974, as amended), the INCSR provides the factual basis for the designations contained in the President's report to Congress on the major drug-transit or major illicit drug producing countries initially set forth in section 591 of the Kenneth M. Ludden Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 (P.L.107-115) (the "FOAA"), and now made permanent pursuant to section 706 of the Foreign Relations Authorization Act, Fiscal Year 2003 (P.L.107-228) (the "FRAA").

Section 706 of the FRAA requires that the President submit an annual report no later than September 15 identifying each country determined by the President to be a major drug-transit country or major illicit drug producing country. The President is also required in that report to identify any country on the majors list that has "failed demonstrably. . . to make substantial efforts" during the previous 12 months to adhere to international counternarcotics agreements and to take certain counternarcotics measures set forth in U.S. law. U.S. assistance under the 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).

Last 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 was 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. This expanded reporting, which also appears in this year's INCSR and will appear in each subsequent annual INCSR report, also includes additional information on efforts to control methamphetamine precursor chemicals, as well as estimates of legitimate demand for these methamphetamine precursors, prepared by most parties to the 1988 UN Drug Convention and submitted to the International Narcotics Control Board. The CMEA also requires a Presidential determination by March 1 of each year on whether the five countries that legally exported and the five countries that legally imported the largest amount of precursor chemicals (under FAA section 490) have cooperated with the United States to prevent these substances from being used to produce methamphetamine or have taken adequate steps on their own to achieve full compliance with the

1988 UN Drug Control Convention. This determination may be exercised by the Secretary of State pursuant to Executive Order 12163 and by the Deputy Secretary of State pursuant to State Department Delegation of Authority 245.

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 2008 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 ¹

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 14, 2007, 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.

¹ NB: The Presidential Determination as to which countries are “Major Illicit Drug Producing and Major Illicit Drug Trafficking Countries”, and which “failed demonstrably” to adhere to their obligations, reported in this year’s INCSR, is based on information available as of September 2007 and detailed in the 2007 INCSR. Determinations on the majors’ list are regularly made in the year preceding that in which they are reported in the INCSR.

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.

Major Precursor Chemical Source Countries

The following countries and jurisdictions have been identified to be major sources of precursor or essential chemicals used in the production of illicit narcotics:

Argentina, Brazil, Canada, Chile, China, Germany, India, Mexico, the Netherlands, Singapore, South Korea, Taiwan, Thailand, the United Kingdom, 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, 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, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, and Venezuela.

Further information on these countries/jurisdictions 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 14, 2007

Presidential Determination No. 2007-33

Pursuant to section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228)(FRAA), I hereby identify the following countries as major drug transit or major illicit drug producing countries: **Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.**

A country's presence on the Majors List is not necessarily an adverse reflection of its government's counternarcotics efforts or level of cooperation with the United States. Consistent with the statutory definition of a major drug transit or drug producing country set forth in section 481(e)(2) and (5) of the Foreign Assistance Act of 1961, as amended (FAA), one of the reasons that major drug transit or illicit drug producing countries are placed on the list is the combination of geographical, commercial, and economic factors that allow drugs to transit or be produced despite the concerned government's most assiduous enforcement measures.

Pursuant to section 706(2)(A) of the FRAA, I hereby designate Burma and Venezuela as countries that have failed demonstrably during the previous 12 months to adhere to their obligations under international counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. Attached to this report are justifications for the determinations on Burma and Venezuela, as required by section 706(2)(B). I have also determined, in accordance with the 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 narcotrafficking as the greatest threat to Afghanistan, one third of the Afghan economy remains opium-based, which contributes to widespread public corruption, damage to licit economic growth, and the strengthening of the insurgency. The government at all levels must be held accountable to deter and eradicate poppy cultivation, remove and prosecute corrupt officials, and investigate and prosecute or extradite narcotraffickers 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.

In Afghanistan, one model for success can be drawn by comparing the marked differences in cultivation between the northern and southern provinces. Several northern provinces contributed to a decline in poppy cultivation resulting from a mixture of political will and incentives and disincentives, such as public information, alternative development, and eradication. Furthermore, several northern provinces with very low amounts of poppy are well on their way to becoming poppy free.

Despite the significant progress made in Afghanistan since 2001, the country continues to face tremendous challenges. Our struggle to win hearts and minds, while confronting the insurgency,

continues to directly hinge on our ability to help the Afghan government produce visible results. We need to encourage a firm belief among the Afghan people that their national government is capable of delivering an alternative to the preceding decades of conflict. Our reconstruction assistance is an essential instrument to achieve that goal.

Bolivian counternarcotics cooperation has been uneven. The Bolivian government has cooperated closely on interdiction, and operations and seizures have reached record levels. The government is on track to reach 5,600 hectares of eradication this year, surpassing its goal of 5,000 hectares.

However, these measures have been outstripped by replanting and expansion of cultivation in Bolivia, the world's third-largest producer of coca. The Government of Bolivia's policy of "zero cocaine, but not zero coca" has focused primarily on interdiction, to the exclusion of its other essential complements, especially coca crop eradication. We strongly encourage the Government of Bolivia to make its number one priority the reduction and eventual elimination of excess coca crops, a major source of illegal cocaine for the hemisphere, Europe, the United States, and increasingly, for Bolivian citizens. In the area of drug control policy development, we urge the Government of Bolivia to revamp its national drug control strategy to eliminate permissiveness in licit cultivation, to abolish the so-called "cato" exemption, and to tighten controls on the sale of licit coca. As a party to the three major United Nations drug conventions, we urge Bolivia to move quickly to adopt and implement a modern anti-money/counterterrorism financing law, and take concrete steps to strengthen and better enforce precursor chemical controls and its asset forfeiture regime.

The United States enjoys close cooperation with Canada across a broad range of law enforcement issues. We remain concerned that the production of high-potency, indoor-grown marijuana for export to the United States continues to thrive in Canada in part because growers do not consistently face strict legal punishment. The marijuana industry in Canada is becoming increasingly sophisticated, with organized crime groups relying on marijuana sales as the primary source of income and using profits to finance other illegal activities. The production of synthetic drugs such as MDMA/Ecstasy and methamphetamine, some of which are exported to the United States, appears to be on the rise in Canada. The Government of Canada has made a serious effort to curb the diversion of precursor chemicals that are required for methamphetamine production to feed domestic and U.S. illegal markets and has worked productively with the United States in joint law enforcement operations that disrupted drug and currency smuggling operations along both sides of the border.

The Government of Ecuador 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 remains an area 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.

Guinea-Bissau is becoming a warehouse refuge and transit hub for cocaine traffickers from Latin America transporting cocaine to Western Europe. Narcotics traffic is becoming yet another hurdle for Guinea-Bissau as it emerges from civil conflict. International donors and organizations are working to encourage and assist Guinea-Bissau in its efforts to confront organized cocaine trafficking networks that would use the country for warehousing and transshipment. These efforts are certainly appropriate and should be supported and advanced to deter illegal drug activities in Guinea-Bissau.

India has an exemplary record on controlling its licit opium production and distribution process, despite formidable challenges to its efforts. The Government of India can be correctly proud of its diligent law enforcement agencies and the introduction of high-tech methods, including “Smart Cards” for each licensed opium farmer. Recently, Indian enforcement officials identified and destroyed substantial illicit opium poppy cultivation in areas thought to be free of illicit cultivation in the past. Indian officials will want to investigate the circumstances of this surprisingly large illicit cultivation to identify those behind this disquieting phenomenon and arrest, prosecute, and convict them.

Nigeria has made progress on many narcotics control and anti-money laundering benchmarks. There is reason to be hopeful. The Economic and Financial Crimes Commission has seized millions in the proceeds of crime, anti-money laundering efforts have been successful, and Nigeria is cooperating with the international community to improve its efforts against money laundering even more. Still necessary are procedural reforms to streamline extradition procedures. For many narcotics criminals no sanction is more effective than the fear they could face a court and jail time in the countries to which they have trafficked narcotics. Nigeria should also re-double its efforts to use its frequent apprehension of street criminals and couriers to identify and prosecute major drug traffickers.

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 2008

Venezuela

Venezuela has failed demonstrably to make sufficient efforts to meet its obligation under international counternarcotics agreements and U.S. domestic counternarcotics requirements for the second straight year.

This determination comes as the result of the Government of Venezuela's insufficient action against drug trafficking within and through its borders, commensurate with the country's international obligations and responsibilities to the international community. The Government of Venezuela has also failed to respond to specific United States Government requests for counternarcotics cooperation.

Although the Government of Venezuela has indicated that it has developed new programs to fight increased drug trafficking, seizures continue to be very limited, and there continues to be a lack of significant inspections at ports of entry and exit, including along the border with Colombia. The Government of Venezuela also has not attempted meaningful prosecutions of traffickers or corrupt officials. Venezuela's importance as a transshipment point for drugs bound for the United States and Europe continues to increase, a situation both enabled and exploited by corrupt Venezuelan officials and a weak judicial system. Meanwhile, organized crime is flourishing.

The Government of Venezuela has not renewed formal counternarcotics cooperation agreements with the United States Government, including signing a letter of agreement that would make funds available for cooperative programs to fight the flow of drugs to the United States.

The vital national interest certification will allow the United States Government to provide funds that support programs to support civil society and other beleaguered democratic institutions and to assist in small community development programs for the benefit of the Venezuelan people.

MEMORANDUM OF JUSTIFICATION FOR PRESIDENTIAL DETERMINATION ON MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2008

Burma

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

Burma still is the largest source of methamphetamine pills in Asia, and pill production continues to grow. Burma's military government has taken no consistent action against the largest methamphetamine pill manufacturing and trafficking group in Asia, the United Wa State Army, an armed semi-autonomous ethnic minority organization, which has caused considerable hardship for Burma's neighbors in Thailand, Malaysia, Singapore and Indonesia. On occasion, Burmese authorities have accepted casualties, in the enforcement of Burma's anti-narcotics laws, but overall Burma has not mounted a serious, direct, and effective confrontation of the known narcotics manufactures and traffickers operating from its territory.

The military regime appears to deal inconsistently with suspected drug traffickers, in some cases moving sharply against them to enforce anti-narcotics laws and, in other cases, seeming to tolerate their criminality, if not encourage it. Declining poppy cultivation has been matched by a sharp increase in the production and export of synthetic drugs. To date, Burma has taken no direct action against the eight leaders of the notorious United Wa State Army indicted in January 2005 in a U.S Federal court, nor has any action been taken against the infamous drug kingpin Chang Chi-Fu, who surrendered to Burmese official but continues to live in Rangoon.

Burma makes no consistent effort against drug-related corruption, in contravention of its international treaty commitments. Many army and police personnel posted on the border are believed to be involved in facilitating the drug trade. The military government has never prosecuted a Burmese Army officer over the rank of full colonel for drug-related offenses or drug-related corruption.

For the third consecutive year, Burma failed to provide sufficient cooperation to support the United States-Burma joint opium yield survey, previously an annual exercise. Opium yield surveys are clearly in the interest of both sides to track the implications of policy steps taken and to gauge future action based on hard facts rather than estimates.

Burma's prevention and drug treatment programs suffer from inadequate resources and a lack of high-level government support. Funding limitations mean that many addicts cannot be reached. According to UNAIDS, Burma's Ministry of Health spent a total of \$137,000 on HIV in 2005, equivalent to less than half of \$0.01 per person.

While the overall picture of Burma's counternarcotics efforts remains overwhelmingly negative, there are some positive aspects. Opium production in Burma is down more than 80 percent from its peak, in part as a result of Burmese Government efforts. Seizures of methamphetamine increased in 2006 and 2007; law enforcement officials netted in excess of 19 million methamphetamine tablets. Burma destroyed three methamphetamine labs in 2006.

In October 2006, the Financial Action Tack Force (FATF) removed Burma from the FATF list of Non-Cooperative Countries and Territories, although the United States maintains separate

countermeasures issued by the Financial Crimes Enforcement Network of the Treasury Department. Burma became a member of the Asia/Pacific group on Money Laundering in January 2006. Burma maintains a regular dialogue on precursor chemicals with India, China, Thailand, and Laos. As a result, India and China have taken steps, including the creation of exclusion zones, to divert precursors away from Burma's border areas. Burma has also cooperated with these countries on a variety of counternarcotics law enforcement issues.

**POLICY AND PROGRAM
DEVELOPMENTS**

Overview for 2007

This year is the 25th occasion for publication of the International Narcotics Control Strategy Report. Over this period, a fundamental shift has occurred in the world's understanding of both our shared drug problem and the need for concerted international efforts to fight narcotics cultivation, production, trafficking and use. When this report began 25 years ago, the attention of the world community was often distracted by an unproductive blame-game between “producer” states in Latin America and Asia and “consumer” states in Europe and North America. There was little perception that we faced a common enemy and shared common objectives in international drug control. Instead, too often, there was a perception that without demand, supply would end, and that transit countries need not worry about addiction among their domestic populations. We now know that the lure of such incredible profits, as the drug traffic generates, makes this a trade that circumvents such a simple formula. Those who want to supply drugs make it their business to encourage demand by paying transit state residents in drugs instead of money and manipulating prices to get and keep addicts. Drug abuse and addiction is widespread in most transit countries; at least to some extent, drug supply creates its own demand. We all face a thinking, well-financed enemy and we must all, every legitimate nation-state and international authority, work together to thwart this network.

Understanding that demand is a key element of this problem, the United States has greatly increased its spending on drug treatment and avoidance programs over the decades, and has invested in cutting-edge medical and social research on how to decrease demand. We are proud of the results and have worked with the Organization of American States, the United Nations, and countries all over the world to share programs such as drug courts, early intervention, and school drug testing.

We work with our allies to fight drug cultivation, processing and trafficking, and the laundering of drug proceeds, on a global scale. In 2007, clear indications of success in pushing traditional traffickers out of business, and meeting demand reduction needs, were evident but much more remains to be done. Throughout the world, countries that seek to stabilize their democratic gains find themselves besieged by criminals who can financially undermine legitimate law enforcement and economic institutions. The environment is equally under siege, as drug traffickers practice deforestation and chemical dumping in fragile ecosystems.

Record levels of Afghan opium cultivation have led to an increased flow of heroin to Europe, Russia and the Middle East, which undermines those societies as well as the consolidation of democracy and security in Afghanistan. Cocaine and cannabis pose considerable risk to societies in the Americas, and increasingly to fragile transit nations in West Africa. According to the 2007 World Drug Report by the UN Office of Drugs and crime, “Global demand for cocaine has also stabilized, although the decline in the United States is offset by alarming increases in some European countries . . . [T]he production and consumption of amphetamine-type stimulants (ATS) has leveled off, with a clear downward trend in North America and, to a lesser degree, Europe . . . [T]he health warnings on higher potency cannabis, delivered in past *World Drug Reports*, appear to be getting through. For the first time in years, we do not see an upward trend in the global production and consumption of cannabis. [Finally,] opium production, while significant, is now highly concentrated in Afghanistan's southern provinces.”

The ultimate success of international drug control efforts will hinge, in large part, on two factors: sustained international political will and effective capacity building. States must continue to confront illicit drug use, production, and transshipment with the energy and determination that reflects how seriously these threats affect their own societies and national security. The world community has made tremendous progress on this front since the first publication of this report 25 years ago, most notably in the form of the 1988 UN Drug Control Convention. Over the past quarter-century, the topic of

international drug control has evolved from a second-tier diplomatic concern to a pressing priority for international statecraft, discussed at the very highest levels of government and handled daily through a range of international institutions and legal tools that have evolved during that time.

In 2007, for example, the Organization of American States (OAS) celebrated the 20th anniversary of its Inter-American Drug Abuse Control Commission (CICAD), which is comprised of senior officials from all 34 OAS Member States. Over the years, CICAD has fostered numerous policies and programs to implement concrete, effective drug control cooperation among the major hemispheric drug control and trafficking countries affecting the narcotics problem in the U.S., as well as in Europe and elsewhere. As another example, the Financial Action Task Force (FATF) was formed in 1989 as an inter-governmental body to develop and promote national and international policies to combat money laundering, and more recently, to combat terrorist financing. The FATF has helped generate the necessary political will to bring about legislative and regulatory reforms in these fields, and its recommendations are widely recognized as the preeminent international standards for effective anti-money laundering regimes. More recently, to expand upon the cooperative framework established under the 1988 UN Drug Control Convention, two additional UN treaties concerning all forms of transnational organized crime and public corruption have been negotiated and have entered into force.

These international agreements reflect some overarching lessons learned from our efforts to combat the illegal drug trade over the past quarter century, namely: that international crime extends far beyond drug trafficking to include many different threats to U.S. and international interests, and can be combated through common strategies and legal mechanisms; and that combating and preventing corruption is absolutely essential to preventing criminal networks from achieving greater success and power. Working through these multilateral fora and through traditional bilateral diplomacy, the United States will continue to encourage states to fully implement their political commitments in keeping with the goals set by international law.

Political will is essential for achieving progress against illicit drugs, but it is not self-actualizing. Sustainable progress requires sufficient capacities for enforcing the rule of law and implementing the objectives of committed governments. To assist this process, the United States is committed to enhancing the capacity of governments to uphold their international commitments in practice. The United States cannot by itself arrest every drug criminal, provide for every alternative development project, disrupt the finances of every drug trafficker, or dismantle every drug trafficking organization. In this regard, the goal of the United States is to assist governments to become full and self-sustaining partners in promoting the goals of the UN Drug Control Conventions.

Controlling Supply

Cocaine, ATS, marijuana and heroin are the drugs that most threaten the United States and its international allies. 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 the 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), transport and wholesale distribution stages.

The cornerstone of U.S. supply reduction strategy remains source-zone eradication. We continue to strongly believe that drug crops are the weakest link in the drug production chain; coca and poppy crops are detectable from satellite imagery, easily destroyed, and—unlike some people and institutions—immune to corruption. They require adequate growing conditions, ample land, and time to reach maturity. We have a much more realistic chance eliminating drug crops in the ground than we do of capturing traffickers, who are armed, difficult to track, and ingenious in their delivery methods.

However, even the most thoroughly executed crop eradication campaigns will not achieve sustainable results, unless backed by effective police forces that can detect and arrest traffickers, and courts that

can prosecute them. Since drug cultivation flourishes in environments where state authority is weak and economic development is low, support for law enforcement institutions must be mainstreamed into overall efforts to achieve sustainable development. In many cases, as we have seen in Afghanistan and parts of the Andean countryside, these law enforcement institutions and licit economic networks need to be created from scratch. Building institutional capacities in such environments is a tough, long-term process that does not lend itself to quick results, particularly if such regions are in the midst of civil conflicts. It requires long-term sustained funding and commitment from host governments and the international donor community. One of the more encouraging trends of recent years is that there has been a growing international appreciation for the linkage between development and law enforcement, and an increasing awareness that drug-induced corruption and lack of law enforcement and criminal justice institutions can hinder social and economic development. The United States believes that law enforcement and criminal justice institutional development is an integral component of broader development strategy, and we are encouraged that the broader international community has increasingly supported this mainstreaming approach over recent years.

Perhaps the most acute and crucial challenge of achieving sustainable development in territories where drug-cultivation takes place is the need to integrate otherwise marginalized regions into the economic and political mainstream of host countries. The term that is most often used for this by the United States, the United Nations and other international actors is “alternative development,” but it may be more accurate to think of such assistance as support for “alternative livelihoods,” because alternative development goes far beyond crop substitution, the usual assumed meaning. In some situations, crop substitution is neither feasible nor desirable. In some areas, the same soil that supports illicit drug crop cultivation does not have adequate nutrients to support licit crops. Licit crops rarely produce the same income as drug crops, and in some cases, farmers will need inducement to pursue non-agricultural pursuits. Even more powerful forms of compensation include access to credit, security, and government services such as roads, schools, health centers, electricity and water. Establishing these programs on the ground is a lengthy, sometimes frustrating process, and implementation of these alternative development assistance programs is often slower than the process of training and equipping law enforcement personnel. However, if implemented correctly, alternative development is good policy and good politics. Without it, crop eradication alone will never amount to more than a temporary palliative, and will not achieve sustainable reduction of illicit narcotic crops.

Based on decades of experience in illicit crop reduction and alternative development, there is convincing evidence that alternative development without some measure of forced eradication leads to little or no reduction in drug production. Similarly, programs that rely on voluntary eradication need to have a forced eradication component to signal political commitment to growers. There are no licit crops or activities that generate an income comparable to coca or opium poppy. Drug cultivators will only get out of the business when they are convinced that authorities will not tolerate it. The United States is firmly convinced that governments can derive no benefit from entering into negotiations with these illegal growers. If they are dealt with as legitimate lobbies rather as law-breakers, drug interests can grow emboldened, and this can lead to the creation or reinforcement of large, possibly well-armed groups capable of violence. Contrary to what might be expected, tolerance can lay the groundwork for civil insurrection, and once organized, these insurrections can be extremely difficult to put down in areas where institutional development lags behind.

For non-organic drugs, such as ATS, physical eradication is impossible. Instead, the U.S. and its allies must create a legal regime of chemical controls and law enforcement efforts aimed at thwarting those who divert key chemicals, and destroying the laboratories needed to create ATS. Our international programs focus on 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.

Cocaine

The rate of U.S. cocaine consumption has generally declined over the past 10 years, but held steady last year among teenagers. Cocaine continues to be a major domestic concern.

Coca Eradication: The October 2007 Interagency Assessment of Cocaine Movement (IACM) estimates that between 530 and 710 metric tons (MT) of cocaine departed South America toward the United States in 2006, an amount similar to the 2005 estimate. Since all cocaine originates in the Andean countries of Colombia, Peru, and Bolivia, the U.S. Government channels a significant portion of its international resources towards eliminating illegal coca cultivation (the raw ingredient in cocaine) within these countries. We actively support efforts by these governments 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, a key tool for 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.

Colombia leads the world in coca cultivation as the source of roughly 90 percent of the cocaine destined for the U.S. with Peru and Bolivia a distant second and third respectively. Cocaine trafficking to Europe from South America is becoming a serious concern, especially through transit states in West Africa. By the end of 2007, the Colombian government reported eliminating about 153,133 hectares of coca through aerial eradication and another 66,396 hectares through manual eradication. 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 face challenges to implementing their coca eradication and cocaine interdiction activities. 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 for their own purposes.

Bolivian President Evo Morales, a former *cocalero* leader, continued to promote his policy of "zero cocaine but not zero coca" and to push for industrialization of coca. His administration continues to pursue policies that would lead to an increase in legal coca cultivation from 12,000 to 20,000 hectares—a change that would violate current Bolivian law and potentially contravene the 1988 UN Drug Convention, to which Bolivia is a party. The GOB eradicated more than 6,000 hectares by the end of the year, nearly all of that in the Chapare region. USG-supported Bolivian counternarcotics units, as of September 30, 2007, had seized 13.8 tons of cocaine base and cocaine hydrochloride (HCl) and destroyed 3,093 cocaine labs and maceration pits.

Peru eradicated 11,057 hectares in 2007. Cocaleros in Peru engaged in numerous violent acts to resist eradication. The Sendero Luminoso terrorist group has openly identified with coca growers and drug traffickers, and organized violent ambushes of police and intimidation of alternative development teams in coca growing areas.

Cocaine Seizures: Colombian authorities seized 191.3 metric tons of cocaine in the course of the year, and destroyed 240 cocaine HCl labs and 2,875 cocaine base labs. Bolivia seized 13.8 metric tons of cocaine and destroyed 3,093 cocaine labs and maceration pits; and Peru seized over 16 metric tons of cocaine.

Collectively, the eradication of coca and seizures of cocaine within the Andean source countries prevented hundreds of metric tons of cocaine from reaching U.S. streets and deprived international drug syndicates of billions of dollars in profits.

Interdiction in the Cocaine Transit Zone: The cocaine transit zone drug flow is of double importance for the United States: it threatens our borders, and it leaves a trail of corruption and addiction in its wake that undermines the social framework of societies in Central America, Mexico and the Caribbean. Helping our neighbors police transit zones has required a well-coordinated effort between the governments of the transit zone countries and the USG. With high levels of post-seizure intelligence collection, and cooperation with allied nations, we now have more actionable intelligence within the transit zone.

The U.S. Joint Inter-Agency Task Force – South (JIATF-S), 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 seizures. The USG’s bilateral agreements with Caribbean and Latin American countries have eased the burden on these countries’ law enforcement assets to conduct at sea boardings and search for contraband, while allowing the USG to gain jurisdiction over cases and remove the coercive pressure from large drug trafficking organizations on some foreign governments.

Mexican law enforcement interdicted over 48 MT of cocaine; 2,171 MT of marijuana; 292 kilograms of opium gum; 298 kilograms of heroin; and, 899 kilograms of methamphetamine in 2007. Venezuela reported seizures of 28 metric tons of cocaine in 2007. This is less than claimed seizures in 2006; and these figures include seizures made by other countries in international waters that were subsequently returned to Venezuela, the country of origin.

According to JIATF-S, the number of drug smuggling flights from Venezuela to Hispaniola increased by 38 percent from 2006 to 2007. Approximately two thirds of the flights went to the Dominican Republic, and, in 2007, Dominican authorities seized approximately four metric tons of cocaine, 102.5 kilograms of heroin, 17,902 units of MDMA, and 511.7 kilograms of marijuana. Haiti seized 914 kilograms of cocaine and marijuana. West Africa has become a hub for cocaine trafficking from South America to Europe. Some 33 tons of cocaine have been seized in West Africa since 2005, but this is probably only the tip of the iceberg. UNODC estimates that around 40 tons of cocaine were trafficked through West Africa in 2007 alone. A quarter of all cocaine consumed in Europe may transit West Africa.

This onslaught is due to more effective interdiction along traditional trafficking routes, and the convenient location of West Africa between Andean cocaine suppliers and European consumers, but most of all it reflects the vulnerability of West African countries to organized crime.

Synthetic Drugs

Amphetamine-Type Stimulants (ATS): Although abuse and trafficking in amphetamine-type stimulants (ATS) remain among the more serious challenges in the drug-control arena, the 2007 edition of the UN Office of Drugs and Crime’s World Drug Report (2007) notes that “the alarming increases in the production of ATS throughout the 1990s seem to have leveled off over the last few years. This is likely a result of recent efforts to monitor and improve precursor control.” Despite this modest stabilization, the use of methamphetamine, amphetamine, and MDMA (“ecstasy”) remains prevalent in many countries, especially in those of Central and Northern Europe and Southeast Asia. Synthetics can be made anywhere and offer enormous profit margins. 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.

Methamphetamine production and distribution are undergoing significant changes in the United States. Methamphetamine use has stabilized nationally since 2002 after increasing during much of the 1990s, and domestic production of methamphetamine has decreased dramatically since 2004. However, according to the December 2007 National Drug Intelligence Center’s “*National Methamphetamine Threat Assessment 2008*,” the increasing prevalence of high-purity ice methamphetamine throughout

the country and the expansion of methamphetamine networks operated by Mexican and Asian drug trafficking organizations have largely sustained U.S. methamphetamine markets. Despite heightened chemical import restrictions in Mexico, production in that country has increased since 2004, and Mexican organizations and product continue to dominate domestic markets, supplanting many local dealers who had previously produced and distributed the drug independently.

This pattern is at least partially due to increasingly effective domestic controls over the retail sale of licit pharmaceutical preparations containing ephedrine and pseudoephedrine, the primary chemicals necessary for methamphetamine. Regulations for the sale of such products in the U.S. became effective at the national level for the first time in late 2006 under the Combat Methamphetamine Epidemic Act (CMEA). To capitalize on these gains and prevent production from merely shifting ground, the U.S. Government enhanced the scale and pace of its law enforcement cooperation with the Government of Mexico to target the production and trafficking of methamphetamine. For its part, the Government of Mexico demonstrated unprecedented political commitment towards stemming the illicit diversion of chemicals required for methamphetamine production. The Government of Mexico determined in September of 2007 that it would issue no further licenses for the importation of any amount of ephedrine, pseudoephedrine, and any product containing these chemicals. Sellers of ephedrine and pseudoephedrine products must deplete their remaining stores of products containing these chemicals by 2009, after which the use of these products will be illegal in Mexico. This new policy has the potential to significantly disrupt the methamphetamine trade in the years ahead.

The United States is keenly aware that drug traffickers are adaptable, well-informed, and flexible. New transshipment routes may be emerging in Southeast Asia and Africa, and there is also ample evidence that organized criminal groups ship currently uncontrolled chemical analogues of ephedrine and pseudoephedrine for use in manufacturing illicit methamphetamine-type drugs. Large-scale methamphetamine production is increasing in Canada as outlaw motorcycle gangs and Asian drug trafficking organizations expand their methamphetamine operations. Some methamphetamine produced in Canada is distributed in U.S. drug markets, along with some MDMA (also known as ecstasy).

Canada has also emerged as a source country for a significant percentage of the ecstasy consumed in the United States. The Netherlands remains an important producer of ecstasy as well, although the amount of this drug reaching the United States seems to have declined substantially in recent years, abetted by proactive measures from the Dutch Government. The successful five-year strategy (2002-2006) against the production, trade and consumption of synthetic drugs was endorsed by the Dutch Parliament in 2007. 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 flattened among the teenage population most at risk, according to the 2007 Monitoring the Future report.

Pharmaceutical Abuse, and the Internet: The number of Internet pharmacies established since 2002, and particularly since 2005, has increased sharply. According to the National Drug Intelligence Center's October 2007 "National Drug Threat Assessment," a study by the National Center on Addiction and Substance Abuse (CASA) at Columbia University states that the number of Internet pharmacy sites offering Schedules II through V controlled prescription drugs increased 70 percent—from 342 in 2006 to 581 in 2007. The study determined that 32 percent of the sites were "anchor sites" (sites at which the customer could place an order and pay for the drugs), and the remaining 68 percent were simply portal sites that directed customers to the anchor sites. Of the anchor sites, 84 percent did not require a prescription at all to purchase the drugs, and another approximately 10 percent accepted faxed prescriptions, increasing the risk of multiple use of one prescription or use of fraudulent prescriptions.

An area of continuing concern is the abuse of pharmaceutical drugs, especially among teenagers. According to the December 2007 “Monitoring the Future” survey, while most of the illicit drugs have shown considerable declines in use over the past decade or so, most prescription psychotherapeutic drugs did not; in fact, a number of them showed steady increases in use outside of their legitimate medical use (amphetamines being the single exception). These include sedatives such as Vicodan, tranquilizers, and narcotic drugs other than heroin (most of which are analgesics). As a result, they have become a relatively more important part of the nation’s drug abuse problem. Fortunately, most of them have shown signs of leveling or even of beginning a gradual decline in use over the past couple of years. Many of these drugs are available over the Internet, through doctors prescribing drugs without seeing patients or “pharmacies” that accept unverified or even substandard prescriptions. It is not known what percentage of this abuse involves international sources.

Cannabis (Marijuana)

Cannabis production and marijuana consumption continue to appear in nearly every world region, including in the United States. Marijuana still remains the most widely used of all of the illicit drugs. According to the December 2007 “Monitoring the Future” study, the decline in 2007 in the annual prevalence of marijuana use among U.S. 8th graders was statistically significant, falling from 11.7 percent in 2006 to 10.3 percent in 2007. Since the recent peak years of use reached in the mid-1990s, annual prevalence has fallen by over 40 percent among 8th graders, 30 percent among 10th graders, and nearly 20 percent among 12th graders. The prevalence rates for marijuana use in the prior year now stand at 10 percent, 25 percent, and 32 percent for grades, 8, 10, and 12, respectively.

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 U.S. Drug Enforcement Administration (DEA), marijuana potency has increased sharply. Of great concern is the high potency, indoor-grown cannabis produced on a large scale in Canada and 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 U.S. 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, the source of heroin, is cultivated mainly in Afghanistan, Southwest Asia, and on a small scale in Colombia and Mexico. In contrast to coca, a perennial which takes at least a year to mature into usable leaf, opium poppy is an easily planted annual crop that can yield as many as three harvests per year with the correct care and climate. Opium gum can take less than 6 months to harvest.

According to the United Nations Office of Drugs and Crime (UNODC), Afghanistan produced 93 percent of the world’s opium poppy in 2007, which was a record high for the second year in a row. Total poppy cultivation increased by 28,000 hectares over 2006 levels, which accounts for a 17 percent increase in land under cultivation. While the total export value of this opium harvest was \$4.0 billion, which made up more than a third of Afghanistan’s combined licit and illicit GDP of \$11.5 billion, only \$1 billion was paid to Afghan poppy farmers, with the rest going to the narcotics traffickers. Containing poppy cultivation in Afghanistan is intimately tied to the considerable security

challenges faced there by counterinsurgent Coalition forces. A growing body of evidence indicates the presence of a symbiotic relationship between the narcotics trade and the anti-government insurgency, most commonly associated with the Taliban. Narcotics traffickers provide revenue and arms to the insurgency, while insurgents provide protection to growers and traffickers to prevent the government from interfering with their activities.

Afghanistan supplies all but a small amount of the heroin going to Europe, Russia, the Middle East, and much of Asia. Although only a small portion of heroin produced from Afghan opium finds its way to the United States, the negative implications of the drug trade for Afghan security, reconstruction, governance, and economic development make countering narcotics key to achieving all other U.S. objectives in Afghanistan. In the south of the country, where poppy cultivation is most pronounced, the Afghan Government has faced challenges controlling narcotics due to insecurity, corruption, a lack of political will, the limited reach of Afghan law enforcement, and a weak judicial system. Poppy production has soared in recent years in provinces where insurgents are most active: five relatively higher-income, agriculturally rich provinces along the Pakistan border account for 70 percent of Afghanistan's 2007 poppy production with over 50 percent occurring in Helmand province alone. In the more secure north and central areas of the country, however, poppy production has been significantly reduced or even completely eliminated, in the case of 13 provinces, due to successful counternarcotics efforts combined with security, political will, and the provision of development assistance.

In August 2007, the U.S. unveiled its *Counternarcotics Strategy for Afghanistan* to guide its efforts to achieve short-term and long-term success in the fight against narcotics. The strategy maintains the basic framework of the comprehensive five pillar approach to counternarcotics – public information, alternative development, eradication, interdiction, and law enforcement and justice sector reform – but calls for several key refinements to better address changing trends in cultivation, the security context, the political climate, and economic development requirements. The strategy enhances *incentives* for participation in licit livelihoods through the provision of additional development assistance, while simultaneously strengthening the *disincentives* to participation in all aspects and levels of the narcotics industry through increased interdiction, eradication, and law enforcement. The complexity of the drug problem in Afghanistan demands a balanced counternarcotics approach that melds deterrence, prevention, and economic development assistance. The U.S. approach meets these requirements and supports the Afghan Government's own strategy to combat narcotics.

Much of the heroin used in the United States comes from poppies grown in Colombia and Mexico, though opium gum production in these countries accounts for less than four percent of the world's total production and Colombian production has been cut by 60 percent since 2001. Mexico supplies most of the heroin found in the western United States while Colombia supplies most of the heroin east of the Mississippi. Long-standing joint eradication programs in both countries continue with our support. Colombian law enforcement eradicated 375 hectares of opium poppy in 2007, while the Government of Mexico (GOM) reported eradicating 7,784 hectares of opium poppy, a decrease from 2006 levels. The decline in the rates of eradication is at least in part due to the realignment of responsibilities for aerial eradication, as well as higher than normal precipitation during the key growing season.

Controlling Drug-Processing Chemicals

Cocaine and heroin are manufactured with certain critical chemicals, some of which also have licit uses but are diverted by criminals. The most commonly used chemicals in the manufacture of these illegal drugs are potassium permanganate (for cocaine) and acetic anhydride (for heroin). Government controls strive to differentiate between licit commercial use for these chemicals and illicit diversion to criminals. Governments must have efficient legal and regulatory regimes to control such chemicals, without placing undue burdens on legitimate commerce. Extensive international law enforcement

cooperation is also required to prevent their diversion from licit commercial channels, and to investigate, arrest and dismantle the illegal networks engaged in their procurement.

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

Drugs and the Environment

Impact of Drug Cultivation and Processing: Illegal drug production usually takes place in remote areas far removed from the authority of central governments. Not surprisingly, drug criminals practice none of the environmental safeguards that are required for licit industry, and the toxic chemicals used to process raw organic materials into finished drugs are invariably dumped back into sensitive ecosystems with no regard for human health or the costs to the environment. The devastating environmental impact of coca cultivation in the Andean region has been well-documented. Illegal cultivation there has led to the destruction of approximately six million acres of rainforest over the past 20 years. Coca growers routinely slash and burn remote, virgin forestland in the Amazon to make way for their illegal crops; coca growers typically cut down up to 4 hectares of forest for every hectare of coca planted. Tropical rains quickly erode the thin topsoil of the fields, increasing soil runoff, depleting soil nutrients. By destroying timber and other resources that would otherwise be available for more sustainable uses, including medicinal research, illicit coca cultivation decreases biological diversity in one of the most sensitive ecological areas in the world. In Colombia and elsewhere, traffickers also 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. Production of the drugs requires large quantities of dangerous solvents and chemicals. One kilogram of cocaine base requires the use of three liters of concentrated sulfuric acid, 10 kilograms of lime, 60 to 80 liters of kerosene, 200 grams of potassium permanganate, and one liter of concentrated ammonia. These toxic pesticides, fertilizers, and processing chemicals are then dumped into the nearest waterway or on the ground. They saturate the soil and contaminate waterways and poison water systems upon which local human and animal populations rely. In the United States, marijuana-processing operations take place in national parks, especially in California and Texas near the border with Mexico.

Methamphetamine is particularly alarming in its environmental impact. 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 thousands of dollars per site.

Impact of Spray Eradication: Colombia is currently the only country that conducts regular aerial spraying of coca and opium poppy, although countries throughout the world regularly spray other crops with herbicides. The only active ingredient in the herbicide used in the aerial eradication program is glyphosate, which has been thoroughly 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 most widely used herbicides in the world, including in Colombian and Ecuadoran commercial farms. Colombia's spray program represents a small fraction of total glyphosate use in the country. Biannual verification missions continue to show that aerial eradication causes no significant damage to the environment or human health. The eradication program follows strict environmental safeguards, monitored permanently by several Colombian government agencies, and adheres to all laws and regulations, including the Colombian

Environmental Management Plan. In addition to the biannual verification missions, soil and water samples are taken before and after spray for analysis. The residues in these samples have never reached a level outside the established norms. 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 early 2008 regarding spray drift and other relevant issues.

Attacking Trafficking Organizations

Law enforcement tactics have grown more sophisticated over the past two decades to counter the sophisticated trafficking networks that transport large volumes of drugs internationally. Rather than measuring progress purely by seizures and numbers of arrests, international law enforcement authorities have increasingly targeted resources against the highest levels of drug trafficking organizations (DTOs). Increasingly, international law enforcement authorities are learning the art of conspiracy investigations, using mutual legal assistance mechanisms and other advanced investigative techniques to follow the evidence to higher and higher levels of leadership within the syndicates, and cooperating on extradition so that the kingpins have no place to hide. These sophisticated law enforcement and legal tools are endorsed as recommended practices within both the 1988 UN Drug Control Convention and the UN Convention against Transnational Organized Crime. This increasingly mainstream approach towards targeting the organizational leadership of drug syndicates and disrupting their lines of control and command is paying great dividends.

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, 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 international law enforcement authorities.

Mexican drug syndicates continue to oversee much of the drug trafficking in the United States, with a strong presence in most of the primary U.S. distribution centers. The Calderon Administration's courage, initiative and success have exceeded all expectations of cooperation in facing this threat. President Calderon has addressed some of the most basic institutional issues that have traditionally confounded Mexico's success against the cartels, using the military to reestablish sovereign authority and counter the cartels' firepower, moving to establish integrity within the ranks of the police, and pursuing concrete actions that promise to give law enforcement officials and judicial authorities the resources and the legal underpinning they need to succeed. Presidents Bush and the leaders of Central America and Mexico agree that transnational crime is a regional problem, which will require regional solutions. To that end, the Merida Initiative would combine each nation's domestic efforts with broader regional cooperation to multiply the effects of our actions. This partnership would support coordinated strategies to:

- Break the power and impunity of criminal organizations;
- Assist the governments of Mexico and Central America in strengthening border, air, and maritime controls;
- Improve the capacity of justice systems in the region; and
- Curtail gang activity in Mexico and Central America and diminish the demand for drugs in the region

To achieve these goals, President Bush has requested \$1.1 billion to date for Mexico and Central America to provide:

- Non-intrusive inspection equipment, ion scanners, and canine units for Mexican customs, for the new federal police and for the military to interdict trafficked drugs, arms, cash and persons;
- Technologies to improve and secure communications systems to support collecting information as well as ensuring that vital information is accessible for criminal law enforcement;
- Technical advice and training to strengthen the institutions of justice – vetting for the new police force, case management software to track investigations through the system to trial, new offices of citizen complaints and professional responsibility, and establishing witness protection programs;
- Helicopters and surveillance aircraft to support interdiction activities and rapid operational response of law enforcement agencies in Mexico;
- Support to the countries of Central America to continue implementation of the USG’s anti-gang strategy; to support specialized vetted units; to strengthen juvenile justice systems and post-prison rehabilitation; to expand community policing; and to support land and maritime drug interdiction.

The Merida Initiative is a foreign assistance program that would complement existing and planned initiatives of U.S. domestic law enforcement agencies engaged with counterparts in each participating country. Strengthening institutions and capacity in partner countries will enable us to act jointly, responding with greater agility, confidence, and speed to the changing tactics of organized crime.

Extradition

There are few legal sanctions that international criminals fear as much as extradition to the United States, where they can no longer use bribes and intimidation to manipulate the local judicial process. Governments willing to risk domestic political repercussions to extradite drug kingpins to the United States are finding that public acceptance of this measure has steadily increased.

Mexican authorities extradited a record 83 fugitives to the United States in 2007, including prominent members of the Gulf Cartel, the sixth consecutive year this number has 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. The Government of Colombia extradited a record 135-defendants in 2007, including priority targets Degaberto Florez, Aldemar Rendon Ramirez, the Bernal-Palacios brothers, and Luis Gomez-Bustamante; and AUC paramilitary associate Hector Rodriguez. Overall, 618 individuals have been extradited to the U.S. since December 1997.

Also in 2007, two Afghan drug traffickers with links to the insurgency volunteered to be transported from Afghanistan to stand trial in the United States. The first, Mohammad Essa, was a key heroin distributor for the Haji Baz Mohammad network in the United States. He fled the United States when Baz Mohammad was sent to stand trial in New York. In December 2006, he was apprehended in Kandahar Province by the United States military during a battle with insurgents, and he was voluntarily transferred back to the United States in April 2007. The second was Khan Mohammad, who was a supporter of the insurgency and arrested in Nangarhar Province in October 2006. He was indicted for selling opium and heroin to Afghan law enforcement informants with the understanding that the drugs were destined for the United States. He was voluntarily transferred to the United States in November 2007 and will stand trial in Washington, D.C. Afghanistan and the United States do not

yet have a formal bilateral agreement on extradition, but U.S. justice mentors are working with the Afghan Government to draft a broad extradition law.

Institutional Reform

Fighting Corruption: Among all criminal enterprises, the drug trade is best positioned to spread corruption and undermine the integrity and effectiveness of legitimate governments. Drugs generate illegal revenues on a scale without historical precedent. No commodity is so widely available, so cheap to produce, and as easily renewable as illegal drugs. A kilogram of cocaine can be sold in the United States for more than 15 times its value in Colombia, a return which dwarfs regular commodities and distorts the licit economy.

No government is completely safe from the threat of drug-related corruption, but young democracies are especially vulnerable—particularly fragile democracies in post-conflict situations. The weakening of government institutions through bribery and intimidation ultimately poses just as great a danger to democratic governments as the challenge of armed insurgents. Drug syndicates seek to subvert governments in order to guarantee themselves a secure operating environment. Unchecked, the drug cartels have the wherewithal to buy their way into power. By keeping a focus on eliminating corruption, we can prevent the nightmare of a government entirely manipulated by drug lords from becoming a reality.

Improving Criminal Justice Systems: A pivotal element of USG international drug control policy is to help strengthen enforcement, judicial, and financial institutions worldwide to narrow the opportunities for infiltration and corruption by the drug trade. Corruption within a criminal justice system has enormously detrimental impact; law enforcement agencies in drug source and transit countries may arrest influential drug criminals only to see them released following a questionable or inexplicable decision by a single judge, or a prosecutor may obtain an arrest warrant but be unable to find police who will execute it. As governments work for basic reforms involving transparency, efficiency, and better pay for police and judges, we see systemic improvements.

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. Efforts to improve the capability of Afghanistan to investigate, arrest, prosecute, and incarcerate those guilty of narcotics violations are integrated into the overall justice sector strategy that the United States pursues jointly with the Afghan Government and international partners. Together with our international partners, we are training and mentoring Afghanistan's Counternarcotics Criminal Justice Task Force and Central Narcotics Tribunal in Kabul. 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.

Next Steps

The drug trade is fundamentally an illicit business. It enters the legitimate commercial world through its dependence on raw materials, processing chemicals, transportation networks, and its need to launder its profits through legitimate commercial and financial channels. We must intensify our efforts to block the drug business in all these areas, in particular focusing on the financial end because this black market can easily be diverted to fund insurgencies and terrorism, and to undermine the institutions of government. Since governments individually control domestic access to the global financial system, they have the potential, by working together, to make it difficult for drug profits to enter the legitimate international financial system.

However, the international narcotics trade has long demonstrated its ability to adapt to law enforcement constraints, and the drug trade itself also evolves, with the increasing use of synthetic drugs, Internet sales and distribution, state-of-the-art communications and technical and financial

expertise. Even the best alternative livelihoods cannot compete with the financial pressures on, and armed threats to, those who grow illicit crops.

In partnership with key partners and the UN Office of Drugs and Crime, 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. Looking back on the 25 years since we first published this report, and on 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. For the future, we must intensify our efforts to ensure that the 1988 Convention and the follow-up commitments of member states are successfully implemented, and that the potential of this framework for international cooperation is fully realized. Over the long term, such steady progress offers the best hope for transforming a potential threat to the stability of nations into a challenge that governments can manage and defeat.

Demand Reduction

The need for demand reduction is reflected in escalating drug use that takes a devastating toll on health, welfare, safety, security, and economic stability of all nations. Therefore, drug demand reduction is a critical factor in a balanced approach that integrates the principles of supply and demand to drive down drug use and its consequences. Recognizing these challenges, the National Security Presidential Directive (NSPD#25) on International Drug Control Policy, orders the Secretary of State “to expand U.S. international demand reduction assistance and information sharing programs in key source and transit countries”. The NSPD also makes clear that international drug trafficking organizations and their linkage to international terrorist groups constitute a serious threat to U.S. national security by generating illicit funds that increasingly threaten global peace and stability. Therefore, demand reduction assistance has evolved as a key foreign policy tool to address the interconnected threats of drugs, crime, and terrorism, and more recently it is recognized as a key complimentary component in efforts to stop the spread of HIV/AIDS, particularly in countries with high rates of intravenous drug use.

Strong drug-demand reduction policies and programs should address all sectors of society. Nations are no longer the sole masters of their destinies, nations are dependent on one another; global rules and cooperative global behavior are needed, given the “globalization” aspects of a modern economy. Consequently, recognizing the extensive U.S. experience in reducing drug demand, through successful evidence-based programs, foreign countries are requesting INL-sponsored technical assistance on demand reduction programming, since drug consumption also has debilitating effects on their society and children. Our response has been a comprehensive and coordinated approach in which supply control and demand reduction reinforce each other. Such assistance plays an important role in helping to preserve the stability of societies threatened by the narcotics trade.

Our demand reduction strategy encompasses a wide range of initiatives to address the societal and national security threats posed by the illicit drug trade. These include efforts to prevent the onset of use, intervention at “critical decision points” in the lives of vulnerable populations to prevent both first use and further use, and effective treatment programs for the addicted. Other aspects encompass education and community coalition development efforts to increase public awareness and mobilize society to counter the deleterious consequences of drug use/abuse. This latter effort involves the development of coalitions of private/public social institutions, the faith community, and law enforcement entities to mobilize national and international opinion against the drug trade and to encourage governments to develop and implement strong counternarcotics policies and programs. The demand reduction program also provides for evaluations of the effectiveness of these efforts and for “best practice” research studies to use these findings to improve similar efforts in the U.S. and around the world.

During 2007, INL continued to provide training and technical assistance at various locations throughout the world on topics such as, combating violence against women through substance abuse treatment. This training takes into account the unique needs of female drug addicts, and provides substance abuse treatment training and technical assistance, which addresses women’s treatment issues and related violence.

- Afghanistan – creation of five substance abuse treatment programs to address women’s needs. This initiative included training of women counselors in counseling techniques, family therapy, and formation of support group networks.

- El Salvador – enhancements to corrections- and community-based treatment programs to address the overlapping challenges of male and female drug abuse, gang membership and related violence.
- Philippines – creation of substance abuse units in female correctional facilities and help with the formation of community-based institutions.
- Peru – creation of model substance abuse treatment programs for female adolescents and street kids at high risk for drug abuse and sexual/physical violence.
- Brazil – creation of an outreach center for 245 high-risk youth whose parents are drug abusing prostitutes, including plans for the creation of a model drug treatment center for women and their children (first such facility in Latin America).
- Thailand – creation of substance abuse treatment programs for female addicts. A science-based, outcome evaluation of these programs revealed that overall drug use was reduced from 92 percent of targeted patients to 10 percent and methamphetamine abuse was reduced from 90 percent to 10 percent (pre- and post treatment).

As a cornerstone of a strong demand reduction strategy, and with the understanding that local problems need local solutions, INL also provided the necessary funding for training assistance targeting counternarcotics community coalitions working toward reducing substance abuse among youth, and strengthening the collaboration among organizations and agencies in the public and private sectors. Consequently, training programs were conducted in El Salvador, Peru, and Colombia, covering the promotion of sound drug policy and science-based drug prevention programming.

In addition, INL funded staff training at the juvenile correction system in Sao Paulo, Brazil for drug abusing and other criminal populations on the fundamental principles of the therapeutic community (TC). The TC has especially been adapted globally as a successful treatment intervention for juvenile populations with substance abuse, behavioral, and personality disorders that are commonly found in prison settings. Prison programs, which adhere to many elements of the therapeutic community treatment program have been scientifically shown to be successful in significantly reducing criminal recidivism and facilitating better reintegration into society by inmates.

INL is also funding the Creation of Muslim-based Anti-Drug Outreach Centers with the intent to develop a series of community-based outreach centers in volatile regions where the U.S. has little or no direct access to civil society such as Afghanistan, southern Philippines, Indonesia, and remote sections of Pakistan. This initiative is designed to significantly enhance America's image in Muslim countries, reduce drug consumption that fuels the coffers of terrorist organizations, reduce drug-related violence, cut into the recruitment base of terrorist organizations, and provide youth in at-risk areas with alternatives to radical or terrorist indoctrination. It addresses a key priority in the President's National Strategy for Combating Terrorism through support of Muslim organizations "ensuring them that American values are not at odds with Islam." This initiative includes collaboration with the INL-supported network of 400 Muslim-based Anti-Drug programs.

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 2002-2007 (all figures in hectares)

	2007	2006	2005	2004	2003	2002
Poppy						
Afghanistan	202000	172600	107400	206700	61000	30750
Burma	21700	21000	40000	36000	47130	77700
China						
Colombia ¹	in process	2300		2100	4400	4900
Guatemala			100	330		
India						
Iran						
Laos	1100	1700	5600	10000	18900	23200
Lebanon						
Mexico	in process	5000	3300	3500	4800	2700
Pakistan ²		984	769		1714	213
Thailand						750
Vietnam						1000
Total Poppy	224800	203584	157169	258630	137944	141213
Coca						
Bolivia	in process	25800	26500	24600	23200	21600
Colombia ³	in process	157200	144000	114100	113850	144450
Peru ⁴	in process	37000	34000	27500	29250	34700
Total Coca	0	220000	204500	166200	166300	200750
Cannabis						
Lebanon						
Mexico	in process	8600	5600	5800	7500	4400
Total Cannabis	0	8600	5600	5800	7500	4400

¹ In 2007, the survey areas were reduced. The 2005 survey could not be conducted due to cloud-cover. The 2000 survey could not be conducted due to cloud-cover; the reported number is a weighted average of previous years' cultivation.

² The 2005 and 2006 surveys included only the Bara River Valley growing area. No estimate was produced in 2002, but cultivation was observed.

³ Survey areas were expanded greatly between 2004 and 2005, and to a lesser extent between 2005 and 2006.

⁴ In the 2006 survey, one growing area could not be completed due to insufficient imagery collection and the value is not comparable to others. In 2007, CNC revised the 2005 value due to discovery of an error in the cultivation data. Survey areas were expanded between 2004 and 2005.

Worldwide Potential Illicit Drug Production 2002-2007 (all figures in Metric Tons)

	2007	2006	2005	2004	2003	2002
Opium						
Afghanistan	8000	5644	4475	4950	2865	1278
Burma	270	230	380	330	484	630
China						
Colombia ¹	in process	37		30	63	68
Guatemala			4	12		
India						
Iran						
Laos	5.5	8.5	28	50	200	180
Lebanon						
Mexico	in process	108	71	73	101	58
Pakistan ²		36	32		44	4.3
Thailand						9
Vietnam						10
Total Opium	8275.5	6063.5	4990	5445	3757	2237.3
Coca Leaf						
Bolivia	in process	37000	36000	37000	33000	35000
Colombia	in process	152000	136800	108000	115500	147900
Peru	in process	50000	52000	47900	51200	58300
Total Coca Leaf	0	239000	224800	192900	199700	241200
Potential Pure Cocaine						
Bolivia ³	in process	115	115	115	100	110
Colombia ⁴	in process	610	545	430	460	585
Peru ⁵	in process	245	250	230	245	280
Total Potential Pure Cocaine	0	970	910	775	805	975

¹ In 2007, the survey areas were reduced. The 2005 survey could not be conducted due to cloud-cover. The 2000 survey could not be conducted due to cloud-cover. The reported number is a weighted average of previous years' cultivation.

² The 2005 and 2006 surveys included only the Bara River Valley growing area.

³ In 2006, CNC revised the 2001-05 values due to new yield information.

⁴ Survey areas were expanded greatly between 2004 and 2005, and to a lesser extent between 2005 and 2006.

⁵ In the 2006 survey, one growing area could not be completed due to insufficient imagery collection and the value is not comparable to others. In 2007, CNC revised the 2005 value due to discovery of an error in the cultivation data. Survey areas were expanded between 2004 and 2005. In 2007, CNC revised the 2001-05 values to reflect new yield numbers for immature fields.

Policy and Program Development

Cannabis						
Lebanon (hashish)						
Mexico (marijuana)	in process	15500	10100	10400	13500	7900
Total Cannabis	0	15500	10100	10400	13500	7900

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
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. Democratic People's Republic of Korea	Accession	19 March 2007
47. Denmark	20 December 1988	19 December 1991
48. Djibouti	Accession	22 February 2001

Policy and Program Development

Country	Date Signed	Date Became a Party
49. Dominica	Accession	30 June 1993
50. Dominican Republic	Accession	21 September 1993
51. Ecuador	21 June 1989	23 March 1990
52. Egypt	20 December 1988	15 March 1991
53. El Salvador	Accession	21 May 1993
54. Eritrea	Accession	30 January 2002
55. Estonia	Accession	12 July 2000
56. Ethiopia	Accession	11 October 1994
57. European Economic Community	8 June 1989	31 December 1990
58. Fiji	Accession	25 March 1993
59. Finland	8 February 1989	15 February 1994
60. France	13 February 1989	31 December 1990
61. Gambia	Accession	23 April 1996
62. Georgia	Accession	8 January 1998
63. Germany	19 January 1989	30 November 1993
64. Ghana	20 December 1988	10 April 1990
65. Greece	23 February 1989	28 January 1992
66. Grenada	Accession	10 December 1990
67. Guatemala	20 December 1988	28 February 1991
68. Guinea	Accession	27 December 1990
69. Guinea-Bissau	Accession	27 October 1995
70. Guyana	Accession	19 March 1993
71. Haiti	Accession	18 September 1995
72. Honduras	20 December 1988	11 December 1991
73. Hungary	22 August 1989	15 November 1996
74. Iceland	Accession	2 September 1997
75. India	Accession	27 March 1990
76. Indonesia	27 March 1989	23 February 1999
77. Iran	20 December 1988	7 December 1992
78. Iraq	Accession	22 July 1998
79. Ireland	14 December 1989	3 September 1996
80. Israel	20 December 1988	20 May 2002
81. Italy	20 December 1988	31 December 1990
82. Jamaica	2 October 1989	29 December 1995
83. Japan	19 December 1989	12 June 1992
84. Jordan	20 December 1988	16 April 1990
85. Kazakhstan	Accession	29 April 1997
86. Kenya	Accession	19 October 1992
87. Korea	Accession	28 December 1998
88. Kuwait	2 October 1989	3 November 2000
89. Kyrgyz Republic	Accession	7 October 1994
90. Lao Peoples Democratic Republic	Accession	1 October 2004
91. Latvia	Accession	24 February 1994
92. Lebanon	Accession	11 March 1996
93. Lesotho	Accession	28 March 1995
94. Liberia	Accession	16 September 2005
95. Libyan Arab Jamahiriya	Accession	22 July 1996
96. Liechtenstein	Accession	9 March 2007
97. Lithuania	Accession	8 June 1998
98. Luxembourg	26 September 1989	29 April 1992
99. Macedonia, Former Yugoslav Rep.	Accession	18 October 1993
100. Madagascar	Accession	12 March 1991

Policy and Program Development

Country	Date Signed	Date Became a Party
101. Malawi	Accession	12 October 1995
102. Malaysia	20 December 1988	11 May 1993
103. Maldives	5 December 1989	7 September 2000
104. Mali	Accession	31 October 1995
105. Malta	Accession	28 February 1996
106. Mauritania	20 December 1988	1 July 1993
107. Mauritius	20 December 1988	6 March 2001
108. Mexico	16 February 1989	11 April 1990
109. Micronesia, Federal States of	Accession	6 July 2004
110. Moldova	Accession	15 February 1995
111. Monaco	24 February 1989	23 April 1991
112. Mongolia	Accession	25 June 2003
113. Morocco	28 December 1988	28 October 1992
114. Mozambique	Accession	8 June 1998
115. Myanmar (Burma)	Accession	11 June 1991
116. Nepal	Accession	24 July 1991
117. Netherlands	18 January 1989	8 September 1993
118. New Zealand	18 December 1989	16 December 1998
119. Nicaragua	20 December 1988	4 May 1990
120. Niger	Accession	10 November 1992
121. Nigeria	1 March 1989	1 November 1989
122. Norway	20 December 1988	14 November 1994
123. Oman	Accession	15 March 1991
124. Pakistan	20 December 1988	25 October 1991
125. Panama	20 December 1988	13 January 1994
126. Paraguay	20 December 1988	23 August 1990
127. Peru	20 December 1988	16 January 1992
128. Philippines	20 December 1988	7 June 1996
129. Poland	6 March 1989	26 May 1994
130. Portugal	13 December 1989	3 December 1991
131. Qatar	Accession	4 May 1990
132. Romania	Accession	21 January 1993
133. Russia	19 January 1989	17 December 1990
134. Rwanda	Accession	13 May 2002
135. St. Kitts and Nevis	Accession	19 April 1995
136. St. Lucia	Accession	21 August 1995
137. St. Vincent and the Grenadines	Accession	17 May 1994
138. Samoa	Accession	19 August 2005
139. San Marino	Accession	10 October 2000
140. Sao Tome and Principe	Accession	20 June 1996
141. Saudi Arabia	Accession	9 January 1992
142. Senegal	20 December 1988	27 November 1989
143. Seychelles	Accession	27 February 1992
144. Sierra Leone	9 June 1989	6 June 1994
145. Singapore	Accession	23 October 1997
146. Slovakia	Succession	28 May 1993
147. Slovenia	Succession	6 July 1992
148. South Africa	Accession	14 December 1998
149. Spain	20 December 1988	13 August 1990
150. Sri Lanka	Accession	6 June 1991
151. Sudan	30 January 1989	19 November 1993
152. Suriname	20 December 1988	28 October 1992

Policy and Program Development

Country	Date Signed	Date Became a Party
153. Swaziland	Accession	3 October 95
154. Sweden	20 December 1988	22 July 1991
155. Switzerland	16 November 1989	14 September 2005
156. Syria	Accession	3 September 1991
157. Tajikistan	Accession	6 May 1996
158. Thailand	Accession	3 May 2002
159. Tanzania	20 December 1988	17 April 1996
160. Togo	3 August 1989	1 August 1990
161. Tonga	Accession	29 April 1996
162. Trinidad and Tobago	7 December 1989	17 February 1995
163. Tunisia	19 December 1989	20 September 1990
164. Turkey	20 December 1988	2 April 1996
165. Turkmenistan	Accession	21 February 1996
166. UAE	Accession	12 April 1990
167. Uganda	Accession	20 August 1990
168. Ukraine	16 March 1989	28 August 1991
169. United Kingdom	20 December 1988	28 June 1991
170. United States	20 December 1988	20 February 1990
171. Uruguay	19 December 1989	10 March 1995
172. Uzbekistan	Accession	24 August 1995
173. Venezuela	20 December 1988	16 July 1991
174. Vietnam	Accession	4 November 1997
175. Yemen	20 December 1988	25 March 1996
176. Yugoslavia	20 December 1988	3 January 1991
177. Zambia	9 February 1989	28 May 1993
178. 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. Hong Kong		Not UN member
8. Marshall Islands		
9. Namibia		
10. Papua New Guinea		
11. Taiwan		Not UN member
12. Turks & Caicos		Not UN member
13. Vanuatu		

USG ASSISTANCE

Department of State (INL) Budget

FY 07—09 Budget Spread (\$000)

	FY 2007 Actual	FY 2007 Supp	FY 2008 Enacted	FY 2008 Supp	FY 2009 President's Request
ACP Country Programs					
Bolivia Total	66,000	0	29,757	0	31,000
<i>Interdiction/Eradication</i>	35,000	0	29,757	0	31,000
<i>Alter.Dev./Inst.Building</i>	31,000	0		0	
Colombia Total	465,000	0	244,618	0	329,557
<i>Interdiction/Eradication</i>	298,930	0	244,618	0	325,107
<i>Alter.Dev./Inst.Building</i>	139,920	0		0	0
<i>Rule of Law</i>	26,150	0	0	0	4,450
Ecuador Total	17,300	0	6,943	0	7,200
<i>Interdiction/Eradication</i>	8,900	0	6,943	0	7,200
<i>Alter.Dev./Inst.Building</i>	8,400	0		0	
Peru Total	103,165	0	36,546	0	37,000
<i>Interdiction/Eradication</i>	56,000	0	36,546	0	37,000
<i>Alter.Dev./Inst.Building</i>	47,165	0		0	0
Brazil	4,000	0	992	0	1,000
Critical Flight Safety Program	61,035	0	0	0	0
Panama	4,000	0	992	0	1,000
Venezuela	1,000	0	0	0	0
Subtotal Andean Counterdrug Program	721,500	0	319,848	0	406,757
Africa					
Africa Regional	500	0	0	0	2,500
Burkina Faso	0	0	0	0	100
Cape Verde	0	0	496	0	500
Democratic Republic of Congo	0	0	1,488	0	1,700
Djibouti	0	0	298	0	300
Ethiopia	0	0	0	0	500
Ghana	0	0	496	0	500
Guinea	0	0	0	0	100
Guinea-Bissau	0	0	0	0	100
Kenya	0	0	0	0	100

DoS Narcotics Budget

Liberia	1,000	0	4,096	0	4,130
Mauritania	0	0	0	0	300
Mozambique	0	0	0	0	300
Nigeria	400	0	1,190	0	1,200
Sierra Leone	0	0	0	0	250
South Africa	500	0	0	0	0
Sudan	9,800	0	13,578	0	24,000
Tanzania	0	0	0	0	450
Uganda	0	0	0	0	350
Women's Justice Empowerment Initiative	7,500	0	0	0	0
Subtotal, Africa	19,700	0	21,642	0	37,380
East Asia and the Pacific					
Burma	350	0	0	0	0
China	0	0	0	0	600
Timor-Leste	0	0	20	0	1,010
Indonesia	4,550	0	6,150	0	9,450
Laos	900	0	1,567	0	1,000
Malaysia	0	0	0	0	400
Mongolia	0	0	0	0	420
Philippines	1,700	0	794	0	1,150
East Asia and Pacific Regional	0	0	0	0	300
Thailand	900	0	1,686	0	1,400
Vietnam	0	0	0	0	200
Subtotal, East Asia and the Pacific	8,400	0	10,217	0	15,930
Europe					
Turkey	0	0	298	0	300
Subtotal, Europe	0	0	298	0	300
Near East					
Algeria	0	0	198	0	0
Egypt	0	0	1,984	0	3,000
Iraq	20,048	150,000	0	159,000	75,000
Jordan	0	0	1,488	0	1,500

DoS Narcotics Budget

Lebanon	0	60,000	496	0	6,000
Morocco	1,000	0	496	0	1,000
Tunisia	0	0	198	0	0
West Bank/Gaza	0	0	0	25,000	25,000
Yemen	0	0	496	0	750
Subtotal, Near East	21,048	210,000	5,356	184,000	112,250
South Asia					
Afghanistan	209,740	42,000	272,574	0	250,000
Bangladesh	0	0	198	0	800
India	0	0	0	0	400
Nepal	0	0	30	0	10,000
Pakistan	24,000	0	21,822	0	32,000
Sri Lanka	0	0	20	0	350
Subtotal—South Asia	233,740	42,000	294,644	0	293,550
Western Hemisphere					
Argentina	0	0	198	0	305
Bahamas	500	0	496	0	500
Bolivia	0	0	397	0	0
Caribbean and Central America (Transit Zone)	1,700	0	0	0	0
Merida Initiative (Central America)	0	0	0	50,000	100,000
Merida Initiative (Mexico)	0	0	0	500,000	450,000
Chile	0	0	99	0	0
Colombia (Rule of Law/Judicial/Human Rights)	0	0	39,428	0	0
Colombia—Transfer from ACP for CNP Eradication Support	0	0	2,479	0	0
Dominican Republic	0	0	992	0	1,150
Eastern Caribbean	0	0	496	0	500
Ecuador	0	0	99	0	0
El Salvador	0	0	744	0	800
Guatemala	2,200	0	3,472	0	5,320
Haiti	14,850	0	8,927	0	15,000
Honduras	0	0	744	0	750
Jamaica	900	0	992	0	1,010

DoS Narcotics Budget

Mexico	36,678	0	26,553	0	27,816
Nicaragua	0	0	972	0	1,600
Paraguay	0	0	278	0	300
Southern Cone	500	0	0	0	0
Trinidad and Tobago	0	0	397	0	500
Subtotal, Western Hemisphere	57,328	0	87,763	550,000	605,551
Global					
Criminal Youth Gangs	0	0	7,935	0	5,000
Demand Reduction/Drug Awareness	8,000	0	11,903	0	3,500
International Organizations					4,500
CICAD	1,400	0	1,407	0	0
UNODC	4,000	0	2,110	0	0
USEU	0	0	450	0	0
Interregional Aviation Support	63,000	0	54,654	0	55,100
Trafficking in Persons	5,000	0	5,951	0	7,767
INL Anticrime Programs	13,500	0	11,903	0	14,000
Alien Smuggling/Border Security	1,250	0	992	0	0
Cyber Crime, IPR and CIP	3,750	0	3,472	0	0
Fighting Corruption	4,500	0	3,967	0	0
Financial Crimes/Money Laundering/CT	4,000	0	3,472	0	0
Global Peacekeeping Operations					4,000
Civilian Police Program	2,000	0	1,984	0	6,000
ILEA Operations	16,500	0	18,846	0	17,000
Subtotal, Global	113,400	0	117,143	0	116,867
PD&S	19,000	0	19,342	0	20,233
Subtotal, INCLE	472,616	252,000	556,405	734,000	1,202,061
TOTAL INL PROGRAMS	1,194,116	252,000	876,253	734,000	1,608,818

International Training

International counternarcotics training is managed/funded by INL and carried out by the DEA, U.S. Customs and Border Service, and U.S. Coast Guard. Major objectives are:

- Contributing to the basic infrastructure for carrying out counternarcotics law enforcement activities in countries which cooperate with and are considered significant to U.S. narcotics control efforts;
- Improving technical skills of drug law enforcement personnel in these countries; and
- Increasing cooperation between U.S. and foreign law enforcement officials.

INL training continues to focus on encouraging foreign law enforcement agency self-sufficiency through infrastructure development. The effectiveness of our counternarcotics efforts overseas should be viewed in terms of what has been done to bring about the establishment of effective host country enforcement institutions, thereby taking drugs out of circulation before they begin their journey toward the United States. U.S. law enforcement personnel stationed overseas are increasingly coming to see their prime responsibility as promoting the creation of host government systems that are compatible with and serve the same broad goals as ours.

The regional training provided at the ILEAs consists of both general law enforcement training as well as specialized training for mid-level managers in police and other law enforcement agencies.

INL-funded training will continue to support the major U.S. and international strategies for combating narcotics trafficking worldwide. Emphasis will be placed on contributing to the activities of international organizations, such as the UNODC and the OAS. Through the meetings of major donors, the Dublin Group, UNODC and other international fora, we will coordinate with other providers of training, and urge them to shoulder greater responsibility in providing training, which serves their particular strategic interests.

INL will maintain its role of coordinating the activities of U.S. law enforcement agencies in response to requests for assistance from U.S. Embassies. This will avoid duplication of effort and ensure that presentations represent the full range of USG policies and procedures.

International Law Enforcement Academies (ILEAs)

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

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

The ILEAs are a progressive concept in the area of international assistance programs. The regional ILEAs offer three different types of programs. The Core program, a series of specialized training

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

The ILEAs help develop an extensive network of alumni that exchange information with their U.S. counterparts and assist in transnational investigations. These graduates are also expected to become the leaders and decision-makers in their respective societies. The Department of State works with the Departments of Justice (DOJ), Homeland Security (DHS) and Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 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, 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, Bardados, 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 through vigorous law enforcement. The majority of illegal drugs impacting American society are produced outside of the U.S. 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 counternarcotics strategy is accomplished through the 86 offices located in 62 countries that DEA maintains worldwide, in cooperation with its U.S.-based offices. The DEA overseas mission is comprised of the following components:

- Conduct bilateral investigative activities;
- Coordinate intelligence gathering;
- Coordinate training programs for host country police agencies in countries receiving U.S. counternarcotics assistance;
- Assist in the development of host country drug law enforcement institutions and develop mutually beneficial law enforcement relationships with foreign law enforcement agencies.

The emphasis placed on each component is determined by conditions and circumstances within the host nation. In nations where the law enforcement infrastructure is advanced and well developed, the DEA office may tailor its activities to specific areas that best support host nation efforts. In countries lacking a robust law enforcement capability, DEA personnel may provide assistance in all four of the mission areas annotated above. The following sections highlight the assistance/joint enforcement work in which DEA played a crucial role during 2007 in support of the four established mission components.

Bilateral Investigative Activities: Important Joint Operations

Drug Flow Attack Strategy

In response to the President's National Drug Control Strategy calling for market disruption by attacking the flow of drugs, the DEA developed an International Drug Flow Attack Strategy. The primary objective of the strategy is to cause major disruption to the flow of drugs, money, and chemicals between the source zones and the United States.

This effort began with a threat assessment to ensure the most efficient use of interagency resources for the disruption of drug trafficking organizations (DTO) in the source and transit zones. The threat assessment utilized interagency expertise as well as knowledge gained from the previous iterations of joint enforcement operations, such as Operation All Inclusive. In 2007, DEA, in conjunction with the Government of Mexico (GOM), conducted the third iteration of Operation All Inclusive, codenamed "Operation Doble Via", which is an operational component of the Drug Flow Prevention Strategy. Operation Doble Via was a multi-agency enforcement operation. This

combined effort brought together U.S. resources (DEA, Customs and Border Patrol, Immigration and Customs Enforcement, the Bureau of Alcohol, Tobacco and Firearms, the Federal Bureau of Investigation, the Department of Defense, the IC, Texas State and selected local law enforcement) with Mexico's Cuerpo Federal de La Policia (CFP) and Mexican military units. Operation Doble Via resulted in total drug seizure results of 3,363 kilograms of cocaine, 30 kilograms of heroin, 121.8 metric tons (MT) of marijuana, 15,948 marijuana plants, 21 pounds of methamphetamine powder, 33.6 liters of liquid methamphetamine, 11,800 dosage units of MDMA, 6 liters of dangerous drugs, and \$4,969,647.33 in U.S. currency, as well as the arrest of 181 individuals.

Drug Flow Attack Strategy Highlights:

- An early success of Operation Doble Via was the arrest of DTO "Gulf Cartel" "Gatekeeper" Juan Oscar Garza-Alanis. On April 14, 2007, the Mexican law enforcement arrested Garza-Alanis and four associates at a nightclub in Reynosa, Tamaulipas, Mexico. Since June 2005, Garza-Alanis has been responsible for the transportation of multi-ton quantities of cocaine and marijuana through the Reynosa, Tamaulipas/McAllen, Texas corridor on a monthly basis.
- On April 20, 2007, the Meridian, Georgia Police Department seized \$5,369,270 in suspected illicit drug trafficking proceeds during a traffic stop. The driver was released pending further investigation. However, on May 20, 2007, this same driver was arrested again, this time in possession of an additional \$1,609,220 by a local police force outside of Atlanta, Georgia.
- On May 13, 2007, the Texas Department of Public Safety (DPS) Narcotics Section seized \$953,000 in U.S. Currency from a tractor trailer driver after a traffic stop on U.S. Hwy-36 southbound near Waco, Texas. The driver was arrested. Also seized were a Colt AR 15-M-16-type .223 rifle, a Springfield 9mm pistol, and a .37 mm grenade launcher.
- On May 23, 2007, the Texas Department of Public Safety (DPS) seized \$1,449,860 as the result of a traffic stop and arrested the driver. Subsequent to this seizure, the DPS executed a search warrant at the drivers' residence that resulted in the seizure of weapons, money counters, ballistic vests and numerous documents.
- On June 2, 2007, U.S. Border Patrol agents at the Falfurrias, Texas checkpoint seized approximately 9,070 kilograms of marijuana concealed within a tractor trailer and arrested the driver.
- On June 3, 2007, the Georgia State Patrol seized \$13,964,995 in suspected drug proceeds resulting from a traffic stop and arrested the driver.
- On June 24, 2007 the U.S. Border Patrol Checkpoint in Falfurrias, Texas seized 4,188 pounds of marijuana concealed within a tractor trailer and arrested the driver.
- On July 14, 2007, a DEA McAllen District Office Special Agent observed Carlos Landin, a former Mexican State Judicial Commandante (Police Official), at a local grocery store in McAllen, Texas, in the company of two Mexican males. Landin was subsequently arrested and transported to the McAllen Police Department holding facility. On July 16, 2007, Landin was charged with federal narcotics violations. Landin is a close associate of Gregorio Saucedo-Gamboa, who is in charge of the Reynosa plaza of the Gulf Cartel.

- On July 18 and 19, 2007, pursuant to information developed by Immigration and Customs Enforcement (ICE), DEA McAllen, ICE, and the South Texas High Intensity Drug Trafficking Area (HIDTA) seized a total of 1,003 kilograms of cocaine concealed within two tractor trailers. Both seizures have been linked to the Gulf Cartel. Two subjects were arrested.
- On August 6, 2007, DEA's McAllen District Office initiated surveillance on a residence in Hidalgo, Texas, based on information forwarded by the U.S. Border Patrol Special Response Team (SRT) in McAllen, Texas. A search warrant was executed and agents seized 250 kilograms of cocaine, two vehicles, eight cellular phones, and arrested seven suspects.

DEA enforcement operations "All Inclusive" 2006-1 and 2007-1, targeted South American source regions, Eastern Pacific and Western Caribbean transit areas 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 of Mexican DTOs in the movement of drugs, money, and chemicals. DEA and other federal and host nation law enforcement and military agencies supported both operational and intelligence aspects of these operations.

Operation All Inclusive 2006-1, as with all Operation All Inclusive (OAI) operations this was an interagency effort using all available information gained from OAI 1-2005. OAI 2006-1 used the combined abilities of the Special Operations Division, the El Paso Intelligence Center, and Operation Panama Express. 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 land, air, maritime, and financial components, which were 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, Joint Interagency Task Force (JIATF)-South, the IC, and host counterpart capabilities.

- Operation All Inclusive 2006-1 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 MT 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 MT of precursor chemicals and 500 kilograms of explosives were seized.
- Eight maritime seizures, six in the eastern Pacific and two in the Western Caribbean, totaling 16.16 metric tons of cocaine and 8 kilograms of heroin, were carried out during the operation. The largest seizure occurred on March 11, 2006, 3.3 MT of cocaine, eight kilograms of heroin, from a go-fast boat with five Colombia crewmembers.

- In Colombia, many of the smaller cocaine seizures (10 kilograms or less) from air cargo were destined for Spain.
- 5.6 MT 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.

Operation All Inclusive 2007-1 was designed to disrupt the flow of drugs, money, and precursor chemicals from the source zone (South America), through the transit zone (Mexico/Central America/Caribbean), and into United States. OAI 2007-1 expanded the geographical area coverage into the central Caribbean, Bolivia, and Peru; and provided U.S. interagency analytical support to seven countries. OAI 2007-1 resulted in the seizure of 115 MT of cocaine, and approximately \$390 million U.S. currency (USC), and the arrest of Consolidated Priority Organization Target (CPOT) Otto Herrera-Garcia and Priority Target Cynthia Matute.

- Operation All Inclusive 2007-1 Operational Highlights:

- March 2007 – The United States Coast Guard seized 17.4 MT of cocaine in the Eastern Pacific (EPAC). This seizure was linked to the Mexican Sinaloa Cartel.
- March 2007 – Mexican authorities seized the equivalent of \$207 million in U.S. currency-equivalent in Mexico City. This is the largest U.S. currency seizure in history (approximately \$204 million of the overall seizure was U.S. currency), and was made as a result of follow-up investigation regarding 18 tons of pseudoephedrine, a precursor for methamphetamine seized by Mexican authorities on December 5, 2006.
- March 2, 2007 – The arrest of Honduran national Cynthia Matute for money laundering with coordination between DEA Tegucigalpa, DEA Tampa, and the Honduran National Police. Matute is a member of a multi-ton cocaine transportation organization led by her father, Carsin William Matute-Rankin. The Matute organization has operated from the north coast of Colombia to the north coast of Honduras and surrounding islands since the late 1990s.
- June 20, 2007 – Guatemalan Priority Target suspected narcotics trafficker, Otto Roberto Herrera-Garcia, was arrested with coordination among DEA Bogotá, DEA Miami, and the DEA Special Operations Division (SOD). The Herrera organization is responsible for the importation of multi-ton quantities of cocaine from South America to Guatemala on behalf of the Mexican Sinaloa Cartel.

Operation Rum Punch. Operation Rum Punch, which ran from February 13-May 31, 2007, was part of DEA's Operation All Inclusive 2007. Operation Rum Punch provided training and institution-building to host nation counterparts, as well as assistance in developing an intelligence package that identified DTOs utilizing and operating in Hispaniola. Cumulative seizures for the duration of this operation included 1,137 kilograms of cocaine, \$427,241 U.S. currency (USC), 2 vessels, 3 cars, and 14 guns, as well as 18 arrests.

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 participants on the U.S. side include DEA, U.S. Coast Guard (USCG), Department of Homeland Security, and Department of State. On the Bahamian and Turks and Caicos side, counterparts include the Royal Bahamas and Turks and Caicos Police Forces. With the departure of the U.S. Army after 21 years of support to OPBAT, the DEA Aviation Division has been given the responsibility of replacing aviation support for the program in the central Bahamas. A U.S. Embassy-hosted ceremony in Nassau on October 1,

2007, commemorated the departure of the Army's Blackhawks and the arrival of DEA Aviation Division assets. The DEA Aviation Division's arrival in the central Bahamas was the end result of months of planning and coordination by several organizations and DEA offices. Cumulative OPBAT statistics through December 31, 2007, include the seizure of approximately 1,789 kilograms of cocaine, 433,728 pounds of marijuana, 4 kilograms of heroin, and \$7,819,860 in USC, as well as 89 arrests.

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.

During fiscal year (FY) 2007, Operation Containment resulted in the seizure of 22.6 MT of heroin, 567 kilograms of opium gum, 11.5 MT of cannabis, 14.2 MT of precursor chemicals, and 197 arrests.

Operation Marble Palace II. In January of 2005, DEA Kabul CO agents and Afghan Narcotics Interdiction Unit (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 to the Foreign Narcotics Kingpin Designation Act. Mohammad was indicted in the Southern District of New York for distributing hundreds of kilograms 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. On October 5, 2007, Mohammad was sentenced to 15 ½ years.

Operation Panama Express. Operation Panama Express is a joint operation designed to disrupt and dismantle major maritime drug smuggling organizations operating from the Pacific and Caribbean coasts of Colombia. The operation is conducted by DEA and several other federal, state, and local law enforcement authorities, including the Federal Bureau of Investigation (FBI), Immigration and Customs Enforcement (ICE), and Joint Inter-Agency Task Force (JIATF). Since the February 2000 implementation of Operation Panama Express, 507 MT of cocaine have been seized, 170 MT 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 1,478 individuals have been arrested.

Operation Raw Deal. Operation Raw Deal followed the success of DEA's Operation Gear Grinder, which culminated in December 2005 and targeted eight of the largest steroid manufacturing companies in the world (all located in Mexico).

Under Operation Raw Deal, the DEA, the Food and Drug Administration (FDA), the U.S. Postal Inspection Service and other U.S. federal agencies identified numerous underground steroids labs that predominantly purchased raw steroid powder from Chinese manufacturers/suppliers and converted the powder into a consumer usable product. This conversion was typically conducted in residences or other private structures. Besides steroids, many websites targeted also offered other dangerous drugs and chemicals such as ketamine, fentanyl, ephedrine, pseudoephedrine, and GHB.

Since Operation Raw Deal began in December 2005 a total of 143 federal search warrants were executed on targets nationwide, resulting in 124 arrests and the seizure of 56 UGLs across the United States. In addition, this operation resulted in the seizure of approximately 11.4 million

steroid dosage units, as well as 242 kilograms of raw steroid powder of Chinese origin, \$6.5 million in U.S. currency, 25 vehicles, three boats, 27 pill presses, and 71 weapons.

Operation Twin Oceans I. Operation Twin Oceans I was 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. Rayo-Montaña, aka “Don Pablo,” was the commander and controller of a criminal organization. In addition, the organization worked in close association with Colombian narco-terrorist organizations such as the Autodefensas Unidas de Colombia (AUC), Fuerzas Armadas Revolucionarias de Colombia (FARC), and Norte del Valle Cartel. An international coalition spearheaded by the Brazilian Federal Police (DPF), Panamanian Judicial Police, Colombian National Police, and DEA was responsible for dismantling this international drug cartel. Rayo-Montaña was arrested by the DPF at his residence in Sao Paulo, Brazil on May 16, 2006, on charges including money laundering and conspiracy and possession with intent to distribute cocaine. He represents the 42nd Consolidated Priority Organization Target (CPOT) arrest since the inception of the program. Since May 16, 2006, Rayo-Montaña has been in jail pending extradition to U.S., and on September 26, 2007, this case was closed successfully as a CPOT investigation. As a result of outstanding international cooperation, Operation Twin Oceans I was able to identify, target, and dismantle all levels of criminal activity from the Colombian source of supply to wholesale distributors that had a direct impact on the cocaine market in the U.S. This 3-year investigation resulted in over 100 arrests and the seizure of 47.5 MT of cocaine, as well as the identification of over \$100 million in assets in Mexico, Panama, Colombia, Brazil, and the United States. These assets included ships/yachts, vehicles, islands, other real property, U.S. currency, other foreign currency, bank accounts, artwork, etc.

Operation Windjammer. On May 19, 2005, based on information provided by DEA’s Cartagena Resident Office (RO), the DEA Kingston, Jamaica Country Office (CO) initiated a Priority Target Investigation that targeted a multi-ton, Jamaica-based, cocaine distributor. Through a myriad of investigative resources, the DEA Kingston CO, in conjunction with the DEA Cartagena RO, Panama CO, New York Field Division, and Special Operations Division (SOD) determined that the target distributed multi-ton quantities of cocaine to the U.S. and Europe via Panama and Mexico. On January 3, 2006, a 2-count indictment was handed down by the U.S. District Court for the District of Columbia alleging that the target, his father, and 5 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 DEA Kingston CO played a significant role in obtaining vital evidence that was utilized to implicate the target 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. Cumulative statistics through December 31, 2007, resulting from the success of Operation Windjammer include the seizure of 195 pounds of hashish oil and 13 tons of marijuana, as well as 18 arrests.

Project Cohesion. Project Cohesion is an international chemical precursor control initiative that is 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 former INCB sponsored 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 Pre-Export Notification (PEN) system for both of these substances. Project Cohesion is committed to adopting a regional approach 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.

Project Prism. This project, which began in June 2002, is an initiative sponsored by the INCB under the United Nations. The initiative is aimed at assisting governments in developing countries and implementing operating procedures to more effectively control and monitor 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.

At the 49th Commission on Narcotic Drugs in Vienna, Austria, in March, 2006, the United States sponsored a resolution, entitled “Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs,” involving the synthetic drug precursors ephedrine, pseudoephedrine, as well as preparations containing these substances, 3-4 methylenedioxyphenyl-2-propanone and phenyl-2-propanone (P2P). Under the terms of this resolution, member countries were strongly urged to estimate the licit market for certain methamphetamine dual-use precursor chemicals, and provide that information to the INCB to assist enforcement officials in identifying excess shipments of these chemicals which might be diverted to illicit uses.

In June 2006, the Project Prism Task Force agreed to a voluntary operation focusing on the trade of ephedrine, pseudoephedrine and ephedra, including pharmaceutical preparations to the extent possible, to the Americas, Africa, and Middle East. During the operation approximately 53 tons of questionable shipments of ephedrine were suspended, stopped, or seized. The INCB issued 35 notifications to the task force members containing information on suspicious shipments.

Coordinate Intelligence Gathering

Colombia—DEA Colombia expanded its joint intelligence gathering efforts with Colombian agencies in 2007. The objectives of these intelligence gathering programs include information related to new groups emerging from the demobilization process of paramilitary organizations, intelligence on methamphetamine production and transportation in Colombia, information related to Colombia/Venezuela cross-border drug trafficking activity, and a final intelligence program which targeted the Colombian Ports and the transportation organizations using the ports.

Europe/Africa—Law enforcement information, seizures, and market indicators suggest that increasing amounts of cocaine are being smuggled from South America to European markets, including through West Africa. Multi-ton quantities of cocaine are smuggled to Europe via several African countries, to include Nigeria, Ghana, Togo, Benin, Guinea-Bissau, Cape Verde, Morocco, Mauritania, Senegal, Ivory Coast and Guinea-Conakry. In order to combat these networks, DEA, in coordination with European and African law enforcement agencies, has developed and implemented a program to gain increased understanding of narcotics trafficking in West Africa, fill intelligence gaps, and promote intelligence sharing.

Europe/Asia/Africa—From January 1 through June 30, 2007, 65 countries participated in an operation focusing on the trade of ephedrine, pseudoephedrine, ephedra, and pharmaceutical preparations containing those chemicals, moving in nominally licit trade to the Americas, Africa and West Asia. Analysis of data obtained during this operation has clearly identified a trend for trafficking organizations to target and exploit regions, specifically the African continent and certain Middle Eastern nations, for transiting of these precursor chemicals before they are diverted to illicit uses.

China—DEA has been working closely with law enforcement agencies in China, Pakistan, and Afghanistan to target the flow of Afghan heroin to China. Authorities in all three countries have

reported increased arrests of couriers smuggling Afghan heroin to China. Increased intelligence sharing among the countries has led to the identification and disruption of several West African drug trafficking organizations. Investigations have revealed that West African criminal networks are the primary smugglers of Afghan heroin into China.

Mexico—During the first six months of 2007, DEA detected a significant decrease in cocaine availability in the United States, due in large part to the Government of Mexico's (GOM) counternarcotics efforts. The GOM's increase in counternarcotics operations, including key usage of checkpoints along lucrative drug routes as well as highly successful U.S.-led operations in the transit zone, effectively interdicted the supply of cocaine into the United States via the southwest border. The price of cocaine in the United States rose by 44 percent, from \$95.35 per gram of pure cocaine to \$136.93 per gram of pure cocaine, while the purity decreased by 15 percent, from 66.9 percent to 56.7 percent.

Centers for Drug Information—During the 2002 Summit of the Americas, the Heads of State in the Western Hemisphere adopted several resolutions calling for the intensification of collaborative efforts in the fight against illicit drugs in the Americas. As part of the response to these resolutions, the International Drug Enforcement Conference (IDEC) Presidents and the U.S. Drug Enforcement Administration (DEA) developed a regional strategy to target transnational drug trafficking organizations. One of the solutions proposed was the creation of the Centers for Drug Information (CDI). The IDEC Regional Presidents unanimously approved the proposal and DEA was tasked with implementing the CDI Program. The CDI Program is a web-based program using the internet as its communication backbone. The Centers were designed to provide coordination, analysis, and daily summaries of events that have occurred and are staffed by analysts from the host nation, the Joint Interagency Task Force-South (JIATF-S) and DEA.

This DEA managed initiative became operational during June 2003, with 41 participating countries and protectorates located throughout the Caribbean, Mexico and Central America and South America. A fifth Regional Center (Kabul, Afghanistan) was established in 2005. The program presently supports 48 countries and protectorates and includes over 250 users.

Coordinate Training Programs for Host Nation Police Agencies

DEA's international training activities are conducted in coordination with DEA's foreign offices, U.S. Embassies, and the Department of State, Bureau for International Narcotics and Law Enforcement Affairs (INL).

International Law Enforcement Academy (ILEA) Training Programs

Recognizing that the pervasive influence of organized transnational crime threatens the stability and rule of law in emerging democracies around the world, the ILEA program was established by the U.S. Department of State in 1995. Currently, there are four ILEAs operating in Budapest, Hungary; Bangkok, Thailand; Gaborone, Botswana; and San Salvador, El Salvador. Funding for the ILEAs is provided by the Department of State, INL. ILEAs offer a program of mid-career leadership training for regional police and other enforcement officers, as well as specific training programs arranged in accordance with regional interests. DEA's role is to provide counternarcotics course instruction and best practices for the core supervisory sessions, as well as specialized training courses at the ILEAs.

DEA's International Training Section (TRI) provides one-week of counter narcotics training at each of the five annual eight-week sessions of law enforcement training at the ILEA in Budapest, Hungary. Twenty-six countries from Central Asia, Eastern Europe, and the former Soviet Union participate in ILEA Budapest training. In addition to offering training at the eight-week sessions, TRI also conducts a one-week Drug Unit Commander Course.

ILEA-Bangkok began offering courses in March 1999. DEA has held the Directorship at ILEA Bangkok since its inception. The ILEA Bangkok core program of instruction is the six-week Supervisory Criminal Investigator Course (SCIC). TRI provides seven days of instruction during the SCIC for 13 countries from Southeast Asia. DEA also offers several specialized courses at ILEA Bangkok.

ILEA Gaborone, Botswana, became operational in 2001. ILEA Gaborone training includes a six-week supervisor's course, the Law Enforcement Executive Development and a number of specialized courses. TRI provides four days of counter narcotics training at each of the four Executive Development sessions, and a one-week Regional Chemical Control Training Seminar. ILEA Gaborone conducts training for 23 eligible southern African countries.

San Salvador, El Salvador, was selected in 2005 as the permanent venue for ILEA Latin America, and the first six-week pilot training program was conducted at the Academia Nacional De Seguridad Publica (ANSP) academy. It is anticipated that a new academy to serve Central and South America, as well as the Caribbean will be built on ANSP grounds. DEA serves as the Deputy Director for ILEA San Salvador, which also conducts specialized training courses at an alternate training venue, a Regional Training Center in Lima, Peru. ILEA San Salvador provides training of law enforcement officials from 30 participating Latin American countries. TRI provides five days of instruction at each of the four annual Law Enforcement Management Development Program sessions, as well as several specialized courses. A total of 841 participants were trained during FY 2007 at the ILEAs.

Bilateral Training Programs

TRI offers both in-country and regional training programs conducted by mobile training teams. In-country programs are seminars conducted in a host country and only include participants from that country. Regional training is designed to bring together a combination of participants from a number of countries sharing common drug trafficking issues or routes. An advance pre-school planning and assessment trip is conducted by a training team member to design each school to the specific requirements of the students registered for the courses. In FY 2007, TRI conducted bilateral training seminars funded by INL for 589 participants from 18 countries.

Asset Forfeiture/Money Laundering Training Programs

Three Department of Justice (DOJ)/Asset Forfeiture Money Laundering Seminars are offered: an International Asset Forfeiture Seminar, an Advanced International Asset Forfeiture Seminar, and a Money Laundering Seminar. An inter-agency group in Washington coordinates funding for approximately six of these seminars per year. The actual training modules to be offered at International Asset Forfeiture and Money Laundering programs are developed by TRI in a joint effort with DOJ. During FY 2007, a total of 214 participants from five countries were trained at Basic and Advanced Asset Forfeiture/Money Laundering Seminars.

International Narcotics Enforcement Management Seminar (INEMS) Program

The INEMS is a three-week program funded by the Department of State conducted by the International Training Section of DEA held in the United States for upper-level law enforcement managers. In addition to management concepts, the supervisors are exposed to the current and innovative enforcement techniques used by DEA and other U.S. enforcement agencies. Each country trainee group is required to present an overview of the narcotics situation in their home country. FY 2007's INEMS No. 85 included 15 participants from 15 countries and was conducted in Clearwater Beach, Florida.

North Atlantic Treaty Organization (NATO)-Russia Council Counter Narcotics Training Project

DEA provides mobile training teams to support the NATO-Russia Council (NRC) Training Project on Counter Narcotics training of Afghan and Central Asian personnel. This project is implemented by the UNODC. The mobile training seminars are being conducted in each of the Central Asia countries of Tajikistan, Kyrgyzstan, Uzbekistan, Kazakhstan, and Turkmenistan. NRC training programs will occur throughout FY 2008 in Afghanistan and Central Asia and is supported by DEA by sending experienced instructors to Academies in Russia and Turkey, as well as Tajikistan, Kyrgyzstan, Uzbekistan, Kazakhstan, and Turkmenistan.

DEA's fourth Key Mission Objective is to assist in the development of host country drug law enforcement institutions and form effective cooperative relationships with foreign law enforcement organizations.

The DEA tries to help foreign countries fight drug criminals by identifying and working with those foreign law enforcement organizations which have the integrity and the courage to develop and pass strong counternarcotics laws and build strong law enforcement institutions into existence to suppress crime. For example, DEA's successful operations in concert with the Colombian National Police (CNP) are an outgrowth of its long-term, strategy to develop strong working relationships with reliable, honest governmental institutions. The fact that the CNP has been able to remain steadfast in the face of continuing threats of violence and the temptations of corruption by DTOs is a testimony to the honesty and valor of its leadership, and individual member officers. The DEA has excellent working relationships with law enforcement in other countries as well, and these partnerships have resulted in tremendous successes across the globe. DEA's cooperative efforts with host countries have helped DEA to develop more self-sufficient, effective drug law enforcement programs.

The DEA actively participates in several international forums to promote international law enforcement cooperation. One forum is the annual International Drug Enforcement Conference (IDEC) that brings together upper-level drug law enforcement officials from around the world to share drug-related intelligence and develop operational strategies that can be used against international drug traffickers. The yearly conferences focus on such areas of common concern as the growing sophistication of drug trafficking organizations and money laundering.

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 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:

- **Flexible, Intelligence Driven Operations:** On an individual basis as well as being major actionable intelligence providers for Joint Interagency Task Force South (JIATF-S), United States Coast Guard (USCG) Operational Commanders aggressively conduct and support coordinated, flexible and dynamic operations in the transit zone in response to tactical intelligence and information. The Coast Guard also continues to coordinate operations with local, state, and federal law enforcement and Defense agencies.
- **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 use of bilateral maritime agreements and International Maritime Interdiction Support (IMIS) arrangements throughout the theaters of operations. Additionally, Coast Guard provides Training and Technical Assistance to partner nation's maritime services to serve as force multipliers in drug trafficking operations.
- **Technological Initiatives:** Coast Guard is actively addressing operational shortfalls through research, developing and fielding detection, monitoring, and non-lethal endgame technologies, such as Airborne Use of Force and Fuel Neutralization, to enhance effectiveness and greatly increase the chances for success against drug traffickers.

The keys to success of Steel Web 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 deployable training teams, resident training and subject matter expert exchanges, which improves the effectiveness of our counternarcotics partners.

Combined Operations

The Coast Guard conducted several maritime counternarcotics combined operations in 2007 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 FY2007, Law Enforcement Detachments

(LEDETs) conducting combined operations onboard British Naval Vessels removed¹ a total of 12,784 pounds of cocaine.

International Agreements

There are now 26 bilateral maritime counternarcotics 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. Most recently, 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. Discussions for a similar agreement with Peru are in progress. 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 2007 the Coast Guard disrupted 65 drug smuggling attempts, which resulted in the seizure of 37 vessels, the arrest of 188 suspected smugglers, and the removal of 355,755 pounds of cocaine and 10,385 pounds of marijuana. Nearly all of the 65 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.

In an effort to stymie law enforcement efforts, DTOs developed a new tactic utilizing fishing vessels to smuggle liquid cocaine. The USCG discovered aboard Colombian and Ecuadorian flagged fishing vessels liquid cocaine mixed in with diesel fuel. Working closely with DEA chemists, the USCG developed testing methods that led to the seizure of 27,512 lbs of liquid cocaine. Cooperation by the flag states was critical to the successful interdiction of these vessels.

The USCG embarked ship riders from Guatemala, Nicaragua, Costa Rica, Belize, Honduras, The Bahamas, and Palau to exercise bilateral agreements, improve cooperation, and maximize the efforts of law enforcement assets on the high seas, and in the territories of partner nations.

International Training and Technical Assistance

In FY2007, the USCG provided International Training and Technical Assistance in support of drug interdiction programs through a variety of support efforts.

The three-person USCG Technical Assistance Field Team (TAFT) provides engineering expertise, vessel assessments, and major repair contracting services to the maritime services of the countries in the Eastern Caribbean's 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. Several USCG engineering deployments provided crucial technical assistance to the Haitian Coast Guard and aided the Haitian Coast Guard's efforts to improve the operational readiness of its small boat fleet. The USCG fielded a training detachment in support of the U.S. SOUTHCOM's Global Fleet Station deployment to six Caribbean countries during the summer of 2007. This detachment led training courses in port security, outboard motor maintenance, and small boat seamanship. The USCG continued to serve as the maritime coordinator of the annual TRADEWINDS multinational exercise. Seventy-eight members from 13 regional maritime services participated in engineering,

¹ In 2004, the USG began tracking the amount of drugs lost in the transit zone due to scuttling, jettison, burning, etc. Total Coast Guard removals is the sum of drugs seized plus those lost to traffickers due to law enforcement efforts. Drugs listed in this category were not recovered; they were removed from the total flow moving toward the U.S.

navigation and seamanship exercises designed to improve operational capabilities at TRADEWINDS 2007 in Belize. The USCG is partnering with U.S. Navy forces off the Gulf of Guinea to plan the Global Fleet Station-like concept called Africa Partnership Station during the winter 2007 and spring 2008.

The USCG's International Training Division's Mobile Training Teams deliver one-to-two-week long courses to partner nation maritime services around the world. Typical courses include Maritime Law Enforcement (MLE), Boarding and Advanced Boarding Officer, Joint MLE Boarding, Maritime Operations Planning and Management, MLE Instructor, 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 2007, over 1,400 students from 43 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 2007, 178 students from 53 partner nations enrolled in resident courses at USCG training installations.

In FY 2007 and early FY 2008, the first and second Eastern Pacific Ocean Trilateral Maritime Counternarcotics Summits involving the U.S., Ecuador and Colombia, were held in Bogota and Guayaquil respectively. These Summits have resulted in significant improvements in information flow and operational coordination that have enhanced our collective ability to combat illicit narcotics smuggling. The Summits are held on a semi-annual basis.

U.S. Customs and Border Protection

The Department of Homeland Security's Customs & Border Protection (CBP) processes all goods, vehicles, and people entering and exiting the United States. CBP officers intercept contraband, illicit goods, fugitives, and unreported currency at our borders using a wide range of interdiction techniques – all of which focus on targeting suspect shipments and persons in order to minimize impact on legitimate trade and travel. CBP utilizes selectivity to identify high-risk shipments for intensive examination and 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 also responds to the nation's terrorism priorities through strategic programs designed to increase border security.

CBP is an integrated border control agency that operates at a high level of efficiency and integrity. On the average day, CBP processes 1.13 million passengers and pedestrians, 70,900 containers by land and sea, 251,000 incoming international air passengers, 74,100 passengers/crew arriving by ship, 304,000 incoming privately owned vehicles; seizes \$187,186 in undeclared or illicit currency, 5,138 pounds of narcotics; and arrests 2,472 fugitives or violators at or between ports of entry; all while facilitating commercial trade and collecting \$88.3 million 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 to foreign counterparts worldwide. 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 2007, CBP provided technical training and assistance in support of the International Law Enforcement Academy (ILEA) programs, currently operating in Bangkok, Budapest, Gaborone, and San Salvador. 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 regions.

The ILEA program 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 2007, CBP provided assistance for numerous ILEA programs.

From June 2007 to July 2007, two Border Patrol Agents and one CBP Officer were deployed at the request of the Narcotics Affairs Section, U.S. Embassy Panama for thirty days, to support the Panamanian Government and Law Enforcement Office in an advisory and mentoring role at the Guabala Checkpoint in the province of Chiriqui, Panama.

Training was provided to a total of 18 Panamanian National Police (PNP) and Judicial Technical Police (PTJ) in basic checkpoint operations. The training consisted of classroom and on-the-job training specific to traffic check operations which included but were not limited to the following:

interview/observation techniques, vehicle searches, identifying hidden compartments, fraudulent documents and officer safety. In addition, during the deployment several subjects were apprehended for immigration violations and there were numerous narcotic seizures which occurred at the checkpoint.

In February 2007, eight Border Patrol Agents and seven members of Joint Task Force North (JTFN) conducted a Narcotics Affairs Section funded three-week Emergency Response Training Course in Chihuahua, Mexico. The mission description of this operation was to train officers from various Mexican agencies to respond, prepare, coordinate, assist, and communicate incidents involving multiple victims and aiding in diverse types of injuries.

The mission also supported or provided the following:

- A program preparing officers to respond and manage casualties in urban, rural, and remote locations where medical personnel may not be immediately available.
- Gave trainees the technical skills and a level of medical knowledge to slow any casualty's deterioration by providing critical lifesaving care beyond that of first, self, or buddy aid.
- A Border Action Plan that was established between the U.S. Department of Homeland Security and the Government of Mexico to ensure an effective response to cross-border incidents.

In November 2007, CBP sent a team to assess the newly built strategic vehicle and passenger bridge that spans the Pyanj River connecting Afghanistan and Tajikistan. The bridge, constructed by the U.S. Army Corp of Engineers-Afghanistan Engineering District, replaces an existing ferry system. In 2008 CBP will assist in the orderly transfer of the newly constructed port of entry facilities to Tajikistan Customs. This new facility in a high-risk drug transit area will enhance regional trade and serve as a model port in Tajikistan, where for the first time, cargo will be screened and cleared upon arrival on site, reducing the risk of weapons or other illicit cargo being diverted on the way to inland clearance stations.

Port Security Initiatives

In response to increased threats of terrorism, CBP supported programs seeking to identify high-risk shipments destined for 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 maritime shipping containers. CSI consists of security protocols and procedures that, if fully implemented, ensure that all maritime shipping containers, that pose a potential risk for terrorism, are identified, inspected and secured at foreign ports before they are placed on vessels destined for the United States. CBP is now stationing multidisciplinary teams, consisting of representatives from both CBP and ICE that work together with their host government counterparts. Their mission is to jointly target and pre-screen containers, as well as to develop additional investigative leads related to the terrorist threat to cargo destined for the United States.

Through CSI, CBP officers work with host customs administrations to establish security criteria for identifying high-risk containers, using 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 en-route to the U.S. A total of over 50 foreign ports are participants in either the CSI or SFI.

Plan Colombia

In support of the Government of Colombia's plan to strengthen its counternarcotics and counterterrorism operations – Plan Colombia—CBP developed and implemented an initiative focusing on joint U.S.-Colombia narcotics interdiction efforts. As part of U.S. support to Plan Colombia, CBP provided Colombia with training and assistance on personnel management systems to assure seamlessly coordinated operations 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 delivers 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 U.S. 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 2007 the IVP hosted senior government officials including the head of Kyrgyzstan and Afghanistan's Border guard services.

Canine Training. CBP's Canine Center Front Royal (CCFR) continues to provide assistance-funded training courses, designed to assist foreign countries in the proper use of detector dogs. CETC provides each country with 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. CCFR also 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 CCFR 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 Canada.

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.

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 2007, 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.

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 long history of revenue collection and border protection, became the key agency designated to combat terrorism at points of entry around the U.S. The 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 in the forefront, focusing on enforcement activities, promoting domestic security, and fighting the threat of international terrorism.

In 2008, CBP will continue its border security mission through its initiatives that secure the supply chain of international cargo destined for 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

Executive Summary

The production of methamphetamine continued to shift from small-scale domestic producers within the United States to large “super-labs” in Mexico and other international locations in 2007, continuing a trend first described in last year’s report. This pattern is at least partially due to increasingly effective domestic controls over the retail sale of licit pharmaceutical preparations containing ephedrine and pseudoephedrine, the primary chemicals necessary for methamphetamine. Regulations for the sale of such products in the U.S. became effective at the national level for the first time in late 2006 under the Combat Methamphetamine Epidemic Act (CMEA). To capitalize on these gains and prevent production from merely shifting locations, the U.S. Government enhanced the scale and pace of its law enforcement cooperation with the Government of Mexico to target the production and trafficking of methamphetamine. For its part, the Government of Mexico demonstrated unprecedented political commitment towards stemming the illicit diversion of chemicals required for methamphetamine production. The Government of Mexico determined in September of 2007 that it would issue no further licenses for the importation of any amount of ephedrine, pseudoephedrine, and any product containing these chemicals. Sellers of ephedrine and pseudoephedrine products must deplete their remaining stores of products containing these chemicals by 2009, after which the use of these products will be illegal in Mexico.

This new policy has the potential to significantly disrupt the methamphetamine trade in the years ahead. To further institutionalize U.S.-Mexico cooperation and to support Mexico’s implementation of its domestic efforts, Mexico and the United States have jointly developed a comprehensive, multi-year law enforcement cooperation strategy known as the “Merida Initiative.” In addition to helping improve Mexico’s ability to interdict methamphetamine and other illegal drugs, this initiative would seek to disrupt methamphetamine production and strengthen Mexico’s ability to attack drug trafficking organizations controlling the trade. This comprehensive proposal also would provide assistance to enhance border and chemical precursor controls in Mexico’s Central American neighbors, to prevent increased smuggling of precursor chemicals from Central America into Mexico—a likely scenario given the ban on ephedrine and pseudoephedrine imports into Mexico.

Steps taken by the United States in 2006 to engage the United Nations and the International Narcotics Control Board (INCB) more actively on methamphetamine and other synthetic drugs also produced notable results in 2007, both in terms of operational law enforcement cooperation and international regulatory efforts to track the commercial flow of precursor chemicals. In 2007, the INCB’s Project Prism task force initiated *Operation Crystal Flow*, which focused on monitoring the shipment of precursor chemicals between the Americas, Africa, and West Asia and identified 35 suspicious shipments and stopped the diversion of 53 tons of precursor chemicals.

Building on the passage of a U.S.-sponsored 2006 CND (Committee on Narcotic Drugs) resolution that requested governments to provide an annual estimate of licit precursor requirements and to track the export and import of such precursors, the United States in 2007 supported a resolution drafted by the European Union that urged countries to strengthen controls on pseudoephedrine derivatives and other precursor alternatives. The INCB Secretariat’s program to monitor licit shipments of precursor chemicals was further strengthened by the availability of these national licit estimates, which were provided by over 100 countries and territories. The INCB is using these estimates to evaluate whether a chemical shipment appears to exceed legitimate commercial needs, and also is using this data to work with the relevant countries that can block shipments of chemicals before they are diverted to methamphetamine production. The United States will

continue to urge countries that have not provided such commercial data to the INCB to do so, and consider providing technical assistance through the INCB to states that currently lack the technical expertise to develop national estimates.

The United States is keenly aware that drug traffickers are adaptable, well-informed, and flexible. New transshipment routes may be emerging in Southeast Asia and Africa, and there is also ample evidence that organized criminal groups ship currently uncontrolled chemical analogues of ephedrine and pseudoephedrine for use in manufacturing illicit methamphetamine-type drugs. Alternative production methods instead of the predominant “ephedrine reduction” method is also a major concern. This issue has become a mainstream, high-priority of USG and international community, and we will continue to push for greater international activism to combat this threat in both bilateral and multilateral settings.

Combating the supply of methamphetamine is critical, but chemical control is much broader than methamphetamine and other synthetic drugs. Plant-based drugs such as cocaine and heroin also require precursor chemicals for processing, and cutting off supply of these chemicals is critical to U.S. drug control strategy. International efforts have a longer track record in targeting the illicit diversion of the most common precursors for cocaine and heroin—potassium permanganate and acetic anhydride, respectively. Less than 1 percent of worldwide licit commercial use of these chemicals is required to produce the world’s supply of cocaine and heroin, and curbing supplies is an enormous challenge.

In 2007, the United States joined with international partners to bring new focus on precursor chemical trafficking through and around Afghanistan and its neighbors—the source of 93 percent of the world’s opium poppy, and the location of an increasingly high percentage of heroin production. At the political level, the United Nations Office on Drugs and Crime (UNODC) hosted a series of meetings under the Paris Pact law enforcement coordination mechanism to promote expanded international cooperation between law enforcement agencies active in border control through and around Afghanistan. At the operational law enforcement level, the INCB-coordinated law enforcement task force Project Cohesion continued to produce positive results in international law enforcement cooperation to seize smuggled shipments. Illicit smuggling of precursors in countries along Afghanistan’s opium supply chain remains a challenging problem due to widespread gaps in intelligence and limited specialized law enforcement expertise in detecting chemicals internationally. However, the United States and international partners have made substantial progress in developing an infrastructure capable of achieving future progress, particularly in the areas of sharing intelligence, promoting law enforcement cooperation and expanding regulatory expertise in the region.

In South America, Project Cohesion focuses on monitoring the imports of potassium permanganate to the cocaine processing areas. At the May 2007 meeting of the Project Cohesion Task Force, participants expressed concern over the paucity of information pertaining to the trade of potassium permanganate in Latin America. In order to gather additional information on this topic, DEA organized a meeting in September 2007 that was attended by most of the countries in Latin America, including Mexico and Colombia.

The U.S. also will consider additional ways in which it might increase cooperation with international chemical producers and transporters in the private sector in order to promote effective diversion-prevention practices.

Background

Precursors and Essential Chemicals

Chemicals play two essential roles in the production of illegal drugs: as active chemical inputs for the production of synthetic drugs such as methamphetamine and Ecstasy; and as refining agents and solvents for processing plant-based materials such as coca and opium into finished drugs such as cocaine and heroin. Active chemical ingredients used in synthetic drugs are known as “precursor” chemicals due to the fact that they become part of the finished drug, whereas chemicals used to process plant-based drugs are referred to as “essential” chemicals. As a form of shorthand, both sets of chemicals are often referred to as “precursor chemicals,” and for the sake of brevity, this term is used interchangeably for both categories throughout this report.

International Regulatory Framework for Chemical Control

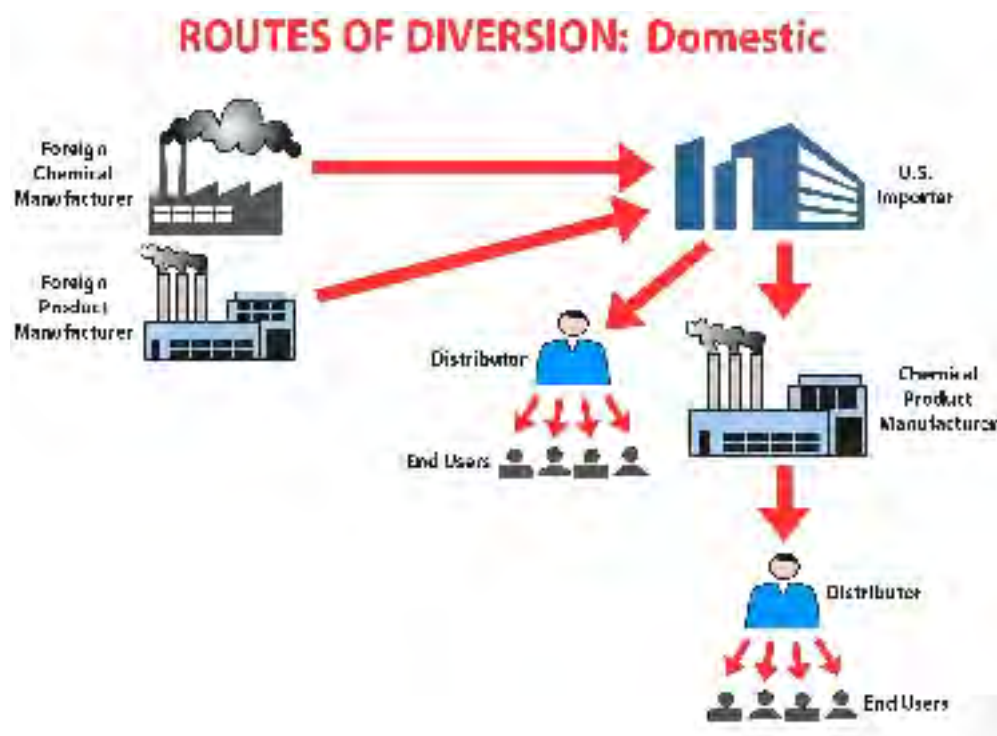
Preventing the diversion of precursor chemicals from legitimate trade is one of the key goals of the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Specifically, state parties are required under article 12 of the 1988 Convention to monitor international trade in chemicals listed under Tables I and II of the Convention. These lists of chemicals have been regularly updated to account for evolutions in the manufacture of illicit drugs, and state parties are required to share information with one another and with the International Narcotics Control Board (INCB) on international transactions involving these chemicals. The Convention further encourages state parties to license all persons and enterprises involved in the manufacture and distribution of listed chemicals, and subsequent resolutions from the UN Commission on Narcotic Drugs (CND)—the UN’s primary narcotic drug policy-making organ—have provided additional guidance to states on how to implement these obligations according to specific best practices. The underlying strategy is to closely monitor the trade in drug precursors and prevent transactions to suspicious customers.

In 1996, the U.S. supported a CND resolution that added a special monitoring list of chemicals that are not included in the Convention but for which substantial evidence exists of their use in illicit drug manufacture. Reporting requirements on these non-listed chemicals is voluntary under international law, but widely implemented in practice under INCB supervision. As with officially controlled chemicals listed under Articles I and II of the 1988 Convention, this special surveillance list is regularly updated to account for evolutions in drug production trends. Still, it takes time to get new near analogues of existing precursors listed and organized criminals vigorously exploit delays and gaps in the listings.

The regulatory framework codified by the United Nations is the most universally accepted and carries the broadest reach internationally, but it does not exist in isolation. Regional international bodies also have worked to complement the UN’s regulatory regime and implement its goals. In February 2004, the European Union (EU) enacted binding legislation to regulate chemical control monitoring between all of its 27 member states. External trade between the European Union and international actors has been similarly covered since January 2005. This EU legislation has been subsequently enhanced by additional implementing legislation, as well as by less formally-binding measures to promote voluntary cooperation with private industry to implement best-practices for preventing diversion. The United States and the EU have had an agreement in place to cooperate on chemical control issues since 1997, and policy coordination has taken place regularly through regular bilateral meetings alternating between Washington and Brussels. The EU also has actively collaborated with the U.S. on multilateral chemical control initiatives, including CND resolutions. The Organization of American States also is engaged on the issue of chemical control.

Diversion Methods

From the wide variety of chemicals that are needed for legitimate commercial and pharmaceutical purposes, a relatively small number also can be misused for the production of illegal drugs. Drug traffickers rarely produce these chemicals independently, as this would require advanced technical skills and a sophisticated infrastructure that would be difficult to conceal. Instead, criminals most often illegally divert the chemicals that they need from otherwise licit trade. Diversion from licit trade takes two main forms. First, the chemicals may be purchased from manufacturers or distributors. This can be done directly by traffickers or through unsuspecting or complicit third parties. Chemical producers also may be complicit in diversion schemes, but this is less frequent; most diversion takes place due to the ability of criminals to exploit gaps in the regulatory framework in place to monitor the trade in drug precursors and identify suspicious transactions. The supply chains for chemicals can be very complex, with several intermediary “traders” located between a manufacturer and an end user. This complex supply chain makes it more difficult for governments to pick the right point to intervene with regulatory control regimes and licensing.



International trade in precursor chemicals can be exploited by traffickers through a variety of means. Chemicals can be imported legally into drug-producing countries with official import permits and subsequently diverted—sometimes smuggled into neighboring drug-producing countries. Particularly in parts of the developing world, traffickers can simply pick the path of least resistance and arrange for chemicals to be shipped to countries where no viable regulatory systems exist for their control. Criminals also employ stratagems to conceal their true identities and the controlled chemicals that they require. Often, traffickers conceal their identity by using front-companies or by misusing the names of well-known legitimate companies. They also may obtain chemicals by bribing or blackmailing the employees of legitimate companies, or by disguising the

destination or nature of chemical shipments by mislabeling or re-packaging controlled chemicals as unregulated materials.



The second major form of diversion is through theft, from either storage or during transit. Criminals often have employed violence to steal chemical supplies. For example, in Mexico in July 2006, four guards were killed during a theft of 1,000 kilograms of ephedrine.

Transshipment or smuggling from third countries into drug producing countries appears to be increasing, mainly in response to the increasing efforts of more countries to implement legislative and administrative controls to prevent diversion from legitimate commercial trade. Criminals also are taking greater advantage of finished pharmaceutical products by extracting their precursor chemical ingredients, particularly those containing pseudoephedrine, a key precursor for methamphetamine. Pharmaceutical preparations are not controlled by the 1988 UN Drug Control Convention, and can be traded internationally without being subject to the reporting requirements in place for raw or bulk chemicals.

2007 Chemical Diversion Control Trends and Initiatives

The United States is a leader in international chemical control efforts, but the diffuse nature of the threat requires international cooperation and commitment if we are to be effective. To increase our impact, the United States works closely with other governments and the multilateral institutions that have long underpinned international drug control, principally the United Nations and its affiliated International Narcotics Control Board (INCB). The INCB in particular is a strong ally to the United States in coordinating international efforts to combat the production and spread of illegal drugs through cutting off sources of precursor chemicals. In 2007, the INCB coordinated several law enforcement operations that bore notable results.

The most significant INCB-coordinated operation was Operation Crystal Flow, a time-limited operation developed under the ongoing Project Prism (a group of national law enforcement authorities from 127 countries working together to prevent diversion of controlled chemicals) that

focused on the trade of ephedrine, pseudoephedrine and pharmaceutical preparations containing both chemicals. The law enforcement agencies of 65 countries took part in this operation, which was motivated by strong concerns that large amounts of these precursors were being diverted across Asia, Africa and Latin America into illicit channels to and throughout North America to be used for the manufacture of methamphetamine. This operation was conducted over a six-month period from January through June 2007, and its major elements included: the sending of pre-export notifications by using the INCB's online system for reporting shipments of ephedrine, pseudoephedrine, ephedra, including pharmaceutical preparations to the extent possible; the verification of the legitimacy of importers and end-users; the identification of suspicious transactions; in the event of identifying suspicious transactions, law enforcement information-sharing among the regional task force members; the launching of backtracking investigations in the event of seizures and stopped shipments; and conducting controlled deliveries in the event of seizures. The INCB Secretariat served as a global focal point for the exchange of information.

Crystal Flow was hugely successful and led to over 53 tons of ephedrine and pseudoephedrine being suspended, stopped, or seized. These chemicals were capable of producing approximately 48 tons of methamphetamine with an estimated street value of approximately \$4.8 billion. In addition to the tangible law enforcement results reflected in the seizures, the operation generated unprecedented cooperation between law enforcement agencies of countries that had rarely taken part in joint-investigations previously. These countries included producer, transit and recipient countries of precursor chemicals from six continents, and this shared networking produced a solid foundation for future cooperation.

Crystal Flow also identified the African continent as a major transit point for trafficking. In total, over 47 tons of ephedrine and pseudoephedrine were prevented from being diverted to or through Africa. One of the most commonly used methods of diversion in 2007 was the falsification of import permits. The chemical regulatory and law enforcement capacities of governments in this region are currently not adequate to the scale of this challenge, and controls over pharmaceutical preparations are often non-existent or less stringent than in other parts of the world.

As the source of 93 percent of the world's opium poppy and location of an increasingly high percentage of heroin production, Afghanistan remains one of the world's most challenging drug control environments on a variety of fronts, including precursor chemical control. In 2007, the United States joined with international partners to bring new focus on precursor chemical trafficking through and around Afghanistan and its neighbors by convening a first-of-its kind meeting of governments and chemical control experts under the UNODC Paris Pact law enforcement coordination mechanism. The conference sought to expand international cooperation between law enforcement agencies active in border control through and around Afghanistan, and brought together 94 participants from 27 countries and 10 international organizations. The meeting identified recommended practices and lessons learned for investigating illicit trafficking in acetic anhydride across the region, and endorsed a proposal for time-limited targeted operations in Afghanistan and neighbouring countries to be held in 2008, "Operation Tarcet."

These future operations will build on INCB-coordinated interdiction operations that continued throughout 2007 in the region, particularly Operation Containment. Operation Containment is a large-scale multinational law enforcement initiative, under the leadership of the DEA and underway since 2002, that emphasizes coordination and information sharing among countries from Central Asia, the Caucasus, Europe and the Russian Federation. The program aims to implement joint strategies to tackle the issue of drug trafficking organizations and its primary goal is to seize as much heroin as possible out of South West Asia before it reaches its market. Since 2002 the operation has resulted in 23 significant seizures of narcotics and precursor chemicals, major arrests and intelligence gathering.

Methamphetamine production, transit, and consumption remain significant problems in Asia. To help stem production, trafficking, and abuse in East and South East Asia, the U.S. supported bilateral and multilateral initiatives in 2007 that included UNODC's project to promote regional cooperation for precursor chemical control in the South East Asian region. The U.S. Department of Defense through Joint Interagency Task Force (JIATF) West also continues to support Interagency Fusion Centers (IFCs) in various partner nations throughout Asia. The mission of the IFCs is to contribute to developing host nation infrastructure and aid local law enforcement to fuse and share information to detect, disrupt and dismantle drug and drug-related national and transnational threats. Our efforts have helped local enforcement officials to improve their investigative skills and encouraged cooperation across borders, a prerequisite for success in controlling this intrinsically international business. The United States also has provided law enforcement training to Indonesia and the Philippines, including basic drug investigations, chemical control, and clandestine laboratory identification (and clean-up) training. These relatively low-cost programs help to encourage international cooperation with these countries in pursuing our common counternarcotics and broader geopolitical objectives with the countries of the region, as well as undercut illegal drug producers that could eventually turn their sights on U.S. markets.

The vast majority of illegal drugs entering the United States continue to originate from within the Western Hemisphere. Potassium permanganate is an oxidizer that has many legitimate industrial uses such as wastewater treatment, disinfecting, and deodorizing. It is also the primary chemical precursor used in the production of cocaine. Its main illicit use is to remove the impurities from cocaine base. Potassium permanganate also can be combined with pseudoephedrine to produce methcathinone, a synthetic stimulant that is also a controlled substance.

In July 2007, Mexican authorities seized 20,000 kilograms of potassium permanganate at the Port of Manzanillo, in Mexico, that originated in Taiwan. These same two companies involved in this shipment were serial offenders, having been involved in two similar shipments of approximately 20 tons of potassium permanganate that were seized at the Port of Manzanillo, Colima, Mexico, in October 2006 and November 2005. The November 2005 seizure was the subject of a Special Alert under Project Cohesion, an INCB project designed, among other things, to target the flow of potassium permanganate.

2007 also saw progress in the development of a more complete and systematic reporting regime covering the international trade in synthetic drug precursors. In 2006, a U.S.-sponsored resolution entitled *Strengthening Systems for Control of Precursor Chemicals Used in the Manufacture of Synthetic Drugs* was adopted by consensus at the 49th UN Commission on Narcotic Drugs (CND). This resolution provided a way to institutionalize the process for collecting information on synthetic drug precursor chemicals. Specifically, the resolution requests that countries provide the INCB with annual estimates of their legitimate requirements for methamphetamine precursors pseudoephedrine, ephedrine, and phenyl-2-propanone (P2P); the Ecstasy precursor PMK; and the pharmaceutical preparations containing these substances. The resolution also requests countries to permit the INCB to share such information with concerned law enforcement and regulatory agencies.

Over the past year, the U.S. worked with the INCB and other international allies to urge countries to take steps towards implementing this resolution. This has not been a simple task for many developing countries, as it requires as a prerequisite a considerable infrastructure of commercial information and regulation. Considerable progress has been made, however, and at the end of 2007, the INCB reports that more than 100 countries and jurisdictions are now cooperating and providing voluntary reporting on their licit requirements for the aforementioned chemicals. The INCB has published the data collected in its annual report on precursor chemicals and updates the information regularly on its website. The data serves as a baseline for authorities in importing and exporting

countries, facilitating quick “reality checks” on the chemicals and the quantities proposed in commercial transactions. Such checks enable authorities to determine whether importation is warranted – or, if no legitimate commercial use is apparent, whether pending shipments require additional law enforcement scrutiny.

To promote the full implementation of the CND resolution and support ongoing INCB activities, including Project Prism, the Department of State contributed \$700,000 in Fiscal Year 2006 funds and an additional \$700,000 in Fiscal Year 2007 funds, which more than doubles the previous contributions made during any prior fiscal year.

Additional success also was achieved in 2007 by attacking the finances of chemical diversion traders. The highlight of this tactical approach was the 2007 arrest by U.S. law enforcement of Zhenli Ye Gon, a Chinese-born Mexico City businessman. In March of 2007, Mexican officials found and seized more than \$200 million in U.S. currency, as well as various foreign currencies hidden in his mansion in Mexico City. This is the largest single seizure of drug cash in history. Mr. Ye Gon has been indicted in Washington on federal charges of conspiring to manufacture methamphetamine destined for the United States. In addition, Mexican prosecutors have charged Mr. Ye Gon with drug trafficking, money laundering, and weapons possession for his alleged role in illegally importing 19 tons of pseudoephedrine, and have requested his extradition. In the coming year, U.S. law enforcement will continue to target the financial vulnerabilities of chemical diversion financiers and make greater use of asset seizure laws wherever possible.

The Road Ahead

The U.S. will continue to encourage other countries to actively provide information on legitimate commercial precursor chemical shipments and estimates on legitimate commercial needs to the INCB, and to provide the necessary support to the INCB to enable it to fulfill its expanding role. We also will urge the international community to include this subject for discussion in upcoming international fora, including the 51st CND in March 2008 and its subsequent review of progress achieved in combating ATS since the 1998 UN General Assembly Special Session on Drugs (UNGASS). The UNGASS review also will be another opportunity to champion international cooperation to prevent the diversion of precursor chemicals. The Department of State, DEA, and ONDCP also will work to identify new mechanisms that might promote the broader exchange of information and expertise pertinent to the control of methamphetamine and other synthetics.

In addition, a major forum to advance methamphetamine controls in this hemisphere is the Inter-American Drug Abuse Control Commission (CICAD), the counternarcotics arm of the Organization of American States (OAS). OAS/CICAD receives considerable U.S. funding to counter the trafficking and abuse of illegal drugs, including methamphetamine. Guided at the policy level by the CICAD Commissioners (delegates from 34 Member States in the region), the Supply Reduction Unit of CICAD carries out a variety of initiatives in this important field supported by its Experts Groups on Chemicals and Pharmaceuticals, which usually meet annually.

The issue of precursor chemicals and the need to tighten controls in the Western Hemisphere has been upgraded politically and practically via the OAS/CICAD's Multilateral Evaluation Mechanism (MEM), through which the 34 Member States evaluate drug control progress and take initiatives to advance steps across the board against illegal drug trafficking. Through the MEM, countries have received many recommendations with respect to chemical controls. While implementation of these recommendations still requires additional follow-through, there is a very clear understanding of where improvements need to be made, and governments as well as the private sector are seeking to remedy the situation through increased funding, revision of laws, training and other means of monitoring of chemical transshipments.

In 2007, OAS/CICAD held five specialized training seminars with participants from 15 countries in Latin America and the Caribbean on tools and techniques available to investigate illegal sales of drugs over the internet. OAS/CICAD also coordinated training seminars throughout the region on topics that included the contributions of the private sector in preventing the diversion of precursor chemicals and the safe disposal of seized chemicals.

The increase in the use of unregulated substitute chemicals in synthetic drug manufacture also will require more attention. The United States highlighted this problem at the March 2007 session of the Commission on Narcotic Drugs, and the United States will continue urging governments to notify the INCB and other international partners 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 Control Convention that are being used in illicit drug manufacture.

The United States will need to continue and expand its work with governments across the Western Hemisphere to counter the efforts of criminals seeking to circumvent stricter diversion-prevention efforts in the U.S. and Mexico. In 2007, DEA joined with the UN Office on Drugs and Crime (UNODC) and two components of the Government of Mexico – the chemical and drug regulatory entity COFREPRIS and the Mexican Attorney General's Office (PGR) – in an ambitious program of assessment and training to prepare Central American governments to respond to nascent chemical diversion through their territories. Further efforts will be needed to continue and consolidate those efforts.

The United States also will consider additional ways in which it might increase cooperation with international chemical producers and transporters in the private sector in order to promote effective diversion-prevention practices. The INCB recently convened an international conference attended by chemical control experts and international chemical industry representatives to discuss guidelines for such public/private sector cooperation on diversion prevention. Working with our international partners, the U.S. will consider follow-up activities to build on this outreach and implement stronger voluntary measures.

Major Chemical Source Countries and Territories

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 on the list.

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

Article 12 of the 1988 UN Drug Convention is the international standard for national chemical control regimes and for international cooperation in their implementation. The annex to the Convention lists the 23 chemicals most essential to illicit drug manufacture. The Convention includes provisions for the Parties to maintain records on transactions involving these chemicals, and to provide for their seizure if there is sufficient evidence that they are intended for illicit drug manufacture.

The Americas

Argentina

Argentina is one of South America's largest producers of precursor chemicals, which are vulnerable to diversion for use in the processing of cocaine and other illegal narcotics.

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. To date, the National Registry of Precursor Chemicals has registered 6,658 companies. In May 2007, SEDRONAR and the National Institute of Vitivicultura (grape and wine producers) signed an agreement registering another 3,278 companies in the Registry. In the first seven months of 2007, the Registry added 1,019 new companies, re-registered 3,084, and issued 302 export authorizations and 1,349 import authorizations.

With DEA support, Argentina continues to participate in Project Cohesion and the regional Operation Seis Fronteras ("Six Frontiers"). Argentina also participates in "Operation Andes III," a joint program sponsored by Interpol and the World Customs Organization (WCO) to coordinate the interdiction of precursor chemicals in South America. Participants included national police and customs agencies from Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, French Guyana,

Paraguay, Peru, Uruguay and Venezuela. U.S. Immigration and Customs Enforcement (ICE) provided advisory support for precursor shipment identification and investigative response.

Argentine authorities willingly share chemical control information with U.S. authorities. From January 2006 through September 2006, the DEA-funded Northern Border Task Force (NBTF) seized approximately 684,220 kilograms of illicit chemicals, a significant increase over the amount of illicit chemicals seized during the same periods in 2005 and 2004.

Brazil

Brazil has South America's largest chemical industry and also imports significant quantities of chemicals to meet its industrial needs. Brazil's Justice Ministry issued a decree in August 2004 that includes stringent chemical control provisions to prevent the manufacture of illicit drugs. 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 the usage, purchases, sales, and inventory of these chemicals. Any person or company that is involved in the purchase, transportation or use of these 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 also are 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, particularly methamphetamine and MDMA (Ecstasy). The United States has worked closely with Canada in countering these threats, and the Government of Canada has made a serious effort to curb the diversion of precursor chemicals that are required for methamphetamine production to feed domestic and U.S. illegal markets. Canadian law enforcement authorities also have worked productively with U.S. counterparts in joint law enforcement operations that have disrupted drug and currency smuggling operations along both sides of the border. Although 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, there is some evidence that Canada's domestic production of methamphetamine and MDMA is increasing – a situation which will require careful monitoring on both sides of the border. We will continue to work closely with our Canadian partners to identify and dismantle methamphetamine laboratories, and to prevent further illicit diversion of precursor chemicals.

Canada is a party to the 1988 UN Convention and complies with its record keeping requirements. Canada participates in Project Prism, targeting synthetic drug chemicals, and is a member of the

North American working group. Although it supports Project Cohesion and contributes on an ad hoc basis, it is not actively engaged in it.

Chile

Chile has a large petrochemical industry involved in the manufacturing, importation, and exportation of thousands of chemical products and by-products. Chile is a source of precursor chemicals for use in coca processing in Peru and Bolivia. In 2003, Chilean law enforcement entities began to take a greater interest in chemical diversion within Chile and created specialized chemical diversion units. Since the creation of these units, and with international law enforcement cooperation, Chilean precursor chemical seizures have increased. In 2007, regulations also were approved to implement a 2005 law that established new authorities to register and inspect companies that produce, use, import or export any of 65 types of legally produced chemicals that also are used in the production of illegal drugs.

Mexico

Mexico has major chemical manufacturing and trading industries that produce, import, and export most of the chemicals necessary for illicit drug manufacture. The country is party to the 1988 UN Drug Convention and has laws and regulations meeting its chemical requirements. Mexican chemical control initiatives are now concentrating on methamphetamine precursors. The United States works closely with the Government of Mexico on a wide range of counternarcotics, law enforcement, and border security initiatives, and provides assistance and training that specifically targets methamphetamine production and trafficking.

Mexico is aware of the methamphetamine threat and is making progress in limiting imports of the essential chemicals used to produce methamphetamine. Between 2002 and 2004, Mexico recognized that these imports far exceeded legitimate demand, and the government enacted a series of regulations and policies to restrict imports and better regulate the sale of precursor chemicals. First, between 2004 and 2005, the Mexican government banned pseudoephedrine imports of over three tons, restricted the importation of pseudoephedrine to only registered drug manufacturers, and required that pseudoephedrine in transit be kept under armed guard. Prior to 2004, Mexico had not implemented strong precursor controls, resulting in the importation of 216 metric tons of pseudoephedrine. In 2007, unofficial estimates are that only 12 tons were imported. In September 2007, the Government of Mexico determined that it would issue no further licenses for the importation of ephedrine, pseudoephedrine, and products containing these chemicals. Sellers of ephedrine and pseudoephedrine products must deplete their remaining stores of products containing these chemicals by 2009, after which use of these products will be illegal in Mexico. This new policy is a bold move that promises to significantly disrupt the methamphetamine trade in the years ahead.

The Mexican government also is improving commercial tracking systems of precursor chemicals, and is enhancing its ability to detect possible front companies and counter illicit financial transactions related to methamphetamine trafficking. However, the threat of illegal smuggling of precursor chemicals and pharmaceutical preparations from third countries into Mexico will continue to be a challenge.

With support and funding from the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL), DEA has assisted in the establishment of Mexican Clandestine Laboratory Response Teams to target organizations involved in the operation of clandestine methamphetamine labs, and have provided four training courses in 2007 to over 250 law enforcement personnel, including one course specifically concerning Clandestine

Methamphetamine Labs. To date, the Government of Mexico has trained over 2,100 law enforcement and public safety officers in methamphetamine enforcement techniques.

Newly vetted law enforcement personnel trained in methamphetamine investigations have been assigned to five major methamphetamine production areas in Mexico. The U.S. also is supporting the new Federal Police Corps and its Special Investigative Units (SIUs) with specialized equipment, vehicles and computers. The U.S. Department of State also is providing equipment and maintenance support for previously donated CLANLAB vehicles specially designed to take down methamphetamine laboratories, such as safety/toxin suits and emergency chemical trauma kits. In 2007, 16 methamphetamine labs were seized, including one super lab. The U.S. is also providing non-intrusive inspection equipment (NIIE) to the Mexican Government to interdict contraband, including precursor chemicals. NIIE is state-of-the-art systems that scan cargo containers and passenger luggage. Thirteen large gamma ray devices (VACIS) are located at land border crossings, one unit is located in Mexico City, and three mobile units are deployed throughout Mexico. Three x-ray vans are located at international airports. INL also plans to add six or more additional NIIEs at the U.S. land border, sea/airports, and southern Mexico this fiscal year. As part of our overall counternarcotics programs, INL also plans to promote education and public awareness concerning the rising threat of methamphetamines in Mexico and the environmental impact of its production.

The United States

The United States manufactures and/or trades in all 23 chemicals listed in Tables I and II of the 1988 UN Drug Convention. It is a party to the Convention and has laws and regulations meeting its chemical control provisions.

The basic U.S. chemical control law is the Chemical Diversion and Trafficking Act of 1988. This law and 5 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) is responsible for administering 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 and special agents work closely with exporting and receiving 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 companies engaged in chemical diversion have been aggressively and routinely subjected to civil and criminal prosecution and revocation of DEA registration.

The U.S. has played a leading role in the design, promotion and implementation of cooperative multilateral chemical control initiatives. It is actively working with other concerned countries, the United Nations Office of Drugs and Crime (UNODC), and the International Narcotics Control Board (INCB) to develop information sharing procedures to better control pseudoephedrine and ephedrine, the principal precursors for methamphetamine production. It is on a task force for both Operation Cohesion and Project Prism. It also has established close operational cooperation with counterparts in major chemical manufacturing and trading countries. This cooperation includes information sharing 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, potassium permanganate, piperonylmethylketone (PMK) and pseudoephedrine and ephedrine. 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. Chinese law regulates drug preparations containing precursor chemicals, but as medicines rather than regulated chemicals. 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 domestic and international trade. The sheer scale of China's chemical industry—nearly 80,000 chemical companies, according to one estimate—presents widespread opportunities for chemical diversion, and regulatory oversight remains a major challenge for China's central authorities, particularly in some provinces. Although provincial police are taking a more active role to investigate illicit chemical transactions, the lack of officers assigned to investigate these potential diversions on a full-time basis may mean many suspect and clearly illicit transactions go unnoticed. It is also unclear whether sufficient controls exist to safeguard the storage and transit of precursor chemicals, and drug preparations containing them, across the country to guard against theft.

China is a major producer of licit ephedrine and pseudoephedrine, as well as ephedra, all of which can be used in the manufacture of methamphetamine. There is a widespread belief among law enforcement agencies, worldwide, that large-scale illicit methamphetamine producers in other countries use Chinese-produced ephedrine and pseudoephedrine, and there are numerous examples from criminal investigations to confirm this suspicion. Diverted Chinese precursor chemicals may undergo synthetic drug production in other countries as far away as Mexico, Belgium, and the Netherlands. Although China enacted enhanced precursor chemical control laws in November 2005 and is fully engaged in multilateral and bilateral efforts to stop diversion from its chemical production sector, Chinese efforts have not matched the size of its enormous chemical industry with sufficient resources to effectively ensure against diversion.

In 2006, the State Food and Drug Administration, the Ministry of Commerce, and Customs held 1,300 training courses for 47,500 law enforcement officers on precursor chemicals. According to the National Narcotics Control Commission (NNCC) 2006 report, China established an inter-agency working group to help tighten control of precursor chemicals. According to the NNCC, various Chinese ministries and agencies began to exchange data on the production, use, and export destination of precursor chemicals.

According to the NNCC, Chinese authorities investigated 968 cases involving precursor chemicals in 2006 and seized 1461 metric tons of precursor chemicals, a significant increase over the 157 tons reported seized in 2005. Sichuan Province inspected 2638 chemical enterprises, found 42 instances of illegal activity and corrected them. It solved five cases involving the illegal purchase and sale of precursor chemicals and seized 142 tons of chemicals. In 2006 the NNCC issued 747 precursor chemical pre-export notifications involving 89,318 MT of precursor chemicals. Statistics for 2007 were not available by the time of publication.

China continues to take earnest efforts to act as a 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 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, within the limits of China's capabilities. 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. In July 2006, the Office of National Drug Control Policy (ONDCP) and the NNCC signed a Memorandum of Intent on behalf of their two countries to increase cooperation in combating drug trafficking and abuse.

India

India's large chemical industry manufactures a wide range of chemicals, including the precursor chemicals acetic anhydride, ephedrine, and pseudoephedrine, which can be diverted for illicit drug manufacture.

India is a party to the 1988 UN Drug Convention, but it does not have controls on all the chemicals listed in the Convention. The GOI controls acetic anhydride, N-acetylanthranilic acid, anthranilic acid, ephedrine, pseudoephedrine, potassium permanganate, ergotamine, 3, 4-methylenedioxyphenyl-2-propanone, 1-phenyl-2-propanone, piperonal, and methyl ethyl ketone, all chemicals listed in the convention. Indian law allows the government to place other chemicals under control. Violation of any order regulating controlled substance precursors is an offense under the Narcotics Drugs and Psychotropic Substances Act, the key law controlling trafficking and is punishable with imprisonment of up to ten years. Intentional diversion of any substance, whether controlled or not, to illicit drug manufacture is also punishable under the Act.

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

Indian authorities cooperate with U.S. authorities on letters of no objection and verification of end-users, especially with regard to ephedrine and pseudoephedrine. Information is shared between Indian and U.S. authorities and India is a participant in Project Cohesion and Project Prism. DEA has a Diversion Investigator assigned to its New Delhi office.

A joint investigation by the DEA and India's Narcotics Control Bureau (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, responsible for this criminal activity consisted of over 20 individuals in the U.S. and India, and 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, resulting in the arrest of seven individuals in the United States and five in India.

Subsequent joint investigations have shown the continuing use of the Internet and commercial courier services to distribute drugs and pharmaceuticals of all kinds from India to the U.S. and other countries. Although ephedrine seizures within India were down in 2007, one seizure in the

U.S. in September 2007 found 523 kg of ephedrine shipped through commercial carrier from India through the U.S. and headed to Mexico. The shipment was disguised as green tea extract.

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 United States. 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.

Singapore

Singapore is a major importer of ephedrine, a precursor for methamphetamine. The quantities not re-exported are used primarily by the domestic pharmaceutical industry. To date, no domestic clandestine methamphetamine production has been detected in Singapore. Singapore’s position as one of the world’s largest importers of ephedrine and pseudoephedrine parallels the rapid growth of pharmaceutical and biomedical industries in the country. On a combined basis, the pharmaceutical industry currently accounts for nearly 8 percent of Singapore’s GDP, up from less than one percent in 2000. Singapore is also one of the largest distributors of acetic anhydride in Asia. Used in film processing and the manufacture of plastics, pharmaceuticals, and industrial chemicals, acetic anhydride is also the primary acetylating agent for heroin.

Singapore participates in multilateral precursor chemical control programs, including Projects Cohesion and Prism, and is involved in law enforcement initiatives developed under these projects to halt worldwide diversion of precursors to illicit chemical trafficking and drug manufacturing organizations. The Singapore Central Narcotics Bureau (CNB) works closely with DEA to track the import 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.

Singapore is a party to the 1988 UN Drug Convention and controls precursor chemicals, including pseudoephedrine and ephedrine, in accordance with its provisions. Singapore will not authorize imports of precursors until it has issued a “No Objection” letter in response to the exporting country’s pre-export notification. Pre-export notifications are issued on all exports; transshipment cases are treated as an import followed by an export. The Government of Singapore conducts rigorous site visits on companies dealing with controlled chemicals to ensure awareness of the requirements and overall compliance.

South Korea

With one of the most developed commercial infrastructures in the region, South Korea is an attractive location for criminals to obtain precursor chemicals. South Korea produces and exports precursor chemicals such as acetone, toluene, and sulfuric acid. Transshipment through South Korea’s ports remains a serious problem, and its authorities recognize the country’s vulnerability as a transshipment nexus and have undertaken greater efforts to educate shipping companies of the risk. South Korea cooperates with international efforts to monitor and investigate transshipment cases. In the previous year, South Korean authorities and the DEA Seoul Country Office completed a modified controlled delivery of crystal methamphetamine originally intended for transshipment through South Korea from China to Guam, resulting in the dismantling of an international methamphetamine organization. Redoubled efforts by the Korean Customs Service also have resulted in increased seizures of methamphetamine (most of which is smuggled into South Korea from China).

In 2007, South Korean authorities discovered a mobile clandestine lab that had been used to produce small amounts of methamphetamine from legally-obtained cold medicines. In response, the South Korean government implemented stricter controls on the purchase of over-the-counter medicines containing ephedrine and pseudoephedrine, requiring customer registration for quantities greater than a standard three-day dose. Also in 2007, the Korean Food and Drug Administration (KFDA) continued to implement stronger precursor chemical controls under amended legislation approved in 2005. The KFDA continued its efforts to educate companies and train its regulatory investigators on the enhanced regulations and procedures for monitoring the precursor chemical program. The KFDA also implemented in 2007 new regulatory oversight procedures to track and address diversion of narcotics and psychotropic substances from medical facilities.

Taiwan

Taiwan has a globally competitive chemical industry, exporting specialty industrial chemicals and resins for plastics production as well as importing solvents and cleaning materials for the high-tech electronics sector. On an international level, Taiwan has experienced problems resulting from chemical diversion and illicit drug trafficking, but has taken measures to prevent and monitor chemical diversion. The Ministry of Justice Investigation Bureau and Taiwan Customs are progressing in discussions with DEA regarding a precursor chemical initiative. Although Taiwan is not a member of the United Nations and therefore cannot be a party to the 1988 UN Drug Convention, Taiwan authorities have taken measures to comply with the convention. Of the twenty-two (22) chemical precursors listed in the 1992 additions to the UN Anti-Drug Convention, five (5) chemicals to include ephedrine and pseudoephedrine fall under the scope of the Executive Yuan's (EY) Department of Health. The other seventeen (17) precursor chemicals including acetic anhydride and potassium permanganate are considered industrial raw materials, and are controlled by the Ministry of Economic Affairs (MOEA), Industrial Development Bureau. The MOEA provides specific guidance for reporting precursor chemicals as industrial raw materials for the prevention of diversion into drug manufacturing. It also provides related manufacturers and businesses with information concerning which items to report and procedures for reporting. Although Taiwan's Department of Health regulates ephedrine and pseudoephedrine, pharmaceuticals containing these chemicals are not controlled.

Thailand

Thailand's chemical control policy is established in the "Emergency Decree on Controlling the use of Volatile Substances B.E. 2533 (1990)." Government agencies responsible for chemical controls are the Thai Office of Narcotics Control Board (ONCB) and the Food and Drug Administration, which closely monitor the importation of precursor chemicals. Regular inspections are conducted of companies that import such substances, and every chemical shipment into Thailand is subject to review and selective unloading and search. Thai law provides for a maximum three-year jail term for individuals not complying with required reporting and tracking processes. Thai authorities are vigilant and effective in monitoring imports and the licit use of precursors, but despite strong RTG efforts, limited quantities of certain chemicals—especially acetic anhydride, ephedrine and caffeine—surreptitiously transit Thailand to laboratories in Burma. Most precursor chemicals and substances that transit Thailand originate in Indonesia or Malaysia. Some of the chemicals, like acetic anhydride, are produced in Indonesia while others are brokered through Indonesian chemical houses and transported through Malaysia into Thailand and northward to Thai chemical houses in Chiang Mai or Chiang Rai. ONCB has the responsibility for detecting chemical and precursor diversion, interdicting illicit shipments and monitoring the activities of the chemical trading houses.

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. The EU regulations are directly applicable in all 27 of its Member States. Only a few aspects require further implementation through national legislation, such as law enforcement powers and sanctions.

The EU regulations govern the regulatory aspects of chemical diversion control and set up common risk management rules to counter diversion at the EU's borders. Member states are responsible for the criminal aspects, investigating and prosecuting violators of the national laws and regulations necessary for 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 through enhanced regulatory co-operation and mutual assistance. 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 Project Cohesion and Project Prism. In 2007, The EU established guidelines for private sector operators involved in trading in precursor chemicals, with a view to offering practical guidance on the implementation of the main provisions of EU legislation on precursor chemicals, in particular the prevention of illegal diversion.

Germany and the Netherlands, with large chemical manufacturing or trading sectors and significant trade with drug-producing areas, are considered the major European source countries and points of departure for exported precursor chemicals. 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 is one of the large manufacturers and exporters of pseudoephedrine and ephedrine from its large licit pharmaceutical industry. Germany is a party to the 1988 United Nations Convention against Illicit Traffic in Narcotics Drugs and Psychotropic Substances and implements its chemicals control provisions. Furthermore, Germany's chemical control laws are based on EU law and the federal Precursor Control Act. Germany has a strong chemical control program that monitors the chemical industry as well as chemical imports and exports. Cooperation between chemical control officials and the chemical industry is a key element in Germany's chemical control strategy. The Federal Office of Criminal Investigation (BKA) and the Federal Office of Customs Investigation (ZKA) have a very active Joint Precursor Control Center (GUS), based in Wiesbaden, devoted exclusively to chemical diversion investigations. Germany is one of the United States' closest chemical control partners, cooperating both bilaterally and multilaterally, to promote transnational chemical control initiatives. A senior DEA diversion investigator from DEA's Frankfurt office is assigned to the GUS. Germany strongly supports the international initiatives, Project Cohesion and Project Prism, to global efforts to control the diversion of chemicals.

The Netherlands

The Netherlands has a large chemical industrial sector that makes 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 Netherlands is a party to the 1988 UN Drug Convention and 1990 European Union Regulations. Trade in precursor chemicals is governed by the 1995 Act to Prevent Abuse of Chemical Substances (WVMC). The law seeks to prevent the diversion of legal chemicals into the illegal sector. Violations of the law can lead to prison sentences (maximum of six years), fines (up to 50,000 Euros), or asset seizures. The Fiscal and Economic Information and Investigation Service (FIOD-ECD) oversees implementation of the law.

The country remains an important producer of MDMA (Ecstasy), although the amount of this drug reaching the United States seems to have declined substantially in recent years. The Dutch Government has been proactive in meeting this threat. The successful five-year strategy (2002-2006) against the production, trade and consumption of synthetic drugs was endorsed by Parliament in 2007. According to the National Police, the number of Ecstasy tablets seized in the U.S. that could be linked to the Netherlands dropped significantly from 850,000 in 2005 to only 5,390 tablets in 2006. The National Crime Squad's synthetic drug unit and the Public Prosecutor's Office have strengthened cooperation with countries playing an important role in precursor chemicals used in the manufacture of MDMA. Many of the important Ecstasy precursor chemicals originate in China, and the Netherlands signed a Memorandum of Understanding with China concerning chemical precursor investigations in 2004. In 2005, the Dutch assigned a liaison officer to Beijing to promote closer sharing of intelligence on precursor chemical investigations.

The Dutch continue to work closely with the U.S. on precursor chemical controls and investigations. This cooperation includes formal and informal agreements on the exchange of intelligence. The Netherlands helped to establish and is an active participant in the INCB's Project Prism task force, and takes part in other multilateral chemical control initiatives such as Project Cohesion. In May 2007, the Netherlands National Police also joined the DEA's International Drug Enforcement Conference (IDEC) as a full member, and are expected to participate in all IDEC conferences in the future. The Netherlands also hosted the Synthetic Drug Enforcement Conference (SYNDEC III) in November 2007.

The United Kingdom

The United Kingdom is one of world's largest importers of ephedrine and pseudoephedrine, the key precursors for methamphetamine production. The UK strictly enforces national precursor chemical legislation in compliance with EU regulations. Several small clandestine methamphetamine laboratories have been seized in the UK with law enforcement starting to embrace awareness training and strategic planning. The DEA's London Country Office (LCO) continues to maintain a robust exchange of information and training initiatives with several UK law enforcement agencies regarding the threat from methamphetamine. Although not viewed to be in any significant use in the UK at this time, UK law enforcement has acknowledged the potential threat that methamphetamine and its capacity for "domestic production" pose.

The LCO has arranged for DEA "clandestine laboratories" training for the Serious Organized Crime Agency (SOCA) and the Metropolitan Police Services (MPS/New Scotland Yard). This training program instructs law enforcement officers in the safe and efficient manner of identifying, dismantling, and prosecuting criminals involved with an illicit methamphetamine laboratory.

Significant Drug Manufacturing Countries

Asia

Afghanistan

Afghanistan produces 93 percent of the world's opium. An increasingly large portion of the opium crop is being processed into heroin and morphine base by drug labs in Afghanistan. With no domestic chemical industry, the chemicals required for heroin processing must come from abroad. The principal sources are believed to be China, Europe, the Central Asian states and India, but traffickers skillfully hide the sources of their chemicals by re-packaging and false labeling. There are no legitimate requirements in Afghanistan for most of the chemicals used in heroin manufacture, and most are smuggled in through the Central Asian states, the Persian Gulf, including Iran, Syria and Pakistan, after being diverted elsewhere.

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

The same factors that adversely impact the interdiction of narcotics, the investigation of major trafficking organizations and the enforcement of the poppy ban hinder efforts to interdict precursor chemicals and processing equipment.

Burma

Burma's overall decline in poppy cultivation since 1998 has been accompanied by a sharp increase in the production and export of synthetic drugs, turning the Golden Triangle into a new "Ice Triangle." Burma is a significant player in the manufacture and regional trafficking 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 beyond the region. There also are indications that groups in Burma have increased the production and trafficking of crystal methamphetamine, or "ice."

Burma does not have a significant chemical industry and does not manufacture ephedrine and pseudoephedrine used in synthetic drug manufacture, or acetic anhydride used in the remaining heroin manufacture. Most of the chemicals required for illicit drug manufacture are imported and diverted or smuggled into Burma from China, Thailand and India.

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

According to its own figures, the Government of Burma (GOB) seized 1.5 million methamphetamine tablets in 2007, compared to 19.5 million seized in 2006. 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, in whose territory the manufacture

and distribution of ATS takes place. The GOB must also close production labs and prevent the illicit import of precursor chemicals needed to produce synthetic drugs.

Indonesia

Since 2002, Indonesia has seen a significant increase in the number of large-scale clandestine MDMA and methamphetamine laboratories seized by Indonesian authorities. MDMA (Ecstasy) and methamphetamine-producing drug syndicates have been exploiting Indonesia's lax precursor chemical controls and using corrupt means to operate with relative impunity, but Indonesian authorities are demonstrating additional commitment to increasing law enforcement pressure. Clandestine laboratories that have been discovered in Indonesia are capable of producing multi-hundred kilogram quantities of illegal synthetic drugs. In addition, regional drug syndicates are exploiting Indonesia's 1.2 million miles of coastline and the overall lack of border and port security for the smuggling of ATS and precursor chemicals.

Methamphetamine is now the second most widely abused drug in Indonesia. Most seizures are in crystalline form. The syndicates producing this supply utilize precursor chemical sources and laboratory equipment from China, and rely upon chemists trained in the Netherlands for the production of MDMA. In some cases they also have used chemists from Taiwan and Hong Kong for the production of crystal methamphetamine.

The diversion and unregulated importation of precursor chemicals remains a significant problem facing Indonesia's counternarcotics efforts. Numerous pharmaceutical and chemical corporations have large operations throughout Indonesia. In June 2006, the Indonesian National Police in cooperation with the Australian Federal Police (AFP) identified more than 380 kilograms of pseudoephedrine that had been diverted to Indonesia by a trafficking syndicate based in Jakarta and Sydney.

Laos

As party to the 1988 UN Convention, Laos is obliged to establish controls on the 23 precursor and essential chemicals identified under Article 12 of that Convention. In practice, Laos' laws to implement this obligation are weak, and the institutional capability of its government to implement those laws is highly limited. Responsibility for regulating precursor and essential chemicals lies with the Food and Drug Administration of the Ministry of Public Health. In January 2005, that agency issued a decree imposing legal controls on 35 chemicals, including all of those, which the 1988 UN Convention requires be subject to regulation. The Health Ministry also is responsible to issue licenses for the legal importation of very limited quantities of pseudoephedrine or ephedrine, which are used (by government-owned pharmaceutical plants) for preparation of cold medications, which are available for sale in pharmacies without prescription. (The Ministry is currently considering, but has not yet approved, one application for importation of 25 kilograms of pseudoephedrine by a Laotian Government-owned pharmaceutical plant.) Initially, officials of the Food and Drug office were assigned at major international entry points to Laos, but due to shortage of personnel and conflicting requirements, the Health Ministry withdrew these staff members and now conducts inspections of imported chemicals only upon request to visit an importer's warehouse or storage facility. The Ministry is not known to conduct any end-use inspection of any licensed imports or uses.

There are no other known significant licit imports of precursor chemicals, and no known domestic manufacturing capacity for them in Laos. Responsibility for enforcement of laws that prohibit the unlicensed importation, sale or use of controlled chemicals rests formally with the Lao Customs Service and the national police. As a practical matter, there appears to be relatively little communication between these law enforcement agencies and the Health Ministry office responsible

for regulation. There have been occasional seizures in Laos of controlled chemicals, most frequently ephedrine or pseudoephedrine, but also less frequently of heroin processing chemicals. For the most part, such seized chemicals have been thought to be in transit between China and Burma or Thailand. Laos, along with Burma, Cambodia, China, Thailand and Vietnam, has for several years participated in a regional project and action plan sponsored by the UNODC Regional Office for Asia and the Pacific, one of whose goals is to enhance the effectiveness of controls on precursor and essential chemicals. Most activities under this project have concentrated on training for law enforcement, border and regulatory officials in the recognition and management of controlled chemicals, and on providing UNODC with advice and assistance to improve participating nations' chemical control laws.

Malaysia

Although Malaysia is not a significant source country or transit point for U.S.-bound illegal drugs, it is increasingly being used as a regional hub for crystal methamphetamine and MDMA (Ecstasy) production. Historically, most of these synthetic drugs were imported from neighboring states in Southeast Asia and either transited Malaysia bound for other markets such as Thailand, Singapore, China and Australia, or increasingly consumed domestically as local consumption rises. In recent years, however, domestic ATS production has shown a marked increase. Malaysian authorities raided three clandestine drug labs in 2007 and had several successful drug seizures confiscating large quantities of methamphetamines and MDMA/Ecstasy. Evidence from these labs indicates the precursor chemicals were not produced domestically and that the ATS production syndicates imported the principal precursors under the auspices of legitimate pharmaceutical manufacturing. Malaysian officials report that there are no licensed manufacturers of pseudoephedrine or ephedrine in Malaysia.

The Philippines

The Philippines continues to be a producer, consumer and transshipment point for methamphetamine and lesser amounts of MDMA/Ecstasy and ketamine. Most of the precursor chemicals for methamphetamine production are smuggled into the Philippines (or illegally diverted after legal importation) from China, including Hong Kong. Ephedrine also is smuggled from India. The Philippines is itself a significant market for synthetic drugs and a transshipment point for further export of methamphetamine to Australia, Canada, Japan, Korea, and the U.S. (including Guam and Saipan).

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 kilograms of illicit drugs, or more, in one production cycle. Methamphetamine production may be increasing in the Philippines as criminals seek to avoid stricter chemical controls and increased law enforcement pressure in nearby South East Asian countries.

The Philippines has over 36,200 kilometers of coastlines and 7,000 islands. Vast stretches of the Philippine coast are virtually un-patrolled and sparsely inhabited. Traffickers use shipping containers, fishing boats, and cargo ships (which off-load to smaller boats) to transport multi-hundred kilogram quantities of methamphetamine and precursor chemicals. Law enforcement interdiction efforts are hamstrung by deficits in equipment, training, corruption, and intelligence sharing.

Since 1989, the Philippine government has controlled the importation of ephedrine. Despite these controls, the widespread availability of methamphetamine—known locally as “shabu”—indicates that local clandestine laboratory operators are having no apparent problem obtaining ephedrine or

other necessary precursors. Law enforcement authorities in the Philippines recognize that clandestine laboratories are extremely active, and that they present a threat to public health and national security within the Philippines. Aggressive efforts by law enforcement to seize clandestine methamphetamine labs in and around Manila may have pushed production more into the provinces. The Philippine government continues to build the capacity of the Philippine Drug Enforcement Agency (PDEA), established in 2002, and its first 55 agents graduated in early 2007 from the PDEA Academy.

In addition to methamphetamine, MDMA/Ecstasy is slowly gaining popularity among affluent members of the Philippine society, and the legal veterinary anesthetic ketamine is converted to the illicit crystal form from its legal liquid form in the Philippines and exported to other countries in the region.

Latin America

Bolivia

Because Bolivia does not have a large chemical industry, most of the chemicals required for illicit drug manufacture come from abroad, either smuggled from neighboring countries or imported and diverted. In 2007, Bolivian authorities seized 1,435,419 liters of liquid precursors and 653 metric tons of solid precursor chemicals. Bolivia is a party to the 1988 UN Drug Convention, and has the legal framework for implementing its chemical control provisions. Bolivia participates in chemical control initiatives such as the multilateral Operation Seis Fronteras, and DEA has a Diversion Investigator assigned to its La Paz office.

Colombia

Currently, there are approximately 4,500 chemical companies in Colombia authorized to handle precursor chemicals for legitimate use. Chemical companies must have governmental permission to import or export specific chemicals and drugs. Pre-notifications to “Fondo Nacional de Estupefacientes” (National Dangerous Drug Fund, or Colombia’s FDA) are required to export chemicals from Colombia. No companies in Colombia have governmental authorization to export ephedrine or pseudoephedrine, key precursors in the production of methamphetamine. However, Colombian companies can and do import these precursors, which are necessary for the production of cold medicines and other legitimate products. The Government of Colombia (GOC) controls the legal importation levels to correspond to legitimate national demand.

Controlled chemicals are camouflaged and clandestinely imported into Colombia with false or misleading information. In many instances, the alleged importing “company” does not exist, is out of business, or has no actual involvement in importing the products. Many chemicals also are being diverted by a small number of corrupt employees at large Colombian chemical companies, whose management has no knowledge of the illegal activities. Highly desired chemicals, such as potassium permanganate, are imported into Colombia by taking advantage of the CNP and Colombian Customs lack of knowledge regarding scientific synonyms for controlled chemicals.

Chemical traffickers and clandestine laboratories also use non-controlled chemicals, such as N-propyl acetate, to replace controlled chemicals that are difficult to obtain. Since there are no restrictions on non-controlled chemicals, these are diverted with impunity, and appear in large quantities at clandestine labs. Chemical traffickers also recycle chemicals in order to decrease their need to constantly divert precursor chemicals. Along with this practice, traffickers are recycling the chemical containers, making tracing of origin difficult.

The seizure and interdiction of precursor chemicals used to produce cocaine and heroin have been steadily on the rise. In 2007, the GOC seized over 3,000 gallons and 93 metric tons of potassium permanganate in Medellin, 122,000 gallons of sulfuric acid, and 126,000 gallons of hydrochloric acid.

Peru

Peru produces some precursor chemicals such as sulfuric acid and calcium oxide that are used for the processing of coca leaf into cocaine base. Peru is also a major importer of other precursor chemicals that are used in cocaine production, such as acetone and potassium permanganate. Many tons of these chemicals are diverted from legitimate channels to clandestine cocaine-production laboratories. In 2006, the Peruvian National Police (PNP) Chemical Investigations Unit (DICIQ) initiated Operation Chemical Choke that focused on chemical regulatory audits, interdiction efforts, and liaison with industry and regulatory agencies. Its objective was to stop the illicit diversion of acetone, sulfuric acid, and hydrochloric acid. By mid-November 2007, the operation had resulted in the seizure of approximately 350 metric tons of precursor chemicals destined for cocaine-production laboratories.

In June 2007, the Peruvian legislature modified the penal code to impose stiffer penalties—10 years instead of 5—and strengthened procedures to ensure proper handling of controlled chemicals. It also revised the code so that conspiracy laws now include trafficking-in-chemicals. The law modified the regulations regarding how precursor chemicals are distributed and sold in order to further define the crime of diverting chemicals for the production of illegal drugs. The PNP proactively cooperated with neighboring countries and the U.S. to conduct regional chemical control operations, including Operation Seis Fronteras with Argentina, Bolivia, Brazil, Chile, Ecuador, Panama, Uruguay and Venezuela. PNP/DICIQ recorded seizures of approximately 125 metric tons of precursor chemicals. Also, the Peruvian government's 2008 budget includes, for the first time, funds to be used by different ministries to specifically stop the diversion of precursor chemicals.

Methamphetamine Chemicals

The battle against methamphetamine must include a global campaign to prevent the diversion of precursor chemicals by all producing and transit nations. Though a daunting challenge, international cooperation has shown promising results. Two international entities have played a crucial role in this global effort: the United Nations (UN) Commission on Narcotic Drugs (CND) and the International Narcotics Control Board (INCB). The CND is the central policy-making body within the United Nations system dealing with drug-related matters. The INCB is an independent, quasi-judicial body that monitors the implementation of the three United Nations international drug control conventions.

Building on the passage of a U.S.-sponsored 2006 CND resolution that requested governments to provide an annual estimate of licit precursor requirements and to track the export and import of such precursors, the United States in 2007 supported a resolution drafted by the European Union that strengthened controls on pseudoephedrine derivatives and other precursor alternatives. The INCB Secretariat's program to monitor licit shipments of precursor chemicals through its Pre-Export Notification (PEN) online system was further strengthened by the availability of national licit estimates. The INCB is using these estimates to evaluate whether a chemical shipment appears to exceed legitimate commercial needs. Armed with this data, the INCB can work with the relevant countries to block shipments of chemicals before they are diverted to methamphetamine production.

Combat Methamphetamine Epidemic 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 Department of Justice, 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. In 2000, the FDA issued warnings concerning significant health risks associated with phenylpropanolamine, and as a result, manufacturers voluntarily removed the chemical from their over-the-counter medicines. 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 very complete export and import data on pseudoephedrine and ephedrine collected from major trading countries; however, the most recent full-year data is from 2006. GTA data have been used in the following tables. Data on legitimate demand is more complete for 2006 than in any previous year, but it is still not fully sufficient to enable accurate estimates of diversion percentages based on import data. This is principally due to the fact that there are still countries which have yet to report their legitimate domestic demand to the INCB. Also, some countries and regions do not report trade in ephedrine and pseudoephedrine when it is incorporated into a finished pharmaceutical product, such as a tablet or gel cap, due to concerns that this type of information infringes on commercially sensitive information. Also, governments may not be able to ascertain this data if, for example, they do not subject pharmaceutical preparations to national control, or if a different ministry with different or less stringent means of oversight regulates preparations versus bulk chemicals. This omits the end products that form a very large share of legitimate worldwide demand for methamphetamine precursors.

Even in the case of the reporting on licit market requirements for ephedrine and pseudoephedrine, the governing UN resolutions are not mandatory, but rather urge countries to cooperate by making available information on domestic demand and trade in pharmaceutical products. The trend in this direction has been positive; since the passage of the 2006 CND resolution that the U.S. spearheaded, over 100 countries and jurisdictions have reported import requirements for the bulk chemicals, ephedrine and pseudoephedrine to the INCB. Before 2006, only a nominal number of countries did so, and these rare communications were scattered and not provided on any systematic basis.

While not all economic analyses required by CMEA are possible to prepare because of insufficient data, more data is available this year than in any previous year. The United States also will continue to push in both diplomatic and operational forums – in both bilateral and multilateral settings – to urge countries to provide reporting on their licit domestic requirements for methamphetamine precursor chemicals to the INCB and work with the INCB and with authorities

in the reporting countries themselves to secure explanations for any anomalies between reported imports and reported licit domestic requirements. We also will seek to support efforts to provide developing countries with the expertise and technical capacities necessary to develop such commercial estimates, as this requires a regulatory infrastructure that is currently beyond the means of some governments in question.

This report provides export and import figures for both 2005 and 2006 in ephedrine and pseudoephedrine 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 United States in international pseudoephedrine and ephedrine trading. Complete 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 following data are for 2005 and 2006 and provide an indication of the volatility of the trade in pseudoephedrine and ephedrine. We are using the 2006 data this cycle of review to identify the major participants in the trade in ephedrine and pseudoephedrine.

Exporters (KGs)

Pseudoephedrine	2006
India	301,068
Germany	229,700
China	50,279
Taiwan	45,830
Switzerland	41,519
Sub-Total	668,396
United States	36,715
All Others	17,224
Total	722,335

Ephedrine	2006
India	185,804
Germany	33,200
Singapore	14,550
United Kingdom	7,300
China	6,152
Sub-Total	247,006
United States	596
All Others	8,132
Total	255,734

Analysis of Export Data: The largest exporters of ephedrine in 2006—India, Germany, Singapore, the United Kingdom and China—remained unchanged from 2005, though the aggregate amount of ephedrine exported by these countries declined significantly (16.9 percent). This decrease was not offset by corresponding increases in smaller producers; the worldwide aggregate volume of ephedrine exports that was reported to the Global Trade Atlas declined by 14 percent.

The only countries or territories that reported noticeable increases in ephedrine exports were Taiwan (up to 2,218 kilos from 20 kilos in 2005) and Canada (1,400 kilos from zero in 2005). Exports of ephedrine from the United States in 2006 declined dramatically from 2005 (596 kilos, down from 5,542).

For pseudoephedrine, the aggregate volume of worldwide exports showed a similar decline from the previous year, by 18.7 percent. As had been the case in 2005, the five most prolific exporters of pseudoephedrine remained India, Germany, China, Taiwan and Switzerland. Germany's exports decreased by some 41 percent in 2006, and fell behind India as the single greatest exporter of pseudoephedrine. Among countries that exported smaller volumes, only Italy and Spain showed statistically significant increases in 2006 (1,200 and 1,100 kilos, respectively, up from zero and 100 kilos in 2005). Belgium's exports dropped from 4,800 kilos in 2005 to 900.

Importers (KGs)

Pseudoephedrine	2006
United Kingdom	140,600
Singapore	45,400
Thailand	43,955
Mexico	43,428
Switzerland	38,891
Sub-Total	312,274
United States	171,195
All Others	306,380
Total	789,849

Ephedrine	2006
South Korea	17,150
Indonesia	15,407
Singapore	12,750
United Kingdom	9,200
France	7,200
Sub-Total	61,707
United States	89,624
All Others	35,394
Totals	186,725

Analysis of Import Data: South Korea, Switzerland and Singapore are important trading countries that (along with the United Kingdom and France) have pharmaceutical industries that utilize ephedrine and pseudoephedrine.

Among the top five importers of pseudoephedrine, Mexico's declining volume was dramatic in 2006—43,428 kilos down from 118,552. As noted previously in this report, Mexico stopped issuing licenses for imports of ephedrine, pseudoephedrine, and products containing these chemicals in September 2007. In fact, as with exports of both chemicals, the overall volume of imports declined significantly in 2006 from 2005; pseudoephedrine imports declined by over 34 percent, and ephedrine by nearly 40 percent. This declining volume could possibly be in response

to international efforts to promote closer alignment between ephedrine and pseudoephedrine sales and legitimate commercial requirements. Alternatively, this could be a single-year anomaly due purely to vagaries of the commercial market. Additional annual reporting will be required to determine whether this data points to a genuine downward trend in sales or represents a temporary statistical variance.

The accuracy of this trade data also should be viewed with some caution; clearly, some countries have less sophisticated infrastructures and methodologies at their disposal than others for measuring the volume and commodities of legitimate trade. Furthermore, although this data can be useful for determining overall trends in legitimate trade, it cannot accurately identify trends in smuggling or diversion involving conscious subterfuge. Particularly in the case of Mexico, where the government has aggressively cracked down on precursor chemical diversion and limited the flow of trade in such chemicals, we expect to see increased smuggling of chemical precursors through Central American countries and across Mexico's southern border.

Trade data also fails to reflect illicit smuggling that has been detected by law enforcement and other official reporting in Africa, the Middle East and other parts of Asia. The INCB-led Operation Crystal Flow, for example, discussed previously in this chapter, facilitated seizures of ephedrine and pseudoephedrine across Sub-Saharan Africa that could not be accounted for based on officially available trade statistics. The Democratic Republic of the Congo, for example, has been identified by U.S. and international law enforcement authorities as a significant transshipment hub for precursor chemicals, but available trade data is silent on legitimate commercial sales of these commodities. Similarly, in Burma, there is no available trade data to account for the massive scale of methamphetamine production occurring within that country.

Other sources of information from the United States, the United Nations and other governments have indicated that considerable quantities of chemicals are being smuggled across Middle Eastern and Southeast Asian borders without any corresponding record in official trade data. Iran and Syria, for example, have reported licit national requirements for pseudoephedrine (40 metric tons and 50 metric tons, respectively) that would place them among the top five importers worldwide, but no trade data for pseudoephedrine is available for either country that could be used to verify whether these volunteered estimates are accurate.

Based on what data is available, it may be possible to speculate that the trade in ephedrine and pseudoephedrine appears to be diversifying, and is less concentrated along traditional routes in major trading countries. The estimates that are now being provided to the INCB regarding legitimate national requirements can provide a useful reality-check to governments to get a better handle on imports and exports, and we will continue to watch these trends carefully. The United States will work closely with the INCB and with its international partners to further refine the methodologies used to determine these estimates and urge for additional voluntary reporting from states. Many countries, including the United States, have faced challenges in preparing these estimates. All nations, especially large importers and exporters such as the United States, should take steps to ensure that these estimates are as accurate and useful as possible.

Table: Annual Legitimate Requirements Reported by Governments to the International Narcotics Control Boards (source: INCB)

(status: 18 December 2007)

Country / Territory	Ephedrine kg	Ephedrine preparations kg	Pseudoephedrine kg	Pseudoephedrine preparations kg	3,4-MDP-2-P ^a kg	P-2-P ^b kg
Afghanistan						
Albania	5					
Algeria			17 000			
Argentina	18 500		19 000			1
Australia	30		6 000		1	77 000
Azerbaijan	20		10			
Bangladesh	850		15 305			
Barbados	250		160			
Belarus		60	25			1
Belgium	150		21 000			200
Benin			10			
Bosnia and Herzegovina	65		58	600	50	50
Botswana	300					
Brazil	2 550		10 000			6 350
Bulgaria		1 800				
Cambodia	300		400			
Canada	5 000	1	20 000			
Chile	615		5 333			
China	140 000		110 000			
Colombia	400		30 000			
<i>Cook Islands</i>		1		1		
Costa Rica	25		1450			
Côte d'Ivoire	75					
Croatia	100		400			
Cyprus			100			
Czech Republic	20	62	2 780			
Democratic People's Republic of Korea	2 500					
Democratic Republic of the Congo	155		500			
Dominican Republic	200	1 500				
Ecuador	320		8 000			
Egypt	6 000		30 000			
El Salvador	150		1 000	1		
Estonia	6					
<i>Falkland Islands (Malvinas)</i>	1		1			
Finland	100			1 000		5
Georgia	3	2				
Germany	4 000		20 000		1	3 000
Ghana	2 000		700			
Greece	100		600			
Guinea	36					
Guyana	80		85			
Haiti	250		600			
<i>Hong Kong, SAR of China</i>	2 115		1 508			
Hungary	800				350	2 600
Iceland	1					
India	477		2 634			
Indonesia	14 605		39 635			
Iran (Islamic Republic of)			40 000			
Iraq	50		1 400			
Ireland	61	1	1	732		1
Israel	43		2 130	1 905		
Italy	208		27 489			450
Jamaica	80		250			
Jordan	250		18 000			15 760
Kazakhstan	332		1			

Chemical Controls

Country / Territory	Ephedrine kg	Ephedrine preparations kg	Pseudoephedrine kg	Pseudoephedrine preparations kg	3,4-MDP-2-P ^a kg	P-2-P ^b kg
Kyrgyzstan	1 000		120			
Latvia	30		50			
Lebanon	26	1	155	650		
Lithuania		2		500		
<i>Macao, SAR of China</i>	1		1			
Madagascar	702		150			
Malawi	1 000					
Malaysia	5 700		37 000			
Malta		10		220	1	1
Mauritius	1					
Morocco	124		2 500			
Mozambique	3					
Myanmar	2					
Netherlands	2 000		2 000			
New Zealand	50		250			
Nicaragua			200			
Nigeria	3 849		5 823			
Norway	400		1			
Pakistan	15 000		10 000			
Panama	50		7 000			
Papua New Guinea			14			
Peru	34	31	6 440	8 985		
Philippines			100	102		
Poland	350		3 500			
Portugal			15			
Republic of Moldova	100		25			
Romania	150		3 100			
<i>Saint Helena</i>	1		1			
Slovakia	43			1		
Slovenia	3		300			
Solomon Islands						
South Africa	20 000		20 000			
Spain	1 227		7 010			1
Sweden	20		3		2	4
Syrian Arab Republic	1 000		50 000			
Tajikistan	38					
Thailand	21		36 900			
<i>Tristan da Cunha</i>			1			
Turkey	2 092		31 821			2 000
Uganda	120		120			
United Arab Emirates			200			
United Kingdom	378		13 741			39
United Republic of Tanzania	950		500			
Venezuela	1 000		20 000			
Yemen	150		5 000			
United States of America	3 500		379 100			31 838
Zambia	5		10			

Notes: The names of non-metropolitan territories and special administrative regions are in italics.

A blank field signifies that no requirement was indicated or data are not submitted for the substance in question.

Quantities reported below 1 kilogramme have been rounded up and are reflected as 1 kg.

SOUTH AMERICA

Argentina

I. Summary

Argentina is a transshipment point for Andean-produced cocaine destined for Europe and for Colombian heroin destined for the United States. It is also a source country for precursor chemicals, owing to its advanced chemical production facilities. Seizures of cocaine in 2007 were on par with levels in 2006, but authorities reported an increase in the number of small labs that convert cocaine base to cocaine hydrochloride (HCl). Argentina is a party to the 1988 UN Drug Convention.

II. Status of Country

Argentina is a transit country for cocaine from Bolivia, Peru and Colombia destined for Europe and, to a lesser extent, for Colombian heroin en route to the United States. Marijuana is the most commonly smuggled and consumed drug in Argentina, followed by cocaine (HCl) and inhalants, respectively. U.S.-Argentine counternarcotics cooperation rests on robust law enforcement cooperation, which will be further enhanced when the judicial sector completes the transition from an inquisitorial legal system to an accusatory system. As one of South America's largest producers of precursor chemicals it is vulnerable to diversion of these chemicals into the illicit drug production market. The Government of Argentina (GOA) has introduced modifications to its chemical control regime to address this vulnerability.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Argentina is in the process of transitioning from a written, inquisitorial judicial system to an oral, accusatory system. In 2007, confidence in the legal system remained low because of excessive delays between arrest and final judicial rulings and the lack of judicial transparency. The Justice Ministry prepared draft legislation to update the federal criminal code and the criminal procedure code to address shortcomings and inefficiencies in the investigation and prosecution of drug trafficking crimes. The legislation was not presented to Congress in 2007. The Ministry of Interior (MOI) and the Secretariat of Planning for the Prevention of Drug Addiction and Drug Trafficking (SEDRONAR) share the responsibility for directing Argentina's counternarcotics efforts. The Ministry of Interior oversees federal law enforcement agencies (e.g. operations) and SEDRONAR coordinates federal narcotics policy. The Minister of Interior instituted steps to improve inter-agency cooperation, including hosting coordination meetings, creating unified databases and standardizing protocols for conducting drug investigations. He also instructed the Directorate of Criminal Intelligence (DIC) to develop training and other tools to establish an undercover narcotics agent program. Two resolutions established an interagency training unit for the investigation of complex narco trafficking and organized crimes and created an operational exchange program between federal and provincial law enforcement agencies. Argentina passed legislation in 1996 to control chemical substances, and the law was modified in 2005 to introduce additional controls on, inter alia, precursor chemicals. These modifications resulted in some improvements, but the law still lacks implementing legislation to impose penalties commensurate with violations.

Accomplishments. Complete federal statistics on seizures continue to be difficult to obtain because two agencies, UFIDRO (Prosecutorial Support Unit for the Investigation of Complex Offenses and Organized Crime) and SEDRONAR maintain different databases. UFIDRO nominally falls under the control of the Attorney General's office (Procurador General), but its activities are financed by the MOI. UFIDRO began collecting seizure data from the federal law

enforcement agencies and Customs in 2006 while SEDRONAR, which historically compiled seizure statistics, now only receives seizure data from the provincial police forces. Statistics through October 2007 show that federal and provincial law enforcement agencies seized nearly 8 metric tons (MT) of cocaine in 2007, 45.6 MT of coca leaf, 74.6 MT of marijuana and 5 kg of heroin. While these figures represent only ten months of the year, figures for all of 2006 were similar or higher – 8 MT of cocaine, 49.5 MT of coca leaf, 93.5 MT of marijuana and 50.8 kg of heroin.

Law Enforcement Efforts. The ongoing transition from the an inquisitorial legal system to an accusatorial system has caused excessive delays between arrest and final rulings and, as a result, eroded public confidence. However, important reforms are underway, and a principal one will place responsibility for investigations with the prosecutors. Under the current system, judges have the primary responsibility for conducting investigations. Other proposed reforms will allow prosecutors and judges more leeway in determining which cases to prosecute and will strengthen the oral trial system. One of the objectives of these reforms is to shorten the preliminary investigative period (etapa instructoria). A primary impetus in pushing these reforms is to give law enforcement agencies and the judiciary branch updated legal tools to go after organized trafficking networks. On several occasions during 2007, the Interior Minister noted publicly that too much effort and too many resources were used to go after small-scale dealers and users when the primary should be on the large-scale traffickers. 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. In the first seven months of 2007, the National Precursor Chemical Registry registered 1,019 new companies, reregistered 3,084 companies and issued 302 export authorizations and 1,349 import authorizations.

Corruption. The GOA is publicly committed to fighting corruption and prosecuting those implicated in corruption investigations. It is not government policy nor are any senior GOA officials 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.

Agreements and Treaties. Argentina is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the UN Convention against Transnational Organized Crime and its three Protocols, and the UN Convention against Corruption. The United States and Argentina are parties to an extradition treaty that entered into force on June 15, 2000, and a bilateral mutual legal assistance treaty that entered into force on December 13, 1990. Both of these agreements are actively used by the United States with the GOA. Argentina has bilateral narcotics cooperation agreements with many neighboring countries; Spain, the United Kingdom, Germany, Australia, France, Italy and the Netherlands provide limited training and equipment. In 1990, the U.S. Customs and Border Protection signed a Customs Mutual Assistance Agreement with the Government of Argentina. Argentina is also a party to the Inter-American Convention against Corruption, Inter-American Convention of Mutual Assistance in Criminal Matters, the Inter-American Convention against Trafficking in Illegal Firearms, and the Inter-American Convention against Terrorism.

Cultivation/Production. Argentine press reporting indicates that there has been an increase in the number of small kitchen labs converting cocaine base to HCl or producing cocaine base. Six HCl labs and two cocaine base labs were seized in the first half of 2007. Small amounts of marijuana are cultivated, mostly for domestic consumption.

Drug Flow/Transit. Historically, Colombian-produced heroin transiting Argentina is smuggled aboard commercial flights going directly to the U.S. or through Mexico and across the Southwest border. However, no seizures were recorded in the first six months of 2007. Colombian cocaine

HCl entering Argentina is generally destined for international cocaine markets in Europe and the U.S. Cocaine HCl seizures have risen significantly over the past two years. There is an indigenous population along the northern border with Bolivia that traditionally consumes coca leaf, however no maceration pits were found in 2007, and only one was found in 2006. Proceeds from drug smuggling ventures organized in Argentina are often brought back to the country by couriers in bulk cash shipments and then wired to the United States for investments or smuggled directly into the United States. Almost all of the marijuana consumed in Argentina originates in Paraguay, and is smuggled across the border into the provinces of Misiones and Corrientes where it is then transported overland to urban centers.

Demand Reduction Programs. The GOA, in collaboration with some private sector entities, sponsors a variety of print and broadcast information campaigns which have a nationwide reach. SEDRONAR coordinates the GOA's demand reduction efforts. Argentina inaugurated its first National Drug Plan in 2005, and initiated a number of demand reduction programs in 2006 that continued in 2007. They include a school-based program targeting 10-14 year-olds, a sports-based prevention program, a community prevention program and one focused on vulnerable populations. The latter has a specific focus on the use of a cheap cocaine-based drug, "paco," which is increasingly prevalent among poorer populations in the northeastern provinces and has caused devastating health effects on these marginalized sectors and caused an increase in criminal activity.

IV. U.S. Initiatives and Programs

Policy Initiatives. U.S. efforts in Argentina center on four core areas: reducing Argentina's role as a transit point for drug trafficking by disrupting and dismantling the major drug trafficking organizations in the region; promoting regional counternarcotics cooperation with Andean and Southern Cone nations; maximizing host nation drug enforcement capabilities; and fortifying bilateral cooperation with host nation law enforcement agencies.

Bilateral Cooperation. The cornerstone of the USG's law enforcement support, with INL funding and DEA expertise is the Northern Border Task Force (NBTF), a joint law enforcement group comprising federal and provincial elements operating in Argentina's northwestern provinces of Jujuy and Salta to interdict the drug flow from Colombia, Peru and Bolivia. In 2007, DEA and GOA law enforcement agencies created the Eastern Border Task Force (EBTF), modeled after the NBTF and focused on the illicit drug smuggling activities in the tri-border area with Paraguay and Brazil.

The Drug Enforcement Administration (DEA) works closely with Argentine federal and provincial law enforcement agencies, prosecutors and judges, and SEDRONAR and UFIDRO to improve coordination, cooperation, training and exchanges. DEA and the Legal Attache's office (LEGATT) are particularly focused on working with prosecutors and judges on improving and updating investigation and prosecution techniques vis-a-vis narcotics trafficking and other complex crimes.

Argentine law enforcement agencies, with DEA support, continued to participate in Gran Chaco and Operation Seis Fronteras (Six Frontiers) with counterparts in Bolivia. Mission's Immigration and Customs Enforcement office (ICE) participated in "Operation Andes III," a joint program sponsored by INTERPOL and the World Customs Organization (WCO) to coordinate the interdiction of precursor chemicals in South America. Participants included national police and customs agencies from Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, French Guyana, Paraguay, Peru, Uruguay and Venezuela. U.S. Immigration and Customs Enforcement (ICE) provided advisory support for precursor shipment identification and investigative response.

The U.S. Coast Guard (USCG) provided a number of training opportunities to the Argentina Prefectura. Mobile training teams conducted two maritime law enforcement courses and one port physical security course in Argentina during 2007. The Prefectura also sent officers to the USCG's

crisis command and control, leadership and international maritime officer courses. Argentina also stationed an LNO (liaison officer) at JIATF-S to facilitate cooperation.

The Road Ahead. The GOA is seeking congressional approval of reforms to the criminal procedure code that would streamline and shorten the cases and caseload, greatly enhancing the government's ability to prosecute narcotics-related crimes, among others. The GOA is also seeking to tighten control of precursor chemicals, improve coordination among law enforcement agencies, integrate databases to enable more thorough investigations, and pursue greater transparency in the judicial system. The U.S. Mission will continue to make bilateral law enforcement cooperation the foundation of its efforts, using the Northern Border Task Force (NBTF) and the newly established Eastern Border Task Force (EBTF) as the centerpieces to augment GOA interdiction and enforcement capabilities. Mission elements will also work to establish and support a new working group involving the GOA's Customs and Coast Guard agencies to facilitate greater investigative cooperation on maritime security. The USG will lend support to ongoing operations at border areas, including Gran Chaco and Operation Six Frontiers. The Mission is supporting the U.S. Treasury's Office of Technical Assistance in developing for 2008 a technical support and training program for the Argentine Central Bank and government regulatory agencies (including the FIU), to strengthen Argentina's anti-money laundering and counterterrorism finance efforts. U.S. technical support will also continue to foster stronger precursor chemical control and compliance measures.

Bolivia

I. Summary

During 2007, Government of Bolivia (GOB) eradicated more than 6,000 hectares, surpassing its eradication goal of 5,000 hectares, although about 90 percent of eradication took place in the Cochabamba tropics (Chapare) region. In addition, U.S. Government (USG)-supported Bolivian counternarcotics units seized 13.8 metric tons (MT) of cocaine base and cocaine hydrochloride (HCl) and destroyed 3,093 cocaine labs and maceration pits. However, President Evo Morales continued to promote his policy of “zero cocaine but not zero coca” and pushed for industrialization of coca. His administration continues to pursue policies that will increase legal coca cultivation from 12,000 to 20,000 hectares—a change that would violate current Bolivian law and the 1988 UN Drug Convention, to which Bolivia is a party.

The GOB and European Union (EU) agreed to the terms of reference for the EU funded study to determine the actual licit demand for coca in Bolivia. The study is scheduled to be concluded in 2009. The GOB provided inadequate support to drug abuse prevention programs despite evidence of increased drug use in Bolivian society. Demand by farmers for alternative development products grew: last year, U.S. assistance contributed directly to 11,475 new hectares of alternative crops in the Chapare and Yungas, helping to expand sustainable legitimate employment and income opportunities.

II. Status of Country

Bolivia is the world’s third largest producer of cocaine, accounting for more than 115 metric tons, according to USG estimates, and is a significant transit zone for Peruvian cocaine. Bolivia also produces marijuana, primarily for domestic consumption. The majority of cocaine trafficked from or through Bolivia is destined for Brazil, Chile, Argentina, Paraguay and Europe. From 2003 to 2006, coca cultivation in Bolivia increased from 23,600 to 27,500 hectares, according to the United Nations Office on Drugs and Crime (UNODC), and as a result, Bolivia’s estimated potential cocaine production has increased from 100 MT in 2003 to 115 MT in 2006.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Bolivia has produced coca leaf for traditional uses for centuries, and currently, Bolivian law permits up to 12,000 hectares of legal coca cultivation (primarily all in the Yungas) to supply this licit market. The GOB continues to pursue policies that would increase the legal limit to 20,000 hectares, which would violate Law 1008 and the 1988 UN Drug Convention. Worldwide licit demand for coca leaf used in commercial flavorings and pharmaceuticals is limited and only requires the amount of coca that can be grown on approximately 250 hectares (in Peru). The GOB is pursuing its version of coca reduction through voluntary eradication and social control policies, rather than forced eradication. According to UNODC estimates, in mid-2006 there were an estimated 27,500 hectares of coca in Bolivia. The GOB’s plan would allow 7,000 hectares of legal coca to be grown in the Chapare and 13,000 hectares in the Yungas for a total of 20,000 hectares nationwide. Since there are, according to UNODC, 19,200 hectares of coca in the Yungas, the GOB plan would yield a net reduction in this region. Historically, the majority of coca eradication occurred in the Chapare region. In order to reach the proposed goal of 13,000 hectares in the Yungas, the GOB would need to substantially increase eradication there. In the first nine months of 2007, 90 percent of eradication occurred in the Chapare, 5 percent in Yapacani, and 5 percent in the Yungas. With financial assistance from Venezuela, the GOB moved forward with its plan to industrialize coca for commercial products and began construction of two coca industrialization

plants, one in the Chapare and the other in the Yungas. The construction project in the Yungas is currently at a standstill.

In September 2007, the Vice-Minister of Social Defense and Controlled Substances proposed, through the Constituent Assembly, to modify the Bolivian constitution to allow for communication intercepts, improved money laundering legislation, and plea bargaining in criminal cases. All of these measures, if approved by the Bolivian Congress, would significantly improve the ability of law enforcement units to investigate and prosecute narcotics, money laundering, terrorism, and corruption cases in Bolivia. With the current political climate and the difficulties faced in the Constituent Assembly, the Bolivian Congress has not yet addressed the proposed legislation.

Accomplishments. The GOB surpassed its own coca eradication goal of 5,000 hectares for the year, having eradicated 6,269 hectares. Coca eradication increased in the Yungas, with 230 hectares were eradicated in Caranavi and La Asunta, and another 311 hectares in Yapacani.

Law Enforcement Efforts. In 2007, through 8,269 operations, the Bolivian Special Counter-Narcotics Police (FELCN) seized 1,330 MT of illicit coca leaf, 13.8 MT tons of cocaine base and HCl, 375 MT of marijuana, 1,174,371 liters of liquid precursors and 587 MT of solid precursor chemicals. It also destroyed 3,087 cocaine base labs, the majority being in the Chapare, and detained 3,380 suspects. All seizure and interdiction statistics increased in comparison to 2006. There is little evidence of corruption within the FELCN and allegations of corruption are quickly investigated by the Office of Professional Responsibility (OPR), a unit of the Bolivian National Police (BNP). The FELCN is structured to combat all aspects of drug trafficking to include interdiction of drugs, illicit coca, precursor chemicals, intelligence gathering, money laundering, and rural operations. They continue to improve their techniques and efforts in all of these areas. The FELCN focused on higher level violators, which has resulted in more priority target organizations being investigated with regional partner nations, such as Brazil. Unfortunately, the legal system is unable to efficiently process the majority of drug cases allowing many criminals to avoid prosecution.

Corruption. As a matter of policy, the Government of Bolivia 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. The OPR and FELCN investigated approximately 1,574 allegations of insubordination and other forms of misconduct during fiscal year 2007, approximately 205 of these cases involved FELCN members. Of these 205 cases involving the FELCN, none of the respective investigations conducted resulted in findings of corruption. To date, 1,080 cases went before the Disciplinary Board for review and appropriate action. In addition to the support and development provided to the OPR, the United States Government (USG) also supports the Disciplinary Tribunals, and the

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 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 2007.

Cultivation/Production. According to UNODC estimates, as of mid-2006, countrywide cultivation appears to have increased, with total cultivation of 19,200 hectares for the Yungas, and cultivation in the Chapare estimated at 8,300 hectares. In 2007, 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 Department of Santa Cruz (Yapacani). GOB interdiction results, up 238 percent in 2007 from 2006, also suggest a rise in marijuana production, likely for internal consumption.

Drug Flow/Transit. The United States is not a primary destination for Bolivian cocaine. Cocaine transiting and produced within Bolivia is primarily destined for Brazil, Argentina, Chile, Paraguay, and Europe (especially Spain). Significant quantities of cocaine from Peru transits Bolivia enroute to Brazil, Chile, Argentina and Paraguay. Drug traffickers continue to seek new routes and methods to escape the pressure exerted by FELCN and continue to alter their methods. For instance, after Spain enacted a visa requirement for Bolivian citizens the number of human couriers who swallow drugs arrested went down while seizures of cocaine sent through the mail went up.

Alternative Development (AD). The U.S. Government's Integrated Alternative Development (IAD) program, implemented by the United States Agency for International Development (USAID), is a key element in advancing bilateral counternarcotics objectives. Support is provided to help diversify the economies of Bolivia's coca growing regions, reduce communities' dependency on coca, and to strategically support the Government of Bolivia's voluntary eradication program. Alternative Development assistance helps strengthen the competitiveness of Bolivia's agricultural products (e.g., coffee, bananas, pineapples, cocoa, and palm hearts) in national and world markets, improve basic social conditions (e.g., access to clean water), improve rural road infrastructure and access to markets, and expand justice services in the Yungas and Chapare coca growing regions.

Despite challenges in transitioning to a new policy environment, bilateral cooperation in IAD remains strong. In the early part of 2007, the U.S. Mission, in consultation with Government of Bolivia counterparts, adjusted its IAD program to more strategically support the GOB's net coca rationalization strategy and diversified development with declining budget resources. Relatively more resources will be devoted to the Yungas, an under-developed coca growing region where the Government plans to carry out more rationalization in the next several years. Assistance to the Chapare will continue to decline, but support will be provided to consolidate gains and establish sustainable market linkages for alternative development products.

There was a slow start in implementing alternative development projects in the first part of the year due to the need to clarify and adjust to changing Bolivian CN policies, but demand by farmers to cultivate alternative crops grew in 2007. USG assistance directly supported the cultivation of 11,475 new hectares of crops such as bananas, cocoa, and palm hearts. In the first 9 months of FY 2007, the annual value of USAID-promoted exports reached almost \$26 million. Assistance to farm communities and businesses helped generate 3,700 new jobs and new sales of AD products of \$16.5 million (a 45 percent increase over 2006). In FY 2007, 12,671 families benefited directly from U.S. assistance. Nearly 550 kilometers of roads were maintained or improved and 17 bridges constructed in the two regions where IAD programs are undertaken. In addition, USAID's support helped the Government register 92,318 hectares of land in the Chapare in preparation for its titling, thus strengthening land ownership rights and encouraging further farmer investments in alternative development products.

Domestic Programs (Demand Reduction). According to a 2007 UNODC report, drug consumption has increased in Bolivia in recent years. In 2007, the GOB undertook, with USG assistance, efforts to combat documented increases in drug consumption. This included an expansion of the Drug Abuse Resistance Education (D.A.R.E.) program and implementation of a Drug Demand Reduction Decentralization Project in 20 municipalities which worked to coordinate

demand reduction programs at a local level, and a project on accreditation of rehabilitation centers. The D.A.R.E program reached 28,000 students, short of its 40,000 student goal due to social problems and the transferring of DARE instructors during the school year. In cooperation with non-governmental organizations (NGOs), the USG supported the second phase of a master's degree program in drug abuse prevention and rehabilitation for 32 students; implemented a community based drug abuse prevention program reaching 30,000 people, and released a study on prevalence and characteristics of drug use in Bolivian jails. In 2007, most USG supported demand reduction efforts were coordinated with local municipalities and departmental governments. At the national level it has been much more difficult to achieve results, because some Bolivian officials deny the drug consumption problem inside of Bolivia while at the same time promoting the supposed benefits of coca leaf consumption

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG supports programs that enhance the capabilities of the GOB to reduce coca cultivation; arrest and bring drug traffickers to justice; promote licit economic development to provide viable options to cultivating coca, disrupt the production of cocaine within Bolivia; interdict and destroy illicit drugs and precursor chemicals moving within and through the country via operational task forces; reduce and combat domestic abuse of cocaine and other illicit drugs; institutionalize a professional law enforcement system; and improve the awareness of the Bolivian population regarding the dangers of illicit drugs. The USG also trains BNP in modern investigative techniques to curb money laundering and terrorism financing.

The USG supports institution building and development of both the Bolivian National Police (BNP) forces and counternarcotics prosecutors under a dynamic law enforcement training and development program (LEDP). In the last year, fifty-six courses were provided to the BNP and the prosecutors, resulting in the training of 2,351 personnel. Individuals received training in the following areas; basic and advanced criminal investigative techniques, drug investigations, advanced interview techniques, trafficking in persons, human rights issues and integrity investigations under the GOB's Office of Professional Responsibility. Also, 16 BNP officers received basic and advanced polygraph examiner training in addition to receiving certification by the United States. These certified officers are the framework for the BNP polygraph unit and are responsible for administering polygraph examinations to all OPR Investigators and counternarcotics prosecutors. The USG plans to continue enhancing the knowledge of the prosecutors, and is implementing a nationwide prosecutors program in 2008 to increase the capability of the GOB to identify, investigate and prosecute violations of controlled substances, transnational crime, human rights issues, and corruption.

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. DEA provides direct operational advisory, liaison, intelligence and funding support to the FELCN's mission, and USAID is a significant supporter of GOB efforts on alternative development. DEA and the U.S. Embassy's Narcotics Affairs Section continue to implement CN programs and interact with their Bolivian counterparts despite President Morales' threats to discontinue USG-funded CN assistance.

Road Ahead. The GOB needs to expand eradication in the Yungas and enhance its efforts to interdict illegal drugs and precursors throughout Bolivia. The USG will also encourage the GOB to exert tighter control over the licit coca market and to increase cooperation with neighboring countries in counternarcotics efforts. In 2008, the USG will look to the GOB to continue eradication, of coca at the highest rate possible, and control new plantings in both the Chapare and the Yungas. The GOB should continue interdiction operations to seize cocaine products, implement

stronger precursor and essential chemical control measures, and destroy drug labs and maceration pits, particularly in the Chapare and the Yungas. Other efforts should include, but are not limited to, fully implementing GOB commitments under international conventions; ensuring that full and fair investigations are conducted into credible allegations of human rights abuses by military personnel, with prosecution when appropriate; full and fair investigation and prosecution of corrupt government officials; and passage and vigorous implementation of anti-corruption and anti-money laundering laws, and legislation authorizing wiretapping.

V. Statistical Table

Bolivia Statistics (1997-2007)

	2007	2006*	2005	2004	2003	2002	2001	2000	1999	1998	1997
Coca											
Net Cultivation ¹ (ha)	-	25,800	26,500	24,600	23,200	24,400	19,900	19,600	21,800	38,000	45,800
Eradication (ha) **	6,269	5,070	6,073	8,437	10,000	11,839	9,435	7,953	16,999	11,621	7,026
Leaf: Potential Harvest ² (MT) ***	-	37,000	36,000	37,000	33,000	35,000	32,000	-	-	-	-
HCl: Potential (MT) ***	-	115	115	115	100	110	100	-	-	-	-
Seizures**											
Coca Leaf (MT)	1,330	1,344	887.4	395.0	152.0	101.8	66.0	51.9	56.0	93.7	50.6
Coca Paste (MT)	-	-	-	-	-	-	-	-	-	-	0.008
Cocaine Base (MT)	11.4	12.7	10.2	8.2	6.4	4.7	4.0	4.5	5.5	6.2	6.6
Cocaine HCl (MT)	2.4	1.3	1.3	0.5	6.5	0.4	0.5	0.7	1.4	3.1	3.8
Combined HCl & Base (MT)	13.8	14	11.5	8.7	12.9	5.1	4.5	5.3	6.9	9.3	10.4
Agua Rica ³ (ltrs)	-	-	-	-	-	-	20,240	15,920	30,120	44,560	1,149
Arrests/Detention s	3,380	4,503	4,376	4,138	3,902	3,229	2,948	3,414	3,503	407	3,428
Labs Destroyed											
Cocaine HCl	6	3	3	4	2	2	1	2	1	1	1
Base	3,087	4,070	2,619	2,254	1,769	1,285	877	620	893	1,205	1,022
* The USG was unable to provide an estimate for the net coca cultivation in time for this report. UNODC Coca Cultivation Survey, June 2007 is used in the chart for 2006 net coca cultivation estimate. Prior years in the chart are based on CNC estimates. UNODC estimates are used in the text.											
**As of 09/30/07											
***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 kilograms of leaf to one kilograms of cocaine HCl in the Chapare. In the Yungas, the reported ratio is 315:1.											
² Most coca processors have eliminated the coca paste step in production.											
³ Agua Rica (AR) is a suspension of cocaine base in a weak acid solution. AR seizures first occurred in late 1991. According to DEA, 37 liters of AR equal one kilograms of cocaine base.											

Brazil

I. Summary

Brazil is a major transit country for illicit drugs. The Brazilian domestic drug market consumes mostly Bolivian cocaine, which is also shipped to Europe and, to a lesser extent, the United States. Brazil has improved cooperation with its neighbors in an effort to control its expansive border areas, particularly in the remote and porous tri-border region with Paraguay and Argentina. In 2007, the Government of Brazil (GOB) made advances in its drug enforcement and prevention programs, including numerous seizures of illicit narcotics and weapons and the arrest of a major Colombian drug trafficker.

The Brazilian Federal Police (DPF), which is under the Ministry of Justice, placed a higher priority in 2007 on enhancing its interdiction capabilities at major sea and airports and along the Bolivian border where seizures of low-purity cocaine increased. Brazil is a party to the 1988 UN Drug Trafficking Convention.

II. Status of Country

Brazil is a major transit country for cocaine base and cocaine hydrochloride (HCl) moving from Andean source countries to Europe and the Middle East as well as for smaller amounts of heroin. It also has a sizeable domestic demand for these and other drugs which feed the increasingly critical urban crime wave in Brazil's two largest cities, Sao Paulo and Rio de Janeiro. Marijuana and low-quality cocaine are preferred, and they fuel the powerful and heavily armed organized drugs gangs that are involved in narcotics-related arms trafficking.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The National Anti-Drug Policy directs the GOB's counternarcotics strategy, which was last updated in late 2005. The GOB anti-money laundering legislation, drafted in 2005, still had not been presented to Congress by the end of 2007. However, the GOB established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets in 2007. The Brazilian Government's interagency Financial Crimes Investigations Unit (COAF) and the Ministry of Justice manage these systems jointly. The police and the customs and revenue services possess the powers and resources to trace and seize assets, but the GOB still has not implemented 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 is the fifth largest country in the world and borders all the countries of South America except Chile and Ecuador. Narcotics traffickers exploit Brazil's heavily transited and porous border crossings where Brazilian law enforcement agencies only have a minimal presence. To combat trans-border trafficking organizations, Brazil cooperates with neighboring countries through joint intelligence centers (JIC) in strategic border towns. Analysis Services for Police Data and Intelligence Centers (SADIP Centers), formerly known as regional Intelligence Centers, are strategically-located facilities for representatives of federal police from South American countries to collect, analyze and disseminate drug intelligence with one another to interdict drugs that move through the tri-border region, particularly at Iguazu Falls, Assis and Tabatinga. The physical structures of the centers are in place and Assis became fully operational in 2007. Brazil signed a memorandum of understanding in March 2007 to expand the regional Officer Exchange Program,

which now includes Argentina, Bolivia, Chile, Peru, and Paraguay. This cooperative exchange allows police officers in these countries to share real-time intelligence and improve their professional working relationships.

Accomplishments. In 2007, Brazil made numerous seizures of illicit narcotics and weapons and arrested a major drug trafficker. The Brazilian Federal Police (DPF) seized 13.1 metric tons (MT) of cocaine HCl, 916 kg of cocaine base, 488 kg of crack, 153.1 MT of marijuana, and 16 kg of heroin. In one notable example, U.S.-Brazilian cooperation helped bring about the capture in Sao Paulo of Juan Carlos Ramírez-Abadia, a notorious Colombian drug cartel leader whose multi-billion dollar drug and money laundering ring stretches from the United States to Europe. Several million dollars' worth of assets were seized in the raid. In 2007, the GOB also broke up Mexican and Colombian groups involved in sending heroin to the United States and began targeting groups that sell prescription drugs illegally via the Internet.

Only the Brazilian Federal Police (DPF), not local police forces, report seizures. The DPF estimates they record approximately 75 percent of seizures; thus statistics are incomplete. The DPF indicted 4,069 people on drug-related charges in 2007. Facilitated by existing law, 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 one airplane, 11,923 motor vehicles, 237 motorcycles, 8 boats, 379 firearms, and 1,865 cell phones in 2007.

Law Enforcement Efforts. In September 2007, the Brazilian Federal Police's (DPF) new leadership resulted in several senior executive personnel changes that appear to favor increased law enforcement cooperation with the United States and other international partners. However, the DPF's 11,000-member force is woefully understaffed and lacks resources to meet the challenges before it. Poor coordination and cooperation between the DPF and state police forces further complicate efforts to target and dismantle major trafficking operations inside the country.

The DPF continued to play a major role in an operation to disrupt the illegal flow of precursor chemicals in the region. Additionally, the GOB continued to support an operation with Brazilian and Paraguayan counternarcotics interdiction forces in the Paraguayan-Brazilian border area and another operation which successfully targeted a Colombian drug trafficking operation tied to the Revolutionary Armed Forces of Colombia (FARC). In February 2007, after a six-month investigation, Brazilian State Police dismantled an ecstasy lab—believed to be the first in Brazil—in the state of Goiás, and seized approximately 30,000 tablets estimated to be worth \$450,000. The successes of these and other GOB-led law enforcement operations were supported by Sensitive Investigative Units (SIU) located in the major cities and which receive funding and technical assistance through the U.S.-GOB bilateral narcotics assistance agreement.

Corruption. As a matter of government policy, the Government of Brazil does not condone, encourage, or facilitate production, shipment, or distribution of illicit drugs or the laundering of drug money. However, official corruption is a problem and is a high priority for Brazilian law enforcement. The DPF has carried out a number of high-profile investigations of public officials and state police involved in money laundering and/or narcotics trafficking. In September 2007, the DPF arrested 52 Military Police officers from a single battalion in Rio de Janeiro after a 7-month investigation into their involvement in a police corruption ring in which they were on the payroll of drug traffickers.

Agreements and Treaties. Brazil is a party to the 1988 UN Drug Trafficking Convention, the 1971 Convention on Psychotropic Substances, the UN Convention against Transnational Organized Crime and its three protocols, and the UN Convention against Corruption. Brazil is also a party to the Inter-American Convention against Corruption, the Inter-American Convention on Mutual

Assistance in Criminal Matters, the Inter-American Convention against Terrorism, and the Inter-American Convention against Trafficking in Illegal Firearms. Bilateral agreements based on the 1988 Convention form the basis for counternarcotics cooperation between the United States and Brazil. The United States and Brazil are parties to a bilateral Mutual Legal Assistance treaty that entered into force in 2001 and is actively used. In 2002, U.S. Customs and Border Protection signed a Customs Mutual Assistance Agreement with the GOB that provides a mechanism 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. These agreements have given rise to further cooperation, such as the ongoing "Operation Seis Fronteras" (Six Borders) which, has strengthened relations between the various law enforcement agencies. 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, but it does allow 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, to date none has been carried out under this provision because the Brazilian Congress has failed to pass implementing legislation. Brazil cooperates with other countries in the extradition of non-Brazilian nationals accused of narcotics-related crimes. There is an extant bilateral extradition treaty between the U.S. and Brazil which entered into force in 1964. Although several requests were made to Brazil in 2007 and are in progress, no extraditions to the United States took place in 2007.

Illicit Cultivation/Production. Brazil produces some cannabis in the northeast region of the country, primarily for domestic consumption.

Drug Flow/Transit. Brazil is a major drug transit country for cocaine from Bolivia that is almost exclusively destined for the domestic Brazilian market. Higher quality Colombian cocaine is shipped to Europe and, to a lesser extent, the U.S. Marijuana from Paraguay is largely consumed domestically in Brazil. Cocaine continues to be smuggled into Brazil via its many rivers and along its vast and poorly-monitored border. Cocaine is shipped out of Brazil primarily from ports in the northeast. Organized groups based in Sao Paulo and Rio de Janeiro, which arrange through contacts at the border for the transport of contraband by international couriers (mules) aboard trans-Atlantic flights, are increasingly sending their shipments to Africa. The drugs are purchased from criminal organizations that operate outside of Brazil. Organized groups and gangs within Brazil employ domestic networks operating in major urban areas of the country to sell narcotics and use the profits to purchase weapons and increase their control over the slums (favelas) of Rio de Janeiro and Sao Paulo. Brazil introduced a lethal-force air interdiction program in 2004 but to date has not shot down any aircraft. Although the air interdiction program has helped reduce the number of long flights over Brazilian territory, traffickers still make the short flight over Brazil en route to Venezuela and Suriname.

Brazil is a growing consumer market for amphetamines and ecstasy and other synthetic drugs. In conjunction with Operation Topaz, the DPF agreed to work with the USG to perform a study on their use within Brazil and the exportation of acetic anhydride from Brazil. The Federal Police makes records relating to chemical transactions available to USG law enforcement officials when requested.

Demand Reduction. The National Anti-Drug Secretariat (SENAD) has responsibility for demand reduction and treatment programs. SENAD also supports drug councils that are located in each of the state capitals and which coordinate treatment and demand reduction programs. 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 United States), and a national household survey of drug use among teens. In early 2007, SENAD released the results of the 2005-2006 national household drug consumption survey, partially funded by the USG, which indicated that since the last survey was done in 2001, marijuana consumption had increased from 6.9 percent to 8.8 percent and cocaine consumption had increased from 2.3 percent to 2.9 percent.

IV. U.S. Policy Initiatives

Policy Initiatives. U.S. counternarcotics policy in Brazil continues to focus 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. Key goals include assisting Brazil's development of a strong legal structure for narcotics and money laundering control and enhancing law enforcement cooperation.

Bilateral Cooperation. U.S.-Brazilian bilateral programs continue to give emphasis to establishing intelligence-driven operations such as the joint intelligence centers (JIC) located in Tabatinga and on the Bolivian border and training courses in airport interdiction and container security.

In 2007, the USG provided support for the GOB's participation in "Operation Alianza" (Brazil, Paraguay) that involved marijuana eradication/interdiction, and "Operation Seis Fronteras." The USG continued to provide training to combat money laundering, enhance airport interdiction and community policing efforts, strengthen container security activities and port state control of vessels, support counternarcotics SWAT operations and maritime law enforcement actions, improve crisis command and control coordination and expand demand reduction programs. Support to and cooperation with Sensitive Investigative Units (SIU) remains a priority of USG-GOB bilateral cooperation. Several Brazilian law enforcement officers attended training programs in the United States, including money laundering prevention seminars and courses sponsored at the Federal Bureau of Investigation (FBI) training academy. Seminars and courses for state police representatives also assisted the Brazilian authorities with security preparations for the 2007 Pan American Games. The GOB and USG agreed to expand the Container Security Initiative in Santos to secure more containerized cargo going to the United States. In the latter part of 2007, a Resident Legal Advisor (RLA) position was filled in December to provide technical assistance to the GOB on drug-fueled urban crime problems (particularly gangs).

The Road Ahead. Despite continued increasing cooperation with its neighbors, Brazil's expansive territory and borders make effective border control and enforcement in the vast Amazonian region a serious challenge. Seizure and arrest statistics show 2007 to have been a productive year for Brazilian Federal Police in their fight against drug trafficking organizations. To build on this success, the GOB should give priority to augmenting Brazilian law enforcement presence at key border sites, and cooperation and coordination between the DPF and State police forces must be fostered. In early 2007, the USG conducted a comprehensive review of USG counternarcotics and law enforcement assistance to Brazil to ensure the priorities of both countries are being properly addressed. The GOB and USG subsequently agreed to implement programs designed to control the movement of drugs, illegal currency, and other narcotics-related contraband through Brazil's seaports and major airports. We foresee positive results in 2008 if Brazil continues its active cooperation in SIU-generated bilateral and regional operations, prioritizes the implementation of a strategy for combating money laundering and fosters closer working relationships among federal, state and local law enforcement institutions.

Chile

I. Summary

Chile's long difficult-to-monitor borders with Peru, Bolivia and Argentina make it an appealing transit country for cocaine shipments destined for the U.S. and Europe. Chile has a domestic cocaine and marijuana consumption problem, and use of the amphetamine-type drug ecstasy is increasingly popular. Chile is also 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 country for cocaine from the Andean region enroute to the U.S. and Europe. Cocaine hydrochloride (HCl) consumption has increased domestically, although abuse of cocaine base is more prevalent. Chile ranks second in cocaine consumption and first in marijuana consumption among South American countries, according to the United Nation's 2007 World Drug Report. Some marijuana is cultivated in Chile, including a recently discovered highly potent strain of marijuana, but most is imported from Paraguay for use by Chilean teenagers and young adults from the upper and upper-middle classes.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, Chile's National Drug Control Commission (CONACE) undertook an evaluation of its 2003-2008 National Drug Prevention and Control Strategy to determine its effectiveness thus far and next steps towards drafting the post 2008 strategy. CONACE is also continued its informal drug court pilot program, similar to U.S. drug courts, in Valparaiso and Santiago.

In June 2007, Chile inaugurated a juvenile criminal justice system to address the issue of minors with drug addictions who commit crimes. Under the new system, CONACE must provide 900 slots in rehabilitation centers for young offenders (post-conviction or as part of "conditional suspension") to receive treatment while, or instead of, serving their sentence.

Feedback in 2007 regarding Chile's newly instituted adversarial judicial system, which is based on oral trials, suggests that there is greater public trust in the new system, and faster resolution of cases. Challenges of training judges, prosecutors and law enforcement officials on evidence collection and analysis, law enforcement techniques such as undercover operations, courtroom presentation methods, and court administration procedures remained.

Accomplishments. In 2007, Chilean authorities seized approximately 3.4 metric tons (MT) of cocaine HCL; 5.4 MT of cocaine pasta base; 5.6 MT of marijuana; 134,297 individual marijuana plants; 8.16 kg of heroin; 118,647 units of illegal pharmaceutical drugs; 3,794 units of ecstasy; and 64 dosage units of LSD – an increase in all categories over 2006 levels. The largest, single cocaine seizure in 2007 was 454 kilograms.

Law Enforcement Efforts. The Carabineros de Chile and the Policia de Investigaciones (PICH) are widely considered competent and professional law enforcement organizations. In 2007, they cooperated to undertake proactive enforcement initiatives to address domestic distribution sources of cocaine, marijuana, and ecstasy, including purchasing fixed-wing aircraft to combat drug trafficking along the northern border.

The Arica-based narcotics task force, comprised of members of the PICH, Chile's Customs Service, DIRECTEMAR (Coast Guard branch of Chilean Navy) and the Gendarmaria de Chile

(Bureau of Prisons) became fully operational in 2007 and is helping develop and share intelligence on drug trafficking groups attempting to transship cocaine from Bolivia and Peru via Chile's northern maritime ports.

Corruption. As a matter of policy, no senior GOC official or the GOC, encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. Narcotics-related corruption among police officers and other government officials is not considered a major problem in Chile, and no current Chilean senior officials have been accused of or engaged in such activities. In cases where police are discovered to be involved in drug trafficking, or in protecting traffickers, simultaneous termination and initiation of an investigation are immediate. In its 2007 Annual Corruption Perception Index Survey, Chile was ranked the least corrupt country in Latin America by Transparency International and ranked behind only Canada and the United States as the third least corrupt country in the Americas.

Agreements and Treaties. Chile 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. Chile is also a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in person and migrant smuggling, and the UN Convention Against Corruption. The 1900 U.S.-Chile Extradition Treaty is currently in force. (Note: This was signed in 1900 and entered into force in 1902.) In October 2007, a USG and Chilean delegation met to negotiate a new treaty and will continue to develop a final text for 2008. While the U.S. and Chile do not have a bilateral mutual legal assistance treaty (MLAT), both countries are parties to the Organization of American States' 1992 Inter-American Convention on Mutual Assistance in Criminal Matters, which facilitates mutual legal assistance.

Cultivation/Production. Chile produces a small amount of marijuana that is consumed domestically. Local authorities detected a rise in locally cultivated (indoor/outdoor) marijuana in 2007, and have seized increased quantities in Valparaiso and the central regions.

Drug Flow/Transit. Narcotics transit Chile overland from Peru, Bolivia and Argentina, and are sent to the U.S. and Europe via maritime routes. Cocaine traffickers have begun to move Peruvian cocaine to Bolivia and then into Chile to avoid the Peru/Chile border. Recent seizures provide evidence that Colombian drug trafficking organizations are also utilizing overland transportation routes to ship their cocaine through Chile. 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 hampers efforts to intercept illegal narcotics by allowing cargo originating in Peru and Bolivia to pass through Chile and out of the ports in Arica, Iquique, and Antofagasta without Chilean inspection.

Domestic Programs/Demand Reduction. Recognizing the need to increase drug prevention programs in private schools and universities, beginning in July 2007, the GOC included coverage for drug and alcohol rehabilitation programs for youth in the National Healthcare System. Additionally, CONACE runs a variety of community, family and youth programs, including prevention-oriented artistic programs, sports programs, youth employment programs, and programs using the internet, 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 2007 focused on four priority areas: 1) training for prosecutors, police, judges, and public defenders in their roles in the new criminal justice system; 2) enhanced police investigation capabilities; 3) police intelligence-gathering capability; and; 4) combating money laundering; and maritime law enforcement and port security training to DIRECTEMAR.

Bilateral Cooperation. USG initiatives in 2007 included: an International Visitor Program for a Chilean drug prosecutor; money laundering training for 25 police officers, prosecutors, Chile's Financial Intelligence Unit, and other agencies; a seminar for 15 police officers on the use of computers to detect and investigate drug trafficking; and technical assistance in community policing and identifying patterns behind crimes; and maritime law enforcement and port security training to DIRECTEMAR.

DEA offices in Santiago, La Paz, Lima, Buenos Aires and Asuncion continued to support an Officer Exchange Program among their respective host nation counterparts in 2007. Additionally, in October, DEA conducted training for PICH anti-narcotics investigators, CONACE, and prosecutors. The training was designed to promote awareness of current issues in drug abuse, narcotics trafficking and money laundering in the region. DEA agents in Chile and Bolivia also conducted a one-week Police Tactics course in Arica in October 2007.

The Road Ahead. In 2008, the USG plans to continue support for Chilean efforts to combat narcotics-related problems and will continue to emphasize the importance of interagency cooperation to better confront drug trafficking in Chile, including support to the Northern Border Task Force. The GOC plans to continue building the capacity of its law enforcement units and criminal justice system to prosecute transnational crimes. The GOC also plans to carry out its new security strategy, which will promote greater law enforcement agency collaboration and cooperation. The USG plans to support these efforts with training for police and prosecutors on undercover operations, surveillance, and continued tactical training. Additionally, there are long-term plans to conduct additional training in money laundering for police, prosecutors and judges.

Colombia

I. Summary

The Government of the Republic of Colombia (GOC) is committed to fighting the production and trafficking of illicit drugs, yet Colombia remains a major drug producing country. In 2007, the GOC continued its aggressive interdiction and eradication programs, seizing over 126 metric tons (MT) of cocaine and cocaine base, and maintained its strong record of extraditing persons charged with crimes in the U.S. Almost 220,000 hectares of illicit coca crops were eradicated, over 153,000 hectares by the Colombian National Police (CNP) Anti-Narcotics Directorate (DIRAN), and over 66,000 hectares by manual eradication efforts. Colombia is a party to the 1988 UN Drug Convention.

II. Status of Country

Colombia is the principal supplier of cocaine to the world, with the majority going to the U.S, but a growing percentage now destined for Europe and Brazil. Almost 90 percent of the cocaine entering the U.S. comes from Colombia's coca fields, and the country remains the primary source of heroin used east of the Mississippi River. Colombia is a leading market for precursor chemicals, and the focus of significant money laundering activity. Narcotraffickers exploit Colombia's geography and well-developed infrastructure, including ports on the Pacific and Atlantic coasts, multiple international airports, a growing highway system, and extensive rivers for their operations. While illegal drugs are still primarily exported, domestic consumption is on the rise in Colombia. Multiple demand reduction programs exist in large municipalities, but a sufficiently coordinated national demand reduction strategy remains lacking.

The U.S. has designated three illegal armed groups as Foreign Terrorist Organizations (FTOs) in Colombia. The Revolutionary Armed Forces of Colombia (FARC) and, to a lesser extent, the National Liberation Army (ELN) 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. A third FTO, the United Self-Defense Forces of Colombia (AUC), has largely demobilized and no longer exists as a coherent organization. Nevertheless, a significant number of former mid-level AUC commanders continue their involvement in the drug trade, with the Organization of American States (OAS) warning in late 2007 that new criminal groups were emerging in areas of former AUC influence.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The GOC has taken action to improve criminal justice proceedings in order to increase its capability to prosecute criminals, including drug traffickers. Colombia's transition to an accusatorial system of criminal justice was completed on January 1, 2008, when 11 cities of the Caribbean, Pacific and eastern plains joined the rest of the nation in using new procedures for oral trials. Although many cases already initiated must be adjudicated under the old system, the new system has allowed criminal cases to be resolved in months instead of years, and conviction rates have risen from less than three percent to over sixty percent under the new system.

Colombia's manual eradication program expanded by over 50 percent in 2007, resulting in the eradication of more than 66,000 hectares of illicit coca crops. The Colombian National Police (CNP) and Colombian Army (COLAR) both manually eradicated illicit crops and their role in providing security grew as operations expanded. Fatalities during manual eradication decreased 60 percent from 2006, to 16 security force personnel and civilian eradicators.

The Colombian Anti-Narcotics Police (DIRAN) continued supporting a special judicial police unit, established in 2006, that gathers evidence for asset forfeiture proceedings against property owners who use their land for the cultivation or processing of illegal crops. In 2007, this unit developed and investigated cases for the Prosecutor General's Office. This asset seizure initiative is a crucial step towards more effective deterrence of cultivation and replanting after eradication.

The Colombian Congress also passed legislation in 2007 to improve the effectiveness of the National Directorate of Dangerous Drugs (DNE), which is responsible for administering seized and forfeited criminal assets, mainly narcotics-related. The new legislation allows the DNE to sell seized property prior to forfeiture, thereby eliminating high storage and maintenance costs associated with certain types of property, suspend tax payments on non-performing seized properties, and use more of the forfeited funds to pay operational costs. This legislation is complemented by regulations adopted in October 2007 by the Prosecutor General that place greater emphasis on seizing assets that will yield a positive net value upon final forfeiture. The Office of the Prosecutor General handles the legal process for the seizure and forfeiture of narcotraffickers' assets and works in coordination with the DNE.

These legislative changes, together with a 2004 law that allows for criminal assets to be prosecuted separately from the defendant, have resulted in significant increases in the amount, variety, and value of criminal property subject to seizure and forfeiture in Colombia. By some estimates, the value of assets seized just in 2007 may exceed \$1 billion. While the management of these seizures has grown in complexity, the recent legislative and regulatory changes are expected to improve the GOC's ability to properly handle criminal assets and to benefit from their forfeiture.

Law Enforcement Efforts. In 2007, the GOC seized 130.7 MT of cocaine and 350,000 gallons of precursor chemicals while destroying 240 cocaine hydrochloride (HCL) labs and 2,875 coca base labs. CNP's Mobile Rural Police Squadrons (Carabineros), the unit charged with expanding and maintaining police presence in areas of conflict and throughout Colombia's national territory, captured 76 narcotics traffickers, 190 FARC and ELN guerrillas, 73 former AUC members, and 1,116 criminal group members in 2007. The GOC reorganized the 68 Carabiniro squadrons during the year from 150 to 120 man units to facilitate rapid deployment and increase government presence around the country.

DIRAN's Jungle Commandos (Junglas), or airmobile units, remained the CNP's main interdiction force, largely responsible for the high number of HCL and coca base labs destroyed in 2007. DIRAN also displayed its strong commitment to working with international partners in 2007 by sending a two man assessment team to the Ecuadorian Antinarcotics Police Training Center to help develop instructional programs while aiding U.S. efforts in Afghanistan by deploying two guest instructors to work with the Afghan Narcotics Interdiction Unit (NIU) in Kabul.

The CNP's Heroin Task Force concluded numerous priority target heroin investigations resulting in 182 arrests in Colombia, 48 as a result of petitions for extradition to the U.S. Based on evidence gathered, it was determined that these heroin trafficking organizations were responsible for shipping and distributing at least 3 MT of heroin per year to the U.S.

Port Security. With USG support, the GOC and private seaport operators improved port security, leading to increased drug seizures in Colombia's ports. In 2007, more than 19 MT of cocaine, 6 kilos of heroin, almost 3 MT of marijuana, and more than 5 MT of chemical precursors were seized by DIRAN in the ports while 46 persons were arrested for narcotics trafficking. At Colombia's international airports, DIRAN units confiscated 16 kilos of heroin, 300 kilos of cocaine, almost 300 kilos of marijuana, and made over 30 drug-related arrests.

High-Value Targets (HVTs). The GOC achieved significant success against the FARC leadership in 2007. Over a dozen mid-to-high level FARC commanders were killed or apprehended, including

FARC 37th Front leader Gustavo Rueda Díaz, alias ‘Martin Caballero,’ 42nd Front leader Ernesto Orjuela Tovar, alias ‘Giovanni Rodriguez,’ and 16th Front leader, Tomas Molina Caracas, alias ‘Negro Acacio.’ Molina Caracas was considered a Consolidated Priority Organization Target (CPOT) by the USG and was one of 50 FARC commanders indicted in the U.S. in March 2006 for allegedly running the country’s largest cocaine smuggling organization.

The CNP worked with U.S. agencies throughout the year to pursue AUC leaders who refused to completely demobilize. In 2007, the CNP arrested AUC leader Hebert Veloza Garcia, alias ‘HH,’ who was under indictment in the U.S. and is now pending extradition. Former AUC Catatumbo Block leader Salvatore Mancuso Gomez, alias ‘Triple Cero,’ and three others were arrested for money laundering by CNP officers despite having already demobilized under the Justice and Peace Law. In August 2007, based on a CNP and Drug Enforcement Administration (DEA) investigation, President Uribe set into motion the eventual expulsion from the Justice and Peace Process of former AUC leader Carlos Mario Jimenez Naranjo, alias ‘Macaco.’ The investigation led to Colombian authorities seizing properties linked to Jimenez and former AUC compatriot Vincente Castano, alias ‘El Profe,’ estimated to be worth more than \$75 million. The CNP also executed approximately 58 seizure warrants throughout Colombia on businesses owned or controlled by known AUC money launderer Giorgio Sale valued at \$36 million dollars.

Several notorious drug cartel leaders were apprehended, including FBI Top Ten Fugitive Diego Leon Montoya Sanchez, alias ‘Don Diego,’ of the Norte de Valle cartel by a Colombian Army elite unit in September 2007. The arrest of Montoya Sanchez followed the January 2007 capture of his younger brother, Eugenio Montoya Sanchez. The CNP provided assistance to Brazilian and U.S. authorities in the arrest of Norte de Valle kingpin Juan Carlos Ramirez Abadia, alias ‘El Chupeta,’ outside Sao Paulo, Brazil in July 2007. The arrest was preceded by the seizure of \$90 million in cash and gold bars in five houses in Cali, Colombia, and the freezing of over \$700 million in luxury assets and real property. In June 2007 the GOC arrested Guatemalan national trafficker and fugitive Otto Herrera Garcia.

Extradition and Mutual Legal Assistance. While there is no bilateral Mutual Legal Assistance Treaty (MLAT) in force between the USG and Colombia, the two countries cooperate extensively via multilateral agreements and conventions, including the OAS Convention on Mutual Legal Assistance and the 1988 UN Drug Convention.

The GOC extradited a record 164 defendants in 2007, including Luis Gomez-Bustamante, alias ‘Rasguno,’ Aldemar Rendon Ramirez, Hernan Prada-Cortes, Juan Manuel Bernal-Palacios, and CPOT Ricardo Mauricio Bernal-Palacios. In addition, the GOC extradited AUC leader Hector Rodriguez. Overall, since December 1987, when Colombia revised its domestic law to permit the extradition of Colombian nationals, 647 individuals have been extradited to the United States, 581 since President Uribe assumed office in 2002.

Also in 2007, the Colombian Office of the Prosecutor General, along with other GOC agencies assisted the USG in several high profile prosecutions and trials. Two previously extradited FARC leaders were convicted in separate trials in United States courts, Juvenal Ovidio Ricardo Palmera-Pineda, alias ‘Simon Trinidad,’ a senior FARC commander, and Anayibe Rojas-Valderrama, alias ‘Sonia,’ a FARC 14th Front Finance Officer. Other previously extradited criminal organization leaders were convicted in U.S. courts, including Joaquin Mario Valencia-Trujillo, convicted in the Middle District of Florida and sentenced to a 40 year prison term, and Manuel Felipe Salazar-Espinosa, alias ‘Hoover,’ convicted in the Southern District of New York.

Demobilization. To facilitate the dismantlement of the FTOs and help reintegrate former guerillas into civilian life, Colombia developed two programs for demobilization: collective and individual. Under the 2005 Justice and Peace law, the High Commissioner for Peace oversees peace negotiations with armed groups and the subsequent collective demobilization program, which

while available to all FTOs has to date been applied only to the AUC. The Ministry of Defense manages the individual demobilization or deserter program that applies to the FTOs and any other illegal armed group in Colombia. Between 2002 and 2007, the GOC estimates that more than 45,000 persons have demobilized—14,000 under individual desertion program and over 31,000 under the collective program. In 2007, a record 2,826 guerrilla fighters deserted from the FARC, representing a desertion rate 50 percent above 2006 levels.

Beginning in October 2007, the GOC decided not to accept additional AUC members into either demobilization program. Following this decision, any AUC members who turn themselves in will now be investigated and prosecuted under normal Colombian law and can no longer benefit from the Justice and Peace law.

Corruption. As a matter of policy, the GOC 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. According to Transparency International and the World Bank, Colombia has made significant improvements in fighting corruption.

Concerns remain over the corrupt influences of criminal organizations. On August 31, the CNP arrested 50 alleged members of the emerging narco-trafficking gang “Los 40,” including 18 active duty police, two members of the Colombian Directorate of Administrative Security (DAS), a Colombian marine, and a member of the Prosecutor General’s investigative unit (CTI). The breakup of “Los 40” followed revelations of infiltrations of the Colombian Army by drug cartels and the FARC, which were subsequently discovered and broken up. From June through August, the GOC arrested about a dozen public forces members and suspended more than 20 pending further investigation of possible involvement with the Norte de Valle drug cartel.

Separately, several members of the GOC were found to have supported right-wing paramilitary groups. Called the “parapolitical” scandal, one congressman and two governors have been sentenced while two former mayors remain fugitives. Aggressive investigations on the part of the GOC have led to additional cases against 53 Congressmen, 19 mayors, and 10 governors. Both the USG supported Supreme Court investigative unit and a special unit of 11 investigators from the Prosecutor General’s office are continuing their investigations.

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. Colombia signed bilateral counternarcotics agreements with the governments of Spain and Russia in 2006. These agreements primarily focus on information sharing, but could include training and technical assistance. The GOC’s 2003 National Security Strategy (Plan de Seguridad Democrática) meets the strategic requirements of the UN Drug Convention, and the GOC is generally in line with its other requirements.

The GOC and the USG continue to successfully use the Maritime Ship Boarding Agreement signed in 1997. This highly successful arrangement provides faster approval to board Colombian-flagged ships in international waters and has improved counternarcotics cooperation between the Colombian Navy and the U.S. Coast Guard (USCG). In 2007, the USCG removed almost 16 MT of cocaine from Colombian flagged fishing vessels under this agreement, including the seizure of a ship smuggling almost 8 MT of liquid cocaine. The 1999 Customs Mutual Assistance 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 2004, Colombia and the U.S. signed a revised 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. In 2006, the USG increased the survey area of its Colombia coca estimate by 19 percent over the 2005 survey area (2007 survey estimates will not be available until mid-2008). This resulted in the identification of an additional 13,200 hectares of coca, representing a 9 percent increase in the U.S. cultivation estimate from 144,000 to 157,200 hectares. Illicit cultivation continues to be a problem in Colombia's national parks, indigenous reserves, and along the border with Ecuador and Venezuela, where aerial eradication is not employed. Aerial spraying is currently not undertaken within 10 kilometers of international borders. Even though manual eradication does occur in these areas, it is time-consuming and dangerous, due to often rugged and remote terrain and the strategic importance of the border and certain parklands to the FARC. Colombia's potential pure cocaine production was estimated at 610 MT for 2006.

For 2006, Colombian opium poppy cultivation was estimated at 2,400 hectares, remaining near the lowest levels since surveys began in 1996, though up slightly over the 2004 estimate of 2,100 hectares (the USG did not make an estimate for 2005). The GOC eradicated 375 hectares of opium poppy, down from 1,929 hectares eradicated in 2006. Since 2001, when cultivation peaked, sustained eradication efforts have left no plantation sized opium poppy cultivations in Colombia. The Colombian potential pure heroin production for 2006 was estimated at 4.6 MT, reflecting the slightly higher cultivation figure. While the majority of heroin in the U.S. east of the Mississippi still originates in Colombia, seizures continue to show a decline in wholesale purity, from 84.5 percent in 2001 to 62 percent in 2006, according to the DEA Heroin Signature Program.

While Colombian drug trafficking organizations profit from the illicit trafficking of ephedrine, a key ingredient in decongestant medication, there is little evidence that the traffickers are using the substance as a chemical precursor in large scale methamphetamine production. Ephedrine seizures in Colombia increased significantly in 2007 to about 2 million tablets, although this was likely related to increased law enforcement focus instead of greater availability. High profit margins, established drug trafficking routes, and high methamphetamine demand in the United States remain areas of concern. There have been minor seizures of ecstasy in Colombia, but no indication of significant production or export.

Environmental Safeguards. Biannual verification missions, in which soil and water samples are taken before and after spray of herbicide for analysis, continue to show that aerial eradication causes no significant damage to the environment or human health. Residues in these samples have never reached a level outside the established norms. The aerial spray program follows strict environmental safeguards, monitored permanently by several GOC agencies, and adheres to all GOC laws and regulations, including the Colombian Environmental Management Plan. 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 early 2008 regarding spray drift and other relevant issues.

As of October 2007, the GOC had received 7,388 complaints alleging damage to legal crops by spray planes since the tracking of complaints began in 2001. The GOC has concluded the investigation of 6,472 complaints, with 1,598 processed in 2007. Fifty-eight complaints have been found to be valid since 2001, and the USG paid \$325,000 in compensation to farmers. 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 aerial spraying.

Drug Flow/Transit. From the Colombian source zone in the mainly southern reaches of the country, shipments of cocaine and heroin are transported by road, river, and small civilian aircraft to the transit zone north and west of the Andes Mountains. Estimates indicate that up to 40 percent

of the cocaine leaving Colombia goes through the complex river network in the south-central region to the south-western coastal shore, mainly in shallow draft boats. There, the narcotics are readied for bulk maritime shipment in go-fast boats and, increasingly, commercial fishing vessels. Small aircraft from clandestine airstrips in eastern and southeastern Colombia are also used to transit drugs to neighboring countries, where it is either consumed there or transferred to airplanes or maritime vessels for onward shipment.

Heroin shipments also originate from the south-western coast, mainly around the Pacific port of Buenaventura, and are commonly transported in containerized cargo concealed in furniture, machine parts, and other items. Less frequently the shipments are combined with cocaine on go-fast boats shipped from the north coast. Heroin is also often concealed in the lining of clothing or luggage, although human carriers (called mules) still swallow heroin wrapped in latex.

An often permissive and corrupt environment has prompted traffickers to increasingly use Venezuela to stage shipments of illicit drugs to Mexico, the Caribbean, the U.S., Europe, and Africa. The Air Bridge Denial program in particular has forced traffickers using small aircraft to shift routes, with more air smuggling now involving short-hop flights to and from Venezuela, resulting in a marked increase in suspect and known illegal flights from Venezuela to Caribbean transshipment points, particularly Haiti and the Dominican Republic. The number of suspected non-commercial flights in Venezuela carrying mostly Colombian cocaine has increased from 61 in 2002 to an estimated 185 flights in 2007.

Demand Reduction. The GOC has been developing a national demand reduction strategy since 2004, but it has not yet been presented to the GOC's National Council on Dangerous Drugs. With USG, UNODC and OAS support, the Ministry of Social Protection and the National Directorate of Dangerous Drugs (DNE) are now preparing to conduct a comprehensive national drug use survey in early 2008. Numerous private entities and nongovernmental organizations (NGOs) work in the area of drug prevention throughout Colombia, and DIRAN has an active Drug Abuse Resistance Education (DARE) program.

The USG continues to support several Colombian and international NGO programs targeted at keeping children drug-free by focusing on school-based drug prevention programs. In 2007, the USG sponsored two drug demand reduction seminars and participated in several drug prevention events, including an event on Best Practices for the Prevention of Drug Usage, organized by the NGO "Mentor Colombia," and a seminar on Evidence-Based Prevention organized by several NGOs.

IV. U.S. Policy Initiatives and Programs

The USG and GOC continue to work on strategies to maximize the use of eradication resources. Working closely with President Uribe's "Program against Illicit Crops," the CNP, COLAR, and the USG have developed coordinated strategies and plans for aerial and manual eradication. In 2008, combined eradication operations are planned for all major coca-growing areas. COLAR's CounterDrug (CD) Brigade has also been more actively involved in supporting operations to protect spray aircraft. By sharing targeting information and coordinating movements, aerial and manual missions aim to break the cycle of replanting, which to date has allowed grower-processors to continue production during periods when no eradication was taking place in the area.

The USG continued to support the Air Bridge Denial (ABD) program, which has completed its fourth year of operations. The ABD program is responsible for the significant decrease in illegal flights over Colombia, from 637 suspected and known illegal flights over Colombia in 2003 to only 171 in 2007, a decrease of more than 73 percent. The program had six law enforcement actions in 2007, resulting in the capture of one aircraft, two boats and two vehicles, the seizure of 1.2 MT of cocaine, the destruction of an estimated two MT of cocaine, and seven arrests.

Nationalization, or the effort to transfer funding and operational responsibilities for counternarcotics programs from the USG to the GOC, increased momentum in 2007. In November 2007, the USG transferred nine helicopters to the GOC involved in the Infrastructure Security Strategy program. Additionally, the USG removed five KMAX helicopters from program support in 2007. In 2008, the USG will begin transferring the Air Bridge Denial program to the GOC, with completion planned by late 2009.

Nationalization also extends to fleet rationalization, which involves consolidating available types of aircraft and maintenance functions to simplify operations. In early 2008, three additional AT-802 aircraft will be delivered, allowing the USG to retire two other models of aircraft and leave just one model for the GOC to support for aerial eradication. The CNP will also begin assuming maintenance funding for a number of aircraft to which it already holds title. DIRAN's aviation unit (ARAVI) will train more pilots and mechanics within Colombia, eliminating the need and expense of contracting pilots and mechanics to service the unit's 18 fixed-wing and 58 rotary-wing aircraft.

U.S. Customs and Border Protection (USCBP) provided training, coordination, and technical assistance to CNP units stationed in the ports and airports. This included training in areas such as passenger documentation analysis, firearms handling, and the inspection of containerized cargo. The USCBP also supported the private sector-led Business Alliance for Secure Commerce (BASC) program, which drew hundreds of Colombian companies. The USCBP led Container Security Initiative (CSI), implemented in September 2007 as a counterterrorism program designed to prevent weapons of mass destruction from being sent to the U.S. is also expected to assist narcotics control efforts.

Throughout 2007 the USCG worked to improve interdiction operations with the Colombian Navy through equipment transfers and training. In October 2007, the USG transferred the ex-USCG Cutter GENTIAN to the Colombian Navy, where it will be used as a support vessel to extend the operational range of smaller Navy platforms. Training activities focused on leadership, crisis management, port security, counterterrorism, contingency planning, and search and rescue. Closer collaboration helped establish the Trilateral Counter Drug Summit, an interdiction forum involving maritime officers, investigators and prosecutors from Colombia, Ecuador and the U.S. The first Summit, held in February 2007 by the Colombian Navy, focused on ways to improve interdiction of traffickers at sea, interdiction practices, and investigative and prosecution initiatives.

The USG-supported Culture of Lawfulness program, designed to promote respect for the rule of law and civic responsibility, was formalized as a course in 2007 in both GOC officer basic training programs and patrol cadet academies. By the beginning of 2008, there will be approximately 41,000 students taking a 60-hour course taught by more than 782 teachers in 15 municipalities.

Alternative Development. Joint USG and GOC efforts are encouraging farmers to abandon the production of illicit crops in roughly one-third of the country that covers about 80 percent of Colombia's population. USG programs have supported the cultivation of over 158,000 hectares of legal crops and completed 1,179 social and productive infrastructure projects in the last six years. More than 135,000 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 109,728 full-time equivalent jobs.

Support for Democracy and Judicial Reform. Through the Justice Sector Reform Program (JSRP) and rule of law assistance, the USG is helping reform and strengthen the criminal justice system in Colombia. The transition to an oral accusatory criminal justice system began in 2005, and was fully implemented throughout the country on Jan 1, 2008. The JSRP has provided training and technical assistance to support the new roles of judges, prosecutors, and police investigators by focusing on practical "hands on" training including crime scene and courtroom simulations. Training elements include the collection and presentation of evidence, understanding the stages of

the proceedings, advocacy techniques, and mock trials. The program has provided accusatorial system training to more than 64 thousand prosecutors, judges, criminal investigators, and forensic experts.

Military Justice. With USG support, the GOC is implementing an aggressive plan to train and educate military attorneys, judges, officers, and commanders in international human rights law, rules of engagement sensitive to civilian casualties, extrajudicial killings, effective judicial procedures, and government ethics. These efforts included six conferences at strategic “centers of gravity” locations throughout Colombia that trained over 400 Colombian military participants. Key GOC leadership attended and spoke at these events, including the Minister of Defense. The training emphasized the importance of human rights norms, effective operational law standards, professionalism in judicial conduct, and values-based ethical behavior.

The Road Ahead. In 2008, the GOC will look to build on the success of the many HVTs captured and extradited to the U.S. by continuing to dismantle the FTOs and illegal armed groups that run the drug trade in Colombia. As these groups are dismantled, challenges remain in finding and derailing the smaller and less organized successors that have started to fill the power vacuum. Nationalization of counternarcotics funding and operations currently supported by the USG, while maintaining successful operational results, will remain a top priority. Other challenges for 2008 include successfully coordinating aerial and manual eradication efforts, while adjusting the strategy to inhibit the rapid replanting of coca and increased illicit cultivation in no-spray zones. To consolidate the progress from 2007 and prior years, the GOC will continue to strengthen government presence in conflict areas while improving institutional capacity to provide services and economic opportunities. This will require continued GOC efforts to gain control of the vast Pacific coastal zones, demobilize and reintegrate ex-combatants, and advance reconciliation and victim reparations processes.

V. Statistical Table

	2007	2006	2005	2004	2003	2002	2001	2000
Coca								
Net Cultivation ¹ (ha)		157,200	144,000	114,000	113,850	144,450	169,800	136,200
Aerial Eradication (ha)	153,133	171,613	138,775	136,555	132,817	122,695	84,251	47,371
Manual Eradication (ha)	66,396	42,111	31,285	10,991				
HCl (Cocaine): Potential ¹ (MT)		610	545	430	460	571	839	580
Opium Poppy								
Net Cultivation ¹ (ha)		2,400		2,100	4,400	4,900	6,540	5,010
Aerial Eradication (ha)		232	1,624	3,060	2,994	3,371	2,583	9,254
Manual Eradication (ha)	375	1,697	497	1,497				
Heroin: Potential ¹ (MT)		4.6		3.8	7.8	8.5	11.4	8.7
Seizures								
Coca Base/Paste (MT)	60.6	48.1	43.8	28.3	31.1	30.0	26.7	0.0
Cocaine HCl (MT)	130.7	130.2	179.0	138.6	114.0	94.0	57.3	69.0
Combined HCl & Base (MT)	191.3	178.3	222.8	166.9	145.1	124.0	84.0	69.0
Heroin	0.6	0.5	0.7	0.7	0.5	0.8	0.8	0.6
Arrests/Detentions	59,652	64,123	82,236	63,791		15,868	15,367	8,600
Labs Destroyed								
Cocaine HCl	240	205						
Base	2,875	1,952						
Heroin	1	9						

Ecuador

I. Summary

Ecuador is a major transit country for illicit drugs trafficked to the United States and chemical precursors for drug production. While the Government of Ecuador (GOE) is actively combating illegal narcotics activities, cartels in Colombia and Peru continue to take advantage of large, sparsely populated border regions and difficult-to-monitor maritime routes to move cocaine, heroin and precursor chemicals through Ecuador. In 2007, the GOE identified cocaine laboratories capable of refining multi-ton quantities of cocaine, and police and military units destroyed several multi-hectare plots of coca plants near the Colombian border. Persistent narcotics activity by Colombian armed insurgent groups has rendered Ecuador's northern border region particularly vulnerable.

In 2007, traffickers attempted to transport, by private aircraft, more than three tons of cocaine from northern Ecuador to Mexico. There was a significant increase in land seizures of cocaine in 2007 over previous years; maritime seizures of multi-ton loads of cocaine were down from the previous two years but still well above historic levels. Protocols that streamline boarding procedures established between the U.S. and Ecuador in 2006 continue facilitated maritime interdictions. Uneven implementation of the criminal procedures code and a slow and sometimes corrupt judicial system hamper prosecutions, although there was some progress in this area in 2007. Ecuador is a party to the 1988 UN Drug Convention.

II. Status of Country

Historically weak public institutions and a judicial sector that is susceptible to corruption, make Ecuador vulnerable to organized crime. Border controls of persons and goods are gradually improving but remain weak and are easily evaded. The Ecuadorian National Police (ENP), military forces, and the judiciary do not have sufficient personnel or equipment to meet all of the international criminal challenges they face.

In 2007, authorities found and eradicated an increasing but still relatively small amount of coca cultivation and destroyed cocaine laboratories near the border with Colombia. Traffickers shipped white gas and other precursor chemicals in large quantities from Ecuador to Colombia and Peru for cocaine processing. Cocaine and small amounts of heroin from Colombia and cocaine from Peru transit Ecuador by land and sea routes for international distribution in volumes ranging from a few hundred grams to multi-ton loads. The practice of shipping drugs via international mail and messenger services increased in 2007, with cocaine generally going to European markets and heroin to the U.S.

III. Country Actions Against Drugs in 2007

Policy Initiatives. President Rafael Correa appointed the former Director of the Anti-Narcotics Police Directorate (DNA) as Commanding General of the National Police (ENP), giving a clear indication that anti-narcotics would be a high priority for his Administration. In September, President Correa announced an emergency-funding package of \$300 million over two years for the ENP, mainly for improving police facilities and operational capabilities.

During 2007, the DNA conducted a series of interdiction operations throughout the country, resulting in the largest amount of land-based seizures in the country's history. The DNA also established, with U.S. assistance, a "1-800-Drogas" nationwide hotline where citizens anonymously call in to report drug activity. Tips from the hotline resulted in numerous seizures of

cocaine and development of cases against other illegal activities such as weapons smuggling. In a related initiative, the DNA fielded a nationwide anti-narcotics billboard campaign. New DNA facilities, built with USG assistance, were opened in 2007 in Carchi Province at Tulcan, on the major roadway connecting Ecuador and Colombia, and in the Port of Esmeraldas in Esmeraldas Province, also near the Colombian border.

The Correa Administration's anti-corruption campaign has strengthened the country's anti-narcotics actions. For example, the new Director of the National Drug Council (CONSEP) implemented changes to improve the agency's prevention programs and the management and disposal of seized assets. He also uncovered corruption among some CONSEP employees, had them arrested, and is pursuing criminal cases against them.

The new Director of the National Postal System improved anti-narcotics controls at international postal facilities by installing USG purchased screening equipment and signing an agreement with the DNA to ensure increased canine screening at the postal facilities.

The Ecuadorian Armed Forces, at the direction of President Correa, increased operations near the Colombian border – conducting seventeen operations in 2007 compared to just nine in 2006. This led to the discovery and destruction of three cocaine producing laboratories, 47 FARC camps, the eradication of 36 hectares of coca, and the confiscation of weapons, communications equipment and other support equipment.

The GOE provided the Navy with approximately \$40 million to establish an operations center in Guayaquil and create a smaller, linked center in the Galapagos to extend its their control of illicit activities to the islands, which lie 600 miles off the mainland. The Navy also plans to procure high-speed boats and unmanned surveillance drones to strengthen controls over Ecuadorian waters, and is developing a better biometrics capability to more quickly identify individuals aboard vessels in Ecuadorian waters.

The Correa Administration has also placed an emphasis on strengthening controls over money laundering, with the Financial Intelligence Unit (FIU) cooperating closely with the DNA, the Superintendent of Banks, the courts and the private banker association in this area. The FIU purchased and installed equipment, recruited and trained personnel and initiated analysis of transactions in December 2007.

Accomplishments. Total seizures by the GOE in 2007 were 22.45 metric tons (MT) of cocaine, 180 kilograms (kg) of heroin and 740 kilograms of cannabis. By comparison, in 2006 the GOE seized 38.16 MT of cocaine, 410 kg of heroin, and 1,110 kg of cannabis. While overall seizures of cocaine were down from 2006 to 2007, seizures by the DNA police on land in 2007 (12.5 MT) far exceeded the amount seized on land in previous years.

Law Enforcement Efforts. In 2007, the DNA conducted operations, which produced a record number of land-based seizures. Maritime seizures in 2007 were lower than the previous two years. In June, Ecuadorian authorities found 5.3 MT of liquefied cocaine concealed under a layer of diesel in the fuel tanks of a fishing vessel, the largest such seizure on record. In July, the DNA found 5.5 MT in underground storage rooms at a decommissioned shrimp farm near Guayaquil. In October, the DNA foiled an attempt to transport an estimated 3.8 MT of cocaine from an airport in northern Ecuador to Mexico; this was the first known attempt since 2003 to use aerial transport to move a multi-ton load from Ecuador.

Corruption. As a matter of policy, no senior GOE official or the GOE, encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. 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 other aspects of official corruption are criminalized in

Ecuador, but there is no comprehensive anti-corruption law. President Correa's creation of an Anti-Corruption Secretariat and efforts to make the Financial Intelligence Unit operational are helping to strengthen the government's ability to respond to corruption. However these initiatives are not yet fully developed. The Anti-Corruption Secretariat has thus far investigated several allegations of government officials accepting bribes, some related to narcotics trafficking, and has dismissed some employees while building cases against others. Overcrowding and corruption in prisons remains a serious problem, with many drug traffickers able to continue their operations from prison while awaiting trial. President Correa issued an emergency decree in June 2007 to address prison overcrowding and to improve management of the institutions. Correa also announced, in late 2007, the creation of a Ministry of Justice, making resolution of prison issues a top priority for the new ministry. The Correa Administration supported the appointment of an independent Comptroller General who has been active in pursuing allegations of public sector corruption.

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 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN 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 Inter-American Convention on Extradition, the Inter-American Convention against Terrorism, and the Inter-American Convention against Illegal Trafficking in Firearms. 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 have 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. In October 2007, Ecuador hosted the United Nations Office of Drug Control sponsored Heads of Law Enforcement Agencies Conference for Latin America and the Caribbean.

Ecuador's Constitution prohibits the extradition of Ecuadorian citizens, but the GOE cooperates in the extradition or deportation of third country nationals. The GOE is taking steps with USG assistance to establish a rapid method to confirm the validity of national ID cards of individuals detained on drug smuggling vessels on the high seas and claiming Ecuadorian citizenship to avoid extradition.

Cultivation/Production. Ecuadorian military and police forces located and destroyed approximately 36 hectares of cultivated coca plants in scattered sites near the Colombian border. There has been a small, but steady increase in the number of planting locations identified and eradicated each year since 2004.

Demand Reduction. Coordination of abuse prevention programs is the responsibility of CONSEP, which continued its multi-agency national prevention campaign in the schools and expanded programs in 2007 to certain municipalities. All public institutions, including the armed forces, are required to have abuse prevention programs in the workplace.

Regional Coordination. Friction between Colombia and Ecuador on counternarcotics policies returned in late 2006 and early 2007 when Colombia resumed aerial spraying in Colombia's ten-kilometer border zone with Ecuador. Senior GOE officials again alleged that Colombian aerial eradication near the border harms humans, animals, and licit crops on the Ecuadorian side. The GOE requested a written statement from the Colombian government that it will permanently stop aerial eradication, to be replaced by manual eradication in the border zone, as well as provide compensation to those Ecuadorians living in allegedly affected areas. Colombia responded that it

would provide compensation to those who can prove that they have incurred physical damage as a result of the spraying. Maritime officers, investigators and prosecutors from Colombia, Ecuador, and the United States established a Trilateral Counterdrug Summit to improve interdiction of traffickers at sea, interdiction practices, and investigative and prosecution initiatives. The Colombian Navy hosted the first Summit in February 2007 and the Ecuadorian Navy hosted the second Summit in November 2007.

Alternative Development. In 2007, the GOE continued implementation of its 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 the U.S. Agency for International Development (USAID) continued to cooperate effectively on alternative development strategies for the northern border during 2007.

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 to enable them to more effectively combat criminal organizations involved in narcotics trafficking and money laundering. A U.S. priority has been to support Ecuadorian police and military presence in the Northern Border region near Colombia, and police presence in other strategically important locations throughout the country. USG programs also seek to increase awareness of the dangers of drug abuse.

Bilateral Cooperation. The U.S. provided support to the military to facilitate their mobility and communications during operations near the Northern Border. In 2007, the U.S. increased support for Ecuadorian Navy elements to better mobilize, equip and train them for narcotics interdiction activities. The USG also provided law enforcement, crisis management, professional development, and operations planning training to the Ecuadorian Navy in 2007. A U.S. funded pier at an Ecuadorian Marine base in the town of San Lorenzo, 10 miles south of the Colombian border, was inaugurated in October 2007. The pier will provide the Ecuadorian Navy increased access, especially at low tide, to the rivers, estuaries, and ocean at this strategically important location. The procedures for boarding suspected smuggling vessels on the high seas agreed, to in August 2006, are working well and continue to result in successful large-scale drug interdiction operations. In FY 2007, these procedures enabled U.S. maritime assets to remove 57,785 lbs of cocaine over the course of boarding seven Ecuadorian flagged vessels.

U.S. support for the DNA police helped ensure its mobility and improve communications, drug detection and investigative capabilities in order to conduct operations. The U.S. also provided support for the DNA canine unit and the specialized mobile anti-narcotics police (GEMA), which are critical elements of effective control and interdiction. In September 2007, a U.S.-funded DNA police provincial headquarters was inaugurated in the town of Tulcan in Carchi province just south of the Colombian border. The headquarters, which includes dormitories for 100 police, kennels and inspection areas, will enhance narcotics control on the main roadway between Ecuador and Colombia and will serve as a base of operations for the GEMA.

Cooperation in the judicial sector was strong in 2007. A three-year cooperative project among the Embassy, the National Judicial Council and a local university, created the first ever automated database of all criminal cases in process throughout the country since 2003. The database will enhance the management and transparency of the adjudication of criminal cases, helping address the perennial problems of delays and corruption. Concurrently, a major U.S. funded American Bar Association training program is providing prosecutors, judges and judicial police throughout the country with training to strengthen their ability to use the relatively new trial procedures that were enacted in the 2001 Criminal Procedures Code.

The U.S. also supports the implementation of a Financial Intelligence Unit as well as police investigative units being formed and trained to combat money laundering and financial crimes.

The Road Ahead. Ecuador is effectively interdicting illicit drugs and chemicals, eradicating coca plantations near the Colombian border and destroying cocaine-producing labs. These illicit activities are a growing problem as drug cartels attempt to expand their operations and exploit perceived weaknesses. Continued patrolling and control along the Colombian border is essential due to the close proximity of drug cartels and production sites. Enhanced controls along Ecuador's maritime border, including improved port security, patrolling and inspections, are also essential tools for regulating maritime trafficking of large shipments.

The control and prosecution of money laundering and corruption will also be a high priority as this is critical to attacking the leadership of narcotics cartels. The U.S. will continue to support implementation of justice sector reforms such as the criminal case tracking system, training programs to speed up the prosecution of criminal cases and strengthening of Financial Intelligence Unit operations.

Paraguay

I. Summary

In an attempt to reverse its status as a major drug transit country and the largest producer of marijuana in the region, Paraguay's National Counternarcotics Secretariat (SENAD) undertook some serious steps to combat narcotics trafficking in 2007. SENAD disrupted transnational criminal networks in close cooperation with international law enforcement agencies and made record seizures of marijuana and cocaine. Paraguay is a party to the 1988 UN Drug Convention.

II. Status of Country

Paraguay is a major transit country for Andean cocaine destined for Brazil, other Southern Cone markets and Europe. Brazilian nationals head most trafficking organizations in Paraguay; some purchase cocaine from the Revolutionary Armed Forces of Colombia (FARC) in exchange for currency and weapons. SENAD's operating base in Pedro Juan Caballero, which opened in 2006 on Paraguay's northeastern border with Brazil and expanded canine-assisted drug detection operations in the east, contributed to SENAD's record seizures this year. Paraguay has become the largest producer of marijuana in South America. With a high content of tetrahydrocannabinol (THC), marijuana is cultivated throughout the country, principally along the borders with Brazil and Argentina. Paraguayan marijuana is primarily trafficked for consumption in neighboring countries. Despite SENAD's efforts, the Government of Paraguay's (GOP) ability to prosecute and fight transnational and organized crime is hampered by resource constraints, competing government priorities, weak laws and pervasive corruption in the public sector. SENAD's total budget is \$1.5 million, of which only \$150,000 is allocated to counternarcotics operations, while the rest covers salaries and administrative expenses.

III. Country Actions Against Drugs in 2007

Policy Initiatives. SENAD has taken serious steps to control drugs and their negative effects on the general population by going after major drug trafficking organizations and their assets. Disbanding major trafficking organizations is a priority component of the GOP's campaign to reduce the amount of drugs produced and trafficked in its territory. SENAD's "Most Wanted" public affairs campaign, initiated in 2005, carries spots on radio stations and runs photographs of drug traffickers on billboards and buses, which have generated leads resulting in several arrests of drug criminals. A bill pending in Paraguay's Congress would make SENAD an autonomous institution with the power to independently regulate its agents. SENAD is also seeking to professionalize its agents through training and the addition of fifty agents to its staff in late 2006. It has asked for an additional 30 new agents for 2008, which would give SENAD a total of 165 agents.

SENAD's internal affairs unit investigated several claims of misconduct; five agents were terminated in 2007 for intimidating and threatening citizens after regular working hours.

Accomplishments. In 2007, SENAD's drug seizures broke all records since its creation in 1991. SENAD seized 820 kilograms (kg) of cocaine, 100 metric tons (MT) of marijuana and 18 vehicles. SENAD arrested several well-known drug traffickers, including Edmar Dois Rei Almeida, Jesus Hernando Gutierrez and six members of his cartel, Jarvis Pavao's stepfather Paulo Larson Dias, and Ronie Alves de Campos and confiscated their assets. SENAD conducted operations in Pedro Juan Caballero which was previously off limits to serious law enforcement measures because of corruption and lack of state presence. SENAD also detained 170 persons and extradited two, one each to Argentina and Brazil. In late December, the Paraguayan Congress finally passed an

improved version of the penal code which, with the President's signature, will become law in early 2008. The new code makes money laundering an "autonomous" crime (one in which no predicate offense conviction is required) punishable by a prison term of up to ten years, and improves Paraguay's legislative framework for intellectual property and trafficking in persons violations.

Law Enforcement Efforts. SENAD's regional operational facility in Pedro Juan Caballero, which includes a helicopter landing pad and hangar, played a key role in several major arrests and seizures. In June, a joint intelligence operation between SENAD and the Brazilian Federal Police (BFP) netted 450 kg of cocaine. Six people were arrested, including three Paraguayan police officers for providing safe passage to the traffickers. In another operation run out of that facility, SENAD failed in its attempt to arrest Brazilian drug trafficker Jarvis Jimenez Pavao, but seized over 100 kg of cocaine from Pavao's ranch and detained Pavao's son. Over \$9 million in real property, furniture, luxury vehicles, and tractors were seized. The final sentence could result in the forfeiture of the assets to the GOP. In September, SENAD seized 28 MT of processed marijuana destined for Brazil and valued at \$28 million. In August, Leoncio Mareco, a Paraguayan associate of Brazilian narcotrafficker, Ivan Mendes Mesquita, was convicted on drug trafficking and money laundering offenses and sentenced to 20 years in prison, and his wife to 10 years for money laundering.

A bill pending in Congress would give needed tools to SENAD to carry out its mandate more effectively. Currently, SENAD officials are considered civil servants and are not issued weapons but may carry their own weapons. Under the new law, which the Lower House approved and is now pending in the Senate, SENAD agents would have the legal status of law enforcement agents.

Corruption. As a matter of policy, no senior GOP official or the GOP encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. Nevertheless, corruption and inefficiency within the Paraguayan National Police (PNP), the broader judicial system and other public sector institutions, negatively impact SENAD operations. Combating official corruption remains a daunting challenge for the GOP; several government prosecutors from the Anti-corruption Unit opened cases against government officials last year. However, these cases were impeded by corruption and inefficiency, which frequently resulted in dismissals on technical grounds. A blatant example of the depth of this challenge was the October 2007 naming of Former Police Commissioner Aristides Cabral as the Ministry of Interior's Director of Intelligence. Cabral is known for his strong ties to certain drug traffickers, when he was the Commissioner of Police until his retirement in 2006.

Agreements and Treaties. Paraguay is a party to the 1988 Drug Trafficking Convention, the 1961 UN Single Convention on Narcotic Drugs 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 and its two protocols

(Trafficking in Persons and Migrant Smuggling), the UN Convention against Corruption, the Inter-American Convention against Corruption, the Inter-American Convention against Terrorism, the Inter American Convention against Trafficking in illegal Firearms, and the Inter-American Convention on Mutual Assistance in Criminal Matters. In 2002, the USG signed a Custom Mutual Assistance Agreement with the government of Paraguay. The GOP also signed the OAS/CICAD Hemispheric Drug Strategy. Paraguay has law enforcement agreements with Brazil, Argentina, Chile, Venezuela and Colombia. An extradition treaty between the United States and Paraguay entered in force in 2001, and the 1987 bilateral letter of agreement under which the United States provides counternarcotics assistance to Paraguay was extended in 2007.

Cultivation/Production. Paraguay is the largest producer of marijuana in South America. The crop is primarily cultivated in the departments of Amambay, San Pedro, Canindeyu and

Concepcion and is harvested year round. Marijuana production has dramatically increased in recent years, spreading to nontraditional rural areas of the country. SENAD destroyed 1,552 hectares of marijuana in 2007. There are approximately 5,500 hectares (UN and SENAD estimates) of marijuana remain scattered around the country.

Drug Flow/Transit. Paraguay is a transit country for cocaine from Bolivia, Peru and Colombia. Only a small portion of the cocaine that transits Paraguay is destined for the United States. According to SENAD, 30-40 MT of cocaine annually transits Paraguay's porous borders en route to Brazil and other Southern Cone markets as well as to Europe, Africa and the Middle East. Traffickers are encouraged by the lack of controls along Paraguay's vast border as well as the significant number of unscrupulous law enforcement officials. The northwestern part of the country is especially poorly monitored, making that region an attractive place for staging transshipments of drugs, weapons and other contraband.

Domestic Programs/Demand Reduction. SENAD's drug prevention program continues to deliver valuable messages through educational workshops to Paraguayan children. SENAD has the principal coordinating role under the "National Program against Drug Abuse" and works with the Ministries of Education and Health and several non-governmental organizations (NGOs) on program development, implementation and dissemination. The USG supports SENAD's very limited budget for demand reduction, and its program has been concentrated in the central departments of Paraguay. In 2007, a pilot prevention program was introduced in the Pedro Juan Caballero. SENAD sponsored 1,476 workshops in 247 schools, reaching 45,000 students, parents and teachers.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. USG programs and policies in Paraguay focus on assisting the GOP to disrupt drug trafficking organizations and institute stronger legal and regulatory measures to combat drug trafficking and money laundering. U.S. assistance supports SENAD's operations, including its base of operations in Pedro Juan Caballero and an expanded canine-assisted drug detection program. U.S. assistance also supports SENAD operations in the northwestern town of Mariscal Estigarribia. USG-sponsored training programs sent SENAD canine handlers to Guatemala and two agents to Colombia. Other SENAD agents participated in DEA's Special Agent exchange program with Chile, Bolivia, Brazil and Argentina. U.S. assistance also provided operational support and equipment to Paraguay's intellectual property operational unit (UTE), as well as training seminars on intellectual property issues. The USG continued to provide a Resident Legal Advisor (RLA) to assist GOP efforts to pass and implement effective laws to combat money laundering, intellectual property theft and terrorist financing.

The Road Ahead. Although the GOP achieved record-breaking results in seizures and arrests in 2007, it must continue to focus its efforts to target major narcotics trafficking organizations operating in Paraguay. To do that, the GOP will have to allocate additional resources to law enforcement agencies and implement legal tools to facilitate investigations, the seizure and forfeiture of assets and prosecution of major offenders. The GOP must also pass and enact additional anti-money laundering legislation that meets international standards. The USG will continue to support GOP efforts to enhance its institutional capabilities to combat drug trafficking and money laundering, through its bilateral agreement as well as encourage, through diplomatic engagement at the highest levels, strong GOP will to prosecute transnational and organized crime figures. The USG will continue assisting SENAD and other relevant GOP bodies in their efforts to draft, legislate, and implement an asset seizure and forfeiture law, a criminal code and the criminal procedure code.

Peru

I. Summary

In 2007, after some initial concessions to coca growers (“cocaleros”), the Garcia administration took a strong public stance against illicit coca cultivation, made strides to interdict drugs and precursor chemicals, and committed to substantially reduce cocaine production. The GOP exceeded its programmed coca eradication goal of 10,000 hectares by eliminating 11,057 hectares in 2007. Voluntary eradication eliminated an additional 1,016 hectares of coca.

The GOP showed resolve in continuing programmed eradication despite violent attacks by narco-terrorists against counternarcotics (CN) authorities. Interlinking alternative development (AD) and programmed eradication has a proven record of success in reducing coca cultivation. In San Martin, despite initial challenges where communities were threatened and pressured by armed trafficking groups not to sign up for the program, the strong desire of the communities for post-eradication AD benefits won. The program in that region now has a greater demand from communities wanting to join than it can accommodate.

In September at the National Cocalero Conference, and in other public forums, cocalero leaders promoted the legal uses and benefits of coca leaf. Despite this, polls show greater public understanding of the close linkage between illegal coca cultivation and the negative impact of narco-trafficking on Peru and its people. Peru is a party to the 1988 UN Drug Convention.

II. Status of Country

Peru is a major cocaine producing country and is also a major importer of precursor chemicals for cocaine production. In June, the GOP passed law 29037 that modified the Penal Code and Law 28305, imposing stiffer penalties and strengthening procedures to ensure proper handling of controlled chemicals.

2007 was the first year of Peru’s National Drug Plan 2007-2011. The basic policy nexus between interdiction, eradication, and alternative development that underlies U.S. assistance programs remained unchanged, but the new plan has an increased emphasis on development assistance and precursor chemical interdiction. In 2007, Peru made steady progress in strengthening police capacity in areas east of the Andes. An additional 727 police officers with a 3-year commitment to counternarcotics graduated from USG-supported police academies in March, reinforcing the 400 police who graduated in 2005. By the end of 2008, over 3,000 new police will be operating in the source zones. The influx of well-trained police in 2007 allowed the Peruvian National Police (PNP) to effect sustained interdiction in the Apurimac and Ene River Valleys (VRAE) and to carry out eradication in areas of the Huallaga valley that have violently resisted programmed eradication in the past.

While a national cocalero organization exists, dissension in the ranks has stymied attempts at developing a national political movement. The first act of the new leadership of the National Cocalero Congress (CONRACCD), elected in September 2007, was to call for a strike to oppose the eradication operations in Tocache, which failed for lack of local support. At the September Conference, and in other public forums, cocalero leaders have also promoted the legal uses and benefits of coca leaf. Individual local and regional leaders have organized aggressive, and sometimes violent, marches and demonstrations opposing eradication operations.

In the coca source zone of the Upper Huallaga Valley (UHV), cocaleros, incited by their leaders, engaged in violent acts to resist the eradication efforts. The link between narco-trafficking and Shining Path (Sendero Luminoso-SL) terrorist organizations located in the UHV and the VRAE

became increasingly evident in 2007 as narco-terrorists ambushed, injured and killed police and eradication workers, and also threatened alternative development teams.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, positive developments by the GOP included counterterrorism sweeps that led to a spate of arrests of SL collaborators. The Peruvian Congress passed a package of laws addressing organized crime, drugs and terrorism. The Congress strengthened provisions of the Precursor Chemical law of 2004 with passage of Law 29037 and Law 28305, which modified the Penal Code to impose stiffer penalties and strengthened procedures to ensure proper handling of controlled chemicals. In September, the Supreme Court upheld the conviction and 20-year sentence of drug “kingpin” Fernando Zevallos.

The Justice Ministry took steps in 2007 to strengthen its prosecutorial capacity in drug-involved areas by increasing staff and improving investigative and procedural skills. Nonetheless, anecdotal evidence suggests that many judges in such areas remain beholden to narco-interests. In July, the Garcia Administration promulgated a package of legislative decrees against drug trafficking, money laundering, terrorism, extortion, trafficking in persons, and other forms of organized crimes. Included in the package was a law to establish a non-penal asset forfeiture regime in Peru modeled after Colombia’s law, and stronger penalties for money laundering. In July 2007, the Congress passed the package. One modification eliminated the requirement that illegal activities such as drug trafficking and extortion that produce illicit funds has to be proved before assets are seized. This requirement had been a major roadblock in the successful prosecution of money launderers.

Law Enforcement Efforts. By early November 2007, the PNP Narcotics Directorate (DIRANDRO) mounted successful operations in the UHV and the VRAE, destroying over 650 cocaine-production laboratories and 1,824 metric tons (MT) of coca leaf. The PNP also seized over 858 MT of precursor chemicals. Nationwide, USG and Peruvian law enforcement efforts have led to 7.9 MT of cocaine hydrochloride (HCl) and 5.7 MT of cocaine base seized in maritime, airport and land interdictions, and 1.8 MT seized in international operations conducted by the joint Peruvian Customs and National Police Manifest Review Unit (MRU). Peruvian Customs (SUNAT) personnel examined an average of 6,600 containers per month nationwide, compared to 3-4 per month less than two years ago. Nonetheless, traffickers continued to adapt to counternarcotics strategies and tactics, experimenting with new delivery and production methods. Bricks of powder cocaine are no longer the standard method of delivery. Cocaine has been found fixed with barium sulfate and fertilizer and hidden in objects such as piggy banks and plastic avocados. Timber such as mahogany, is also hollowed out and stuffed with cocaine, and jars of pineapple shipped by the caseload have been found with liquid cocaine.

The PNP continued operating Basic Training Academies at Santa Lucia, Mazamari and Ayacucho Police Bases located in the two main coca source zones. In total, 1,547 CN male and female police officers graduated from PNP training academies, including 727 in March and 900 in December. The increase of DIRANDRO personnel in the source zones has contributed to sustained eradication and interdiction operations. An Advanced PNP Officers Tactical Operations Training School has been established in Santa Lucia to enhance leadership and tactical operation skills of officers who will command newly graduated police from the NAS/PNP Basic Training Academies. Additionally, NAS/PNP Pre-Academies have been established adjacent to the Mazamari, Santa Lucia and Ayacucho bases to improve the academic preparation of local applicants for the police entrance exam.

Recognizing that drug-trafficking organizations are not hindered by national borders, Peru’s law enforcement organizations conducted joint operations with neighboring countries. DIRANDRO participated in a drug enforcement strategy conference to address drug trafficking along Peru’s

borders with Brazil, Colombia, and Ecuador, as well as a regional International Drug Enforcement Conference (IDEC) hosted by DEA Peru in February 2007. Peru actively participated in the Counternarcotics Officer Exchange Program with Bolivia, Brazil and Ecuador to enhance cross-border drug enforcement efforts.

Maritime/Airport Interdiction Programs. The USG and GOP cooperated to improve port security and to address increased maritime smuggling at key Peruvian air and sea ports. At the Jorge Chavez International Airport in Lima, interdiction operations netted over 4 MT of cocaine, leading to more than 600 arrests in 2007. Also in 2007, seven drug detection canines and their Peruvian handlers were trained in the United States, doubling Peruvian Customs canine capacity. Since Customs canine detection teams were first deployed in 2006, they have been responsible for the seizure of 10 MT of cocaine HCl.

SUNAT continued to improve its counternarcotics efforts in 2007 by using intelligence to target interdiction efforts and employing technologically advanced equipment to conduct more effective searches. This included USG-provided non-intrusive inspection equipment (NIIE), such as ion-scanners, density detectors, fiber-optics, mobile x-ray units and CAB-2000 scanners in the ports of Callao and Paita. Compared to previous reports of only 48 export containers inspected annually, since the NIIE came into use in 2006, 80,056 containers have been scanned and 2,293 physically inspected in the Port of Callao; 27,171 containers were scanned and 1,744 were physically inspected in the Port of Paita and 1,041 containers have been inspected in warehouses elsewhere in Paita.

The Peruvian Manifest Review Unit (MRU), which receives and analyzes information and intelligence from all Peruvian maritime ports and the international airport in Lima, received a new Peruvian Coast Guard intelligence and monitoring system (“SIMON”) that provides information to the MRU on all fishing boat activity collected by port authorities. Data on all merchant vessels will soon be included. SUNAT disseminated domestic and international alerts leading to multi-ton cocaine and illicit money seizures.

Cultivation/Production. The Government of Peru’s Office of Drug Control (DEVIDA) reported that, according to a United Nation’s assessment, the 51,400 hectares of coca under cultivation in Peru could produce a potential annual harvest of approximately 114,000 MT of coca leaf yielding up to 280 MT of cocaine. Using a Cocaine Production Averted (CPA) formula developed by the GOP and USG, eradication of 12,000 hectares of coca prevented over 38 MT of cocaine from being produced in 2007. The price of coca leaf has risen steadily for the past five years. Except in areas of continuous interdiction though, the number of hectares under cultivation has stabilized with programmed eradication.

Approximately four million Peruvians use up to 9,000 MT of coca leaf for legal purposes each year. The GOP estimates that over 90 percent of coca cultivation goes to narco-trafficking. About 65,000 families are involved in growing, processing coca leaf, and trafficking cocaine HCl and base.

In 2007, the GOP mounted an aggressive eradication campaign in the Upper Huallaga Valley, which spans the Regions of San Martin, Huanuco, and Ucayali. CORAH exceeded their programmed eradication goal for the third year in a row. Success in the eradication campaign is largely attributed to the resolve of the police and CORAH leadership to increase operational security and remain in conflict-prone zones until all coca had been eradicated. Despite the support of programmed and voluntary eradication programs’ many UHV communities’ inspections revealed re-planting by some farmers.

Attacks on police and CORAH personnel are linked to SL terrorists affiliated with narco-trafficking organizations. These narco-terrorists protect drug transportation routes, attack CN personnel, and support their operations through coca cultivation and cocaine production.

Drug Flow/Transit. For the past three years, cocaine HCl has been the principal cocaine product being smuggled from Peru. Cocaine base and HCl are transported from coca production zones, primarily from the UHV and the VRAE, via river, land, and air to Peru's coastal and border areas. Cocaine HCl is exported to Brazil, Europe, Mexico, the Far East, and the United States by sea and commercial air flights. Although the U.S. and Europe are the primary destinations for Peruvian cocaine, U.S. law enforcement and its counterparts in Australia, Hong Kong, Japan, Malaysia, and Thailand have found Peruvian trafficking organizations operating in the Far East. In addition, cocaine HCl is primarily transshipped by land through Bolivia, Brazil, Chile, and Ecuador to consumer markets in the United States and Europe.

Colombians and Mexicans are frequently found, along with Peruvians, to be involved with major drug transportation operations of multi-kilogram and multi-ton loads to Colombia, Mexico, and the Caribbean. Drug intelligence and investigations have detected clandestine airstrips near coca cultivation sites and along Peru's borders, indicating a possible resurgence of drug trafficking by air.

Opium Poppy. Opium poppy cultivation in Peru remains limited but is of international concern. Opiate trafficking, which includes opium poppy cultivation and the production of opium latex and morphine, is concentrated in the northern and central parts of the country. Opium poppy cultivation has also been seen in the UHV and VRAE coca source zones. Opium latex from Peru is shipped overland to Ecuador and Colombia where it is processed into heroin. Minimal eradication of opium poppies (on less than 30 hectares) occurred in 2007, compared to 2006 when over one million amapola plants were seized on approximately 88 hectares, and in 2005 when 92 hectares were eradicated. It is unclear whether this drop in seizures is related to the relocation of opium poppy plantations or decreased cultivation in Peru. Although opium is being harvested for sale in the northern areas of Peru, minimal production of morphine base and heroin has been detected, according to Peruvian officials.

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. There are no current investigations of any GOP officials directly related to drug trafficking.

Extradition and Mutual Legal Assistance. The U.S. and Peru are parties to an extradition treaty that entered into force in 2003. Among the five U.S. extradition and provisional arrests still pending, three are related to narco-trafficking. There were no new extradition requests in 2007. Peruvian law requires an individual to serve his/her sentence in Peru before being eligible for extradition. Consequently, no Peruvians have been extradited to the United States.

Agreements and Treaties. Peru is a party to the 1961 UN Single Convention, as amended by the 1972 Protocol; the 1971 UN Convention on Psychotropic Substances; the 1988 UN Drug Convention; the Inter-American Convention on Mutual assistance in Criminal Matters; the Inter-American Convention Against Corruption; the UN Convention against Transnational Organized Crime and its three protocols, and the UN Convention against Corruption.

Domestic Programs/Demand Reduction. A survey sponsored by the United Nations Office on Drugs, the Organization of American States, DEVIDA and NAS showed that illegal drug use is increasing at all levels of Peruvian society. Drugs are inexpensive and easy to obtain with marihuana considered the most prevalent drug consumed, followed by cocaine HCl and cocaine base. Peruvian public opinion surveys revealed the growing recognition of the active role of coca

farmers in drug trafficking and the influence of narco-traffickers over coca grower organizations. Over 77 percent of those polled recognized that most coca leaf is destined for narco-trafficking; 61 percent acknowledged that coca growers are part of the drug supply chain. The change in Peruvian perceptions about coca growing and the complicity of coca farmers in narco-trafficking is to a great extent due to concerted USG and GOP efforts to inform the public in the media, via press, television and radio and among Peruvian government officials. This includes a year-long prime-time counternarcotics radio advertisement campaign on “Radioprogramas del Peru” that reached an audience of several million Peruvians every day.

In 2007, the USG supported local NGOs which developed 6 additional community counternarcotics coalitions (CAC) in poor communities in Lima. The US-based NGO Community Anti-Drug Coalitions of America (CADCA) provided technical assistance in the development of CACs that included training on recognizing ineffective, corrupt public institutions and resurrecting weak civil-society organizations. With Peruvian communities also actively supporting CACs by donating time and resources, the CAC model can be sustained to reduce drug use.

Alternative Development (AD) Program. The AD program in Peru has achieved sustainable reductions in coca cultivation through an integrated approach that increases the economic competitiveness of coca-growing areas while improving local governance. The program works to change perceptions and the long-term behaviors of coca farmers for the long term. At the close of its fifth year, a total of over 63,500 families had committed to the voluntary eradication program, eradicating a total of over 15,100 hectares of coca in their communities. In FY 2007, 9,976 families joined the voluntary eradication program, pulling up over 2,000 hectares of coca. Infrastructure and productive activities in voluntary eradication communities have resulted in the completion of more than 640 community-selected infrastructure projects since the program began in 2002.

The core of the AD program—technical assistance to farmers so that they can grow alternative crops – ensured that in FY 2007 over 30,000 family farmers received technical assistance on 48,700 hectares of licit crops, including cacao, coffee and African oil palm. In FY 2007, AD assistance to the licit economy in AD areas resulted in approximately \$5 million of additional licit sales for those organizations in districts where voluntary eradication is taking place.

The post-programmed eradication alternative development program, launched in the final months of FY 2006, has made solid gains and is changing the hard-core coca-based mindset of the Tocache community. Post-programmed eradication looks to keep eradicated communities from replanting, making the programmed eradication sustainable. In FY 2007 in Tocache, 2,899 families in 48 communities signed non-replanting agreements bringing the total to 5,868 families and 87 communities in post-eradication AD. As USAID and CORAH identify future areas for expanded post-eradication alternative development, Tocache serves as an example to other communities that a viable alternative to coca cultivation does exist.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG continues to support the GOP’s CN operations in the main drug source zones of the UHV and the VRAE, including eradication and interdiction. In 2007 the USG provided assistance to the Basic Training Academies, pre-Academies, and the Advanced Officer Training School. A PNP Canine Training Program was implemented at Santa Lucia with support of U.S. Customs. The canine teams are being trained to detect improvised explosive devices in open fields where eradication and helicopter operations take place. They will also support mobile road interdiction units to detect precursor chemicals, drugs, and money transiting through the source zones. The overarching goal of all these programs is to assist the GOP in increasing state presence and security and to increase operational effectiveness in coca zones. In 2007, the USG also

provided maritime interdiction and law enforcement training to the Peruvian Navy and Coast Guard.

Regional Aerial Interdiction Initiative Program (RAII). In 2005, the GOP and USG signed the Cooperating Nation Information Exchange System (CNIES) Agreement. This enables the USG and other cooperating nations to share intelligence concerning aerial drug trafficking. In 2007, the USG provided CNIES training for Air Force of Peru (FAP) personnel; assisted the FAP establish radar coverage in areas suspected of being aerial trafficking routes; and conducted RAI Joint training exercises with Brazil and Colombia. The FAP C-26s provide critical overhead real time coverage for eradication workers, eradication police, and army personnel in the field through the Forward Looking INFRARED Radar (FLIR) also used to map suspected clandestine runways in Peru.

The Road Ahead. The USG and GOP CN efforts will continue to focus on the core commitments to interdiction, eradication and alternative development, supported by USG aviation assets to reduce net coca cultivation and cocaine production substantially. This will be facilitated in the maritime transit zone by an agreement on Operational Procedures expected to take effect early in 2008. The GOP's 2007-11 CN strategy reflects this emphasis on control and interdiction of precursor chemicals, drug seizures, reduction in coca cultivation, enforcement of money-laundering laws, reduction of drug use and improvement of economic conditions to reduce dependency on coca cultivation.

As an integral part of the 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 GOP will continue to strengthen CN police presence east of the Andes by training 3,200 new police cadets by early 2009, thereby helping improve security and stem drug flows at air and seaports. Basic and specialized courses will continue at the three PNP Basic Training Academies and a new canine training site will be constructed at two additional locations. Specialized US-based training, i.e. pilot, aircrew and maintenance training, will also be necessary to enhance the capacity of the PNP and further the nationalization of the aviation support program.

USG CN efforts also require the continuation of the Alternative Development Program, which directly supports the interdiction and eradication programs by providing options to coca cultivation and discouraging replanting, and sustaining eradication gains. The USG will work with NGOs, universities and the media to sustain an counternarcotics and education campaign and to expand presence and influence in coca-growing regions. Continued strong political will and the commitment of CN resources by the GOP are fundamental to their success.

V. Statistical Table

Coca	2007	2006	2005	2004	2003	2002	2001	2000	1999
Net Cultivation1 (ha)	TBD	37,000*	34,000	27,500	29,250	34,700	32,100	31,700	34,700
Eradication (ha)**	11,057	10,136.58	8,966.26	7,605.48	7,022.03	7,133.96	6,436.01	6,206.33	14,733.03
Leaf: Potential Harvest 3 (MT)***	TBD	50,000	56,300	48,800	41,000	49,000	42,500	42,000	41,000
HCl: Potential (MT)***	TBD	245	240	230	245	280	255		
Seizures									
Coca Leaf (MT)	1,824	14.6	11.3	7.6	11.5	7.1	6.4	9.0	14.7
Coca Paste (MT)	7.5	5.1	4.5	6.4	4.3	10.4	6.2	1.6	7.2
HCL (MT)	7.9	14.1****	11.7	7.3	3.5	4.1	2.9	2.8	4.2
Combined HCL&Base (MT)	15.4	19.2	16.2	13.7	7.8	14.5	7.1	4.4	11.4
Agua Rica 4 (ltrs) no registered data registered in Dirandro statistics	0	0	0	0	0	0	0	0	0
Arrest/Detentions	11,197	7,633	11,260	10,149	10,608	13,158	13,343	2,836	15,557
Labs Destroyed	650	724	1,126	821	964	238	72	97	51
Cocaine HCl	16	11	22	11	9	0	0	0	0
Base	627	713	1,104	810	955	238	72	97	51

* CNC 2006 Coca Estimate for Peru does not include the Cusco area.

** Hectares eradicated 2007 as of October 17th (missing info for one front)

*** New revised 2007 breakthrough figures

****Includes 6 MT F/V/ seizure

Uruguay

I. Summary

Uruguay is not a major narcotics producing or transit country. However, free trade zones afford relative anonymity for the movement of cargo, including illicit substances. The country's strategic position and its porous land border with Brazil further highlight its vulnerability to drug-trafficking. Another area of concern is increasing local consumption of the highly addictive, cheap cocaine-based product known as "pasta base". Efforts to upgrade port security and customs services advanced slowly in 2007, limiting inspection of containers at maritime ports and cargo shipments at the international airport. Uruguay is a party to the 1988 UN Drug Convention.

II. Status of Country

Uruguay is not a major narcotics producing or transit country, but it continues to be attractive to drug traffickers from Colombia, Bolivia, Paraguay, Brazil and Mexico as a transit point. Limited inspection of airport and port cargo makes Uruguay an attractive transit point for contraband, including chemical precursors to Paraguay and elsewhere. Although precursor chemical controls exist, they are difficult to monitor and enforce. This is due to the lack of Uruguayan Customs' ability to effectively monitor and inspect cargo traffic through border crossings and its tendency to focus more on contraband than precursor chemical shipments. Relatively weak controls at the port of Montevideo contrast with the enhanced container security initiatives at other ports in the region such as Santos, Brazil and Buenos Aires, Argentina. According to the Government of Uruguay (GOU), shipping containers transiting to or from other MERCOSUR countries are rarely inspected in Uruguay. Colombian and Bolivian traffickers have smuggled cocaine into Uruguay by flying directly into remote regions from Bolivia, using make-shift airstrips located on foreign-owned residential farms.

Uruguayan counternarcotics police units continue to target clandestine facilities used for processing, refining, and shipping Bolivian coca as well as distribution centers for local "pasta base." The local demand for inexpensive "pasta base," increased again in 2007, as did the incidents of crime related to this drug, according to the Uruguayan National Police's Counternarcotics Division (DGRTID). Additionally, in Uruguay, individual drug use is not viewed as a criminal offense. Rather, users are sent for rehabilitation in ever-increasing numbers, which has created an overcrowding problem in Uruguay's rehabilitation centers that the GOU is not yet equipped to deal with.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, the GOU continued to make counternarcotics a policy priority. The National Drug Secretariat enhanced drug rehabilitation and treatment programs and continued demand reduction public awareness campaigns focused on minors and young adults through print media campaigns and telephone hotline advertisements warning against the use of drugs. 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 2007, the GOU seized 657 kilograms (kg) of cocaine in both national and international counternarcotics operations—an increase over the 418 kg seized in 2006. The GOU also seized 84 kg of "pasta base" in 2007, down slightly from 93 kg in 2006. There were no heroin seizures reported or cocaine labs destroyed in 2007. Additionally, the GOU made 1,923 drug-related arrests, which lead to 486 convictions and resulted in 13 imprisonments.

Law Enforcement Efforts. Of the GOU agencies with charters for narcotics-related law enforcement, DGRTID continued to be the most effective. Internal coordination between GOU agencies remained difficult because they report to different ministries, but coordination between DGRTID and their regional counterparts continued to result in successful counternarcotics operations.

Corruption. As a matter of policy, no senior GOU official or the GOU, encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. Transparency International rates Uruguay as one of the least corrupt countries in Latin America. The GOU Transparency Law of 1998 criminalizes various abuses of power by government authorities 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.

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, as amended by the 1972 Protocol; the Inter-American Convention Against Corruption; the Inter-American Against Terrorism; the Inter-American Convention Against Trafficking in illegal Firearms; the UN Convention against Transnational Organized Crime and its protocols on Trafficking in Persons and Migrant Smuggling; and the UN Convention against Corruption. It is also a member of the OAS Inter-American Drug Abuse Control Commission (CICAD). The USG and Uruguay are parties to an extradition treaty that entered into force in 1984, a Mutual Legal Assistance Treaty that entered into force in 1994, and annual Letters of Agreement through which the USG funds counternarcotics and law enforcement programs. Uruguay has also 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 task force Grupo de Accion Financiera de Sudamerica (GAFISUD).

Cultivation/Production. Although small marijuana plots have been discovered in previous years, none were found in 2007. No other illegal drugs are produced in Uruguay.

Drug Flow/Transit. According to DEA, Uruguay is used as a drug-transit country. Narcotics are generally transported to Brazil for domestic consumption and onwards to the U.S. and Europe. Limited law enforcement presence along the Brazilian border and increased U.S. pressure on traffickers in Colombia, Bolivia and Peru is shifting some smuggling routes south, and drugs are moving through Uruguay by private vehicle, bus, and small airplanes. For example, during a large-scale DGRTID operation in 2007, they intercepted a large half-ton shipment of cocaine was intercepted, coming from Bolivia, via a small plane landing on an improvised airstrip in the province of Salto.

Demand Reduction. Uruguay’s demand reduction efforts focus on developing prevention programs, rehabilitation and treatment. These programs are based on a strategy developed cooperatively in 2001 between the National Drug Secretariat, public education authorities, various government ministries, municipalities and NGOs. In 2007, the National Drug Rehabilitation Center continued to train health care professionals, and sponsored teacher training, public outreach, and programs in community centers and clubs. The program, known locally as the “Portal Amarillo,” a drug rehabilitation clinic and hotline, continued services for both in-patient and out-patient drug users in northern Montevideo, targeting specifically “pasta base” addicts. Staffed by recent graduates of Uruguay’s largest nursing school, it services about 200 patients a week and has 21 beds. Uruguay continues to develop methods to track trends in drug use in youth populations, including secondary schools and prisons.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. strategy has been to prevent Uruguay from becoming a major narcotics transit or processing country. USG assistance to the GOU included support to demand reduction programs, narcotics interdiction operations and police training. The availability of International Military Education and Training (IMET) funds in FY 2007 permitted the USG to provide maritime law enforcement leadership and port security training to the Uruguayan Navy and Coast Guard.

The Road Ahead. Uruguayan law enforcement authorities continue to work well with their regional DEA counterparts based in Buenos Aires. In light of Uruguay's increasing consumption problem, and the evolving drug trafficking threat, the GOU should continue its narcotics interdiction operations, and maintain an effective demand reduction program that includes efforts to decrease the use of "pasta base."

Venezuela

I. Summary

Venezuela is a major drug-transit country with rampant high level corruption and a weak judicial system. Lack of international counternarcotics cooperation and a shift in trafficking patterns through Venezuela enable a growing illicit drug transshipment industry. Despite continued USG efforts to sign a mutually agreed upon addendum to the 1978 USG-Government of Venezuela (GOV) Bilateral Counternarcotics Memorandum of Understanding, Venezuela has refused to cooperate on most bilateral counternarcotics issues. Consequently, the President determined in 2007, as in 2006 and 2005, that Venezuela failed demonstrably to adhere to its obligations under international counternarcotics agreements. Venezuela is a party to the 1988 UN Drug Convention.

II. Status of Country

A permissive and corrupt environment in Venezuela, coupled with counternarcotics successes in Colombia, has made Venezuela one of the preferred routes for trafficking illicit narcotics out of Colombia. While the majority of narcotics transiting Venezuela continue to be destined for the U.S., a rapidly increasing percentage has started to flow towards western Africa and onwards to Europe. The movement of drugs has compounded Venezuela's corruption problem, and increased the level of crime and violence throughout the country.

III. Country Actions against Drugs in 2007

Policy Initiatives. The GOV announced plans for several programs in 2007, including a new counternarcotics task force under the National Anti-Drug Plan and a hotline to report drug crimes. Additionally, GOV National Counternarcotics Office (ONA) Director, Nestor Reverol, indicated that new radar purchased from China will be used to scan Venezuelan airspace for illegal drug transits. Because these initiatives all appear to be in the planning phase, it is difficult to assess their impact.

Since 2005, the GOV has refused nearly all counternarcotics cooperation with the USG, and has undermined USG efforts to collaborate with state and municipal governments. Initially, the GOV refused to sign a renewal of cooperation until both parties signed an addendum to the 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, the USG negotiated a mutually acceptable version in December of 2005.

Despite repeated assurances from senior GOV authorities and agreement on two signing dates, however, President Hugo Chavez has not yet authorized the signing of the addendum to the MOU. The senior GOV officials who negotiated the addendum eventually left their positions, and their successors have publicly stated that the GOV will neither sign a bilateral agreement nor cooperate with the USG on counternarcotics. One official, former Minister of Interior and Justice Pedro Carreño, repeatedly justified this position in 2007 by asserting publicly that the Drug Enforcement Administration (DEA) operates as a "new cartel." This lack of counternarcotics cooperation reflects the general chilling of bilateral relations over the past few years. Given the GOV's refusal to cooperate, the President determined in 2007, as in 2006 and 2005, that Venezuela failed demonstrably to adhere to its obligations under international counternarcotics agreements. The GOV did, however, formalize and expand counternarcotics cooperation with Germany, the Netherlands, and the UK.

Law Enforcement Efforts. Venezuelan police and prosecutors do not receive sufficient training or equipment to carry out counternarcotics investigations properly. Moreover, due to the lack of effective criminal prosecutions, politicization of investigations, and high-level corruption, the public has little faith in the judicial system. Within this environment, organized crime flourishes, while small seizures and arrests are limited to low-level actors.

Seizures of illicit drugs within Venezuela dropped substantially in 2007, while seizures of drugs coming out of Venezuela by other countries, including the U.S. and the United Kingdom, rose sharply. The increase in third country seizures, including some multi-ton seizures, comes despite the GOV's limited counternarcotics cooperation.

The GOV reported seizures of 28 metric tons (MTs) of cocaine in 2007, significantly less than claimed seizures in 2006 (38.9 MT) and 2005 (58.4 MT). Moreover, these figures include seizures made by other countries in international waters that were subsequently returned to Venezuela, the country of origin. Discounting these seizures, DEA Caracas estimates that GOV authorities seized between 8 and 12 MT of cocaine in 2007. Additionally, the GOV reported seizing 109 kilograms of heroin (a 50 percent reduction from 2005), 19 MT of marijuana and 19,000 Ecstasy tablets.

Precursor Chemical Control. In 2007, as in 2006, the GOV did not participate in Seis Fronteras, an annual USG-supported chemical control operation that normally includes Venezuela, Colombia, and other neighboring countries. GOV officials reported they are confident that the National Registry to Monitor Precursor Chemicals, established in 2006, 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 to illicit use, an automated system to track and identify irregularities, and the resources needed for regular and spot inspections.

Demand Reduction. Since 2005, Venezuelan law has required that companies with more than 200 workers donate one percent of their profits to the National Anti-Drug Office (ONA). ONA can then dispense the funds to demand reduction programs carried out by ONA-approved NGOs or run their own programs. This is a significant departure from how the program functioned under ONA's predecessor organization (the National Commission Against Illegal Drug Use, or CONACUID), when companies made donations directly to CONACUID-approved NGOs, instead of to CONACUID.

Two complications have hindered implementation of the 2005 law. First, ONA has been slow to certify the numerous NGOs involved in demand reduction. Several NGOs claim to have been denied ONA certification for being linked to opposition parties, while those NGOs receiving assistance from the USG find it particularly difficult to receive ONA certification. Second, legal challenges to the requirement that funds be donated directly to ONA have frozen the 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 due to lack of funding.

The GOV does not track statistics on drug abuse and treatment, with the exception of a 2005 ONA survey, which suggested that drug abuse among Venezuelan youth was decreasing. However, the accuracy of that survey is uncertain, and various NGOs report that, in fact, drug abuse may be on the rise.

Corruption. Public corruption continued to be an issue for Venezuela in 2007. Press reports suggest that Venezuelan security forces often facilitate or are themselves involved in drug trafficking, particularly the special counternarcotics units of the National Guard and the Federal Investigative Police. Security forces routinely take bribes in exchange for facilitating drug shipments, and seizures are most likely to occur when payoffs have not been made. Even when seizures occur, the drugs are not always turned over intact for disposal, and seized cocaine is sometimes returned to drug traffickers.

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, and has signed, but not yet ratified, the UN Convention against Corruption.

The GOV has also signed a number of bilateral agreements with the U.S., including a customs mutual assistance agreement and a 1991 ship-boarding agreement updated in 1997 that authorizing the USG to board suspect Venezuelan flagged vessels on the high seas. While a 1978 Memorandum of Understanding concerning cooperation in counternarcotics was signed, a necessary addendum to extend the agreement drafted in 2004 remains unsigned despite repeated USG requests.

Extradition and Mutual Legal Assistance. The U.S. and Venezuela are parties to an extradition treaty that entered into force in 1923. The 1999 Venezuelan constitution bars the extradition of its nationals. Non-Venezuelans can be extradited, but Venezuelan judges almost always attach 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 to the U.S.

Cultivation/Production. Illicit crop cultivation and drug production in Venezuela have not been significant historically. While some coca cultivation does occur along Venezuela's border with Colombia, particularly in the southern Amazonas State, the levels are most likely less than 250 to 350 hectares. Periodic GOV eradication operations are carried out, though none were officially reported in 2007.

Drug Flow/Transit. As Colombia's Air Bridge Denial program continues to successfully shut down transit routes out of western and southern Colombia, the 2,200-mile porous border with Venezuela has become more attractive to traffickers. Drug traffickers now routinely exploit a variety of routes and methods to move hundreds of tons of illegal drugs on the Pan-American Highway, the Orinoco River, the Guajira Peninsula, and dozens of clandestine airstrips. While the majority of illicit drugs transiting Venezuela are destined for the U.S., traffickers use Venezuela to stage the shipments of drugs to Europe. Venezuelan traffickers have been arrested in The Netherlands, Spain, Ghana, the Dominican Republic, Mexico and other countries.

The USG estimates that around 250 MTs of cocaine transit Venezuela annually via private aircraft using clandestine airstrips and maritime routes. The amount of cocaine moving through Venezuela by private aircraft has increased from 27 MTs in 2004 to approximately 150 MTs in 2007, representing about 60 percent of the transits, per the Joint Interagency Task Force-South. Traffickers also use maritime cargo containers, fishing vessels, and go-fast boats to move the narcotics to principal markets in the U.S. and Europe. Additionally, cocaine and to a lesser extent, heroin, continue to be routinely smuggled through Venezuela's commercial airports.

Illicit narcotics destined for the U.S. from Venezuela are shipped through the Dominican Republic, Haiti, Central America, Mexico, and other Caribbean countries. The narcotics destined for Europe are then shipped directly to several countries in Europe, especially Spain, or are shipped through the eastern coastal waters of Venezuela and the Caribbean to west Africa, notably Guinea and Guinea Bissau. Multi-kilogram shipments of cocaine and heroin are also mailed through express delivery services to the United States.

According to USG sources, Colombian guerrilla and paramilitary organizations, including two designated Foreign Terrorist Organizations (FTOs), the Revolutionary Armed Forces of Colombia

(FARC) and the National Liberation Army (ELN), are linked to the most aggressive and successful drug trafficking organizations in Venezuela. The FARC and ELN often cross into Venezuela to facilitate trafficking activities, for rest and relaxation, and to evade Colombian security forces, often with the collusion of some elements of the Venezuelan security forces.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The GOV has minimized all counternarcotics related cooperation and contact with the USG. Despite repeated requests, the GOV has not signed an MOU addendum with the USG since 2005.

In 2007, the GOV ended the judicial sector's participation in several USG-funded United Nation's Office of Drugs and Crime (UNODC) programs, and indicated to the UNODC that the GOV would not participate in any programs receiving USG funds. While the USG continues to reach out to traditional counternarcotics contacts in the GOV, increasing support has been given to non-traditional partners, including NGOs involved in demand reduction, and regional and municipal government anticrime and counternarcotics programs.

The GOV has not made the USG-funded Container Inspection Facility (CIF) at Puerto Cabello operational. Completed in late 2006, the CIF was intended to provide a venue and equipment (forklifts, tools, and safety equipment) for Venezuelan authorities to unload and examine containers in a safe and protected environment. Now, despite the fact that the USG estimates 70 percent of narcotics from Colombia transit the Tachira-Puerto Cabello corridor, the facility remains unused. The Port Authority of Puerto Cabello threatened in late 2007 to take over the facility, although the GOV-approved project stipulated that it must be used for counternarcotics activities. The threat of a takeover by the Port Authority puts at risk one of the few remaining areas of bilateral cooperation.

A number of private Venezuelan companies are still enrolled in the U.S. Customs Service's Business Anti-Smuggling Coalition (BASC) program. This program seeks to deter smuggling, including narcotics, in commercial cargo shipments by enhancing private sector security programs. Despite initial progress, the difficult relations between the USG and the GOV have slowed the pace of this program in both the Valencia and Caracas BASC chapters.

Signs of progress do exist. The Venezuelan government still continues to authorize the USG to board Venezuelan flagged vessels on the high seas suspected of being engaged in narcotics trafficking. In one such incident in October 2007, the GOV permitted a joint U.S. Coast Guard—Royal Navy Group to board a drug-laden Venezuelan-registered vessel in international waters after some delay. Also in October, at the presentation of the new U.S. Ambassador's credentials, President Chavez indicated that Venezuela and the U.S. should look for areas to renew cooperation and cited counternarcotics as one such area.

The Road Ahead. In 2008, the USG remains prepared to renew cooperation with Venezuelan counterparts to fight the increasing flow of illegal drugs. One clear step for the GOV to make would be to conclude signing the outstanding MOU addendum, which would free up funds for joint counternarcotics projects. Another would be to start stemming the rise in drug transits from Colombia by working with the USG to retain and make operational the Container Inspection Facility (CIF) at Puerto Cabello. Once these first steps are taken, the USG and GOV can begin restarting other stalled projects, including the development of a drug intelligence fusion and analysis center and the initiation of riverine interdiction operations on the Orinoco River. These steps would help to dismantle the growing organized criminal networks, and aid in the prosecution of criminals engaged in trafficking.

**CANADA, MEXICO AND
CENTRAL AMERICA**

Belize

I. Summary

Belize is part of the drug trans-shipment corridor to the United States. The Government of Belize (GOB) collaborated with United States on joint counter narcotics operations and investigations in 2007 and on the apprehension and return of U.S. fugitives wanted in the United States. Belize is party to the 1988 UN Drug Convention.

II. Status of Country

Belize's geography makes it part of the trans-shipment corridor for illicit drugs between Colombia and Mexico and the U.S. Its borders with Guatemala and Mexico, unpopulated jungles, navigable inland waterways, and unprotected coastline with hundreds of small keys and islands make it vulnerable to trafficking, while limited infrastructure and a small population hamper authorities' ability to counter the threat. The Belize Police Department (BPD), the Belize Defence Force (BDF), the International Airport Security Division, and the Belize National Coast Guard (BNCG) participate in counternarcotics efforts. Ineffective anti-money laundering legislation and weak enforcement of laws regulating offshore financial interests contributed to an increase in money laundering incidents. To date there have been no arrests and/or prosecutions in Belize for any money laundering offenses.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, the GOB submitted legislation requesting wider authority relative to intelligence collection and electronic intercepts as well a draft for a Chemical Precursors Control Act.

Law Enforcement Efforts. In 2007 the Belize Police Department (BPD), Belize Defense Force (BDF) and Belize National Coast Guard (BNCG) conducted several counternarcotics operations with USG assistance. The BPD and BDF continue joint border patrols in order to monitor illegal entry points into Belize that are also used as routes for smuggling cocaine and marijuana over land. The BDF formed a maritime unit that will be responsible for patrolling Belize' inland waterways and the BNCG continued patrolling the coastline and islands. The Belize National Forensic Science Services (NFSS) laboratory increased its technical capacity through training provided by the USG.

Seizures in 2007 include: 32.7 kilograms (kg) of cocaine, 486.2 kg of marijuana, 27,873 Marijuana plants and minor quantities of other drugs. Three thousand U.S. dollars was seized. and law enforcement made 1,167 arrests in drug cases. It is difficult to obtain convictions on drug crimes because the Public Prosecutions office lacks staff, resources and training.

Corruption. As a matter of policy, neither the GOB nor any senior official in the government encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. However corruption exists, sometimes on a grand scale. In February 2007, Belize's former Ambassador to Central America, traveling on his fourteenth trip to Panama in four months (under a no longer valid diplomatic passport) was arrested and accused of bribing customs officials in Panama. Approximately \$1 million was found in his suitcase. To date there has been no official response from the GOB nor has final adjudication of the case been reported.

In June 2001, the GOB signed the OAS Inter-American Convention against Corruption. It also supported the revival of the Committee on Public Probity and Ethics to review implementation of

the convention. However Belize is not a party to the UN Convention against Corruption. No laws specifically cover narcotics-related public corruption. Although corruption in general is covered under the 1994 Prevention of Corruption in Public Life Act, the GOB takes limited legal and law enforcement measures to prevent and punish public corruption. The Act's Integrity Commission, which has powers to investigate corruption and impose civil penalties, has sanctioned no government officials despite many allegations. To date no government officials have been punished under the Act. There is no direct evidence of narcotics-related corruption within the government, but other kinds of corruption are suspected in several areas of the government and at all levels. In 2007 there were several high profile cases of conflict of interest or suspected or confirmed corruption in high levels of the government.

Agreements and Treaties. Belize has been a party to the 1988 UN Drug Convention since 1996. Belize is one of three countries that have 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). 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 that entered into force in March 2001, and the Inter-American Convention on Serving Criminal Sentences Abroad that entered into force in 2005. The U.S.—Belize Mutual Legal Assistance Treaty (MLAT) entered into force in 2003, but was not implemented by the GOB until 2005. While assistance in the capture and repatriation of U.S. fugitives is excellent (13 fugitives deported in 2007, response to other U.S. requests for assistance has been slow, and a 2005 U.S. request for clarification of the standard of review in the extradition treaty remains pending. Belize is a party to the UN Convention against Transnational Organized Crime and its 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.

Cultivation/Production. A small amount of locally consumed marijuana is cultivated in small, scattered plots in Belize. There is no evidence of trafficking in precursor chemicals in Belize, nor are there industries in Belize requiring the import of precursor chemicals.

Drug Flow/Transit and Distribution. Cocaine is trans-shipped through Belize's 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, transshipment along navigable inland waterways and remote border crossings. BPD reports that in 2007 there is an increase of arrests/seizures of marijuana imported from Guatemala. 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) coordinates GOB's demand reduction efforts through education, counseling, rehabilitation, outreach, and a public commercial campaign. In 2007 the U.S. provided additional support for the United Nations Office against Drugs and Crime (UNODC) assessment of treatment, rehabilitation and social integration facilities for drug abusers in Belize. Through the Organization of American States' Inter-American Drug Abuse Control Commission (CICAD), the U.S. also supported school-based substance abuse prevention and life skills education.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2007, the U.S. continued to assist the GOB in developing a sustainable infrastructure to combat drug trafficking and to work with them on investigations of drug trafficking. The USG provided support to the Belizean Forensic Laboratory to improve investigations and prosecution of crimes; programs for at-risk school youth and prison drug rehabilitation; and maritime security and law enforcement. The USG also provided maritime law

enforcement training to the BNCG, including courses in search and rescue, engineering and logistics, port security, small boat operations, and professional development training. Belize has a cadet attending the U.S. Coast Guard Academy as a member of the class of 2010. The USG continues to provide technical assistance for developing and implementing an appropriate legislative framework to provide the BNCG with clear authorities to interdict drugs.

The Road Ahead. The GOB needs to pass and implement pending legislation requesting wider authority relative to intelligence collection and electronic intercepts and a Chemical Precursors Control Act. Belize needs to adequately fund and train prosecutors in the Public Prosecutors office to reach convictions in narcotics cases.

The USG will assist the GOB to improve its maritime interdiction capabilities through training, the construction of a BNCG forward operating base in the offshore islands and donation of equipment and boats through Enduring Friendship.

Canada

I. Summary

Canada has an active strategy to combat illicit drug use, production and distribution, and in October 2007 launched a revised National Anti-Drug Strategy, which combines treatment and prevention with proposed tougher enforcement measures for producers and traffickers. Laws passed in the United States and Canada in recent years; including Canada's implementation of the Precursor Control Amendments to the Controlled Drugs and Substances Act in 2006 have had a significant impact on the availability of precursor chemicals in Canada. U.S.-Canadian law enforcement teams have worked closely together to disrupt drug smuggling operations, however, trafficking of marijuana and ecstasy (MDMA) continue at high levels. Canada is identified as a country of concern based on the extensive sourcing of MDMA and marijuana to the United States. Canada-United States counternarcotics co-operation is extensive and productive, but more effective Canadian action is necessary to meet ongoing enforcement objectives. Canada is party to the 1988 UN Drug Convention, and a member of the UN Commission on Narcotic Drugs.

II. Status of Country

While Canada is primarily a drug consuming country, it is also a significant producer of high-quality marijuana and 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). Commercial marijuana cultivation thrives in Canada in part because growers previously did not face strict legal punishment. The marijuana industry is becoming increasingly sophisticated, and MDMA production has reached unprecedented levels of capacity.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In October, 2007 the Canadian government announced a revised new National Anti-Drug Strategy, which provides an additional \$59 million over two years for treatment, a focused public awareness campaign targeted at youth, and enhanced enforcement. The new Strategy builds on and refocuses existing programs currently supported by \$358 million in annual funding. Of the new money, \$20 million is for hiring more police and prosecutors for counternarcotics teams involved in identifying and closing down grow operations and drug manufacturing sites, and enhancing the capabilities of the Canadian Border Services Agency (CBSA) to stop drugs at the border. It will also enhance the "proceeds of crime" program, which enables the seizure of funds and assets acquired through the sale of illicit drugs. Stronger enforcement is balanced with programs for drug addicts, which are discussed in the Domestic Program section of this report. The Canadian government has also introduced complementary legislation that proposes mandatory minimum prison sentences for individuals convicted of serious drug offences, including marijuana growers and producers and dealers of crystal methamphetamine and crack cocaine. The bill would set mandatory minimum terms ranging from six-months for growing one marijuana plant to two years for dealing cocaine, heroin, or methamphetamine to young people or for running a marijuana growing operation of at least 500 plants. The bill would double the maximum prison term for cannabis production from seven to fourteen years. In October 2007, the Government also introduced legislation to give police better tools to detect and investigate drug and alcohol impaired driving and to increase penalties for this offense.

Law Enforcement Efforts. In 2007, coordinated efforts between Canadian and United States law enforcement agencies resulted in significant interdictions of drugs arriving in Canada and the United States by air, passenger vehicle, truck, small aircraft, and ship, as well as seizures from

Canadian drug growing operations. Drugs seized include marijuana, cocaine, heroin, methamphetamine, hashish and MDMA. Some examples include a January operation where CBSA seized 100 kgs of cocaine from a tractor-trailer entering Canada from the United States; an April operation at Toronto Ontario's Pearson International Airport, where the CBSA and the RCMP seized 100 kgs of drugs worth more than \$9.2 million, one of the largest drug seizures ever at the facility; and in May, when the RCMP seized 75,000 doses of heroin worth approximately \$21.1 million at Pearson Airport and in Scarborough, a suburb of Toronto. Southeast Asia has been a more typical point of origin for smuggled heroin, raising suspicions among Canadian law enforcement officials that Colombian drug syndicates have formed an alliance with Asian crime groups to distribute heroin in Toronto.

In July, the Toronto Airport Drug Enforcement Unit broke up a cross-border smuggling ring at Pearson Airport in Ontario. Department of Homeland Security Immigration and Customs Enforcement (DHS/ICE) and the Drug Enforcement Administration (DEA) were partners in the investigation, which netted approximately 39 kgs of MDMA tablets destined for the United States, as well as 3 kgs of cocaine and 3.6 kgs of marijuana for local distribution. Also in July, cooperation between DEA, Chicago Police, and the Toronto Police Service led to the successful dismantling of a large narcotics smuggling organization that netted more than 454 kgs of marijuana with a wholesale value of over \$4 million, 38.6 kgs of cocaine, and \$350,000 in cash, and resulted in four arrests.

In addition, there have also been a number of cases of chemical trafficking. In April, the State of Maine's Drug Enforcement Agency arrested seven drug traffickers in Aroostock County for trafficking methamphetamine tablets produced in Canada.

The overall trend for 2007 law enforcement efforts was consistent with the previous two years of reasonably effective joint drug enforcement efforts against steady and diverse patterns of traffickers.

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 a party to the UN Corruption Convention and to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons. 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 U.S. and Canada 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. Canada has in force 50 bilateral mutual legal assistance treaties and 66 extradition treaties. Judicial assistance and extradition matters between the U.S. and Canada are made through a mutual legal assistance treaty (MLAT), an extradition treaty and protocols.

Cultivation/Production. Although much of the marijuana produced in Canada is intended for domestic markets, and generates enormous profits for organized crime, cross-border smuggling remains a concern. Commercial marijuana cultivation thrives in Canada in part because growers previously did not face strict legal punishment. Ethnic Chinese and Vietnamese organized-crime organizations use technologically-advanced organic growing methods. Large-scale marijuana grow operations are primarily located in British Columbia, Ontario and Quebec. The Ontario Association of Chiefs of Police estimates that 85 percent of marijuana growing operations in Ontario are linked to organized crime. According to RCMP seizure data, 1,749,057 marijuana plants were seized in 2006. 2007 seizure data will not be available until August 2008. The RCMP reports the involvement of ethnic Chinese and Vietnamese organized-crime organizations in technologically-advanced organic grow methods that produce marijuana with elevated delta-9-tetrahydrocannabinol (THC) levels. The marijuana industry in Canada is becoming increasingly sophisticated, with organized crime groups relying on marijuana sales as a primary source of income and “reinvesting” the profits to finance other illicit activities. The RCMP reports that Canadian marijuana is trafficked to the United States and exchanged for currency, firearms, and cocaine. The strong presence of Indo-Canadian criminal groups in the Canadian trucking industry has resulted in reported cases of their involvement in such cross-border polydrug shipments.

The interest of organized crime in the methamphetamine trade has grown significantly since 2003. Canadian crime groups have exploited the addictive properties of methamphetamine as a means to market other synthetic substances, for example, adding methamphetamine as a secondary ingredient in MDMA tablets produced in domestic clandestine laboratories, thus reinforcing the need for effective enforcement. Canada has emerged as the primary source of supply of MDMA to both the domestic and United States markets, and to a lesser extent, to Asia. MDMA production has reached unprecedented levels of sophistication and capacity. British Columbia and Ontario continue to have the highest concentration of MDMA laboratories. Although the number of laboratories dismantled overall has declined slightly, the trend to super labs (defined as labs which produce over 5 kgs of finished product in one cycle) is clear. All of the MDMA laboratories dismantled in Canada in 2006 were super labs, some of them of factory-level capacity. Unlike in the United States, registration of pill presses is not required in Canada. However, Canada has noted the potential benefits of monitoring lab equipment in international fora, including a G-8 working group.

Laws and regulatory changes enacted in Canada and in the United States since 2003 have had a significant impact on the availability of precursor chemicals in Canada, effectively moving production of methamphetamine to Mexico, and South and Central America. However, methamphetamine production in super labs (5 kg or more per cycle) in Canada is increasing. Although the methamphetamine produced in Canada is primarily for domestic use, with some export to Asia, Canadian producers may export to the U.S. depending on regional supply and demand conditions.

Drug Flow/Transit. The 2007 Annual Report on Organized Crime in Canada prepared by Criminal Intelligence Service Canada indicates that there are approximately 950 organized crime groups in Canada, up from an estimated 800 in 2006, of which approximately 80 percent are involved in the illegal drug trade in some capacity. Of these, Asian crime groups, in particular Vietnamese and Indo-Canadian organizations, are the largest drug traffickers. Asian drug trafficking organizations based in Canada have experimented with new methods to evade law enforcement and expand their businesses, including 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.

Domestic Programs. Canada has embarked on a number of harm-reduction programs at the federal and local levels. In 2006, Health Canada had announced that no new government-sponsored

injection sites would be opened until additional research is completed on the single existing site in Vancouver. The Vancouver site has been in operation since 2003. On October 2, 2007, the Government of Canada extended the site's operating permit until June 30, 2008, to allow research to continue on how supervised injection sites affect prevention, treatment and crime. 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.

Canada's new Anti-Drug Strategy includes a new national awareness campaign targeted at youth and their parents with a strong message discouraging drug use. There is new funding for the modernization of current treatment services and for developing new treatment options and improving their availability and effectiveness, more money for the provinces and territories to expand treatment programs for addicted youth, and new funding for a National Youth Intervention Program to enable police to enroll young drug users more quickly into assessment and treatment programs instead of detention. In June, the Ontario government announced the province would allocate \$1.7 million to fight the production, trafficking, and use of crystal methamphetamine

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Through successful bi-national fora such as the Cross-Border Crime Forum (CBCF) and Project North Star, the United States and Canada have increased information sharing and joint training opportunities for federal law enforcement officials. Provincial and state governments also participate in the CBCF, as do police at the federal, state/provincial, and local levels. CBCF working groups meet throughout the year to develop joint strategies and initiatives including bi-national threat assessments and collaborative operations. U.S. and Canadian officials are also preparing the first-ever joint narcotics assessment under the auspices of the CBCF which will be released at the Spring Ministerial in 2008 as a baseline of cross-border narcotics issues and trends. Canada also regularly attends the annual National Methamphetamine Chemical Initiative (NMCI) meeting in the United States to facilitate communication and information-sharing.

Investigative cooperation continues to strengthen through the collaborative efforts of U.S. and Canadian border enforcement agencies. The implementation of the ICE-led Border Enforcement Security Task Force (BESTs) pilot program will greatly facilitate and enhance cross-border enforcement efforts at selected ports of entries along the border. BESTs will align with and serve a complimentary role to the existing Integrated Border Enforcement Teams (IBETs) by enabling comprehensive border enforcement, not only between the ports of entry (IBET), but at the ports of entry (BESTs) as well. Both programs are geared towards ensuring that criminals cannot exploit the international border to evade justice. IBETs currently operate in fifteen geographic regions along or near the U.S.-Canada border, working in an integrated land, air, and marine environment. DEA has also participated in numerous cross-border forums and seminars in 2007 at senior management levels. In May, DEA hosted the first Northern Border Drug Conference to discuss operational issues and best practices. In August, DEA hosted two RCMP Liaison Officers at its Regional Meeting and Money Laundering Conference in Costa Rica to promote the development of transnational money laundering cases. DHS/ICE continues to meet with RCMP officials, formally and informally, in furtherance of U.S. and Canadian efforts to identify, disrupt and prosecute money-laundering operations, particularly in the area of bulk currency smuggling. 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 (CBP) and Canada Border Security Agency (CBSA) meet between two and four times a year as the Shared Border Accord Cooperating Committee to discuss programs and initiatives of mutual concern. Additionally, CBP

and CBSA work together through the Embassy Attachés and Country Team Managers at the Headquarters level to ensure cooperation and facilitation of mutual programs and initiatives.

In June, the Government of Canada published a proposed regulatory change to exempt foreign law enforcement and other officers from the requirement to obtain permits under the Export and Import Permits Act for their firearms and other “duty weapons” when entering and exiting Canada in the course of their duties. The Government expects to approve the regulation by the end of 2007, to be followed by negotiations with interested countries on implementation of the new rules. If successfully adopted, the change would reduce a significant regulatory impediment to cross-border law-enforcement cooperation.

Road Ahead. In 2008, 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 and methamphetamine production there. The U.S. and Canada will continue to look for ways to improve their regulatory and enforcement capacity, as well as to encourage industry compliance, to prevent diversion of precursor chemicals and lab equipment 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. U.S. and Canadian officials should explore ways to enhance cooperation in the wake of Canada’s new drug control strategy and emerging legislation, such as through the CBCF, which has proven to be an excellent vehicle for addressing these issues. For example, under the umbrella of the CBCF Border Enforcement Subgroup, the U.S. and Canada are close to an agreement on the Integrated Marine Security Operations (IMSO) program, also referred to as “Shiprider,” which would facilitate more effective maritime countersmuggling efforts by cross-designating 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, closing a loophole in cross-border detection. The USG is expanding on USG-granted blanket diplomatic clearance for Canadian law enforcement officers to carry their weapons while transiting in out of U.S. waters on the Great Lakes aboard Canadian government vessels, and is seeking reciprocal treatment for U.S. federal maritime law enforcement officers to carry weapons while transiting in and out of Canadian waters. The U.S. further encourages Canada to take steps to improve its ability to expedite investigations and prosecutions. Strengthening judicial deterrents, such as increased penalties for drug use in Canada would be extremely useful in curbing the expansion of criminal organizations in Canada.

The success of the BEST program along the Southwest Border has made it ideal for replication along the Northern Border. In an effort to expand the BEST concept to the Northern Border, two locations have been identified for BEST Taskforces: Blaine, Washington, and Buffalo, New York, where current IBET locations have been established.

The U.S. supports Canada’s initiatives 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. In order to support cooperative efforts, the United States has formally accepted Canada’s proposal for a new annual bilateral drug policy forum. This idea, first suggested by Canadian officials during a bilateral meeting at the 2007 Commission on Narcotics Drugs in Vienna, will help facilitate cooperation through the regular exchange of information, experiences and best practices.

Costa Rica

I. Summary

Costa Rica is an increasingly important transit point for narcotics destined for the United States and Europe. Drug seizures quadrupled during the second year of the Arias administration. Local consumption of illicit narcotics, particularly crack and cocaine, is growing at an alarming rate, along with the dramatic rise in drug related violent crimes. In 2007, the Costa Rican Counter Narcotics Institute (ICD) notably improved 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 position on the isthmus linking Colombia with the United States, its long Atlantic and Pacific coastlines, and its jurisdiction over the Cocos Islands make it vulnerable to drug transshipment for South American cocaine and heroin destined primarily for the United States. The Government of Costa Rica (GOCR) closely and effectively cooperates with the USG in combating narcotics trafficked by land, sea, and air. Costa Rica also has a stringent governmental licensing process for the importation and distribution of controlled precursor chemicals.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The Ministry of Public Security named a new Coast Guard Commander in 2007. The new leadership has aggressively addressed the serious deficiencies that have plagued the readiness of the Costa Rican Coast Guard (SNGC) through surveys prioritizing the most pressing needs, improving discipline and pride in service, repair primary interception vessels, moving assets to intercept Pacific based traffickers and addressing electronic communications problems.

Accomplishments. Close bilateral cooperation and improved intra-GOCR coordination yielded impressive counternarcotics successes in 2007. Costa Rican authorities seized a record 27 metric tons (MT) of cocaine, of which 13 MT were seized on land or air and 14 MT seized in joint maritime interdiction operations with U.S. law enforcement. The GOCR also seized 119,687 doses of crack cocaine, 17.6 kilograms (kg) of heroin, eradicated over 2.3 million marijuana plants and seized 4.5 tons of processed marijuana. Additionally, Costa Rican authorities seized 19,003 Ecstasy tablets (six times more than in 2006), 3.8 million pseudoephedrine tablets, and confiscated over \$7.7 million in U.S. and local currency (more than twice as much as 2006), as well as 7.4 million Euros. The 22,727 drug-related arrests made in 2007 are more than four times the amount made two years ago under the previous administration.

While no methamphetamine laboratories were detected in 2007, the GOCR has been active in trying to verify the identity of chemical precursor importers to ensure legitimacy. In at least one case, they cancelled a shipment of chemical precursors due to the non-existence of the importing company.

Law Enforcement Efforts. Costa Rican counternarcotics efforts are carried out by both the judicial branch (Judicial Investigative Police-OIJ) and the executive (Ministry of Public Security's Drug Control Police—PCD). The interagency Mobile Enforcement Team (MET) that include canine units, drug control police, customs police, and specialized vehicles, coordinated 24 cross-border operations with authorities in Nicaragua and Panama in 2007, meeting its goal of two deployments per month. The GOCR added nearly 1000 new police officers to its force in 2007, and plans to increase the police force by 3,000 additional officers over the next three years (for a total

of 4000 new officers since the policy was announced in 2006). Terrorist financing and reformed money laundering legislation are under consideration in the Assembly, and are expected to pass in early 2008.

Corruption. As a matter of policy, no senior GOCR official or the GOCR, encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. A strict law against illicit enrichment was enacted in 2006 in response to unprecedented corruption scandals involving three ex-presidents. Although the ex-presidents' cases from 2004 have still not yet gone to trial, Costa Rica authorities appear to remain committed to combat public corruption. The GOCR aggressively investigates allegations of official corruption or abuse.

Agreements and Treaties. Costa Rica is a party to the 1988 UN Drug Convention, the 1961 Single Convention as amended by its 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Costa Rica is also a party to the UN Convention against Transnational Organized Crime and its three protocols, the UN Convention against Corruption, 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 Terrorism, and the Inter-American Convention against Trafficking in Illegal Firearms. The 1998 bilateral Maritime Counter drug Cooperation Agreement, and its Ship-Rider program resulted in record seizures at sea during 2007. The 1991 United States-Costa Rican extradition treaty was again actively used in 2007. Costa Rica ratified a bilateral stolen vehicles treaty in 2002. . 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, but must pass a terrorist financing law before May 2008 to remain in 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 signed the Caribbean regional maritime counter narcotics agreement in April 2003, and is currently taking the final internal steps necessary to bring the agreement into force.

Cultivation/Production. Costa Rica produces low quality marijuana but no other illicit drug crops or synthetic drugs.

Drug Flow/Transit. In 2007, smaller land-based shipments of 50-500 kg of cocaine continued, along with a 400 percent increase of larger shipments (500-1000 kg). Trafficking of narcotics by maritime routes remained steady with nearly 14 MT (the same amount as last year) of cocaine seized at sea during joint GOCR-USG operations. 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, with an increasing emphasis on the Pacific routes. Traffickers also have increased smuggling of drugs through the postal system. Costa Rican authorities captured more than 125 kilos of cocaine that had been put in the mail, almost tripling the amount detected in 2006.

Domestic Programs/Demand Reduction. The Prevention Unit of the Instituto Costarricense Sobre Drogas (ICD) oversees drug prevention efforts and educational programs throughout the country. The ICD and the Ministry of Education continued to distribute updated demand-reduction materials to all school children in 2007. The MET team visited local schools during deployments, using its canines and specialized vehicles as effective emissaries for demand-reduction messages. In 2007, PCD publicized its special phone-in number (176) in their demand-reduction materials, to encourage citizens to report drug-related activity in their neighborhoods while remaining safely anonymous. As of November 2007, almost 8,000 calls had been received. The PCD considers the 176 phone-in program to be an excellent source of information that is analyzed and often leads to arrests.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. While land-based interdiction, especially border checkpoints, remains important to U.S. strategy, U.S. assistance has focused resources on interdicting maritime-based narcotics shipments. The U.S. supported the SNGC's reorganization and efforts to improve interdiction by providing technical assistance and equipment. The U.S. is also supporting reforms in police training.

The Road Ahead. In the year ahead, Costa Rica intends to attack maritime trafficking both through its own direct efforts and through continued collaboration with the USG. The GOCR also plans to deploy its MET interdiction team twice a month to address land-based interdiction, especially at border inspection points. The projected increase in number and improved training of police will enable the GOCR to more successfully fight crime, including trafficking.

El Salvador

I. Summary

El Salvador is a transit country for cocaine and heroin smuggled from South America by land and sea to the United States via Mexico. In 2007, the National Police (PNC) seized 261 kilograms (kg) of marijuana and over 4 metric tons (MT) of cocaine. While El Salvador is not a major financial center, in 2007 the government seized \$1,437,448 worth of assets stemming from drug-related crime. El Salvador is party to the 1988 UN Drug Convention.

II. Status of Country

El Salvador's territorial waters include eastern Pacific smuggling routes for cocaine and heroin; the country also serves as a transit point for narcotics moving over land towards Mexico and the United States. El Salvador hosts a Cooperative Security Location crucial to regional detection and interception efforts. Transnational street gangs are not major narcotics trafficking organizations, per se, but are involved in street level drug sales. Neither production/transit of precursor chemicals nor illicit trading in bulk ephedrine and pseudoephedrine are significant problems. However investigations by El Salvador authorities suggest that some diversion of these substances has been attempted.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007 the government of El Salvador (GOES) targeted maritime trafficking along its coastline and overland transit routes, as well as narcotics-related money laundering operations. The Financial Investigative Unit (FIU) of the Attorney General's office monitored suspicious financial activity and investigated suspected instances of money laundering and associated financial crime resulting in the seizure of assets valued at \$1.4 million.

The GOES also fielded a special organized crime unit featuring embedded prosecutors and police investigators, and also undertook cooperative police and judicial actions to increase cooperation between prosecutors and the police.

The Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) focused on overland transportation, commercial air, package delivery services, and maritime transportation in the Gulf of Fonseca resulting in seizure of 4 MT of cocaine. DAN, while competent and proactive, is, nonetheless, hampered by funding shortfalls and legal impediments against wiretapping.

The new Transnational Anti-gang Unit (TAG) was inaugurated in 2007, and received USG equipment and Federal law enforcement technical assistance. It will focus on street-level narcotics distribution and related violence and will investigate gang activity and orchestrate bilateral law enforcement activities.

Law Enforcement Efforts. In 2007, GOES law enforcement focused on targets of mutual interest to both the United States and El Salvador. Salvadoran police investigators and prosecutors shared law enforcement intelligence and coordinated operations with USG counterparts resulting in successful operations. For instance, Salvadoran customs and law enforcement entities stationed at El Amatillo border crossing with Honduras used the USG-supported Containerized Freight Tracking System (CFTS) to inspect commercial and passenger vehicles, inspecting 10,714 commercial freight trucks, 13,601 passenger buses, and 11,705 passenger vehicles. These inspections yielded 1.9 kg of seized cocaine, as well as the arrests of 40 individuals for trafficking offenses, but, according to the PNC, the most important impact was the deterrent effect. Overall in

2007, the National Civilian Police (PNC) seized a total of 261 kg of marijuana and 4 MT of cocaine.

Corruption. The GOES does not as a matter of policy encourage or facilitate illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances, nor does it launder proceeds from illegal drug transactions. No senior Salvadoran government officials are known to engage in, encourage, or facilitate the illicit production or distribution of drugs, nor the laundering of proceeds from illicit drug transactions. Salvadoran law severely penalizes abuse of an official position in relation to the commission of a drug offense, including accepting or receiving money or other benefits in exchange for an act of commission or omission relating to 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, and to the UN Convention against Corruption.

Agreements and Treaties. El Salvador is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances; the 1961 UN Single Convention as amended by the 1972 Protocol; 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 UN Convention against Corruption. El Salvador is also a party to the Inter American Convention against Corruption, the Inter American Convention on Extradition, and Inter American Convention on Mutual Assistance in Criminal Matters. The 1911 extradition treaty between the United States and El Salvador does not provide a workable extradition regime for most crimes, and the constitutional prohibition of life imprisonment is an obstacle to negotiating a new bilateral extradition treaty. However narcotics offenses are extraditable crimes by virtue of El Salvador's ratification of the 1988 UN Drug Convention.

Cultivation/Production. Local growers cultivate small quantities of marijuana in the mountainous regions along the border with Guatemala and Honduras for domestic consumption.

Drug Flow/Transit. Heroin and cocaine smuggled through the Eastern Pacific transit routes along El Salvador's coastline. Traffickers using go-fast boats and commercial vessels smuggle narcotics through adjacent international and Salvadoran waters. Land transit of cocaine and heroin from Colombia is typically through El Salvador on the Pan-American Highway. Most drugs transiting over land are carried in the luggage of commercial bus passengers and in hidden compartments inside commercial tractor-trailers traveling north to Guatemala.

Domestic Programs (Demand Reduction). Several government agencies implement GOES demand reduction programs. The Ministry of Education provides lifestyle and drug prevention courses in public schools, and also sponsors 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) promotes gang member demobilization, and actively sponsors substance abuse prevention outreach towards El Salvador's gang population. A USG-supported Salvadoran NGO works with the GOES to provide substance abuse awareness, counseling, rehabilitation, and reinsertion services to the public, including programs directed towards gang members. In 2007 this NGO provided demand reduction outreach to 3,450 individuals, as well as addiction treatment to 367 patients. EL Salvador also has numerous local faith-based demand reduction programs, as well as counseling programs administered by recovering addicts.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The primary focus of U.S. assistance is increasing the operational capacity of Salvadoran law enforcement agencies to interdict illicit narcotics shipments, and to combat

narcotics-related money laundering, financial crime, and public corruption. Promoting transparency, efficiency, and institutional respect for human and civil rights within Salvadoran law enforcement organizations and the criminal justice system are also at the forefront of the U.S. assistance agenda. U.S. efforts to combat transnational gangs also help to mitigate the corrosive impact of street-level drug sales, narcotics consumption, and related violence.

Bilateral Cooperation. The USG works closely with the PNC Anti-narcotics Division (DAN). The U.S. provided funding for operational support to the joint DEA and PNC DAN high profile crimes unit (GEAN), as well as training and logistical assistance to various DAN entities. The two countries also work to target narcotics-related money laundering through the PNC financial crime unit and the federal prosecutor's Financial Investigation Unit (FIU). The U.S. is working to establish stronger ties to federal banking regulators and the local banking association regarding issues relating to drug trafficking and money laundering. The United States also funded training and travel related to airport security, money laundering, maritime boarding operations, law enforcement and professional development, crisis management, and anti-gang measures. Other regional and in-country USG assets include the International Law Enforcement Academy (ILEA) and appropriate U.S. military and Coast Guard personnel training, assistance, and logistical support for Salvadoran counterparts. A Regional Gangs Advisor for El Salvador, Honduras and Guatemala was hired in late 2007 and will begin work in January 2008.

Road Ahead. To enhance the GOES ability to prosecute and convict criminals, the United States will continue to provide training and support to Salvadoran law enforcement institutions to enhance operational and investigative capacity and increase prosecutorial capacity. Automated fingerprint analysis and computerized database sharing will significantly increase GOES ability to solve crimes and convict criminals. Additional information sharing among the police, prosecutors, financial regulators, and the banking industry will also facilitate more effective trafficking, money laundering, and financial crime investigations. Establishment of a civil asset forfeiture regime as well as passage of a wiretap statute would also strengthen GOES ability to investigate and prosecute criminal activity.

Guatemala

I. Summary

Guatemala is a major transshipment point for South American cocaine and heroin destined for the United States via Mexico. While not a major producing country, poppy cultivation has increased in recent years. Guatemalan law enforcement also struggles against the significant influence of narcotics trafficking organizations in some regions of the country.

The Government of Guatemala's (GOG) attempts to address drug trafficking have been hampered by narcotics-related corruption, a major concern for the U.S. However in 2007, the GOG took significant steps to counter the influence of organized crime, such as firing corrupt police and establishing the International Commission Against Impunity in Guatemala (CICIG). Guatemala is a party to the 1988 UN drug convention.

II. Status of Country

Guatemala is a major transshipment point for South American cocaine and heroin destined for the United States via Mexico, increasingly by maritime routes. Poppy cultivation, while still low, has increased in recent years, and is monitored and eradicated.

GOG agencies, military, and police have limited ability to control the narcotics problem. Corruption, lack of adequate financing, distrust of the government, and weak institutions create an environment that narco-trafficking cartels exploit to their advantage. A new administration took office in January.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The Guatemalan government strengthened the rule of law through ratification of the CICIG, establishing an autonomous forensics lab, putting the Organized Crime bill into effect, drafting a comprehensive extradition law, and appointing special judges to issue warrants in sensitive cases. The CICIG will address human rights abuses and also investigate the participation of government entities in crime when it becomes operational.

The Guatemalan Congress passed a law in 2007, creating the Autonomous Forensic Laboratory Institute (INACIF). This will enhance the ability of the police, prosecutors and the courts to use forensic evidence in criminal prosecutions. Until the creation of this lab, the Guatemalan judiciary relied almost solely on witness testimony.

A new extradition law was proposed in 2007 that would solidify a currently disjointed set of extradition laws into a single statute and streamline the process for extraditing criminals, including Guatemalan nationals, to the United States. It is on the agenda for consideration by the congress in 2008. Regulations for implementing last year's Organized Crime bill are now in place.

In September 2007, the Guatemalan Supreme Court approved the appointment of twelve itinerant judges with nation-wide jurisdiction to issue sensitive search warrants in narcotics and money laundering cases. This will provide the timely issuance of search warrants and reduce the threat of leaks of information and corruption that had previously undermined narcotics investigations.

Law Enforcement Efforts. Land interdiction, while improved in 2007, is not yet satisfactory. Seizures in 2007 total 730 kg of cocaine. Some lag is due to a purge of the narcotics police in late 2005, and the need to re-staff, vet and train new officers. The police in general are suspected of corruption at many levels. The GOG has attempted to correct this by purging the police of corrupt officers. 1,215 police officers were removed from the police in 2007, primarily for corruption. In

late 2007, the GOG changed the leadership of their counter narcotics effort (the Chief of the Service of Anti Drug Intelligence, SAIA).

The Division of Ports Inspection (DIPA), the police branch responsible for protecting Guatemala's borders and ports, continues to improve its interdiction in the airports, but there have been less satisfactory results at borders and ports. DIPA leadership was also recently changed due to the lack of results.

Guatemala assigned various military units to the northern Peten area. While there is no empirical evidence to show a reduced rate in trafficking, the presence of these units may have disrupted narco-trafficking operations.

GOG cooperation has been excellent with regard to maritime counternarcotics operations. The government has responded rapidly to grant permission for U.S. interventions in Guatemalan-flagged or crewed vessels or Guatemalan waters. As of November 2007 U.S. forces, with Guatemalan and other Central American countries' cooperation, seized nearly 160 tons of cocaine. Both land and maritime interdictions are expected to improve when the combined information sharing system (CRADIC) is fully functioning in 2008.

Corruption. As a matter of policy, the Government of Guatemala and its most senior officials do not encourage or facilitate the production, processing, or shipment of narcotic and psychotropic drugs or other controlled substances, and do not discourage the investigation or prosecution of such acts. However in practice, there is corruption of some police, judges and other public officials, especially at the local level. This has been fostered and exploited by narcotics traffickers. During 2007, the Ministry of Government fired hundreds of police officers, including many from the antinarcotics and port security units, to weed out corrupt officials. Despite the serious GOG steps to address narcotics-related corruption, the severity of the problem continues to hamper law enforcement actions against organized crime. In February, three visiting Central American parliamentarians and their driver were murdered, and the murder was tracked to Guatemalan police officers. The police officers were arrested and, subsequently, were themselves murdered while being held in prison before trial. This is a strong indication of infiltration by organized crime in the criminal justice system.

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. A maritime counternarcotics agreement with the U.S. is not yet in force. Guatemala also is a party to the Inter-American Convention Against Corruption, and the Inter-American Convention on Mutual Assistance in Criminal Matters. 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 supplemental extradition treaty adding narcotics offenses to the list of extraditable offenses was adopted in 1940. All U.S. requests for extradition in drug cases are consolidated in specialized courts located in Guatemala City. In 2007, the GOG extradited three Guatemalan citizens to the U.S. for narcotics offenses.

Cultivation and Production. Guatemala is fighting against a return to past levels of opium poppy cultivation. There is no systematic estimate, but observation flights suggest that cultivation has increased to between 600 and 800 hectares. GOG authorities, with USG support, destroyed 449 hectares of opium poppy in four large-scale eradication missions involving police and military

units in 2007. It was estimated that 300 hectares remain to be destroyed. A limited amount of poor quality cannabis is grown for the local market.

Drug Flow/Transit. Air transport plays a role in transshipment through Guatemala, especially through the Peten to the Mexican border. However, it is estimated that more than 80 percent of South American cocaine derivatives that pass through the country come through maritime routes. Maritime drug transit to Guatemala continues to rely heavily on mother ships working in concert with fishing vessels positioned beyond the 12 mile territorial waters limit. Smaller fishing vessels also smuggle the loads into the many ports and estuaries along Guatemala's Pacific coast, where it is broken down into smaller loads for transit to Mexico en route to the U.S. DEA information suggests that Guatemalan opium gum is shipped into Mexico, and then processed into heroin for onward shipment to markets in the United States and Europe.

Domestic Programs/Demand Reduction. In 2007, Guatemala's Demand Reduction Agency, SECCATID, integrated anti-addiction components of the National Program of Preventive Education (PRONEPI) into all parts of the national K-12 curriculum. In August, NAS and SECCATID held a regional conference on the establishment and support of social networks to implement demand reduction programs. The outcome was a proposal to use the internet for continued best-practice sharing, activity coordination, and as a functional directory of Guatemalan demand reduction organizations.

In cooperation with the INL Demand Reduction program, the GOG's Model Precinct Program in Villa Nueva began a Police Athletic League as an adjunct to its community policing strategy. The League targets at-risk youth and provides, in addition to a safe and healthy environment, information on and links to the broader network of prevention, treatment, and social support available within Guatemala.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. policy is to strengthen the law enforcement and judicial sectors' capacity to combat organized crime and drug trafficking through four programs. The Narcotics and Law Enforcement Project supports the GOG's counternarcotics institutions and focuses on enhancing the investigative and operational capacity of the Guatemalan law enforcement through training, technical assistance and equipment, including anti-corruption measures.

Bilateral Cooperation. The Narcotics Prosecutor Assistance Project enhances the capacity of the Public Ministry's special prosecutors unit to win convictions against narcotics, money laundering and corruption crimes through improved case development and processing, as well as improving the GOG's capacity to effectively and transparently prosecute criminals while respecting internationally recognized human rights.

The Demand Reduction and Public Awareness Project supports the Executive Secretariat for the Commission Against Addiction and Drug Trafficking's (SECCATID) efforts to address the threat that growing drug abuse poses through equipment and technical assistance.

The Law Enforcement Development Project develops PNC's capability to implement effective community-level policing for effective and efficient investigations and patrolling, increase effectiveness of the Internal Inspection Unit and the Office of Professional Responsibility, and supports its implementation of an effective intelligence/analysis unit (CRADIC).

The Road Ahead. The U.S. has urged the GOG to take urgent steps to impede the flow of cocaine through its territory and to increase the capacity of the Public Ministry's special prosecutors unit to win convictions in narcotics, money laundering and corruption crimes. The U.S. will support GOG efforts to implement effective procedures to use and share seized assets and enhance controls over precursor chemicals, and will provide training in building complex cases against organized crime

and gangs and provide assistance to the Internal Inspection/Office of Professional Responsibility and internal audits and investigations to help decrease corruption.

Anti-narcotics forces will have two new tools in 2008. These include an Automated Fingerprint Identification System that will more effectively solve cases, identify gang members, and provide appropriate information to neighboring countries regarding the identification of transnational criminals. The USG will also provide four Huey II helicopters, training for pilots and maintenance crews, Quick Reaction Force (QRF) and logistical support training to provide the GOG with the capacity to launch missions in support of counternarcotics operations.

Honduras

I. Summary

The Government of Honduras (GOH) cooperates with the United States in investigating and interdicting narcotics trafficking, and, in 2007, combined operations resulted in an increase of maritime vessels searched and joint prosecutions. However, Honduras's lack of financial resources, institutional and leadership challenges and corruption weaken efforts to adequately address transshipment of cocaine and heroin from South America to the United States and Europe. Honduras is a party to the 1988 United Nations Drug Convention.

II. Status of Country

Honduras is affected by drug trafficking in a number of different ways. It is increasingly a transshipment point for cocaine and heroin destined for the United States. For example, flight tracking shows an increase in transit, as narcotics traffickers shift some of their operations from Guatemala to Honduras. Honduran fishing boats are being utilized for smuggling cocaine or for logistical support of drug laden boats heading north. However, the GOH's ability to catch and convict traffickers is limited by a number of factors, including sparsely populated and isolated jungle regions, limited resources, corruption, and poor control of the north coast and eastern border. It is also affected by violent gangs, which are involved in retail street-level drug distribution. Finally, reports indicate small amounts of marijuana grown in the center of the country, and a more recent challenge of increased diversion of pseudoephedrine.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The Honduran Congress continues to debate reforms to the Organic Police Law, first introduced in 2006 that would strengthen the police units and Internal Affairs. These reforms would allow for mandatory polygraph exams and drug tests on all police officers, permit the removal of police with links to gangs and organized crime, and give the authority to terminate police officials who have committed crimes. These reforms are expected to be considered in 2008. An amendment to the Transparency Law, which will allow public scrutiny of government actions, was passed in May 2007. Implementation is pending approval of by-laws.

As part of a plan to improve the National Police, the force added 2,000 police officers, decentralized some police commands, and plans to conduct polygraph tests on all applicants to the police academy once the new changes to the Organic Law are passed. The Ministry of Security increased the use of motorcycle patrols to respond to citizen calls for assistance and crime scenes more efficiently and reduce fuel use.

Law Enforcement Efforts. During 2007, the National Police of Honduras seized nearly 6 metric tons (MT) of cocaine, 3.5 kilograms (kg) of crack cocaine rocks, 1.7 MT of marihuana, and 1 kg of heroin. With USG assistance, the GOH continued to expand maritime interdiction, particularly on the north coast. In one such operation, the Honduran Navy and the U.S. Coast Guard (USCG) seized 2 MT of cocaine from a Honduran flagged vessel in April. GOH authorities arrested 789 persons for drug-related offenses and seized over \$1 million in cash and over \$10 million in assets as a result of joint operations. Honduras continued to participate in the USG interagency counternarcotics "Operation All Inclusive."

The USG and Honduras increased their collaboration in the fight against traffickers. The GOH Organized Crime Prosecutor collaborated with the U.S. Attorney's Offices in U.S. investigations of Honduran traffickers, increasing joint prosecutions that focused on higher level traffickers.

However, prosecutions in Honduras are still hampered by 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. While legal measures are in place to prevent and punish public officials, enforcement is sporadic and convictions are rare. However, public corruption is a problem in Honduras, including police and the judiciary. The GOH reports that drug trafficking and other organized crime activities are directed from the prisons and by current and former government and military officials.

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. The 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 Inter-American Convention against Corruption, the UN Convention against Corruption, the Inter-American Convention against Corruption, the UN Convention against Transnational Organized Crime, and the Inter American Convention on Mutual Assistance in Criminal Matters. A U.S.-Honduras maritime counternarcotics agreement entered into force in 2001 and a bilateral extradition treaty is in force between the United States and Honduras. Honduras signed the multilateral Caribbean Maritime Counter Drug Agreement in 2003, but has not yet ratified it. A Declaration of Principle was signed between the United States and Honduras on December 15, 2005 as part of the Container Security Initiative (CSI) for the inspection of sea-going cargo destined to the United States and other countries.

Cultivation and Production. Marijuana is cultivated in Honduras in small isolated plots, especially the mountainous regions of the Departments of Copan, Yoro, Santa Barbara, Colon, Olancho, and Francisco Morazan. There are reports of clandestine laboratories that produce methamphetamine in Honduras. The GOH has evidence showing an increase in the diversion of pseudoephedrine.

Drug Flow and Transit. South American cocaine destined for the United States and, to a lesser extent, to Europe transits Honduras by land, sea, and air. Remote and isolated areas, particularly on the north coast, are a natural safe haven for traffickers, who refuel maritime assets and effect boat-to-boat transfers. Aircraft are also used to smuggle cocaine. Heroin is believed to be transported through Honduras to the United States in small quantities. There is an increase in the diversion of precursor chemicals used to manufacture methamphetamines.

Domestic Programs. The government's Honduran Institute for the Prevention of Alcoholism and Drug Addiction (IHADFA) works in the areas of research, prevention, treatment and rehabilitation. Numerous church groups and NGOs have drug prevention and rehabilitation projects. Increased drug use and street level trafficking by gang members, who target young children, is a growing concern.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. supports the Special Vetted Unit that targets major traffickers operating in Honduras; Frontier Police interdiction; canine units; and a consolidated information center. It also supports anti-corruption programs within the Ministry of Public Security by providing funding and logistical support to the National Police Internal Affairs Office. The U.S. also supports the Container Security Initiative ports program and Honduran participation in a regional port-security training course. In 2007 the GOH established a new military base and two task forces on the north coast that will strengthen government presence in what is a major

transshipment area. Through the “Beyond the Horizons” project, the USG will upgrade the facilities at the new Naval Base in Barra de Caratasca and at Joint Task Force Policarpo Paz Garcia in Puerto Lempira.

The Road Ahead. The GOH plans to improve police operations with a focus on police academy reforms, improved communications and anti-corruption measures, including the pending Organic Police Law. The Ministry of Security will also focus on improving the prison system with U.S. assistance and dismantling criminal organizations working from within the penitentiaries. Trafficking will be addressed with a focus on capturing the high level criminals that arrange for drug trafficking and increased inspections through the Container Security Initiative (CSI), Secure Freight Initiative (SFI) and the new Mega-ports Initiative.

Mexico

I. Summary

In 2007, Mexico made unprecedented efforts and achieved unprecedented results in attacking the corrosive effects of drug trafficking and consumption during the first complete year of the Calderon Administration. In the first weeks of his administration, President Calderon launched aggressive operations across Mexico to reassert control over areas that had fallen under the virtual dominion of drug cartels. Mexican authorities extradited a record 83 fugitives to the United States, including the leader of the Gulf Cartel. Among the many important successes registered by law enforcement authorities was the seizure of over \$200 million in cash from a methamphetamine precursor operator, and the seizure of over 48 metric tons (MT) of cocaine (more than twice the amount seized during 2006). Although the Government of Mexico (GOM) continued to eradicate opium poppy and marijuana, total cultivation rose. The GOM greatly reduced the amount of imports of methamphetamine precursors in 2007, and implemented new regulations that will eliminate imports in 2008. Mexico will eliminate the commercial sale of final products containing methamphetamine precursors in 2009. In October, the Presidents of Mexico and the United States announced the Merida Initiative, a historic plan to achieve deeper and stronger law enforcement cooperation. 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, and the country is a major source of heroin, methamphetamines and marijuana, as well as a primary placement point for narcotics-derived criminal proceeds from the U.S. into the international financial system.

The trafficking of drugs, precursors, arms, persons and contraband has had serious repercussions for Mexican society. Upon taking office, President Calderon initiated operational surges across the country, targeting drug trafficking and the related violence. He employed the Mexican military in these efforts, re-establishing federal control over areas that had been under the influence of drug trafficking organizations (DTOs). The cartels resisted the law enforcement offensive, and turf battles broke out among drug lords, leading to increased violence. Reliable sources estimate that there were between 2,300 and 2,600 drug-related killings in 2007 (as compared to 2,000 in 2006). In addition, DTOs targeted high-level GOM law enforcement officials by DTOs. For example, Jose Nemesio Lugo, Deputy Director of the PGR's National Center for Analysis, Planning and Intelligence against Organized Crime (CENAPI), was killed May 14, and Omar Ramirez, the police commander of a special investigative unit, was killed September 12. While Mexican DTOs continue to control domestic drug production and trafficking, as well as the laundering of drug proceeds, it is clear that other nationalities (such as Colombians and Venezuelans) play an important role in drug trafficking in Mexico, as facilitators, transporters and sources of supply for cocaine and heroin.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Since entering office in December 2006, President Calderon has demonstrated an unprecedented commitment to improving public security by launching aggressive counternarcotics operations in 11 states, and significantly boosting investment in the nation's security forces, promising to make Mexico's security institutions more effective. Moreover, the GOM's law enforcement agencies (LEAs) have strengthened their cooperation with U.S. Government (USG) LEAs. In October 2007, the GOM and USG announced the Merida Initiative,

which – if approved by the U.S. Congress – would provide an unprecedented level of USG support to Mexico’s fight against the common threat of transnational criminal activity. The GOM’s initiatives include:

-- Professionalization of the Federal Police: Genaro Garcia Luna (Secretary for Public Security—SSP) began to restructure the federal police into an entity that is more effective and trustworthy. In June, he replaced 284 Federal Preventative Police (PFP) and Federal Investigative Agency (AFI) commanders, including all 34 regional PFP coordinators. SSP will soon have the means to vet its entire force, as well as many units drawn from state and municipal police, to stem corruption.

-- Creation of “Platforma Mexico”: The SSP also launched the multi-year, billion-dollar initiative that will establish real-time interconnectivity among all levels of police and prosecutors and support a national crime database.

-- Legal Reforms: Calderon has submitted a package of legal and Constitutional reforms to Mexico’s Congress to unify the federal police into one force, and allow it to investigate proactively, increase the discretion of prosecutors to improve prosecutions and modify the code of criminal procedures to establish enhanced due process protections and more transparent processes, including a greater reliance on oral trials.

-- Regional Security Plan: The GOM has also worked with the governments in Central America and Colombia to craft a comprehensive regional security strategy that would improve interdiction throughout the region.

Mexico also worked multilaterally to promote efficient and effective counternarcotics and anti-corruption policies. During 2007, Mexico chaired the Working Group on Precursor Chemical and Pharmaceutical Control within the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD), providing leadership in regional efforts to control precursor diversion.

Accomplishments. Significant Mexican counternarcotics enforcement actions in 2007 included sophisticated organized crime investigations, marijuana and poppy eradication, strong bilateral cooperation on drug interdiction and arrests of several major drug traffickers, in Mexico and the U.S. including: Zhenli Ye Gon, a major methamphetamine trafficker; Carlos de la Cruz and Alfredo Beltran, Gulf Cartel chieftains; and, Sandra Avila, known as the “Queen of the Pacific.”

Law Enforcement Efforts. Mexican law enforcement interdicted over 48 MT of cocaine; 2,174 MT of marijuana; 292 kgs of opium gum; 298 kgs of heroin; and, 899 kgs of methamphetamine in 2007. The record interdiction of illicit drugs in 2007 was complemented by the seizure of 6,310 illegal firearms and the arrest of 19,384 persons on drug-related charges, including 19,120 Mexicans and 264 foreigners. According to the Mexican Attorney General’s Office (PGR), 26 drug processing laboratories were dismantled in Mexico during 2007; DEA reports that nine of these were classified as methamphetamine “super labs” (i.e., having a production capacity of 10 pounds or more per processing cycle).

Corruption. As a matter of policy, the GOM does not encourage nor facilitate the illicit production or distribution of narcotic or psychotropic drugs or any other controlled substances, nor the laundering of money derived from illicit drug transactions. During 2007, the Calderon Administration strictly targeted corruption within the federal government. Each year, the underlying causes of corruption diminish, as better pay and benefits are provided, better selection criteria are employed for new employees, and more modern investigative techniques are applied. In 2007, the Secretariat of Public Administration (SFP, which investigates corruption across the federal government) reported that 6,253 inquiries and investigations into possible malfeasance or misconduct by 4,877 federal employees resulted in the dismissal of 410 federal employees, the dismissal of an additional 1,023 employees with re-employment restrictions, the suspension of

1,664 employees, 2,173 reprimands and the issuance of 9 letters of warning. In addition, 974 economic sanctions were imposed which resulted in more than \$273 million in fines and reimbursements into the Treasury.

Agreements and Treaties. Mexico is party to the 1961 UN Single, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Mexico also subscribes to regional counternarcotics commitments, including the 1996 Anti-Drug Strategy in the Hemisphere and the 1990 Declaration of Ixtapa. Mexico is a party to the UN Convention Against Corruption and the UN Convention Against Transnational Organized Crime and its three protocols. Mexico is also a party to the Inter-American Convention Against Corruption.

The current U.S.-Mexico 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 cooperate in judicial assistance matters under a bilateral mutual legal assistance treaty. In addition, Mexico is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters.

Extradition and Mutual Legal Assistance. In 2007, Mexican authorities extradited 83 fugitives to the United States, twenty more than in 2006. For the first time, Mexico extradited several high-level traffickers (including Osiel Cardenas Guillen, the leader of the Gulf cartel) whose extradition had been delayed due to judicial appeals or pending Mexican charges. Some 30 of those extradited in 2007 were wanted in the United States for narcotics trafficking and related money laundering offenses; 64 were Mexican citizens. Recent decisions of the Mexican Supreme Court of Justice have facilitated extraditions, but the process is lengthy and complex.

In addition to the record number of extraditions, USG and Mexican LEAs regularly coordinate to deport or otherwise expel numerous fugitives to the United States. During 2007, Mexican authorities—in cooperation with the U.S. Marshals Service and the Federal Bureau of Investigation—deported 163 non-Mexican fugitives (mostly U.S. nationals) to the United States to stand trial or serve sentences. Many of these fugitives were wanted on U.S. drug charges.

Cultivation and Production. In 2007, the Mexican military assumed sole responsibility for eradicating two illicit crops—marijuana and opium poppy—cultivated within Mexico. The majority of the marijuana produced in Mexico enters the U.S. market. GOM data indicated that overall eradication of marijuana (21,357 ha) declined in 2007 from 2006 levels. The GOM also reported eradicating 11,046 ha of opium poppy in 2007, another decrease from 2006 levels. The decline in the rates of eradication is at least in part due to the realignment of responsibilities for aerial eradication. The PGR ceased its eradication flights in December 2006, and the subsequent rate of aerial eradication by the military has been slow.

Drug Flow and Transit. Cocaine arriving in Mexico by land, sea and air routes is often transferred overland to the U.S. land border in commercial trucks with hidden compartments, or concealed within legitimate cargo. For example, Mexican authorities seized two cocaine shipments in October—an 11.7 ton shipment on October 5 in Tampico, and a record-breaking 23.5 ton shipment on October 30 in Manzanillo, both shipments were concealed in shipping containers. Traffickers also began using small jet aircraft for transporting narcotics, such as the use of leased Gulfstream long-range business jets, as modes of transport. Four such aircraft were involved in smuggling cocaine into Mexico from Venezuela and Colombia, one of which crashed near Cancun on September 24, resulting in the seizure of 3.3 MT of cocaine at the crash site. Shipment of cocaine to Europe is increasing.

Although cocaine trafficking through Mexican territory is clearly controlled by major Mexican DTOs, trafficking in heroin is dispersed and fragmented. Heroin production is controlled by opium

farmers, heroin processors, small-scale trafficking groups operating independently or with mutually supportive businesses. In many instances, farmers sell their opium harvest to a trafficker with access to heroin processors and distribution networks. Of the 298 kgs of heroin seized in 2007 by Mexican officials, close to nine-tenths were confiscated in Sonora, Chihuahua and the Federal District. Outbound smuggling of heroin mostly occurs through international airports via couriers or in cargo.

Despite efforts by the Mexican Government to restrict the licit entry of its precursors, the manufacture and trafficking of methamphetamine continued to be significant in 2007. Methamphetamine seizures increased to 899 kgs nationwide compared to 621 kgs in 2006, and production and trafficking were dispersed throughout the country. Special law enforcement operations targeting precursors were particularly effective. Several seizures of a half-ton or more of precursors took place at the Mexico City airport, and other important seizures were registered in Cancun, Guadalajara and Manzanillo.

Domestic Programs. Domestic drug use is rising in Mexico. The two populations most at risk are teenagers and senior citizens. Teenagers most commonly use marijuana, followed by cocaine, methamphetamine and such inhalants as aerosol-propelled paints and glue. Senior citizens tend to abuse prescription drugs. National surveys of drug use trends undertaken by Mexico's Secretary of Health have documented the decline in the age of initiation to 8-/10-year-olds. Drug abuse is most prevalent along the border with the United States and in Mexico's major cities. The state of Baja California has a particularly severe problem, centered in Tijuana. Methamphetamine abuse is on the rise, especially along the U.S. border. Federal health officials coordinate prevention, treatment and rehabilitation programs through a variety of avenues, including state and municipal governments, ancillary federal entities and non-governmental organizations.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Bilateral counternarcotics cooperation continues to grow in scope and quality. U.S. Government (USG) law enforcement personnel share sensitive tactical information with their Mexican counterparts in real time, resulting in greater numbers of successful interdiction operations. In 2007, coordinated efforts with the Mexican Navy led to the GOM seizing over 2.7 MT of cocaine from maritime vessels. Occasionally, USG assets on the high seas chased suspected smugglers into Mexican waters, where Mexican navy assets continued the pursuit. In addition, the time required to obtain GOM approval for USG requests to board Mexican-flagged commercial vessels in international waters has been reduced to one to two hours, compared to a response time of six to eight hours in the past.

The USG provided training to thousands of Mexican LEA personnel in 2007. For example, basic instruction was provided to Mexican Customs personnel on the maintenance and use of donated Non-Intrusive Inspection Equipment (NIIE) used to inspect vehicles for drugs, explosives, weapons, bulk cash and other contraband. DHS/CBP personnel then complemented this with training in targeting, to help them achieve a correct balance between interdiction and trade facilitation. DHS/CBP also loaned NIIE to Mexican Customs to use during surge operations along the northern border. This equipment complemented three mobile NIIE units that were provided to the GOM by the USG in 2005.

In 2007, the USG provided Clandestine Laboratory (CLAN-LAB) training for Mexican LEA personnel to bolster local capabilities against synthetic drugs, particularly methamphetamine. Over 1,900 Mexican LEA personnel have now received training in precursor detection/investigative techniques and in how to conduct raids on the hazardous and heavily polluting methamphetamine labs. The USG also provided Mexican LEA personnel with "First Responder" safety equipment.

The USG's Law Enforcement Professionalization and Training Project provided 275 training courses to 6,269 Mexican LEA personnel. This included the training of 388 information technology engineers who received 73 specialized and advanced courses in computer software applications. In 2007, the USG began a multi-year effort to help the SSP reform its entire structure. This included training SSP recruits at its Police Academy in San Luis Potosi, an effort that will continue until SSP's goal of bringing on 8,000 new investigative personnel is met. USG LEAs have provided a variety of specialized training to the newly formed Federal Police, in such areas as CyberCrime and Explosives-Incendiary Devices. The USG has also provided training to new SSP polygraph operators. Meanwhile, specialized training projects for other LEA personnel continued throughout Mexico, at both federal and state levels. The USG, in conjunction with UNODC, also initiated a training program with the GOM on the National Drug Control System (NDCS), a computer network that assists with managing drug control measures and facilitating licit commerce. Thirteen other Latin American countries already use NDCS.

The U.S. Coast Guard (USCG) provided several training courses to the Mexican Navy in 2007. These included seven maritime law enforcement courses, focused on maritime boarding tactics and procedures, for over 250 Mexican Navy personnel.

The DHS-ICE led Border Enforcement Security Taskforces (BEST) program, originally established to combat cross-border violence along the Southwest Border, improved bilateral cooperation since Mexican law enforcement personnel were co-located with U.S. counterparts, which furthered information sharing and joint investigations. Bilateral coordination was also enhanced through an ICE Mexican Liaison Officer (MLO) program to establish an official ICE point of contact for DHS/CBP (Customs and Border Protection), the Mexico Senior Representatives, state and local law enforcement agencies as well as Mexican federal and local law enforcement agencies along the border.

Border security was enhanced through an ATF canine program that trains Mexican LEAs on explosives and weapons detection. Canine/handler teams that come from this training are being deployed in border areas and airports. The ATF activities complement training that is provided by other USG agencies to train teams in the detection of concealed narcotics and currency.

In 2007, the GOM and the USG inaugurated Secure Electronic Network for Traveler's Rapid Inspection (SENTRI) access lanes constructed with USG funding at Matamoros/Brownsville and at Reynosa/Hidalgo. This fulfilled the USG commitment to build six SENTRI projects along Mexico's northern border. SENTRI combines increased border security with the facilitation of the cross-border movement of the pre-cleared travelers enrolled in the program.

The U.S. and Mexican Governments have cooperated on initiatives that have enhanced the ability of LEAs to take down DTO members. Mexico was an important contributor to "Operation All Inclusive", a regional initiative in which DEA coordinated with counterpart LEAs to disrupt trafficking, netting significant seizures of cocaine, heroin and methamphetamine, as well as laundered money linked to drug transactions. The ensuing disruption to trafficking has been credited with helping to decrease the supply, dilute the purity and increase the price of cocaine and methamphetamine in the United States.

The Road Ahead. The Calderon Administration's courage, initiative and success have exceeded all expectations. President Calderon has addressed some of the most basic institutional issues that have traditionally confounded Mexico's success against the cartels, using the military to reestablish authority and counter the cartels' firepower, moving to establish integrity within the ranks of the police, and pursuing concrete actions that promise to give law enforcement officials and judicial authorities the resources and the legal underpinning needed to succeed. Finally, in an unprecedented gesture, he has agreed with the U.S. to pursue much-enhanced bilateral cooperation through the Merida Initiative.

In addition to the Merida Initiative, efforts to improve information sharing and collection, improvements in data and communications networks, and police modernization through training and professionalization will help regain space ceded to the cartels over the years. Other initiatives including pursuing demand reduction, more efficient and transparent administration of justice and various other efforts aimed at curbing corruption will help to create public support for these joint initiatives.

Canada, Mexico and Central America

V. Statistical Tables

MEXICO STATISTICS (1997-2007)											
	2007*	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Opium											
Harvestable / Net Cultivation (ha)	-	5,100	3,300	3,500	4,800	2,700	4,400	1,900	3,600	5,500	4,000
Eradication (ha)	11,046	1,6889	21,609	15,925	20,034	19,157	19,115	15,300	15,469	17,449	17,732
Potential Opium Gum (MT)	-	110	71	73	101	58	71	21	43	60	46
Potential Heroin (MT)	-	13	8	9	12	5	7	2	4	6	5
Cannabis											
Harvestable / Net Cultivation (ha)	-	8,600	5,600	5,800	7,500	7,900	4,100	3,900	3,700	4,600	4,800
Eradication (ha)	21,357	31,161	30,842	30,851	36,585	30,775	28,699	33,000	33,583	23,928	23,576
Net Cannabis Production (MT)	-	15,500	10,100	10,440	13,500	7,900	7,400	7,000	6,700	8,300	8,600
Seizures											
Cocaine HCl (MT)	48	21	30	27	21	12	30	18	33	22	34
Cannabis (MT)	2,174	1,849	1,786	2,208	2,248	1,633	1,839	1,619	1,459	1,062	1,038
Opium Gum (kg)	292	75	275	464	198	310	516	270	800	150	340
Heroin (kg)	298	351	459	302	306	282	269	268	258	120	115
Methamphetamine (kg)	899	621	979	951	751	457	400	555	358	96	39
Arrests/Detentions Total											
Nationals	19,384	11,579	19,222	18,943	8,985	7,055	9,973	-	10,464	10,289	10,742
Foreigners	264	86	146	180	163	125	189	-	203	255	170
Labs Destroyed											
	26	10	39	23	22	13	28	-	-	7	8

The PGR National Center for Analysis, Planning and Intelligence against Organized Crime (CENAPI) provided statistics on eradication, seizures and arrests. Data is as of October 25, 2007. Updates will be provided when received.

Nicaragua

I. Summary

Nicaragua is a sea and land trans-shipment route for South American cocaine and heroin trafficked to the United States. 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. Nicaragua is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug trafficking organizations take advantage of Nicaragua's geographic location along a key trafficking route to transport drugs by land, air, and sea to the United States. The Managua International Airport is also a trans-shipment point for drugs and smuggled currency. Law enforcement and military authorities have collaborated to seize notable amounts of drugs, despite limited material and technical resources. For example, as of November, they have seized 9.7 metric tons (MT) of cocaine and over \$6 million in the calendar year.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, the National Assembly addressed some of the legal weaknesses in Nicaragua's efforts against money laundering and terrorism financing by proposing a new Penal Code, still being debated in the National Assembly. The new Code contains language establishing money laundering as a crime independent of drug trafficking, stiffer penalties, and terrorism financing as a crime. The Penal Code is expected to be fully approved and enacted in 2008. After a U.S.-sponsored press event highlighted Nicaragua's lack of a Financial Investigative Unit (FIU), the National Assembly resurrected a 2004 bill creating an independent FIU. As of December, however, the bill had still not been passed in the Assembly's Economic Committee.

In March 2007, the GON created a Vetted Unit within the Nicaraguan National Police (NNP). The unit, comprised of 18 NNP agents of diverse law enforcement backgrounds, training and experiences, is charged with conducting investigations of international drug trafficking and money laundering organizations operating in Nicaragua. It is expected to work closely with newly formed anti-corruption groups in the Attorney General's office, as well as with other anti-corruption units in the region.

Law Enforcement Efforts. During 2007, Nicaragua authorities were very successful in their enforcement operations, seizing over 13 MT of cocaine, 153 kg. of heroin, and arresting 192 individuals for international drug trafficking, including Nicaraguan, Colombian, Mexican, Guatemalan, and Honduran nationals. Nicaragua authorities seized a total of \$6,326,740 in currency being smuggled south (\$2,907,545 of it at the Peñas Blancas checkpoint on the Costa Rica-Nicaragua border), as well as \$965,010 seized at Managua International Airport.

The NNP also disrupted the operations of a Mexican drug trafficking organization in Nicaragua, which had been operating there since 2004. According to the NNP, the Sinaloa Cartel, had established air, land and maritime transportation cells and had been operating with impunity. With the seizure of over 5 tons of cocaine and the arrest of 25 members of the organization, the NNP was successful in disrupting the organization's maritime and air transportation cells.

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 in law enforcement and the judiciary.

In previous years, judges often let drug suspects go free after a short detention. Due to the rampant corruption in the Nicaraguan judiciary, the United States no longer provides foreign assistance to the Nicaraguan Supreme Court.

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 does not extradite its nationals, but will domestically prosecute nationals for crimes committed outside Nicaragua. Nicaragua's commitment to domestic prosecutions, however, has been inconsistent. Nicaragua is a member of the Caribbean Financial Action Task Force (CFATF), which plans to investigate the country's failure to comply with the requirements outlined in its most recent country report. The United States and Nicaragua signed a bilateral counternarcotics maritime agreement that entered into force 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 UN Convention against Corruption, the Inter-American Convention on Mutual Assistance in Criminal Matters, and 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 signed the Caribbean regional maritime counternarcotics agreement in 2003, but has not yet taken any action to bring it into force.

Cultivation/Production. Marijuana is cultivated in Nicaragua for domestic consumption. Exact cultivation figures are unknown.

Drug Flow/Transit. Nicaragua has a high volume of maritime smuggling on both its Pacific and Caribbean coasts, with increasing traffic on the Pacific coast in 2007. While the majority of the country's limited maritime interdiction assets are concentrated on the Caribbean coast, go-fast vessels are transiting the Pacific side of the entire Central American coast with multi-ton shipments of cocaine. During this calendar year, Nicaraguan authorities seized more than 1.5 metric tons of cocaine on the Atlantic side and nearly 4 MT on the Pacific. It is believed that the majority of large seizures made on land were successfully smuggled via maritime conveyances. Contraband shipments are generally smuggled north via the Pan-American Highway in hidden compartments and smuggled currency is transported south through Central America.

U.S. and Nicaraguan intelligence information suggests that the Managua International Airport is being utilized as a halfway staging area in the smuggling of contraband. Heroin and cocaine are transported into Nicaragua and are further transhipped from Nicaragua to the United States and Europe via the international airport. Currency is also being smuggled into Nicaragua via the International Airport. In 2007, the NNP seized over \$965,000 from a Mexican registered privately owned aircraft at the airport. Clandestine airstrips in remote areas of the country are frequently used by trafficking organizations. Nicaragua does not possess the capacity to detect or interdict suspect aircraft.

Domestic Programs (Demand Reduction). The D.A.R.E. (Drug Abuse Resistance Education) Program, established in Nicaragua in 2001, has now been translated into the Miskito language and is being implemented on the Atlantic coast. In 2007, the United States worked with the NNP's Department of Juvenile Affairs to launch a pilot effort for the Second Step (Segundo Paso) demand reduction/at-risk youth program which is designed for younger children. Drug consumption in Nicaragua remains 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.

IV. U.S. Policy Initiatives and Programs.

Bilateral Cooperation. The U.S. continues to encourage Nicaragua in interdiction, as well as encouraging more fundamental challenges to corruption and money laundering. During 2007, the United States provided counternarcotics assistance to the NNP and start-up funding to the new National Police Vetted Unit, a unit that investigates international drug trafficking, corruption and money laundering. The USG continued support to the Nicaraguan Navy with refurbishment of three large naval boats and several smaller patrol boats for maritime interdiction on both the Atlantic and Pacific coasts. The USG also provided maritime law enforcement, small boat operations, maintenance and logistics, engineering and leadership training to the Nicaraguan Navy in 2007.

The Road Ahead. The USG hopes to continue its fruitful working relationship with the Nicaraguan military and law enforcement institutions. Nicaragua still needs anti-corruption reform, including professionalization and de-politicization of the judiciary and the Prosecutor General's office, and the passage and implementation of stronger statutes to combat corruption and money laundering.

Panama

I. Summary

Panama is a major drug transit country. Its geographic location, developed maritime and transportation infrastructure facilitate trans-shipment of illegal drugs from Colombia to the United States and Europe. While the Torrijos Administration has been dynamic in its cooperation with the U.S. on security and law enforcement issues it has been less vigorous in its cooperation with regional neighbors. Panama seized 60 metric tons of cocaine in 2007 – the highest amount in recent years. Panama is a party to the 1988 United Nations Drug Convention.

II. Status of Country

Panama is a major trans-shipment point for narcotics destined for the U.S. and other global markets. Traffickers exploit Panama's well-developed transportation infrastructure, such as containerized seaports, the Pan-American Highway, a rapidly growing international hub airport (Tocumen), numerous uncontrolled airfields, and relatively unguarded coastlines on both the Atlantic and Pacific. Smuggling of weapons and drugs continued in 2007, particularly between the isolated Darien region and Colombia. The Government of Panama (GOP) has staffed the U.S.-funded Guabala checkpoint (inaugurated in 2006) on the Pan-American Highway, but resources and high-level management have been lacking. The flow of illicit drugs has contributed to increasing domestic drug abuse, according to Panamanian authorities. Panama is not a significant producer of drugs or precursor chemicals. However, limited amounts of cannabis are cultivated for local consumption.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The Torrijos Administration is publicly committed to counternarcotics and anticrime cooperation with the U.S. As a member state of the Central American Integration System (SICA), Panama participated actively in the U.S.-SICA security dialogue. A number of legislative initiatives have not been passed. These include a proposal to change the criminal justice system from a written (inquisitorial) to an oral (accusatorial) system. A 2006 proposal to merge the current National Air Service (SAN) and National Maritime Service (SMN) into a coast guard (based on the U.S. model) was also not introduced in the National Assembly. The GOP took limited steps to create a stand-alone border control service separate from the National Police (PNP). Also, the GOP took legislative action and disbanded the Technical Judicial Police (PTJ) and transferred most of its personnel to the National Police (PNP), with day-to-day control of major criminal investigations under the direction of prosecutors.

Accomplishments. In 2007, the GOP seized a record 60 metric tons (MT) of cocaine in collaboration with the U.S. Coast Guard. This included the largest on-record maritime seizure of cocaine, which was over 16 metric tons in March 2007. Several sensitive vetted units continue to operate with impressive results. The former head of the SMN was arrested and jailed on charges of corruption and illegal enrichment. In another high profile case, Colombian trafficker Jose Nelson Urrego Cardenas was arrested and his numerous properties confiscated.

Law Enforcement Efforts. In 2007, in addition to the 60 metric tons (MT) of cocaine, GOP authorities seized 96 kg of heroin, nearly 3.9 MT of marijuana, and made 207 arrests for international drug-related offenses. Several USG-supported GOP vetted units expanded operations in 2007. The joint Department of Homeland Security (DHS)-Department of Energy (DOE) Container Security Initiative (CSI) was launched in Panama in October. The primary mission of the CSI is to enhance global container security from the threat posed by high-risk shipments.

Corruption. As a matter of policy, no senior GOP official or the GOP encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. The National Anti-Corruption Commission, made strides in 2007 to address government corruption, including auditing government accounts and launching major investigations. A USG-funded “Culture of Lawfulness” program has trained officials from the Ministry of Education (MEDUCA), Private Schools Association, and the PNP on the importance of transparency, with courses taught in schools (early high school level) and in the PNP Academy.

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 with Panama was signed on March 15, 1999. A stolen vehicles treaty is 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. In 2007, Panama signed the Global Initiative to Combat Nuclear Terrorism. 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 OAS and is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters and the Inter-American Convention Against Corruption. Panama is a member state of SICA and an active participant in the U.S.-SICA security dialogue.

Cultivation and Production. Cannabis cultivation in Panama is limited, and is mostly for domestic consumption.

Drug Flow/Transit. Drugs transit Panama via fishing vessels, cargo ships, small aircraft, and go-fast boats. Hundreds of abandoned or unmonitored legal airstrips are used by traffickers for refueling, pickups, and deliveries. Couriers transiting Panama by commercial air flights also moved cocaine and heroin to the U.S. and Europe during 2007. Limited manufacturing of synthetic drugs occurs in Panama for local consumption. The majority of synthetic drugs distributed in Panama are smuggled into the country via commercial aircraft (using couriers) originating from Europe.

Domestic Programs/Demand Reduction. In 2007, the GOP implemented the final part of its five-year counternarcotics strategy that included 29 demand reduction, drug education, and drug treatment projects, at a total cost of \$6.5 million to fund the projects during the five-year period. MEDUCA and CONAPRED, with USG support, promoted counternarcotics training for teachers, information programs, and supported the Ministry’s National Drug Information Center (CENAID). The projects produced positive results such as the training of 250,000 students in drug prevention by the Ministry of Education.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. USG-supported programs focus on improving Panama’s ability to interdict, 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. INL, DHS, and USCG provided resources for modernization and upkeep of SMN and PNP vessels and bases, conducted maritime law enforcement training courses, and assisted the SAN with training personnel and maintaining key aircraft for interdiction efforts. In 2007, the USG provided training and operational tools to the multi-agency Tocumen Airport Drug Interdiction

Law Enforcement Team, including, DHS/CBP-provided training for personnel at Tocumen Airport and the Guabala checkpoint on the Pan-American Highway. INL supported a major law enforcement modernization initiative to professionalize PNP mid- and senior-level officers. The program focused on proven community policing tactics, expansion of existing crime analysis technology, and promotion of managerial change to allow greater autonomy and accountability. Work was completed 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. INL also provided computers, office and other equipment, to the Attorney General's Anti-Corruption Prosecutor's Office.

Bilateral Cooperation. In 2007, the GOP continued to participate in joint counternarcotics operations with DEA and USCG, and worked to strengthen national law enforcement institutions with assistance from NAS. 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. In 2007, the Coast Guard's seizure of over 32 metric tons of cocaine was directly related to cooperative efforts executed under provisions of the counternarcotics bilateral agreement between Panama and the United States.

The Road Ahead. The USG will continue to encourage the Government of Panama to devote sufficient resources to its security 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 provide expertise and resources to assist the development of a new GOP Coast Guard, and a border control unit.

THE CARIBBEAN

The Bahamas

I. Summary

The Bahamas, a 700-mile-long archipelago off the eastern coast of the U.S., is a major transit point for cocaine from South America bound for both the U.S. and Europe, and for marijuana from Jamaica. Participating in Operation Bahamas, Turks and Caicos Island (OPBAT), 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 Bahamian domestic demand for drugs. In 2007, the Bahamian Parliament passed into law precursor chemical control legislation. The GCOB has increased funding to strengthen its interdiction capabilities in vulnerable regions of the country and the Royal Bahamas Police Force (RBPF) seized \$7.8 million in drug-related cash. The Bahamas is a party to the 1988 UN Drug Convention.

II. Status of Country

The Bahamas is an attractive country for transshipments of cocaine, marijuana and other illegal drugs because of its 700 islands and cays spread over an area the size of California astride maritime and aerial routes between South American drug producing countries and the United States. Cultivation of marijuana on remote islands and cays is of concern to Bahamian authorities, although there is no official estimate of the hectareage involved. The Bahamas is not a producer or transit point for drug precursor chemicals. In 2007, The Bahamas continued to participate in *Operation Bahamas and Turks and Caicos* (OPBAT)—a multi-agency international drug interdiction effort established in 1982 to stop the flow of cocaine and marijuana through The Bahamas to the U.S. In October 2007, U.S. Drug Enforcement Administration (DEA) personnel and air assets took over responsibility for the OPBAT base in George Town, Exuma following the withdrawal of U.S. Army helicopter support.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In January 2007, the Bahamian Parliament passed into law precursor chemical control legislation and, in May, the GCOB approved funding for additional boats and one surveillance aircraft for the Royal Bahamas Defense Force (RBDF) to support its counternarcotics efforts. The government has plans to upgrade the RBDF base in Great Inagua, where maritime drug smugglers enter Bahamian territorial waters and to establish a new base in the Northern Bahamas. The GCOB and the Government of Haiti continue negotiations concerning the placement of Haitian National Police officers on Great Inagua Island to improve the collection of intelligence from Haitian sail freighters passing through Bahamian territorial waters.

Accomplishments. In 2007, the Drug Enforcement Unit (DEU) of the Royal Bahamas Police Force (RBPF) cooperated closely with U.S. and foreign law enforcement agencies on drug investigations. During 2007, including OPBAT seizures, Bahamian authorities seized 630 kilograms of cocaine and approximately 50.5 metric tons (MT) of marijuana. The DEU arrested 527 persons on drug-related offenses and seized \$7.8 million in cash, five vessels and an airplane.

Law Enforcement Efforts. To enhance the results of drug interdiction missions, the RBDF provided vetted officers to the DEU in 2007. 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 territorial waters report to Bahamian Customs. During

2007, the RBDF assigned three ship-riders each month to Coast Guard cutters. The ship-riders extend the law enforcement capability of the U.S. Coast Guard into the territorial waters of The Bahamas. In October, the U.S. Army terminated its participation in OPBAT. The DEA replaced the U.S. Army at the base and is now responsible for carrying out OPBAT interdiction operations. During the year, OPBAT assets intercepted maritime drug smugglers detected by USG surveillance aircraft and on occasion, the Cuban Border Guard. The USCG provides assets for OPBAT, including three helicopters and approximately 100 personnel. The RBPF participated actively in OPBAT, and officers of DEU and the Royal Turks and Caicos Islands Police also flew on OPBAT missions, making arrests and seizures.

Corruption. As a matter of policy, the GCOB does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, nor the laundering of proceeds from illegal drug transactions. No senior official in the GCOB was convicted of drug related offenses in 2007. 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; the 1971 Convention on Psychotropic Substances; the 1988 UN Drug Convention; the 1990 U.S.-Bahamas-Turks and Caicos Island Memorandum of Understanding concerning Cooperation in the Fight Against Illicit Trafficking of Narcotic Drugs; and the Inter American Convention against Trafficking in Illegal Firearms. The GCOB is also a party to the Inter-American Convention Against Corruption and on January 10, 2008, GCOB acceded to the UN 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. 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. The USG also has a Comprehensive Maritime Agreement (CMA) with The Bahamas, which went into effect in 2004 replacing a patchwork of disparate safety, security and law enforcement agreements. Among its provisions, the CMA permits cooperation in counternarcotics and migrant interdiction operations in and around Bahamian territorial waters, including the use of ship riders and expedited boarding approval and procedures.

Cultivation and Production. Although there are no official estimates of marijuana hectareage in the islands, cultivation of marijuana by Jamaicans is a continuing trend. The majority of marijuana seized in 2007 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.

Drug Flow/Transit. Cocaine 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 transport between 2 to 6 MT marijuana shipments from Jamaica to The Bahamas. These shipments are then moved to Florida in the same manner as cocaine.

During 2007, law enforcement officials identified 34 suspicious go-fast boats in Bahamian waters. In addition, there were 12 suspected 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. GCOB law enforcement officers have noted that Haitian traffickers are concealing their drugs in hidden compartments in wooden-hulled sailing freighters and Haitian criminal organizations are commingling drugs with illegal migrant

smuggling. Bahamian law enforcement officials also identified shipments of drugs in Haitian sloops and coastal freighters. Intelligence sources suspect 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. The quasi-governmental National Drug Council coordinates the demand reduction programs of the various governmental entities such as Sandilands Rehabilitation Center, and of NGO's such as the Drug Action Service and The Bahamas Association for Social Health. The focus of the prevention/education program in 2007 was on schools and youth organizations, especially those located outside of New Providence Island.

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 2007, INL funded training, equipment, travel and technical assistance for GCOB law enforcement and drug demand reduction officials; procured computer and other equipment to improve Bahamian law enforcement capacity to target trafficking organizations through better intelligence collection and more efficient interdiction operations; provided funding to the National Drug Council (NDC) so its staff could participate in a University of the West Indies on-line course in prevention and treatment of drug addiction; and funded a survey of drug use among individuals admitted into hospital emergency rooms. In FY 2007, the USCG provided resident, mobile and on the job training in maritime law enforcement, engineering and logistics, professional development, medical and seamanship to the RBDF.

Road Ahead. 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. Standing up, staffing and funding its National Drug Secretariat will greatly assist GCOB efforts to implement its 2004 National Anti-Drug Plan. The Embassy is working with the GCOB to implement regulations banning wooden-hulled sailing freighters from Bahamian waters, most of which originate from ports in Haiti. These freighters are believed to play a key role in drug and migrant smuggling through The Bahamas. The GCOB can further enhance its drug control efforts by integrating Creole speakers into the DEU and by working with HNP officers to be stationed in Great Inagua to develop information on Haitian drug traffickers transiting the Bahamas. The USG will urge the GCOB to further integrate the RBDF into OPBAT by placing some of its marine assets acquired under the United States Southern Command's Enduring Friendship program in Freeport and Great Inagua to provide OPBAT end-game capabilities in these areas.

Cuba

I. Summary

Cuba is strategically located in the Caribbean between the United States and the drug producing countries of South America. Although Cuba is neither a significant consumer nor a producer of illegal drugs, its ports, territorial waters and airspace are susceptible to narcotics trafficking from source and transit countries. In 2007, the GOC continued “Operation Hatchett III,” a multi-force counternarcotics interdiction operation, and “Operation Popular Shield,” a nationwide counternarcotics public awareness campaign. Cuba also carried out some operations in coordination with the U.S. Coast Guard (USCG) Drug Interdiction Specialist (DIS) at the U.S. Interests Section (USINT) in Havana. Cuba is a party to the 1988 UN Drug Convention.

II. Status of Country

The GOC regularly detects and monitors suspect vessels and aircraft in its territorial waters and airspace. In cases likely to involve narcotics trafficking, it regularly provides detection information to the USCG. In addition to dedicating social service resources to improve prevention, the GOC also has the legal framework within its criminal justice system to prosecute and assign stiff penalties to narcotic users and traffickers.

According to Cuban statistics, Cuba’s internal drug consumption levels are among the lowest in the region. Lack of discretionary income and an overwhelming state police presence limits access to drugs by the Cuban population and contributes to the low incidence of drug consumption. In order to elude capture near Cuban territorial waters, international drug traffickers throw contraband from speedboats, providing the main source of supply to the local market. The GOC is active in regional drug control advocacy, but its interdiction capability is limited by a lack of resources necessary to upgrade its counternarcotic assets and technical equipment.

The USG has not been assured by the GOC that effective rules of engagement are in place to prevent the inappropriate use of deadly force during counternarcotics trafficking operations. In May, the leading Communist Party newspaper, Granma, declared that Cuba’s territorial waters would never be a safe corridor for traffickers. This statement came after a Cuban Border Guard patrol boat shot and killed two Bahamian drug traffickers. The GOC claims the drug smugglers rammed their vessel and were killed in self-defense during an exchange of gunfire.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Prevention through education has become the key policy initiative to confront the drug problem in Cuba. In 2007, the GOC completed the third phase of its national study on drug abuse. The study was initiated in Havana Province and has expanded its scope to include two other provinces. Over 40,000 people between the ages of 12-45 were interviewed on past and recent drug use patterns. According to the GOC, the study concluded that less than one percent of the Cuban population had used drugs in their lifetime.

In 2007, Cuban authorities participated with regional partners in three counternarcotics courses offered by the United Kingdom and Canada. They included border security, financial fraud and synthetic drug use. They also coordinated, with the assistance of INTERPOL, a regional forensic narcotics program where instructors explained current practices in narcotics detection.

Accomplishments. Maritime drug seizures by Cuban authorities increased slightly during 2007, with the GOC reporting the seizure of 1.7 metric tons (MT) of illicit narcotics. In February, a Cuban Border Guard telex notification to the USCG resulted in the joint multinational interception

of a drug-laden aircraft destined for the Bahamas, the arrest of two traffickers and the seizure of 286 kilograms (kg) of marijuana. Cuban officials then deported Luis Hernando “Rasguno” Gomez-Bustamante a reputed Colombian drug kingpin, to Bogotá where he was later extradited to the United States to face trafficking charges. In April, Cuban Border Guard authorities intercepted a Bahamian drug smuggling vessel. The vessel carried 590 kg of marijuana and was Cuba’s largest single seizure of drugs in 2007. In June, Cuba investigated two suspect shipping containers at the port of Havana with the Assistance of USINT’s USCG DIS. The joint U.S.-Cuba container inspection was the first such operation of its kind and resulted in the seizure of 20 kg of cocaine.

An additional 811 kg (754 kg of marijuana and 57 kg of cocaine) were confiscated from washed-up contraband picked by the Cuban Border Guard troops and coastal watch stations. Special drug enforcement units of the Ministry of Interior and the General Customs Service detained 49 drug couriers (“mules”) representing 23 nationalities in a yearlong airport operation. Four cases of airport seizures netted 9 kg of cocaine. All four cases took place at Jose Marti International Airport in Havana. In almost all cases involving foreign tourists detected with narcotics for personal consumption, the individual is fined, and then allowed to continue his/her visit. Operation Popular Shield resulted in the final 18 kg of narcotics (13 kg of marijuana and 5 kg 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 national market.

Law Enforcement Efforts. According to the Cuban Government, the Border Guard interdicts ninety percent of the drugs seized by Cuban law enforcement authorities. The GOC’s 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 in each of its international maritime shipping ports and airports.

Cuba’s “Operation Hatchet,” in its seventh year, is intended to disrupt maritime and air trafficking routes, recover washed-up narcotics, and deny drug smugglers shelter within the territory and waters of Cuba through vessel, aircraft and radar surveillance from the Ministry of Interior’s Border Guard and Ministry of the Revolutionary Armed Forces (Navy and Air Force). Operation Hatchet relies on shore-based patrols, visual and radar observation posts and the civilian fishing auxiliary force to report suspected contacts and contraband. In 2007, Cuban law enforcement authorities reported “real time” sighting of 39 suspect vessels (25 go-fast and 14 aircraft) transiting their airspace or territorial waters, an 18 percent increase over 33 suspect targets observed in 2006.

Corruption. As a matter of policy, the GOC 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. 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 2007. It should be noted, however, that the media in Cuba is completely controlled by the state, which permits only laudatory press coverage of itself. Crime is almost never reported.

Agreements and Treaties. Cuba 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 GOC cooperates with the United Nations Office for Drug Control and Crime Prevention and maintains bilateral narcotics agreements with 32 countries and less formal memoranda of agreement with 2 others. Counternarcotics coordination between the U.S. and Cuba occurs only on a case-by-case basis. In an effort to demonstrate international collaboration, in 2003, Cuba inaugurated Havana’s Anti-Doping Lab to conduct test analysis for all international

sporting events. The World Anti-Doping Agency and the International Olympic Committee have certified this lab. Cuba is also an active participant in the annual Latin America and the Caribbean meetings for Heads of National Law Enforcement Agencies (HONLEA). Cuba is a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

Cultivation/Production. Cuba's National Revolutionary Police and the National Association of Small Farmers acknowledge the smuggling of marijuana seeds into the country. In 2007, GOC seized 3,789 marijuana plants (up from 2,115 plants in 2006) and 5,330 marijuana seeds. Cuba is not a source of precursor chemicals, nor have there been any incidents involving precursor chemicals reported in 2007.

Drug Flow/Transit. Cuba's 4,000 small keys and the 3,500 nautical miles of shoreline provide drug traffickers with the ability to conduct 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. Commercial vessels and containerized cargo that are loaded with drugs pose an increasing risk to Cuban ports. Mules continued to traffick small quantities of narcotics to and from Europe through Cuba's international airports.

Domestic Programs. The governing body for prevention, rehabilitation, and policy issues is the National Drug Commission (CND). 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 3 international drug dependency treatment centers and 198 community health facilities 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. The U.S. has no counternarcotics bilateral agreements with Cuba and does not fund any GOC counternarcotics law enforcement initiatives. In the absence of normal bilateral relations, the USCG DIS officer assigned at the USINT Havana acts as the main conduit of anti-narcotics cooperation with the host country on a case-by-case basis. Cuban authorities have provided DIS more exposure to Cuban counternarcotics efforts, including providing investigative criminal information, such as the names of suspects and vessels; debriefings on drug trafficking cases; visits to the Cuban national canine training center and anti-doping laboratory in Havana; and access to meet with the Chiefs of Havana's INTERPOL and Customs office.

Road Ahead. U.S. counternarcotics efforts in Cuba face a number of obstacles. The current Cuban regime's long history of anti-Americanism in rhetoric and action has limited the scope for joint activity and made bilateral dealings always subject to political imperatives. Cuba's Drug Czar has raised the idea of greater counternarcotics cooperation with the USG. De facto Commander-in-Chief, Raul Castro has called for a bilateral agreement on narcotics, migration and terrorism during his de facto status as head of state. However, these approaches have not been offered with forthright or actionable proposals as to what the USG should expect from future Cuban

cooperation. The USG continues to encourage Cuba's full participation in regional interdiction efforts.

Dominican Republic

I. Summary

The Dominican Republic (DR) is a major transit country for cocaine and heroin from South America destined for U.S. and European markets. During 2007, the DR experienced an increase in air smuggling of cocaine out of Venezuela while maritime deliveries via go-fast boats and cargo containers continued. The Government of the DR (GODR) cooperated in extraditing fugitives and deporting criminals to the U.S. Seizures of heroin, cocaine and MDMA were consistent with 2006, while drug related arrests increased by over 60 percent in 2007. The DR made advances in its domestic law enforcement capacity, institution building and interagency networking; and continued modest progress in prosecuting major bank fraud and government corruption cases. In spite of these positive signs, corruption and weak governmental institutions remained a serious impediment to controlling the flow of illegal narcotics. The DR is a party to the 1988 UN Drug Convention.

II. Status of Country

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 38 percent from 2006 to 2007. Approximately two thirds of the flights went to the DR. MDMA (Ecstasy) was most often interdicted enroute 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 2007

Policy Initiatives. The Financial Analysis Unit, which became operational in 2005, still lacks Egmont certification and the resources and institutional support to perform effectively. In 2007, despite assistance from the USG to train DR prosecutors and law enforcement officers in the conduct of money-laundering investigations, the GODR continued to struggle to implement anti-money laundering legislation passed in 2002. In 2006, the GODR signed the Cooperating Nations Information Exchange System agreement which allows the DR to receive information on suspected aerial and maritime drug trafficking. In November, the GODR signed an agreement with Haiti to fight jointly against drug trafficking and to increase law enforcement cooperation.

Accomplishments. In 2007, Dominican authorities seized approximately four metric tons of cocaine, 102.5 kilograms (kgs) of heroin, 17,902 units of MDMA, and 511.7 kgs of marijuana. In November, the National Drug Control Directorate (DNCD), in coordination with the Drug Enforcement Administration (DEA), interdicted an airdrop of drugs, seizing more than 220 kgs of cocaine. In December, the authorities seized 580 kg of cocaine inside a shipment of transmission fluid that originated in Maracaibo, Venezuela. The DNCD made 12,841 drug-related arrests in 2007. Of these, 12,510 were Dominican nationals and 331 were foreigners.

Law Enforcement 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 Dominican Navy received four high-speed interceptor boats under the U.S. Southern Command’s *Enduring Friendship* program to help counter the “go-fast” threat. However, they have not been put to effective use, in part due to fuel shortages. The DNCD and DEA counterparts cooperated on an investigation that led to the takedown in December of a trafficking organization linked to the FARC in Colombia that used small aircraft to deliver drugs to

the DR and Suriname. The takedown resulted in the arrest of 15 Colombians and the seizure of 191 kgs of cocaine.

In 2007, 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 DEA executed a joint, interagency coordinated counternarcotics operation called “Rum Punch” with U.S. Mission agencies, the DNCD and other Dominican military branches focusing on the movement of drugs, money and chemicals between source zones and the United States. The operation included maritime and air assets from the U.S., British and Dominican militaries, integrated into one daily planning schedule. “Operation Rum Punch” improved coordination and understanding among and between the U.S. law enforcement community and Dominican counterparts. The operation also facilitated training and institution building, critical to the mission’s success.

Corruption. As a matter of policy, the GODR does not encourage or facilitate the illicit production, processing or distribution of narcotics, psychotropic drugs, and other controlled substances, nor does it contribute to drug-related money laundering. The GODR has made efforts to reduce the influence of narcotics traffickers in the judicial system. During the year, the Judiciary removed six judges for improper conduct, including the mishandling of drug trafficking cases. In October, former BANINTER bank president Ramon “Ramoncito” Baez Figueroa was sentenced to 10 years in prison and fined 2.5 million pesos (approximately \$75,000) for violating the General Banking Law (Law 708-65) and sections of the Monetary and Financial Law (Law 183-02). Former bank vice-president Marcos Baez Cocco was found guilty of the same offenses. Dual-national Dominican-American entrepreneur and economist Luis Alvarez Renta received the maximum 10 year sentence allowed under the money-laundering statute and was ordered to pay the maximum fine under that law.

The Attorney General conducted numerous corruption investigations in 2007 against Dominican officials, many of which resulted in arrests and/or dismissals. 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. With USG assistance, the Directorate for Prosecution of Corruption is establishing a reporting and tracking system for disclosed assets. The DR has enacted a Freedom of Information Act, but requests for information are not uniformly granted.

Agreements and Treaties. The DR is a party to the 1988 UN Drug Convention; the 1961 UN Single Convention as amended by the 1972 Protocol; the 1971 UN Convention on Psychotropic Substances; the UN Convention against Transnational Organized Crime; the UN Convention against Corruption; and the Inter-American Convention against Corruption. In 1985, the USG and the DR signed 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 has signed, but not 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 rogatory, but noticeable delays in compliance are routine. The DR is not party to a bilateral asset forfeiture agreement, nor is it party to any multilateral agreement that would permit the forfeiture of criminally obtained assets. The DR signed the Cooperating Nations Information Exchange System agreement in 2006.

Extradition. The U.S.-Dominican Extradition Treaty dates from 1909. Extradition of nationals is not mandated under the treaty, but, in 1998, President Leonel Fernandez signed legislation

permitting such extraditions. In 2005, judicial review was added to the procedure for extradition, making extraditions more transparent. During the year, 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 20 Dominicans in 2007, and deported 12 U.S. and third-country national fugitives to the U.S. to face prosecution. Of these 32 cases, 14 were narcotics-related.

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 2007, the DNCD focused interdiction operations on the drug-transit routes in Dominican territorial waters along the southern 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 89 suspect drug flights from Venezuela in 2007 as compared to 75 flights in 2006. During the year, drugs were easily accessible for local consumption in most metropolitan areas. In October, U.S. Federal agents in New York arrested 18 people including 10 airline workers who were transporting cocaine, heroin and MDMA from suppliers in the Dominican Republic to the U.S. The drugs were hidden in luggage on international commercial flights from the DR.

Domestic Programs. In 2007, the DNCD conducted 267 sporting events and seminars that served as a platform to publicize the negative effects related to the 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. A community-policing project initiated in 2006/7 with support from the U.S. Mission is targeting high-risk neighborhoods in Santo Domingo, in part to reduce drug demand and drug related crimes. The project has received great praise from community leaders and law enforcement officials who are seeking to expand it to other cities in the Dominican Republic.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During 2007, 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, expand DNCD computer training, database expansion and systems maintenance support, improve the DNCD's capability to detect drugs smuggled through airports, and to enhance the DR's anti-money laundering capacity. The DEA Center for Drug Information (CDI), housed in the DNCD, hosted a two-day training session attended by fifty participants from twenty-seven countries.

The multi-agency International Drug Flow Prevention Strategy proposed by DEA was implemented by the Dominican Government in 2007. This strategy is designed to significantly disrupt the movement of drugs, money and chemicals between source zones and the U.S. In addition, DEA sponsored a basic drug enforcement seminar as well as training focused on interviewing and interrogation, vehicle and hidden compartment inspection, and undercover operations.

In 2007, the United States Coast Guard (USCG) participated in joint counternarcotics and illegal migrant operations, including a proof of concept operation using biometrics to identify and prosecute criminals transiting via maritime means between the Dominican Republic and Puerto Rico. In addition, the USCG held three subject-matter expert exchange conferences for the benefit of the Dominican Navy: the Annual Interoperability Conference aimed at improving coordination in maritime interdictions; the Caribbean Search and Rescue Conference focused to improve and

coordinate collaborative efforts of mutual search and rescue resources; and the International Shipping and Port Security Conference geared toward enhancing port security in the DR. The USCG also provided maritime law enforcement, leadership, engineering and maintenance, port security, and command and control training to the Dominican Navy.

The Law Enforcement Development Program, implemented by the Embassy's Narcotics Affairs Section, continued assisting the Dominican National Police (DNP) with reforms aimed at transforming it into a professional, civilian-oriented organization. Since the program was initiated in 2006, 6,300 police investigators and prosecutors have undergone training in basic crime scene investigation. Internal Affairs (IA) was also restructured and is operating efficiently. During 2006 and 2007, approximately 300 police officers were terminated for testing positive for drug use. IA investigators are conducting approximately 60-70 internal investigations monthly against police personnel engaged in improper conduct, which are then referred to the Chief of Police and/or Prosecutor General's office for disciplinary action. A community based policing project established in 13 high risk barrios in Santo Domingo has demonstrated positive trends in crime reduction in these neighborhoods. This project will be expanded to other cities in the Dominican Republic in 2008. National Police and Prosecutors continue to receive combined training, which promises to further enhance institutional cohesion. During the year, 364 prosecutors were trained in Basic Principles of Criminal Investigation, and Interviewing & Interrogation Techniques. In addition, 30 Prosecutors were trained in Basic Money Laundering Investigation Techniques.

In 2007, the Dominican chapter of the Business Alliance for Secure Commerce (BASC), a voluntary alliance of manufacturers, transport companies, and related private sector entities, continued to expand its training program and was cited by Customs and Border Patrol (CBP) officials as one of the most effective BASC chapters worldwide. BASC is a cooperative program between the private sector and national and international organizations to facilitate and promote world trade by establishing and administrating global supply chain security standards and procedures. BASC Dominicana consists of 50 members representing over 40 businesses and 10 business associations. Currently 38 local businesses have been certified with projections of reaching 44 by the end of 2007. Their goal is to certify all the commercial service industry businesses connected with foreign trade.

USAID continued to provide assistance with strengthening the overall justice system, with a particular focus on effective implementation of the Criminal Procedures Code to ensure proper acquisition, storage and handling of evidence and adherence to time limits for prosecuting cases. USAID also assisted the National Institute for Forensic Sciences with improving procedures to secure and preserve evidence.

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 continue to 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 and other cities in the Dominican Republic through the training of in-house National Police instructors in the concepts of community-based policing.

Dutch Caribbean

I. Summary

Aruba, the Netherlands Antilles, and the Netherlands together form the Kingdom of the Netherlands. The two Caribbean parts of the Kingdom have autonomy over their internal affairs, with the right to exercise independent decision making in a number of counter narcotics areas. The Government of the Netherlands (GON) is responsible for the defense and foreign affairs of all three 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. Negotiations are underway that are expected to result in the dissolution of the Netherlands Antilles in 2008, with Curacao and Sint Maarten to attain autonomous status similar to Aruba's, while the islands of Bonaire and Saint Eustatius would become municipalities within the Kingdom of the Netherlands. Both Aruba and the Netherlands Antilles are active members of the Financial Action Task Force (FATF) and Caribbean Financial Action Task Force (CFATF) and are subject to the 1988 UN Drug Convention as part of the Kingdom of the Netherlands.

II. Status

Netherlands Antilles. The islands of the Netherlands Antilles (NA) (Curacao and Bonaire off Venezuela and Saba, Saint Eustatius, and Sint Maarten east of the U.S. Virgin Islands) continue to serve as northbound transshipment points for cocaine and increasing amounts of heroin coming from South America; chiefly Colombia, Venezuela, and to a much lesser extent, Suriname. Go-fast boats are typically used to transport drugs to U.S. territory in the Caribbean, although the use of fishing boats, freighters, and cruise ships is becoming more common. Direct transport to Europe, and at times to the U.S., is sometimes carried-out by “mules” (drug couriers) using commercial flights. The DEA and local law enforcement saw continued go-fast boat traffic this year with some load sizes reduced because of a potential exposure to law enforcement. This shift was attributed to successful investigations along with investments by the Antilles in border security like the new ground-based radar system capable of identifying inbound vessels. These shipments were generally en route to Puerto Rico or the U.S. Virgin Islands, but Sint Maarten continued to hold some measurable popularity among couriers as a gateway to Europe. In addition to go-fast boat activity and smuggling via commercial airlines, large quantities of narcotics continued to be moved through in cargo containers.

Sint Maarten's geographic location and its multi-national population make it an ideal transshipment point between South America and the United States, for drugs and human smuggling. Dutch Sint Maarten is considered a “Free Zone”, which means there are limited controls placed on import and export of goods. This situation also applies to financial crimes. The absence of rigorous checks into monetary flows means that money laundering and proceeds from illegal activities are relatively easy to conceal. Sint Maarten announced draft legislation to be presented to Parliament in 2008 that would extend the requirement to report suspicious financial transactions to include not only banks and casinos but car dealers, jewelers, insurance companies, lawyers and accountants as well. In preparation for its expected autonomous status, Sint Maarten established a Crime Action Task Force to enhance law enforcement efforts against drug trafficking, human smuggling and money laundering.

In Curacao, the crackdown at Curacao's Hato International Airport on “mules”—who either ingest or conceal on their bodies illegal drugs — continued during 2007. Detentions of mules declined from a high of 80 to 100 per day, to approximately 10 per month in 2007, according to local court statistics. The decline can be directly attributed to aggressive law enforcement tactics employed by

Antillean authorities, in conjunction with their Dutch partners, coupled with innovative legislative tactics like the confiscation of the passports of Antillean couriers.

During 2007, the newly appointed Police Chief in conjunction with the Minister of Justice made a concentrated effort to improve Criminal Intelligence by creating a new Operational Intelligence Unit within the Curacao Police Corps. This specialized Intel Unit improved the investigative effectiveness of the police and successful joint Antillean/Dutch investigations conducted by the Hit and Run Money Laundering Team (HARM) have become commonplace during 2007.

The specialized Dutch police units (RSTs) that support law enforcement in the NA continued to be effective in 2007. RST Curacao had its biggest success in a joint international money laundering operation named *Operation Kings Cross*, which focused on illegal activities within the Curacao Free Zone. This operation resulted in the seizure of \$120,000 in Euros and \$130,000 in U.S. Currency and the arrest of the principal target in the investigation. In another joint RST investigation named *Operation Pick Pocket* results included the seizure of 542 kilograms of cocaine, 10 kilograms of heroin, and the arrest of 61 individuals.

The Netherlands Antilles and Aruba Coast Guard (CGNAA) was responsible for several seizures of cocaine, heroin, and marijuana during 2007. In October, the CGNAA, in coordination with the RST Curacao seized approximately 35 kilograms and a go-fast vessel. The CGNAA's three cutters, outfitted with rigid-hull inflatable boats (RHIBs) and new 'super' RHIBs designed especially for counter narcotics work in the Caribbean, demonstrated their utility against go-fast boats and other targets.

The CGNAA has developed an effective counternarcotics intelligence service and is considered by the U.S. Coast Guard and DEA to be an invaluable international law enforcement partner. Under the continued leadership of the Attorney General, the GONA continued to strengthen its cooperation with U.S. law enforcement authorities throughout 2007. This cooperation extended to Sint Maarten, where the United States and the GONA continued joint efforts against international organized crime and drug trafficking.

The Dutch Navy also operates in the Netherlands Antilles under the auspices of Component Task Group 4.4 (CTG 4.4), which operates in international waters under the oversight of the Joint Inter Agency Task Force South (JIATF-S). Over the past two years, CTG 4.4 has become a close and essential ally of the DEA and other U.S. agencies. Their continual efforts to thwart drugs trafficking from the region have been noted at the highest levels of the DEA and U.S. government. Several notable seizures occurred during 2007. The most impressive effort was the tracking of a maritime vessel from Colombia, which culminated with the seizure of approximately 153 kilograms of heroin.

The GONA demonstrated its commitment to the counternarcotics effort by continued support for a U.S. Forward Operating Location (FOL) at the Curacao Hato International Airport. Under a ten-year use agreement, signed in March 2000 and ratified in October 2001 by the Dutch Parliament, U.S. military aircraft conduct counternarcotics detection and monitoring flights over both the source and transit zones from commercial ramp space provided free of charge.

Aruba. Aruba is a transshipment point for increasing quantities of heroin, and to a lesser extent cocaine that move north via cruise ships and the multiple daily flights to the U.S. and Europe. The island attracts drug traffickers because of its good infrastructure, excellent flight connections, and relatively light sentences for drug-related crimes served in prisons with relatively good living conditions.

While Aruba enjoys a low crime rate, crime reporting during 2007 indicates that prominent drug traffickers are established on the island. Drug abuse in Aruba, including among tourists, remains a cause for concern. Cruise lines that visit Aruba have strict boarding/search policies for employees

in order to thwart efforts of the traffickers to establish regular courier routes back to the United States. The expanding use of MDMA in clubs by young people attracts increasing attention. Private foundations on the island work on drug education and prevention and the Aruba government's top counter narcotics official actively reaches out to U.S. sources for materials to use in prevention programs. The police also work in demand reduction programs among local schools and visit them regularly. The GOA has established an interagency commission to develop plans and programs to discourage youth from trafficking between the Netherlands and the U.S. The GOA has been very clear that it intends to pursue a dynamic counternarcotics strategy in close cooperation with its regional and international partners.

In 2007, Aruba law enforcement officials continued to investigate and prosecute mid-level drug traffickers who supply drugs to "mules." During 2007, there were several instances where Aruban authorities cooperated with U.S. authorities to carry out U.S. prosecutions of American citizens arrested in Aruba who were attempting to carry multi-kilogram quantities of drugs to the United States. Aruba also devotes substantial time and effort to the identification of the person's responsible for the importation of drugs to Aruba.

The GOA hosts the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection (CBP) pre-inspection and pre-clearance personnel at Reina Beatrix airport. These officers occupy facilities financed and built by the GOA. DHS seizures of cocaine and heroin were frequent in 2007. Aruba officials regularly explore ways to capitalize on the presence of the FOL and pre-clearance personnel, seeking to use resident U.S. law enforcement expertise to improve local law enforcement capabilities. In September, CBP's Office of International Affairs and Trade Relations provided training on the implementation of border enforcement best practices and the proper use of inspection tool kits in the examination of aircraft, containers, vehicles and cargo.

III. Actions Against Drugs in 2007

Accomplishments. Available drug seizure statistics for calendar year 2007, as of October 31, 2007, were: Aruba seized 390 kilograms of cocaine and 13 kilograms of heroin. The Netherlands Antilles seized 638 kilograms of cocaine and 10 kilograms of heroin.

Corruption. As a matter of policy, the NA 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. During 2007, the NA continued an aggressive and successful program to identify certain links from prominent traffickers in the region to law enforcement officials, which prompted additional investigation in the region. The NA has been quick to address these issues through criminal investigations, internal investigations, new hiring practices, and continued monitoring of law enforcement officials that hold sensitive positions. Aruba's judiciary enjoys a well-deserved reputation for integrity. It has close ties with the Dutch legal system, including extensive seconding of Dutch prosecutors and judges to fill positions for which there are no qualified candidates among the small Antillean and Aruban populations.

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 Aruba 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, the Inter-American Convention against Corruption, and the UN Convention against Transnational Organized Crime and its three protocols 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.

Cultivation/Production. Cultivation and production of illicit drugs are not issues.

Domestic Programs (Demand Reduction). Both the NA and Aruba have ongoing demand reduction programs, but need additional resources. In 2007, the Curacao Police Corps, in conjunction with Drug Abuse Resistance Education program (D.A.R.E.), opened a new D.A.R.E. facility in Willemstad, Curacao to aid in youth Demand Reduction activities.

IV. U.S. Policy Initiatives and Programs

The United States encourages Aruba and NA law enforcement officials to participate in INL-funded regional training courses provided by U.S. agencies at the GOA and GONA's expense. Chiefly through the DEA and DHS/Immigration and Customs Enforcement, the United States is able to provide assistance to enhance technical capabilities as well as some targeted training. The U.S. continues to search for ways in which locally assigned U.S. law enforcement personnel can share their expertise with host country counterparts.

Appreciation of the importance of intelligence to effective law enforcement has grown in the Dutch Caribbean. The USG is expanding intelligence sharing with GOA and GONA officials as they realize the mutual benefits that result from such sharing. As 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 continue to threaten the Dutch Caribbean. The expansion of law enforcement cooperation between the U.S., Dutch, and Aruba and Netherlands Antilles will serve to protect the Dutch Caribbean from these threats and contribute to broader counternarcotics efforts in the Caribbean as well.

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—are vulnerable to drug trafficking from South America to markets in the U.S. and Europe. Illicit narcotics transit the Eastern Caribbean mostly by sea, in small “go-fast” vessels, larger fishing vessels, yachts and freight carriers. There is little narcotics airdrop activity in the region. Recently there has been the increased trend of using sailing yachts to transport drugs from the Caribbean to Europe. Each of the countries has a bilateral maritime counternarcotics agreement with the U.S. The USG has provided a number of leadership, marine engineering and maintenance, and seamanship training courses to the Eastern Caribbean nations in FY2007. Additionally, the USCG continues to maintain a three-person Technical Assistance Field Team (TAFT) to provide technical/logistic support and coordinate all depot-level maintenance for over 40 maritime security vessels in the Eastern Caribbean. The seven Eastern Caribbean states are parties 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.

II. Status of Countries and Actions Against Drugs in 2007

Antigua and Barbuda. The islands of Antigua and Barbuda are transit points for cocaine moving from South America to the U.S. and European markets. Narcotics entering Antigua and Barbuda are transferred from go-fast boats, fishing vessels, or yachts to other go-fasts, powerboats or local fishing vessels for further movement. Secluded beaches and uncontrolled marinas provide opportunities to conduct these drug transfer operations. Marijuana cultivation in Antigua and Barbuda is not significant. Marijuana imported for domestic consumption primarily comes from St. Vincent.

According to the Government of Antigua and Barbuda (GOAB), approximately 60 percent of the cocaine that transits Antigua and Barbuda is destined for the United Kingdom, representing a 15 percent decrease from the previous year, while the amount transited to the United States increased from 15 to 25 percent between 2006 and 2007. Approximately 10 percent of the cocaine transiting Antigua and Barbuda is destined for St. Martin/Sint Maarten. There were no reports of production, transit or consumption of methamphetamines in Antigua and Barbuda. There is also no legislation that imposes specific recordkeeping on precursor chemicals.

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 GOAB is a party to the Inter-American Convention against Corruption, the Inter-American Convention on Extradition, and 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 is a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime. There was no new narcotics-related legislation in 2007.

Through October 2007, GOAB forces seized 5.7 kilograms (kg) of cocaine and 464 kg of marijuana, arrested 134 persons on drug-related charges, and prosecuted six traffickers. There were five cannabis fields discovered in 2007 and the GOAB eradicated 9,394 plants. Antigua and Barbuda has both conviction-based and civil forfeiture legislation.

The police operate a Drug Abuse Resistance Education (D.A.R.E.) program, targeting youth between ages 10 and 12, and lecture church groups and other civic organizations on the dangers of drugs. Local organizations such as the Optimist Club and Project Hope conduct their own school programs or assist groups that work with drug addicts. There is one drug rehab center named Cross Roads Centre which offers treatment from two separate locations.

Barbados. Barbados is a transit country for cocaine and marijuana. There has been a general increase in drugs transiting Barbados since 2004. A notable trend encountered in 2007 was the use of employees working in key commercial transportation positions, e.g. baggage handlers, FedEx, DHL to assist with drug trafficking, and the emerging trend of having cocaine soaked into clothing to avoid detection. Most of the cannabis entering Barbados is consumed locally, while local consumption of cocaine represents only five percent of the amount thought to transit the island. There is legislation that imposes recordkeeping on precursor chemicals. There were no reports of production, transit or consumption of methamphetamines in Barbados. In 2007, Government of Barbados (GOB) agencies reported seizing 228.6 kg of cocaine and 4,194 kg of marijuana. There have not been any seizures of Ecstasy since 2005, when Barbados, for the first time, confiscated 2,445 Ecstasy tablets. The GOB brought drug charges against 242 persons during 2007 – a two thirds decrease from the number of arrests made in 2006. Four major drug traffickers were arrested during this period. Total reported drug charges in 2007 were significantly lower than the previous year. In 2007, the GOB eliminated 7,194 cannabis plants, almost triple the amount eliminated in 2006.

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 and the UN Convention against Corruption.

The GOB's National Council on Substance Abuse (NCSA) and various concerned NGOs, such as the National Committee for the Prevention of Alcoholism and Drug Dependency, are very active and effective. NCSA works closely with NGOs on prevention and education efforts and supports skills-training centers. NCSA sponsored a "Drugs Decisions" program in 45 primary schools and continued sponsoring prison drug and rehabilitation counseling initiatives. Barbados's excellent D.A.R.E. and Parents Resource Institute for Drug Education (P.R.I.D.E.) programs remained active throughout the school system. There is also a drug rehabilitation clinic now in operation.

Commonwealth of Dominica. Marijuana is cultivated in Dominica and the island serves as transshipment point for drugs headed to the U.S. and Europe. The Dominica Police regularly conduct eradication missions in rugged, mountainous areas. During the year, Dominican law enforcement agencies reported seizing 353 kg of cocaine and 181 kg of marijuana – down substantially from 2006. Dominica Police arrested 217 persons on drug-related charges, 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. Marijuana accounts for approximately 90 percent of all drug consumption on the island. There were no reports of production, transit or consumption of methamphetamines in Dominica.

The Ministry of Health and its National Drug Abuse Prevention Unit have been successful in establishing a series of community-based drug use prevention programs, including the Drug Abuse Resistance Education Program (D.A.R.E.).

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 against Trafficking in Illegal Firearms Convention, the Inter-American Convention against Firearms, the Inter-American Convention against Corruption, and Inter-American Convention against Terrorism.

Grenada. South American and Caribbean drug trafficker's transit through or stop in Grenada's coastal waters to transship cocaine and marijuana en route to U.S. and other markets. Marijuana remains the most widely used drug among Grenadian users. Marijuana is smuggled through Grenada from both St. Vincent and Jamaica. Local officials estimate about 75 percent remains on the island. The remaining 25 percent is destined for other markets, primarily Barbados and Trinidad. There is a small amount of marijuana cultivation in Grenada, primarily for local consumption. There are no drug processing labs in Grenada. According to the police, there were no signs of other drugs, such as methamphetamines transiting Grenada in 2007. However, the increase in violence and gang activity associated with the drug trade, including armed robbery and kidnapping reported in 2006 continues to cause concern. Petty crimes, including theft and break-ins for cash to pay for drugs, remain a problem.

The police drug squad continues to collaborate closely with Drug Enforcement Administration officials in the targeting and investigation of a local drug trafficking organization associated with South American and other Caribbean traffickers. From January through October 15, 2007, the police arrested 382 people on drug-related charges, 356 men and 26 women. Of those arrested, 375 were Grenadian, 2 were from St. Vincent and the Grenadines, 1 was from Trinidad & Tobago, 1 was from St. Kitts and Nevis, 1 was from Guyana, and 2 were from the United Kingdom. Two major drug traffickers were arrested during this period: Micheal (sic) "Sands" Levine, presently serving a three year sentence, and Garvin Patrice, out on bail.

For the year, Grenadian authorities reported seizing approximately 935.8 kg of cocaine, 9,824 marijuana plants, 260 kg of marijuana, and 1,686 marijuana cigarettes. Regular rural patrols contribute significantly to deterring cultivation of marijuana on the island on a major scale. Cultivation usually consists of around 50 or fewer plants in any one plot and is not measured in acreage. Approximately seven acres of marijuana were eradicated during the period.

Legislation was proposed in 2007 to amend the Drug Abuse (Prevention and Control) Act, to prevent the misuse of a controlled drug, to include pseudoephedrine and ephedrine. Still pending action since 2005, is a draft Precursor Chemical Bill to develop an institutional infrastructure to implement controls preventing the diversion of controlled chemical substances.

The Prevention of Corruption Act was passed by both houses of Parliament in March, but has not yet been published in the official gazette. There were no prosecutions of high-level government officials for corruption in 2007.

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 Convention against trafficking in Illegal Firearms, the Inter-American Convention against Firearms, the Inter-American Convention on Mutual Assistance in Criminal Matters, and Inter-American Convention against Terrorism. Grenada is a party to the UN Convention on Transnational Organized Crime and

its three protocols. An extradition treaty and a Mutual Legal Assistance Treaty (MLAT) are in force between the U.S. and Grenada.

There are a number of drug demand reduction programs available to the public through the National Drug Avoidance Committee. There are specific programs for students from the pre-primary level up to the college level, teachers, and adults (community outreach program). There is also a specific program targeting women. The sole drug-rehabilitation clinic in Grenada was destroyed by Hurricane Ivan in 2004. Some repairs were done on the building, but it suffered further structural damage in a major fire in 2006. Presently, the Rathdune Psychiatric Wing of the Mental Hospital provides limited rehabilitation services for “extreme cases”. The need for rehabilitation services outstrips capacity.

St. Kitts and Nevis. St. Kitts and Nevis is a transshipment point for cocaine from South America to the United States and the United Kingdom as well as to regional markets.

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 criminal organizations. Marijuana is grown for local consumption.

The Government of St. Kitts and Nevis (GOSKN) is party to the 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. St. Kitts and Nevis is a party to the Inter-American Convention against Corruption and the Inter-American Firearms Convention, but has not signed the Inter-American Convention on Extradition or the Inter-American Convention on Mutual Assistance in Criminal Matters. St. Kitts and Nevis is a party to the UN Convention against Transnational Organized Crime and its three protocols.

St. Kitts’ Police Drug Unit has been largely ineffective. Insufficient political will and the lack of complete independence for the police to operate are contributing factors. The GOSKN Defence Force augments police counternarcotics efforts, particularly in marijuana eradication operations. GOSKN officials reported seizing 29 grams of cocaine, and approximately 7.5 kg of marijuana from January through October 2007. There were no reports of production, transit or consumption of methamphetamines in St. Kitts or Nevis.

From January to October 2007, 105 arrests were made—almost double that of 2006. Most significant, however, was the increased eradication of marijuana plants from approximately 6,243 in 2005 and 31,000 in 2006 to 161,500 plants in 2007. According to the GOSKN, this figure does not represent an increase in cultivation, but rather an increase in eradication efforts.

Drug demand reduction programs are available to schools and the public. D.A.R.E., Operation Future and the National Drug Council also have programs to prevent drug abuse in SKN. There are no drug rehabilitation clinics in SKN and persons seeking such treatment are sent to St. Lucia.

St. Lucia. St. Lucia is a well-used transshipment site for cocaine from South America to the U.S. and Europe. Cocaine arrives in St. Lucia in go-fast boats, primarily from Venezuela, and is delivered over the beach or off-loaded to smaller local vessels for delivery along the island’s south or southwest coasts. Marijuana is imported from St. Vincent and the Grenadines and grown locally as well. Foreign and local narcotics traffickers are active in St. Lucia and have been known to stockpile cocaine and marijuana for onward shipment.

The Government of St. Lucia (GOSL) Police reported seizing 792.5 kg of cocaine in 2007, up from 50.7 kg in 2006. The GOSL also seized 793 kg of marijuana in 2007, up from 515.8 kg in 2006. The majority of arrests made island-wide are linked to the drug trade. In 2007, there were 376 arrests made for actual drug offences such as possession or trafficking of cannabis, cocaine and other drugs. However, no major drug traffickers were arrested in 2007. The GOSL eradicated

approximately 44,588 marijuana plants and 11,751 seedlings in 2007, which more than doubles the 2006 amount.

The USG and the GOSL cooperate extensively on law enforcement matters. St. Lucia law permits asset forfeiture after conviction. The law directs the forfeited proceeds to be applied to treatment, rehabilitation, education and preventive measures related to drug abuse. In 2005, the GOSL adopted wiretap legislation and is considering civil forfeiture legislation. It has also taken steps to strengthen its border controls and plans to automate its immigration control systems

St. Lucia 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 GOSL signed a maritime agreement with the USG in 1995 and an over-flight amendment to the maritime agreement in 1996. An MLAT and an extradition treaty are in force between St. Lucia and the United States. St. Lucia is a party to the Inter-American Convention against Trafficking in Illegal Firearms, the Inter-American Convention against Firearms, the Inter-American Convention against Corruption, the Inter-American Convention on Extradition, and Inter-American Convention against Terrorism. St. Lucia has signed but has not yet ratified the UN Convention against Transnational Organized Crime.

St. Lucia has instituted a centralized authority, the Substance Abuse Council Secretariat, to coordinate the government's national counternarcotics and substance abuse strategy. Various community groups, particularly the Police Public Relations Office, continue to be active in drug use prevention efforts, with a special focus on youth. St. Lucia offers drug treatment and rehabilitation at an in-patient facility known as *Turning Point*, run by the Ministry of Health, but it is currently under renovation. The St. Lucian Police reports that the D.A.R.E. Program has been tremendously successful.

St. Vincent and the Grenadines. St. Vincent and the Grenadines is the largest producer of marijuana in the Eastern Caribbean and the source for much of the marijuana used in that region. Extensive tracts are under intensive marijuana cultivation in the inaccessible northern half of St. Vincent. The illegal drug trade has infiltrated the economy of St. Vincent and the Grenadines, making some segments of the population dependent on marijuana production, trafficking and money laundering. However, total cultivation is not at the level which would designate St. Vincent and the Grenadines as a major drug-producer because it does not significantly affect the United States. Compressed marijuana is sent from St. Vincent and the Grenadines to neighboring islands via private vessels. St. Vincent and the Grenadines has also become a storage and transshipment point for narcotics, mostly cocaine, transferred from Trinidad and Tobago and South America on go-fast and inter-island cargo boats. Boats off-loading cocaine and weapons in St. Vincent and the Grenadines will return to their point of origin carrying marijuana.

For the year, Government of St. Vincent and the Grenadines (GOSVG) officials reported seizing 524.4 kg of cocaine, which doubled last year's figures, 397 cocaine rocks and 1,559.7 kgs of marijuana. GOSVG authorities arrested 335 persons on drug-related charges and convicted 257. There are 53 cases still pending, 3 cases dismissed and 19 cases under investigation. In 2007, one major drug (cocaine) trafficker—Charles Constance—was prosecuted and sentenced to prison on money laundering charges. During the year, approximately 614,135 (up from 34,831) marijuana plants on 90 acres were eradicated. More than 11 times the amount reported in 2006. The police, customs, and coast guard try to control the rugged terrain and territorial waters of St. Vincent and the chain of islands making up the Grenadines. There has been an increase in drugs transiting St. Vincent, mainly cocaine from Venezuela, and a prevalence of crack cocaine use in some communities.

The Caribbean market makes up approximately 45 percent of marijuana consumption from SVG, the U.S. 25 percent, UK 20 percent and Canada 10 percent. There is currently legislation on

precursor chemicals from various pharmaceuticals. There were no reports of production, transit or consumption of methamphetamines in St. Vincent and the Grenadines.

St. Vincent and the Grenadines 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 GOSVG is a party to the Inter-American Convention against Corruption, and has signed but not ratified the Inter-American against Trafficking in Illegal Firearms, the Inter-American Convention against Firearms, and Inter-American Convention against Terrorism. The GOSVG has signed but not yet ratified the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. The GOSVG signed a maritime agreement with the USG in 1995, but it has not yet signed an over-flight amendment to the maritime agreement. An extradition treaty and an MLAT are currently in effect between the U.S. and the GOSVG. USG law enforcement officials received good cooperation from the GOSVG in 2006. In the past, St. Vincent Police has been cooperative in executing search warrants pursuant to U.S. MLATs.

A statute-mandated advisory council on drug abuse and prevention has been largely inactive for several years. A draft national counternarcotics plan remains pending. The government mental hospital provides drug detoxification services. The family life curriculum in the schools includes drug prevention education and selected schools continue to receive the excellent police-run D.A.R.E. Program. The OAS is assisting the GOSVG develop a drug demand reduction program for St. Vincent's prison.

Road Ahead. U.S. assistance will continue to focus on enhancing the capacity of Eastern Caribbean law enforcement to counter drug trafficking and related crimes such as money laundering, arms trafficking and corruption.

French Caribbean

I. Summary

French Guiana, Martinique, Guadeloupe, the French side of Saint Martin, and St. Barthelemy are all overseas departments of France and therefore subject to French law, and all international conventions signed by France, including the 1988 United Nations 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. France is a party to the 1988 UN Drug Convention.

II. Status

The Martinique Task Force, created in 2006, in response to an increase in the trafficking of cocaine coming directly to France from the French Caribbean, intercepted over ten metric tons of cocaine headed for France in 2007. The task force is a multilateral cooperative effort that brings together French, Spanish, Colombian, U.S. and British law enforcement officials to promote coordinated operations against trafficking. 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 1970s to improve the level of cooperation and exchange of information between its members in the Caribbean.

In 2007, C.C.L.E.C. broadened its scope to include training programs, technical assistance and other projects. A three-day Enforcement Liaison Workshop, organized jointly by CCLEC and French Customs in Martinique February 12-15, was geared towards preparing for the increased flow of persons and goods during the period of the Cricket World Cup 2007. All of the French Islands now use or have access to the CCLEC Regional Clearance System, an automated system for the reporting of private vessel clearances within the region.

III. Actions Against Drugs in 2007

During the year important drug seizures included the April 20 operation led by the Gendarmerie and police officials in Saint Martin, which led to the discovery of 574 cannabis plants. Four people were arrested and the plants were destroyed shortly after by the Gendarmerie. On August 8, French customs officials seized close to 900 kg of cocaine on board a sailboat in the south of Martinique estimated to be worth approximately 35 million euros (approximately \$48.2 million). After intercepting the sailboat, French coastal authorities escorted it to port in southern Martinique where customs officials found the cocaine concealed in sports bags. The two occupants on board the boat were arrested.

Agreements and Treaties. In addition to the agreements and treaties discussed in the report on France, United States and French counternarcotics 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 at Key West, Florida, continued to enhance law enforcement cooperation in the Caribbean. In 2007, France joined the U.S., Jamaica and Belize in signing and ratifying the Dutch-sponsored Caribbean Maritime Agreement (formally the "Accord Concerning the Cooperation in Suppressing Illicit Maritime and Aeronautical Trafficking in Drugs and Psychotropic Substances in the Caribbean Region") originally negotiated in 2003. However, the agreement has yet to enter into force because it lacks the requisite number of ratifications. In 2006, France, along with 11 other

nations became a signatory to the “Paramaribo Declaration” at a conference in Suriname. This agreement established an intelligence sharing network, to coordinate and execute drug sting operations among countries and to address money laundering.

Bilateral and Multilateral Cooperation. The French Inter-ministerial Drug Control Training Center (CIFAD) in Fort-de-France, Martinique offers training in French, Spanish and English to law enforcement officials in the Caribbean and Central and South America, covering 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 United Nations Office on Drugs and Crime (UNODC), Organization of American States/CICAD, and individual donor nations. U.S. Customs officials periodically provide training at the CIFAD. French Customs is also co-funding with the Organization of American States (OAS), on a regular basis, training seminars aimed at Customs and Coast Guard Officers from OAS member states. The French Navy also now hosts “Operation Carib Royale” – a French Eastern Caribbean counternarcotics operation, which Joint Interagency Task Force South supports with available air and marine assets.

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 multilateral donors are coordinating their assistance programs closely in the region through 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 transit point for cocaine destined for North America, Europe, and the Caribbean, but not in quantities sufficient to impact the U.S. market. In 2007, domestic seizures of cocaine were three times higher than the previous year due to improved counternarcotics measures at the working level, although all but one of these seizures were minor in scale. The Government of Guyana (GOG) laid the groundwork for an enhanced security sector by agreeing to a reform program sponsored by the British government; it also arrested Terrence Sugrim, an accused drug trafficker wanted by the U.S., and initiated the extradition process.

More than two years after launching its National Drug Strategy Master Plan (NDSMP) for 2005-2009, the GOG has not effectively implemented it. Cooperation among law enforcement bodies is fragmented and minimally productive; weak border controls and limited resources for law enforcement allow drug traffickers to move shipments via river, air, and land without meaningful resistance. Guyana is a party to the 1988 UN Drug Convention.

II. Status of Country

Guyana is a transit country for cocaine, and to a lesser degree marijuana. Guyana's vast expanse of unpopulated forest and savannahs offers ample cover for drug traffickers and smugglers. Government counternarcotics efforts are undermined by inadequate resources for law enforcement, poor coordination among law enforcement agencies, an inefficient judiciary, and a colonial-era legal system badly in need of modernization. Murders, kidnappings, and other violent crimes commonly believed to be linked with narcotics trafficking are regularly reported in the Guyanese media. Guyana produces high-grade cannabis and is not known to produce, trade, or transit precursor chemicals on a large scale.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, the GOG signed a Memorandum of Understanding (MOU) with Great Britain to implement a \$5 million, multi-year program for reform of the security sector, which includes enhancing the investigative capacity of law enforcement agencies. The GOG requested and received \$500,000 in U.S. Department of Defense funds to refurbish its only seaworthy Coast Guard vessel, to patrol its 285-mile coastline. Guyana commenced issuance of machine-readable passports, in accordance with the International Civil Aviation Organization's (ICAO) standards, which will help thwart the use of identity fraud and cross-border criminal activities. The government has tabled legislation that would augment the tools currently available to it in fighting money laundering, including regulations to allow for the seizure of assets; the chances for its passage are unclear.

The positive steps of 2007, notwithstanding, the GOG has accomplished few of the principal goals laid out in its ambitious 2005 NDSMP. The Joint Intelligence Coordination Center (JICC), the formation of which was a central element of the 2005 NDSMP, is defunct. In its place, a task force covering narcotics and illegal weapons has been assembled by the Minister for Home Affairs and meets monthly, but there remains limited productive interaction or intelligence sharing among the organizations involved.

Law Enforcement Efforts. Despite the lack of adequate resources, poor inter-agency coordination, and allegations of corruption, 2007 saw modest improvements in enforcement at the working level. In 2007, Guyanese law enforcement agencies seized 167 kilograms (kgs) of cocaine,

a nearly threefold increase over the amount seized in 2006, but mostly due to one large seizure. In May, the Customs Anti-Narcotics Unit (CANU) seized 106 kgs of cocaine hidden in dried fish glue at a home near Georgetown, and arrested four men in connection with the operation; one of these individuals was sentenced in November to ten years in prison and fined \$1.2 million. In July, police arrested Terrence Sugrim, an accused drug trafficker who had been indicted in New York federal court a few weeks earlier; he is appealing his possible extradition to the U.S.

Guyana's counternarcotics activities are encumbered by the peculiarities of a British colonial-era legal system that has not been updated to reflect the needs of modern-day law enforcement. There are no laws that support plea bargaining, wiretapping, or the use of DNA evidence. Nor are there laws against racketeering or conspiracy. Even when more contemporary crime fighting tools are available to one law enforcement body, they are not necessarily available to others. At Guyana's international airport, for example, the Guyana Revenue Authority (GRA) operates surveillance cameras to help thwart tax fraud. But the cameras are not well-placed to aid counternarcotics operations, video footage is not shared with narcotics authorities and it is not clear that it would be admissible in drug-related court proceedings. In all cases, law enforcement agencies are hamstrung by meager personnel budgets. There are no routine patrols of the numerous land entry points on the 1,800 miles of border with Venezuela, Brazil, and Suriname.

The GOG has not identified or confronted major drug traffickers and their organizations. While the Guyana Police Force (GPF) Narcotics Branch and CANU arrested dozens of drug couriers at Guyana's international airport en route to the Caribbean, North America, and Europe, 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.

Corruption. There is no evidence that the GOG or senior GOG officials encourage or facilitate the illicit production, processing, shipment or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. News media routinely report on instances of corruption reaching to high levels of government that are not investigated and thus go unpunished, but no conclusive evidence is available to back up these claims. USG analysts believe drug trafficking organizations in Guyana continue to elude law enforcement agencies through bribes and coercion, but substantiating information is anecdotal at best. 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. Guyana is not a party to the UN Convention against Corruption.

Agreements and Treaties. Guyana 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. Guyana also is a party to the UN Convention against Transnational Organized Crime and its protocol on trafficking in persons and the Inter American Convention against Corruption. The 1931 Extradition Treaty between the United States and the United Kingdom is applicable to the U.S. and Guyana, but there is no bilateral mutual legal assistance treaty between the U.S. and Guyana. In March 2006, Guyana signed the OAS Mutual Legal Assistance Treaty, to which the U.S. is a party; assistance has also been regularly provided on an informal basis. Guyana signed a bilateral agreement with the U.S. on maritime counternarcotics cooperation in 2001; however, it has not yet taken the necessary domestic actions 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. A very high-grade form of cannabis is grown in Guyana, primarily in the intermediate savannahs, and its cultivation is reportedly increasing. In 2007, Guyanese authorities eradicated 15,280 kilograms of cannabis.

Drug Flow/Transit. There are no reliable estimates regarding the amount of cocaine or cannabis that transits Guyana. According to USG law enforcement authorities, Guyanese narcotics traffickers regularly move shipments of cocaine through the country. Some cannabis cultivated in Guyana is also smuggled out of the country, although in more modest quantities. Drugs flow easily through Guyana's uncontrolled borders and coastline. Light aircraft land at numerous isolated airstrips or make airdrops 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 borders with Brazil, Suriname, and Venezuela.

Inside the country, narcotics are 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. Authorities have arrested drug mules attempting to smuggle small amounts of cocaine on virtually every northbound route out of the international airport. In 2007 there was a surge in law enforcement seizures at the airport of suitcases carrying drugs that had been added to the baggage queue after check-in, and tagged in the names of unsuspecting passengers. Police officials also witnessed a notable upward trend in the use of the Guyana Post Office as an avenue for the trafficking of cocaine in small quantities, further demonstrating the malleable tactics of trafficking organizations.

Demand Reduction (Domestic Programs). Marijuana is sold and consumed openly in Guyana, despite frequent arrests for possessing small amounts of cannabis. Sources within the GOG and a local NGO note that consumption of all psychotropic substances in Guyana is increasing, with a particularly dramatic rise in the use of Ecstasy (MDMA). Marijuana use has been seen among children as young as eleven years old. Guyana's ability to deal with drug abusers is hampered by the modest financial resources to support rehabilitation programs. Guyana only has two facilities that treat substance abuse—the Salvation Army and the Phoenix Recovery Center. There are no programs to deal with substance abuse in the prisons.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. policy focuses on cooperating with Guyana's law enforcement agencies, promoting good governance, and facilitating demand reduction programs. In 2007, the USG continued to encourage Guyanese participation in bilateral and multilateral counternarcotics initiatives, and funded a substance abuse treatment program for women (the two previously existing programs in Guyana only funded treatment for men). The U.S. Agency for International Development (USAID) is funding projects to improve governance in Guyana, which includes parliamentary and judicial reform.

Bilateral Cooperation. The DEA works with Guyana's government and law enforcement agencies to provide training and develop initiatives that will enhance their counternarcotics activities. The GOG routinely grants diplomatic credentials to DEA officers who cover Guyana from the U.S. Embassy in Trinidad, and working level collaboration is generally positive. In 2007, the USCG provided maritime law enforcement training to the Guyana Defense Force.

The Road Ahead. Neither the GOG nor the various drug enforcement bodies of the U.S. have dedicated the resources to determine the quantity of illegal drugs flowing through Guyana. All projections are speculative based on the few seizures made. In the absence of both sound data and more robust DEA/INL involvement, the U.S. will not augment resources for investigation and interdiction in Guyana. Instead, it will continue to channel any future assistance to initiatives that demonstrate success in treating substance abusers. The U.S. will also continue to use its diplomatic tools to encourage the GOG to organize an effective counternarcotics program, especially within the context of the British-funded overhaul of the security sector. The GOG also needs to pass effective legislation to deal with money laundering, including provisions allowing forfeiture of seized assets.

Haiti

I. Summary

Haiti is a major transit country for cocaine and marijuana from South America and the Caribbean respectively. In 2007, air smuggling of narcotics to Haiti from Venezuela increased by 38 percent. The Preval Administration continued the struggle to overcome pervasive corruption, weak governance and mismanagement. Haiti's law enforcement institutions are weak and its judicial system dysfunctional. With the support of the United Nations Stabilization Mission in Haiti (MINUSTAH), the Haitian National Police (HNP) conducted a successful campaign in the Port-au-Prince area to disrupt gang elements involved in kidnapping, drug trafficking, and intimidation. Although the campaign decreased criminal activity in those areas, the Government of Haiti (GOH) has yet to deliver the sustained police presence needed to curb the gangs' criminal activity. The GOH with assistance from international donors – principally MINUSTAH, the United States and Canada – continues to promote the restoration of the rule of law. The HNP, with the support of MINUSTAH, completed the first year of its reform plan, which includes a vetting and certification process for all officers, and reform of institutional elements including the General Administration Department and Logistics Bureau. The HNP's counternarcotics unit carried out operations during the year that resulted in limited seizures of drugs. Haiti is a party to the 1988 UN Drug Convention.

II. Status of Country

Haiti is a major drug transit country. Haiti's 1,125 miles of unprotected shoreline, uncontrolled seaports, numerous clandestine airstrips, along with a struggling police force, dysfunctional judiciary system, corruption, and weak democracy make it an attractive strategic point for drug traffickers. Cocaine and, to a lesser extent, marijuana are trafficked through Haiti to the United States and, in smaller quantities, to Canada and Europe. In addition to being shipped directly to the United States, drugs brought into Haiti also are moved overland into the Dominican Republic for onward delivery to the U.S. and Europe. Following a 167 percent spike in suspected drug smuggling flights from Venezuela to Hispaniola in 2006, flights decreased temporarily, primarily as a result of the joint DEA-HNP Operation *Rum Punch*. Launched in March, *Rum Punch* involved the deployment of USG air assets to Haiti teamed with maritime assets operating south of Hispaniola for three months. However, following that operation, the flights resumed and Haiti experienced a 38 percent increase in drug smuggling flights in 2007, as reported by the U.S. Joint Interagency Task Force–South (JIATF-S).

III. Country Actions Against Drugs in 2007

During 2007, the HNP trained 901 new recruits (782 men and 119 women), and 243 existing officers. In November, the HNP graduated a class of 646 new officers, including 86 women. The new officers are assigned to the Motorized Intervention Brigade (BIM) with primary duties to introduce community policing and to patrol the slum areas of the capital. The Academy training now consists of 24 weeks of basic police tactics, less-than-lethal tactics, community policing, weapons training, search and evidence gathering techniques, ethics, human rights, and gender and children's issues. In 2006, the HNP and MINUSTAH agreed upon a reform plan to create a police force of 14,000 trained and vetted officers within five years. The report on the first year of the plan's implementation released in September revealed progress on training of both new and experienced officers, development of standard operating procedures, continued emphasis of vetting, and improved capacity in criminal investigative techniques among specialized units. Since January, MINUSTAH military troops, United Nations Police (UNPOL), MINUSTAH Formed

Police Units, and HNP officers have made progress in dismantling gangs that support drug trafficking and kidnapping.

In November, the GOH formally approved the terms of reference and work plan for a USG-funded project to enhance the effectiveness of GOH anti-money laundering and anti-corruption efforts. The project will provide mentoring on the investigation and prosecution of financial crimes by U.S. Treasury advisers and will involve the restructuring the GOH Central Financial Intelligence Unit (French acronym UCREF) by separating its investigative and intelligence gathering functions.

In April 2007, the Center for Information and Joint Coordination (French acronym CICC), under the Ministry of Interior, became fully operational. The Center is tasked with conducting investigations, research, data collection, information sharing and international and regional coordination related to drug trafficking in/through Haiti. It has 26 staff personnel assigned, including 16 investigators. It has established the Anti-Drug Task Force consisting of all the agencies within the GOH that deal with aspects of drug trafficking, money laundering, border control and law enforcement. It is also working to establish greater bilateral cooperation with the Dominican Republic, signing a joint agreement in November to fight drug trafficking and other crimes.

Law Enforcement Efforts. The HNP counternarcotics unit (French acronym BLTS) with support from the USG, continued canine detection operations at the airport inspection baggage and cargo areas in 2007. DEA-provided air assets working with JIATF-S air and maritime assets assisted the GOH in stopping air deliveries to Haiti. Through October 10, 2007, 914 kilos of cocaine and marijuana were seized.

The Special Investigative Unit (SIU), a partnership between DEA and the GOH, became operational in 2007. Selected HNP officers, graduates of a five-week course at the Drug Enforcement Academy in Quantico, Virginia, formed the nucleus of the SIU and are charged with investigating Haitian drug organizations that have a nexus to the United States. The unit has conducted several joint interdiction operations with DEA/FBI/JIATF-S and Customs Border Protection (CBP). The SIU is currently the only fully vetted unit in the HNP.

The HCG conducted drug and migrant interdiction operations from its bases in Port-au-Prince and Cap Haitien during the year. The HCG has one 40-foot vessel and one 35-foot go-fast boat in Cap Haitien for patrol and port security operations. In FY07, the HCG successfully interdicted more than one thousand Haitian migrants aboard vessels that departed the north coast. The HCG in Cap Haitien provided information on three vessels that contained illegal drugs or tested positive in ion-scanning by the U.S. Coast Guard (USCG). Additionally, the HCG in Port-au-Prince partnered with the HNP BLTS to board a Colombian-flagged freighter aground near Miragoane on Haiti's South Coast. However, the HCG struggles maintain an operational fleet. The lack of funding and fuel shortages remain significant barriers to the ability of the HCG to conduct maritime operations.

Corruption. As a matter of policy, the GOH does not encourage or facilitate the shipment of narcotics through Haiti, and does not discourage the investigation or prosecution of such acts. Moreover, the GOH has demonstrated willingness to undertake law enforcement and legal measures to prevent, investigate, prosecute, and punish public corruption. President Preval has publicly identified the fights against corruption and drug trafficking as major priorities for his administration. Vetting has taken place in some of the northern and southern areas and among certain ranks in Port-au-Prince and will be further expanded in the capital area, where the majority of police officers are assigned. In 2007, the HNP Director General dismissed 600 officers for misconduct or being absent without leave, although many remain on the payroll. The HNP Director of Administration and Director of Logistics were both removed from their positions in 2007 for suspected corruption. The Prosecutor of Port-au-Prince has made several high-profile arrests of private citizens on corruption charges, but has not yet extended that campaign to the public sector.

Agreements and Treaties. Haiti is a party to the 1961 Single Convention as amended by the 1972 Protocol; the 1988 UN Drug Convention; the Inter-American Convention Against Corruption; and the Inter American Convention against Trafficking in illegal firearms. A U.S.-Haiti maritime counternarcotics agreement entered into force in 2002. Haiti has signed but not ratified the UN Convention against Corruption, the Caribbean Regional Maritime Agreement and the UN Convention against Transnational Organized Crime). 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 into force in 1905. Although the Haitian Constitution prohibits the extradition of its nationals, in the past Haitians under indictment in the U.S. have been returned to the U.S. by non-extradition means. The SIU has spearheaded efforts to transfer both Haitian and non-Haitian nationals wanted in the United States for drug trafficking to the U.S., in keeping with President Preval's desire to stem drug trafficking through Haiti. During 2007, nine Haitian fugitives were sent to the U.S., including ex-HNP officer Raynald Saint-Pierre, wanted out of the Southern District of Florida on drugs and money laundering charges

Cultivation/Production. There is evidence that cultivation of marijuana has increased, although it is low quality cannabis grown on a small scale and sold locally. The BLTS destroyed five hectares of marijuana but, due to lack of resources, is often unable to respond to tips about marijuana growing fields.

Drug flow/transit. In 2007, traffickers continued to use small aircraft to make offshore air drops of illegal drugs as well as land deliveries using clandestine airstrips. At least 29 such landing strips were identified in 2007. Suspect drug flights from Venezuela increased by 38 percent compared to 2006. Fast boats transporting cocaine from South America arrive at a number of locations on the southern coast of Haiti. The cocaine is then transported overland to Port-au-Prince where it is 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 transshipped through the Dominican Republic or Puerto Rico. Seizures of very small quantities of crack for personal use also occurred in 2007. The BLTS also experienced an increase in amphetamine trafficking near the end of 2007, due to a crackdown in the Dominican Republic that has disrupted the distribution routes to Europe. The appearance of crack and the smuggling of amphetamines are new phenomena in Haiti for which the authorities have little training or experience. Pharmacies in Haiti are essentially unregulated, and some controlled medications are sold in quantities through those businesses as well.

Demand Reduction. Drug abuse is a growing but largely unrecognized problem in Haiti. Increased use of marijuana in schools has been reported, leading to increased levels of local production.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The cornerstone of USG efforts to combat drug trafficking in Haiti continues to focus on reform of the HNP. In cooperation with MINUSTAH, the USG provided substantial equipment and technical assistance in 2007, aimed at transforming the HNP into an effective law enforcement institution. The NAS coordinated the procurement of vehicles, radios, forensic lab and other technical equipment for the HNP, police academy and in-service training, support for specialized HNP units and material support to the HCG. The USG contributed 50 officers to MINUSTAH's UNPOL contingent, many of whom are involved in training recruits at the HNP academy. The police advisers also oversaw the construction of two model police stations in Croix des Bouquets and Thiotte and the continued installation of solar-powered radio base stations for the

HNP throughout the country. The USG also is contributing three corrections experts to form the nucleus of a sixteen-member UN team that works on improving the infrastructure and management of Haiti's prison system. A U.S. senior corrections advisor will also oversee the refurbishment and equipping of certain prison facilities as well as the training of correction personnel to improve the detainees living conditions. In addition, the USG has provided an adviser to help the HNP Director General implement anti-corruption and strategic planning measures. Advisers from U.S. Treasury's Office of Technical Assistance (OTA) visited Haiti three times in 2007, in order to review cases of financial crimes with prosecutors and judges and to discuss the investigative process and training requirements for financial investigators. USCG Mobile Training Teams supported HCG operations with maritime law enforcement, port security, engineering, logistics and maintenance training in 2007. The USCG is currently retrofitting three vessels, a 47-foot patrol boat and two "Eduardono" fast boats at USCG Integrated Support Command Miami. It is USCG's hope that HCG will place the 47-foot patrol boat in Cap Haitien for future drug and migrant operations on the northern coast of Haiti.

Road Ahead. Haiti needs to continue the reform and expansion of the HNP and its judicial system as prerequisites for effective counternarcotics operations throughout the country. The GOH must demonstrate the political will to fight corruption within state institutions and to overcome the under-resourcing and under-staffing of the HNP, problems which remain major impediments to sustained progress. More importantly, the restoration of the rule of law, including reform of the judicial system, must continue in order to provide the security and stability Haiti needs to meet the economic, social and political development needs of the Haitian people.

Jamaica

I. Summary

Jamaica is a major drug transit country and the Caribbean's largest producer of marijuana and marijuana derivative products. In 2007, cooperation between Government of Jamaica (GOJ) and U.S. Government (USG) law enforcement agencies remained strong resulting in drug seizures, arrest of drug-traffickers, and disruption of their organizations in Jamaica. The ambitious legislative agenda initiated in 2007 only resulted in the passage and implementation of the Proceeds of Crime Act and the new Anti-trafficking law. Despite numerous well-documented corruption scandals, there were no prosecutions of high level officials. New Prime Minister Bruce Golding has promised various security initiatives, such as a consolidated anti-corruption National Investigative and Intelligence Agency (NIIA) to tackle Jamaica's pervasive public corruption. Jamaica is a party to the 1988 United Nations Drug Convention.

II. Status of Country

Jamaica is a major drug transit country, due to its difficult to patrol coastline, over 100 unmonitored airstrips, busy commercial and cruise ports, and convenient air connections. Jamaica remains the Caribbean's largest producer and exporter of marijuana and marijuana derivative products. Consumption of cocaine, heroin, and marijuana is illegal in Jamaica, with marijuana most frequently abused, and consumption of cocaine rising. Ironically, the possession and use of Ecstasy (MDMA) is controlled by Jamaica's Food and Drug Act and is currently subject to light non-criminal penalties. In 2007, an increase in murder and other violent crime coupled with a thriving "guns for ganja" trade between Jamaica and its neighbors, that was abetted by systemic corruption within the police, customs service, and judicial system, continued to tax an already over burdened law enforcement and judicial system.

III. Country Actions Against Drugs in 2007

Policy Initiatives/Accomplishments. In 2007, the GOJ continued to pursue, but did not pass key security and counternarcotics legislative and policy initiatives introduced in 2006. These included the use and collection of DNA evidence, port security and establishment of a new anti-corruption agency. In May, the GOJ passed and began implementation of the Proceeds of Crime Act, an anti-money laundering law, which provides the GOJ a more expeditious seizure and forfeiture process.

The GOJ did not implement initiatives to criminalize the manufacture, sale, transport, and possession of Ecstasy (MDMA), methamphetamine, or the precursor chemicals used to produce them. The GOJ also did not enact the initiative to permit extended data-sharing between U.S. and Jamaican law enforcement on money laundering cases through the Financial Investigative Division (FID) Act. Additionally, the GOJ's national forensics laboratory has a backlog of cases due to understaffing and lack of resources. Jamaica is not in full compliance with the Egmont Group requirements.

The USG Container Security and MegaPorts (CSI) initiative began in late 2006. However, the GOJ has not yet provided a permanent facility for U.S. officers and their Jamaican counterparts, thus inhibiting their ability to jointly combat contraband cargo and drug-trafficking through Kingston's commercial port. Additionally, pervasive corruption at this port continues to undermine the CSI team's efficacy.

Law Enforcement Efforts. In 2007, the Jamaica Defense Force (JDF), Air Wing and Coast Guard (JDFCG) were involved in maritime interdiction efforts, and participated in the DEA-led regional

operation “All Inclusive.” Also, the JDF, Jamaica Constabulary Force (JCF) and Financial Investigations Division (FID) worked closely with the USG to investigate drug and money laundering organizations that move transit payments through Jamaica back to source countries and launder local profits from the sale of marijuana and weapons. While hampered by internal corruption and a lack of sufficient resources, the JCF and JDF continued to give priority to counternarcotics missions in 2007. Nonetheless cannabis seizures decreased by 8 percent, to 41.4 metric tons (MT), compared to 2006, and cocaine seizures went from 109 kilograms (kg) in 2006 to 98 kg in 2007. The GOJ seized 98.21 kg of cocaine in 2007, as compared to 109 kg seized in 2006.

In 2007, little progress was made on many of the important reforms outlined in the 2005-2008 Corporate Strategy for Reform. Nearly all the gains made in 2006 to control crime and improve community policing were lost in 2007, as the police struggled to contain violent crime. In December 2007, the JCF’s new Commissioner of Police Hardley Lewin took office. Commissioner Lewin has a mandate for reform, and if the GOJ supports his efforts, 2008 should see an improvement in JCF operations.

In early 2007, the GOJ extradited drug kingpin Leebert Ramcharam to the U.S. Extradition is pending appeal on six other major drug traffickers.

Operation Kingfish, a multinational task force (GOJ, U.S., United Kingdom and Canada) celebrated its third anniversary in 2007. The GOJ has pledged to continue participating in “Operation Kingfish,” and reinvigorate its activities particularly against the “guns for ganja” trade and extortion. In 2007, Operation Kingfish mounted 864 operations, compared to 870 in 2006.

In 2007, the Jamaican Custom’s Contraband Enforcement Team (CET) seized 6.54 kg of cocaine and 1103 kgs of cannabis at Jamaican air and seaports. However, the CET remains understaffed and ill equipped to combat effectively the ever-complex methods of smuggling illicit drugs in commercial goods. The GOJ has failed to focus sufficient resources on the CET, even though container traffic through the seaports is believed the primary method of transshipment of cocaine and cannabis.

Corruption. No senior GOJ officials, 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, pervasive public corruption continues to undermine efforts against drug-related and other crimes, and plays a major role in the safe passage of drugs and drug proceeds through Jamaica. Corruption remains a major barrier to improving counternarcotics efforts. High profile corruption scandals plagued the GOJ throughout 2007, but there were no prosecutions of high-level officials for corruption, or of officials linked by reliable evidence to drug-related activity.

The JDF investigates any reports of corruption, and takes disciplinary action when warranted in furtherance of its zero tolerance policy. There was no action in 2007 on proposed revisions to the Corruption Prevention Act, granting Jamaica’s Commission for the Prevention of Corruption greater authority and making Jamaica’s legislation consistent with its commitments under the Inter-American Convention against Corruption. However, the new government has announced plans to revive and redraft the legislation to create a national anti-corruption agency (NIIA), an initiative of its predecessor, which could satisfy the Convention’s requirements. Draft legislation for the creation of an Anti-Corruption Special Prosecutor should be presented to Parliament by January 2008.

In mid-2007, the JCF established a new Anti-Corruption Division headed by an internationally recruited police officer. This new Division should be operational with a fully vetted team of

investigators early in 2008. Once active, it will continue working on pending cases, and launch investigations against known, corrupt high-ranking police officers.

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. have a Mutual Legal Assistance Treaty (MLAT) in place, which assisted in evidence sharing. 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. The GOJ signed, but has not ratified, the Caribbean Regional Maritime Counterdrug Agreement. Jamaica is a party to the 1988 UN Drug Convention, the 1972 UN Convention on Psychotropic Substances and the 1961 UN Single Convention as amended by the 1972 Protocol. Jamaica is also a party to the UN Convention against Transnational Organized Crime and its three protocols, and the Inter-American Convention against Corruption.

Cultivation/Production. According to the UN World Drug Report, 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 in hilly and rocky terrain and along the tributaries of the Black River in Saint Elizabeth which for most parts is inaccessible to vehicular traffic. Eradication of marijuana continued an upward trend in 2007 with 701 hectares eliminated, compared to 524 in 2006. Jamaica uses manual eradication without the use of herbicides. The GOJ does not have any alternative development or crop substitution programs. In August, Hurricane Dean struck Jamaica, damaging much of its legitimate agricultural crop. Many farmers, left with little or no assistance to replant, resorted to cultivating marijuana instead.

Drug Flow/Transit. In 2007, cocaine smugglers continued the trend first observed in 2006 to use container cargo transshipments or sea drops that are then brought on shore for smuggling via checked luggage, couriers, and in commercial shipments to move cocaine through Jamaica to the United States. In addition, as interdiction efforts intensified at the airports in 2007, smugglers began welding to the hulls of commercial ships sealed metal containers packed with compressed marijuana. With 113 unmonitored landing strips/fields, the potential to also use land drops remains high. A trend that began in late 2006, whereby marijuana-traffickers bartered cocaine for illegal weapons, continued in 2007. To combat this trade, the GOJ created a special cell within Operation Kingfish called "Musketeer."

Domestic Programs/Demand Reduction. Jamaica has several demand reduction programs, including the Ministry of Health's National Council on Drug Abuse, which receives U.S. funding. The GOJ operates five treatment centers through the Ministry of Health. In 2007, a university-level certificate program in drug addiction and drug prevention was launched. The program was developed by GOJ in conjunction with the Organization of American States Inter-American Drug Abuse Control Commission (CICAD). The United Nations Office Drug Control (UNODC) works directly with the GOJ and NGOs on demand reduction; however, due to limited resources these programs have little impact.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. There is robust cooperation between U.S. and GOJ officials. In 2007, the U.S. provided training and material support to elements of the JCF and JDF to strengthen their counternarcotics capabilities and promote greater bilateral cooperation. 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, in 2007, there were 48 open cases and they closed 63 cases regarding U.S. fugitives. In 2007, there were 8 arrests, 10 extraditions and 2 deportations.

The GOJ participated in joint deployments with the USG in Jamaican waters during 2007 under the auspices of “Operation Riptide,” which allow both 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 JDF also continued to work with the USG’s Joint Interagency Task Force-South (JIATF-S) in 2007 to disrupt maritime trafficking. JDF and JCF elements participated in the DEA-led regional exercise “All-Inclusive”. JDF Coast Guard personnel participated in a number of maritime law enforcement, seamanship and specialized technical resident courses in the U.S. in 2007.

Multi-lateral Cooperation. In mid-2007, the USG-funded, Kingston-based Airport Interdiction Task Force began operations. This multi-nation (GOJ, U.S., United Kingdom and Canada) Task Force combats narcotics and arms smuggling, human trafficking, and immigration fraud. The U.S. continues to support the Mini-Dublin Group, and reinvigorated cooperation with the UK and Canada to prevent duplication of efforts and ensure the most effective use of our combined counternarcotics resources.

The Road Ahead. Implementation of new reforms within the GOJ’s Ministry of National Security will contribute greatly to the fight against drug trafficking. To prevent Jamaica from becoming a full-fledged kleptocracy, the GOJ must investigate, prosecute and convict corrupt officials at all levels of government service. This will require organizations such as the Anti-Corruption Unit and the FID, as well as the proposed NIIA, the Anti-Corruption Special Prosecutor, to be independent, fully resourced, and backed by political will. The government must also make a commitment to implement the reform recommendations of the Ministry of National Security’s Strategic Review of the Jamaica Constabulary Force to ensure a professional non-corrupt organization. Finally, the GOJ needs to take action to begin the task of attacking endemic corruption throughout its customs and revenue service.

In 2008, the U.S. will continue to work with our international partners to assist the GOJ with tackling corruption. The USG will ensure the most effective use of our foreign assistance 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 the FID Act, which would make Jamaica eligible for Egmont membership and enable the USG to intensify information sharing.

Suriname

I. Summary

The Government of Suriname's (GOS) inability to control its borders, inadequate resources, limited law enforcement training, lack of a law enforcement presence in the interior of the country, and lack of aircraft or patrol boats allow traffickers to move drug shipments via land, sea, river, and air with little resistance. South American cocaine transits Suriname en route to Europe, Africa, and, to a lesser extent, the United States. In 2007 there were no major drug seizures in Suriname, but the GOS continued its efforts to eliminate major local narcotics organizations. The GOS continued forging cooperation agreements with other countries, regionally and internationally, in order to reduce the import and export of illicit narcotics. Suriname is a party to the 1988 UN Drug Convention but has not implemented legislation regarding precursor chemical control provisions to bring itself into full conformity with the Convention.

II. Status of Country

The lack of resources, limited law enforcement capabilities, inadequate legislation, drug-related corruption of the police, courts and military, a complicated and time-consuming bureaucracy, and overburdened and under-resourced courts inhibit the GOS's ability to identify, apprehend, and prosecute narcotic traffickers. Cocaine from South America, destined primarily for Europe, Africa, and, to a lesser extent, the United States is transshipped through Suriname. Suriname's sparsely populated coastal region and isolated jungle interior, together with weak border controls and infrastructure, make narcotics detection and interdiction efforts difficult. Intelligence analysis has indicated a movement of drug traffickers utilizing very remote locations for delivery and securing of narcotics. Additionally, the GOS is unable to detect the diversion of precursor chemicals for drug production, as it has no legislation controlling precursor chemicals and no tracking system to monitor them.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The National Anti-Drug Council and its Executive Office coordinate implementation of the National Drugs Master Plan (2006-2010) that covers both supply and demand reduction and includes calls for new legislation to control precursor chemicals. In 2007, national support was broadened by involving NGOs and civil society in the implementation of the plan. The participatory approach was institutionalized by incorporating NGOs and civil society – the Business Association, religious groups, treatment centers—in the National Anti-Drug Council.

Accomplishments. As a result of the GOS Ministry of Justice and Police and law enforcement institutions which continued targeting large trafficking rings and working with international partners, in 2007, the GOS seized 206 kilograms (kg) of cocaine, 131 kg of cannabis, 3,154 MDMA (ecstasy) tablets and 81 grams of ecstasy powder. A total of 667 people were arrested for drug-related offenses and 462 cases were sent to the Office of the Attorney General for Prosecution. While the statistics for cocaine seizures are far below those of last year, the decrease in seizures of cocaine can be attributed to the establishment of the Airport Narcotics Team, as well as anti-narcotics training provided for customs and police officers, which forced narcotics traffickers to develop innovative new ways to get narcotics through the airport. There are clandestine airstrips within Suriname, and a government crackdown on these airstrips has also forced traffickers to develop new routes for the trade.

Law Enforcement Efforts. In 2007, law enforcement officials noted a slight decrease in the number of drug mules and an increase in the mailing of packages containing narcotics abroad via the postal service. These packages usually contain household items or foodstuff (ginger roots, noodles and bananas) laced with or containing cocaine. In 2007, GOS law enforcement agencies arrested 99 drug couriers who ingested cocaine. Many who evaded detection in Suriname were 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 March, a special Airport Narcotics Team was established, consisting of officers from the police, military police, customs and the Airport Authority. This team was trained by Dutch law enforcement experts in detecting narcotics and weapons, identifying fraudulent passports and searching aircrafts, and was tasked with decreasing the import and export of narcotics through the Johan Adolf Pengel International airport.

In May, a judge convicted one of the suspects associated with the 2006 Shaheed “Roger” Khan case and sentenced him to 3 years imprisonment for participation in a criminal organization and sale/transport of 235 kg cocaine. The GOS also arrested Shaheed “Roger” Khan, and deported him to Guyana, via Trinidad. In Trinidad, he was arrested for narcotics violations during his transit at Piarco International Airport. Trinidad authorities surrendered Khan to the DEA. The GOS also sentenced three men for an August 2006 possession of 130 kg of cocaine; the men received two to seven year sentences.

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. Public corruption is believed to have played some role in reducing the number of seizures that could have taken place, as it is believed that the narcotics traffickers’ influence and infiltration in the military and police affected the cooperation of the sparsely populated communities nearby the clandestine airstrips, thereby stymieing law enforcement interdiction efforts.

The GOS has demonstrated some willingness to undertake law enforcement and legal measures to prevent, investigate, prosecute, and punish public corruption. Several police officers suspected of narcotics trafficking and membership in criminal organizations, were investigated in 2007. The police officers who were investigated have been transferred to other units, but there have been no resulting prosecutions in these cases. Public corruption is considered a problem in Suriname and there are continued 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.

Agreements and Treaties. Suriname is party to the 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, the Inter American Convention against Corruption. Suriname is also a party to the 1988 UN Drug Convention and has accordingly passed legislation that conforms to a majority of the Convention’s articles, but it has failed to pass legislation complying with precursor chemical control provisions.

Suriname is a party to the UN Convention against Transnational Organized Crime and its protocol against migrant smuggling. 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. The two countries intensified their cooperation to fight drug trafficking with agreements between their police forces and their offices of the Attorney General. In August 1999, a comprehensive six-part, bilateral, maritime counternarcotics enforcement agreement was entered into with the U.S. The U.S.-Netherlands Extradition Treaty of 1904 is applicable to Suriname, but current Suriname law prohibits the extradition of its nationals.

Officials from Suriname, the Netherlands Antilles, and Aruba met in March and agreed to share intelligence regarding transnational crime and financial crimes, following the January 2006 signing of a Mutual Legal Assistance Agreement allowing for direct law enforcement and judicial cooperation between the countries. Suriname has also signed bilateral agreements to combat drug trafficking with neighboring countries Brazil, Guyana, Venezuela and Colombia. Brazil and Colombia have cooperated with Suriname on specific drug-related cases. 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 permit law enforcement attachés to work with local police.

Cultivation and Production. Suriname is not a producer of cocaine or opium poppy. There is little specific data on the amount of cannabis under cultivation, or evidence that it is exported in significant quantities.

Drug Flow/Transit. The border between Suriname and Guyana is open and, according to law enforcement officials, traffickers increasingly use this border to traffic cocaine and cannabis to Suriname. 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 or overland for onward shipment to Caribbean islands, Europe, Africa 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 (Ecstasy) is transported via commercial airline flights from the Netherlands to Suriname.

Domestic Programs. In 2007 the Drug Demand Reduction (DDR) Program continued its nationwide drug awareness and drug prevention activities with funding from the European Commission. One of the highlights of the decentralized strategy was a widely attended march through Nickerie, the country's most western district, to celebrate the International Day Against Drugs. The DDR program trained a cadre of counselors and citizens, increased awareness about the danger in the general population and increased focus on prevention of drug use, counseling at early detection of drug use and treatment of drug dependents. In 2007, all six drug treatment centers in the country adopted minimum standards for treatment that were endorsed by the Ministry of Health. The Psychiatric Hospital opened the first detoxification center in the country, expanding the treatment capabilities for drug dependents.

In 2007, with the support of CICAD, a national survey was conducted to assess the magnitude of drug consumption in the country. A total of 4,000 persons from all geographic regions of the country were interviewed on drug consumption, age of first use and perception of risks. The results will be available in early 2008, and will be used to refine national policy. In the area of supply reduction, the drug supply reduction network was strengthened, linking key players such as the Narcotics Squad, Office of the Attorney General and Customs in an automated system.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The United States' focus is on strengthening the GOS law enforcement and judicial institutions and their capabilities to detect, interdict, and prosecute narcotics trafficking activities. In 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, provided a framework to establish an intelligence-sharing network, coordinate, and execute sting operations, destroy

clandestine airstrips and tackle money laundering. As follow-on to the objectives in the Declaration, in 2007, the GOS destroyed two clandestine airstrips and also signed a law enforcement cooperation agreement with neighboring Brazil.

Bilateral Cooperation. In 2007, the United States provided training and material support to several elements of the national police to strengthen their counternarcotics capabilities. In July 2007, the U.S. government funded leadership training for elements of the police force at the International Law Enforcement Academy (ILEA) in El Salvador. The Drug Enforcement Administration (DEA) intensified its cooperation with Surinamese law enforcement in 2007 after having established an office in Suriname the previous year. In February 2007, DEA trainers provided a two-week Basic International Narcotics Course for 26 police, military police, and customs officials in Suriname.

The Road Ahead. The United States encourages the GOS to pursue major narcotics traffickers and to dismantle their organizations. The GOS should continue to strengthen its focus on port security, specifically seaports, which are seen as the primary conduits for large shipments of narcotics exiting Suriname. The United States will continue to encourage Surinamese judges to use the existing asset forfeiture laws to penalize narcotics traffickers and remove their financial bases. The United States will also support GOS efforts to draft and pass new legislation to strengthen law enforcement ability to utilize undercover agents in narcotics investigations and to enhance the judiciary's asset forfeiture capabilities.

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. The GOTT continues to cooperate with the U.S. on counternarcotics issues and allocates 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, located 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. This does not have a significant effect on the U.S. market.

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 Trinidad and Tobago, and export controls have been instituted to prevent future diversion to narcotics producers.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, the GOTT acknowledged that Trinidad and Tobago is a significant drug transshipment location and underscored its intention to take action against traffickers. In this regard, the GOTT commissioned a new Air Guard Unit, with two helicopters and comprised of 119 former Coast Guard officers and 4 members from the Regiment (Trinidad and Tobago Army). This unit is operational and replaced the disbanded Coast Guard Airwing detachment. Additionally, in an effort to further secure the country's borders from trans-national organized criminal networks and the increasing phenomenon of identity fraud, in 2007 the country began issuance of the International Civil Aviation Organization (ICAO) standard machine-readable passports.

In 2007, the GOTT also enacted several laws that focused on streamlining the police service and holding it more accountable, submission of evidence, and increasing the penalties for certain crimes, specifically kidnapping. Three highly publicized legislative acts of 2007 were the Deoxyribonucleic Acid (DNA) Act, which provides for the taking of "intimate" and "non intimate" samples from persons connected with the commission of an offense as well as convicts; the Evidence (Amendment) Act, which made hearsay evidence admissible in court under specific circumstances; and the Bail (Amendment No.3) Act which restricts granting of bail for 60 days to those charged with kidnapping offenses.

In order to improve the capacity to detect narcotics and appropriately manage crime scenes, the GOTT continued to implement training recommendations made by an American private sector criminal justice specialist. The Government also implemented several recommendations from the Department of Justice's International Criminal Investigative Training Assistance Program that suggested changes to the structure, recruiting and retention of Specialized Anti-crime Unit Trinidad

and Tobago (SAUTT) officers. Specifically, the SAUTT set minimum standards of level of education, began process to become a separate and legal entity and provided monetary benefits corresponding to the high-level of risk and sacrifice an officer might experience.

In 2007, the GOTT awarded a contract to a UK shipbuilding firm to design and build three Offshore Patrol Vessels (OPVs) for the Coast Guard. These vessels will be used for maritime drug interdiction as well as anti-smuggling operations. The GOTT also has expressed an interest in patrolling eastern Caribbean waters to assist neighboring countries in countering trafficking, should funding and vessels be available. Additionally, the GOTT provided the Police Service with eight hi-tech vehicles fully equipped with forensic equipment, which will aid with crime scene investigations. After being grounded for maintenance, a SAUTT air blimp resumed flight in 2007, providing crime surveillance throughout Trinidad. It primarily had a deterrent value and was used extensively during the election.

Accomplishments. The GOTT, during joint operations with foreign law enforcement counterparts, made 110 drug trafficking arrests in 2007, an increase of 92 persons compared to last year. Also in 2007, the GOTT seized approximately 167 kilograms (kgs) of cocaine and 3,792 kgs of cannabis in various forms. The GOTT also conducted 148 eradications, destroying 162,210 marijuana trees, 15,500 seedlings and 194 kilograms of cured marijuana.

Law Enforcement Efforts. The Coast Guard (TTCG), Organized Crime and Narcotics Unit (OCNU), Counter Drug and Crime Task Force (CDCTF), SAUTT and other specialized police/military units continued drug interdiction and eradication operations throughout 2007. The DEA and U.S. Customs and Border Protection assisted with several of these joint exercises. The GOTT purchased technical equipment to augment human resources, however, some agencies continue to complain that they have been overlooked in budgetary allocations and do not have adequate funds for upkeep or necessary new equipment. Retired Scotland Yard officers hired in 2006, continued to mentor T&T law enforcement agents and to provide support for the Caribbean Financial Action Task Force (CFATF), which has its secretariat in Port of Spain.

The Organized Crime Narcotics and Firearms Bureau (OCNFB) reported an increase in seizures of various types of illicit drugs and disruption of the drug trade in 2007. The OCNFB arrested 85 persons, seized over 100 kilos of cocaine and over 2,193 kilos of marijuana from January to October 2007.

The GOTT Incident Coordination Center established in 2006, and staffed by personnel from a number of specialized agencies, facilitated information sharing and more effective response by law enforcement to counternarcotics and financial investigations in 2007. The GOTT also completed six drug related extraditions in 2007, an increase from two in 2006.

Corruption. As a matter of policy, the GOTT 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. Trinidad and Tobago is a party to the Inter-American Convention against Corruption and has signed the UN Convention against Corruption. During 2007, there were no charges of drug-related corruption filed against GOTT senior officials. 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, the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling, the Inter American Convention against Corruption, and Inter American Convention on Mutual Assistance in Criminal Matters, and signatories to the Inter-American Convention against Terrorism and Inter American Convention against Trafficking in illegal firearms. Mutual legal assistance and extradition treaties with the U.S. entered into force in November 1999. 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. 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. Trinidad and Tobago is a transshipment country for the movement of cocaine and heroin from Colombia to the U.S., Canada and Europe. As a result of Venezuela's recent lack of cooperation with the U.S., there has been an increase in the transshipment of cocaine and heroin from Colombia, through Venezuela. The majority of the cocaine that arrives on Trinidad is via commercial vessels, sailing vessels and small fishing vessels, in amounts upwards of several thousand-kilogram quantities. These loads are generally coordinated by organized Colombian and Venezuelan drug trafficking organizations, and are often facilitated and protected by members of the Venezuelan military. The cocaine is then stored and broken up into smaller loads for smuggling into the U.S., Canada and Europe.

Heroin smuggling is limited but organized by Colombian trafficking groups operating in Venezuela, and in Trinidad and Tobago. Heroin is smuggled from Venezuela, in amounts from two to fifty kilograms, using commercial airlines and vessels.

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 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 2007, the USG provided additional drug and explosive-detection canine/handler training to the Police Service, and supported Trinidad's newly established Canine Academy. The USG also provided the TTCG with marine engineering, small boat maintenance, leadership, and crisis management training. In addition, the USG provided training courses in crime scene investigation, explosive detection and combating terrorism.

Over the past year, the DEA and its local counterparts have been involved in investigations that led to the seizure of over 10 tons of cocaine transiting 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.

The Road Ahead. The U.S. will continue to work closely with the GOTT's law enforcement agencies to strengthen their counternarcotics/anticrime capabilities and provide training and operational support to the TTCG to enhance the GOTT's maritime interdiction capabilities. Initiatives the GOTT should undertake include: establishment of a drug court to deal with drug offenses; strengthening border protection by automating the method to include container scanning; providing additional training for officers to deal with counterfeit merchandise and copyright items and counterfeit money; establishing an internal affairs unit to combat internal fraud and bribes; initiating more border patrols on the western side of the island; and, participating in the U.S. Southern Command (SOUTHCOM) initiative called "Carib Venture," which is a multi-national mission in the Southern Caribbean focused on stemming the flow of drugs in the region.

SOUTHWEST ASIA

Afghanistan

I. Summary

Narcotics production in Afghanistan hit historic highs in 2007 for the second straight year. Afghanistan grew 93 percent of the world's opium poppy, according to the United Nations Office on Drugs and Crime (UNODC). Opium poppy cultivation expanded from 165,000 ha in 2006 to 193,000 ha in 2007, an increase of 17 percent in land under cultivation. Favorable weather conditions and expanded planting in more fertile agricultural areas also boosted Afghanistan's yield per hectare. UNODC estimates that Afghanistan produced 8,200 MT of opium in 2007, an increase of 2,556 MT over the 5,644 MT produced in 2006. In 2007, opium production was 34 percent above 2006 levels and nearly double the amount produced in 2005. The export value of this year's illicit opium harvest, \$4 billion, made up more than a third of Afghanistan's combined total Gross Domestic Product (GDP) of \$11.5 billion.

Afghanistan's drug trade is undercutting efforts to establish a stable democracy with a licit economic free market in the country. The narcotics trade has strong links with the anti-government insurgency, most commonly associated with the Taliban. Narcotics traffickers provide revenue and arms to the Taliban, while the Taliban provides protection to growers and traffickers and keeps the government from interfering with their activities. During recent years, poppy production has soared in provinces where the Taliban is most active. Five relatively higher-income, agriculturally rich provinces along the Pakistan border accounted for 70 percent of Afghanistan's 2007 poppy production, with Helmand Province alone accounting for 50 percent. At the same time, poppy cultivation declined in many of the poorer, but more secure northern and central provinces, with 13 provinces poppy-free in 2007, compared with only six provinces so designated in 2006. These statistics address the misconception that most farmers grow poppy because they have no economic alternative; poppy is flourishing in the areas with the richest land and best developed agricultural marketing and distribution networks. Nationwide, UNODC estimates that approximately 14.3 percent of Afghans were involved in poppy cultivation in 2007, up from 12.6 percent in 2006.

For the most part, farmers choose to plant opium poppy because it is a profitable, hardy, and low-risk crop. Credit is available, abundant manual labor makes harvesting cheap, and it is easy to market. Economic assistance alone will not overcome the overall narcotics problem in Afghanistan. Some provincial governors have reduced or eliminated cultivation through determined campaigns of persuasion, law enforcement, and eradication. Alternative development opportunities can yield acceptable incomes, but must also be backed by measures to increase risk to those who plant poppy. This risk should fall heaviest on those who plant the most.

The Government of the Islamic Republic of Afghanistan (GOIRA) is working cooperatively with the international community to implement its current counternarcotics strategy more effectively. Eliminating narcotics cultivation and trafficking in Afghanistan will require a long-term national and international commitment. The Afghan government must take decisive action against poppy cultivation soon to turn back the drug threat before its further growth and consolidation make it even more difficult to defeat. During 2007, President Karzai weighed the possibility of limited aerial spray eradication of opium poppy, but ultimately declined to approve the program.

II. Status of Country

During 2007, Afghanistan increased its position as the world's largest heroin producing and trafficking country, with 93 percent of world cultivation. Afghanistan is involved in the full narcotics production cycle, from cultivation to finished heroin, with drug traffickers trading in all

forms of opiates, including unrefined opium, semi-refined morphine base, and refined heroin. Terrorist violence such as roadside bombs, suicide bombings, and attacks on police rose across the country during 2007. Still, the overall Afghan economy continued its brisk growth rate of more than 10 percent annually over the last five years. Improvements to Afghanistan's infrastructure since 2002 have created more economic alternatives and enhanced the Afghan government's ability to combat drug trafficking in some parts of the country, even though improvements such as roads and modern communications can also be exploited by narcotics traffickers. Increased insecurity in Afghanistan's south, where most poppy was grown, impeded the extension there of governance and law enforcement. Narcotics traffickers also exploited government weakness and corruption. Large parts of Afghanistan's best agricultural lands in Nangarhar, Kandahar, Uruzgan, Nimruz, Farah, and Helmand provinces suffered from Taliban activity.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In January 2006, the Afghan government inaugurated an eight-pillar National Drug Control Strategy (NDCS) calling for coordinated action in the areas of Public Information, Alternative Livelihoods, Law Enforcement, Criminal Justice, Eradication, Institutional Development, Regional Cooperation, and Demand Reduction. The NDCS approach is similar to U.S. and UK counternarcotics strategies for Afghanistan. While the NDCS is generally viewed as a sound strategy, the Afghan government failed in 2006 and 2007 to implement it in ways that could stop the growth of the country's narcotics problem. The Ministry of Counter Narcotics, charged with directing implementation of the NDCS, was unable to effectively influence other government agencies. Counter Narcotics Minister, Habibullah Qaderi, resigned in July 2007 for personal reasons; the delay in appointing a successor struck some observers as indicative of the Afghan government's lack of commitment to the fight against narcotics.

Following UNODC's announcement of poppy cultivation figures in August 2007, President Karzai convened the second annual national counternarcotics conference. This meeting brought together representatives from key Afghan government Ministries, governors from the 17 largest poppy producing provinces, tribal elders, police chiefs, religious leaders, and members of the international community. Afterward, the Ministry of Counter Narcotics (MCN) held a pre-planting season planning session for the 17 governors in attendance. The Afghan government instructed provincial and district leaders to launch pre-planting information campaigns to reduce poppy cultivation. The response from governors was uneven. Some governors (notably those in Balkh, Nangarhar, and Badakhshan) developed vigorous anti-poppy campaigns, while others did little to discourage poppy cultivation. The acting Minister of Counter Narcotics led government delegations to key narcotics-producing provinces to hold anti-narcotics shuras or community councils.

In mid 2007, the Afghan government's Policy Advisory Group (PAG) added counternarcotics as one of its key policy pillars. The PAG was formed in late 2006 by the Afghan Government, in cooperation with the U.S., UK, Canada, the Netherlands, NATO International Security Assistance Force (ISAF), and United Nations Assistance Mission in Afghanistan (UNAMA), to deal with critical issues in the unstable southern provinces of Helmand, Kandahar, Farah, Zabol, Nimroz, and Uruzgan. In October 2007, the Afghan government agreed in the PAG to a 50,000 hectare national eradication target for 2008, 25 percent of the expected crop. The Afghan government also agreed to arrest high-level traffickers and provide one to two battalions (140-280 personnel) of Afghan National Army forces as protection for police eradication operations. Concerned that his forces would be stretched too thin, the Minister of Defense raised objections to their deployment to provide force protection to poppy eradicators. To date, the situation remains unresolved.

In November 2007, President Karzai issued an edict announcing the 2008 terms of the Good Performers Initiative (GPI), a U.S.-UK-funded initiative started in 2006 to reward provinces for successful counternarcotics performance. On the basis of UNODC poppy cultivation estimates to

be released in August 2008, GPI will fund development projects proposed by governors of poppy-free provinces, provinces that reduce their poppy crop by more than 10 percent, and provinces that make a good faith effort to reduce poppy but fail to meet other GPI criteria. To date, the U.S. government has agreed to contribute \$35 million to the GPI, while the UK has promised \$6.5 million.

The Counter Narcotics Trust Fund (CNTF), in which some GPI funds are deposited, frustrated governors with delays in approving and implementing 2007 GPI projects. As of November 2007, CNTF had disbursed just \$4.1 million of \$10 million deposited a year earlier for GPI projects. Under U.S. and UK pressure, CNTF undertook to reform its grant-administration procedure in the fall of 2007. In order to promote faster disbursement of smaller GPI grants and provide additional incentives to governors, the U.S. Embassy is establishing a process by which it can directly disburse up to \$50,000 for 2008 GPI projects.

The U.S.-funded Afghan government Poppy Elimination Program (PEP) developed and disseminated counternarcotics information to farmers and the general public in seven major poppy-growing provinces. In addition to organizing local shuras during pre-planting season, the provincial PEP teams worked to build public support for eradication activities undertaken by authorities.

Justice Reform. The Afghan government's Criminal Justice Task Force (CJTF), with assistance from the U.S., UK and other donors, uses modern investigative techniques to investigate and prosecute narcotics traffickers under the December 2005 Counter Narcotics Law. Narcotics cases are tried before the Counter Narcotics Tribunal (CNT), which has exclusive national jurisdiction over mid- and high-level narcotics cases in Afghanistan. Under the new law, all drug cases that reach certain thresholds must be prosecuted by the CJTF before the CNT. The thresholds are possession of two kg of heroin, ten kg of opium, and 50 kg of hashish. Secure facilities, including offices, courtrooms, and a detention facility, for the CJTF and CNT will be opened at the Counternarcotics Justice Center (CNJC), constructed by the U.S. government in early 2008.

The Afghan government, with assistance from the U.S. and UNODC, refurbished a section of the Pol-i-Charkhi prison to house 100 maximum-security narcotics convicts. This prison is Afghanistan's largest and is the site of frequent disturbances and unrest due to poor conditions, poor prison management, and lack of resources. Through the Corrections System Support Program (CSSP), the United States is helping to improve the corrections system with training, capacity-building, and infrastructure. The CSSP works closely with the U.S.-funded Justice Sector Support Program (JSSP), which has over 60 U.S. and Afghan justice advisors in Kabul and four provinces providing training, mentoring, and capacity-building for Afghanistan's criminal justice system.

Law Enforcement Efforts. Eradication efforts, though stronger in 2007 than 2006, failed to keep pace with expanded poppy cultivation. Without an aerial eradication program, poppy reduction was limited to labor-intensive manual eradication efforts in medium to high threat areas. According to UNODC estimates, 19,047 ha were eradicated in 2007 compared to 15,300 ha in 2006. Governor-led eradication (GLE) accounted for 15,898 ha, and the Poppy Eradication Force (PEF), a U.S.-supported, centrally-deployed police unit specifically trained and equipped for eradication activities, eradicated another 3,149 ha of poppy in Helmand, Uruzgan, and Takhar provinces. The percent of the poppy crop eradicated increased from 8.9 percent of planted poppy in 2006 to 9.9 percent in 2007. For the most part, both GLE and PEF eradication were arranged through negotiations with poppy-growing communities, a practice that reduced eradication's deterrent effect. Even so, violent resistance to manual ground-based eradication increased in 2007, resulting in 17 fatalities.

Narcotics law enforcement was hampered by corruption and incompetence within the justice system as well as the absence of governance in large sections of the country. Although narcotics make up one-third of Afghanistan's GDP, no major drug traffickers have been arrested and

convicted in Afghanistan since 2006. In addition, too few high-level drug traffickers served terms in Afghanistan's prisons during 2007. However, from January to October 2007, the CJTF prosecuted 409 lower-level cases.

In 2003, the Ministry of Interior (MOI) established the Counter Narcotics Police of Afghanistan (CNPA), comprised of investigation, intelligence, and interdiction units. At the end of 2006, the CNPA had approximately 1,500 of its 2,900 authorized staff, including the 500-member PEF. The U.S. Drug Enforcement Administration (DEA) works closely with the CNPA to offer training, mentoring, and investigative assistance in order to develop MOI capacity.

The DEA operates permanently assigned personnel and the Foreign-deployed Advisory Support Teams (FAST) in Afghanistan. The FAST teams, which consist of eight special agents, one intelligence analyst, and one supervisor, operate in Afghanistan on 120-day rotations and deploy around the country with the Afghan National Interdiction Unit (NIU). During 2007, FAST and the NIU deployed to Herat, Farah, Helmand, Kandahar, Kunduz, and Nangarhar Provinces to conduct operations.

From September 2006 through September 2007, the CNPA reported the following seizures: 4,249 kg of heroin, 617 kg of morphine base, 39,304 kg of opium, and 71,078 kg of hashish. During the same period, the CNPA also destroyed 50 drug labs. The CNPA seized 37,509 kg of solid precursor chemicals and 33,008 liters of liquid precursors. The CNPA also reported 760 arrests for trafficking under the provisions of the Afghan Counter Narcotics 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.

During 2007, the Afghan government, with DEA support, created two vetted units, the Sensitive Investigative Unit (SIU) and the Technical Investigative Unit (TIU), to investigate high-value targets. They will gather evidence through means authorized under Afghanistan's Counter Narcotics Law and approved through the Afghan legal system. Personnel in these units were recruited from a wide variety of Afghan law enforcement agencies and had to pass rigorous examinations. The SIU was fully functional by the end of 2007, while the TIU will begin its work in 2008.

The SIU and TIU will carry on their work in a secure facility within the new National Interdiction Unit (NIU) base that opened in 2007. The Afghan government established the NIU in 2004 with DEA assistance. The NIU currently consists of 181 members, with an authorized strength 216. NIU officers receive a substantial amount of tactical training. The aim of this program is to have SIU and TIU investigations culminate in the issuance of arrest and search warrants executed by the NIU. The investigations conducted by the SIU and NIU with DEA assistance will be prosecuted at the Counter Narcotics Tribunal through the Criminal Justice Task Force (CJTF), which consists of Afghan prosecutors and investigators mentored by experienced Assistant U.S. Attorneys and U.S. Department of Justice Senior Trial Attorneys. The CJTF mentors have also been working with the Afghan authorities to create a formal legal process to gain authority for controlled deliveries of narcotics to trafficking suspects.

Haji Baz Mohammad, 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 U.S. and in October 2007 was sentenced to more than 15 years in prison for running an international narcotics-trafficking organization that imported millions of dollars worth of illegal drugs into the United States. Similar to the indictment of Haji Bashir Noorzai, an Afghan drug kingpin who was indicted and then arrested in the United States in 2005, Baz Mohammad's indictment also alleged that he was closely aligned with the Taliban.

During 2007, two drug traffickers with links to the insurgency volunteered to be transported from Afghanistan to stand trial in the United States. The first, Mohammad Essa, was a key heroin distributor for the Haji Baz Mohammad network in the United States. Essa had fled the United States when Baz Mohammad was sent to stand trial in New York. In December 2006, he was apprehended in Kandahar Province by the U.S. military, during a battle with insurgents, and he was voluntarily transferred to the United States in April 2007. The second was Khan Mohammad, who was a supporter of the insurgency and arrested in Nangarhar Province in October 2006. He was indicted for selling opium and heroin to CNPA/NIU informants, knowing that the drugs were destined for the United States. He agreed to return to the United States for trial and was transferred to U.S. authorities in November 2007 and will stand trial in Washington, D.C.

Corruption. Although the illicit production or distribution of narcotic or psychotropic drugs and other controlled substances and the laundering of proceeds from illegal drug transactions are illegal, many Afghan government officials are believed to profit from the drug trade. Narcotics-related corruption is particularly pervasive at the provincial and district levels of government. Corrupt practices range from facilitating drug activities to benefiting from revenue streams that the drug trade produces.

On June 28, 2007, five Afghan Border Police officers were arrested while transporting 123.5 kg of heroin from Nangarhar to Takhar Province. The heroin was seized outside Kabul. At the time, the officers were transporting the heroin in a Border Police truck. The officers worked for Border Police Commander Haji Zahir, also alleged to be a drug trafficker. Defendants in the case included his personal body guard and his nephew, who acts as his personal secretary. Though this seizure did not result in Zahir's arrest, he was suspended from his position as commander in Takhar Province. The investigation into his involvement with this shipment continues.

Since Attorney General Sabit's appointment in September 2006, he has become an anti-corruption activist, dismissing prosecutors across the country for corruption and pursuing corruption investigations against politically sensitive targets. A new reform-oriented Supreme Court Justice, Abdul Salam Azimi, was also appointed by President Karzai in August 2006. Azimi was asked by President Karzai to lead a completely Afghan-driven interagency commission to develop a government-wide anti-corruption strategy, the report of which is expected to be released in 2008.

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. Afghanistan is also a party to the UN Convention Against Transnational Organized Crime. Afghanistan has signed, but has not yet ratified, the UN Convention Against Corruption. The Afghan government has no formal extradition or legal assistance arrangements with the United States, but American mentors are working with the Criminal Justice Task Force to help draft such a law. The 2005 Afghan Counter Narcotics law, however, allows the extradition of drug offenders under the 1988 UN Drug Convention. Haji Baz Muhammad, mentioned above, was extradited to the United States under the authority of the 1988 UN Drug Convention in October 2005. In 2006, however, a similar effort to extradite Misri Khan, a major trafficker, and his associates met with a request from President Karzai that the defendants first stand trial at Afghanistan's Counter Narcotics Tribunal, which subsequently sentenced the defendants to 17 years in prison. The defendants are still incarcerated in Afghanistan as of December 2007.

Illicit Cultivation/Production. Based on UNODC data, the number of hectares under poppy cultivation in Afghanistan increased 17 percent, from 165,000 ha in 2006 to 193,000 in 2007. Resulting opium production reached a record 8,200 MT. The opium yield per hectare was the highest in five years, increasing from 37 kg/ha in 2006 to 42.5 kg/ha in 2007. UNODC attributed the high yield to ideal weather conditions, even though floods in Uruzgan moderated intensive poppy cultivation in that province. The number of people involved in opium cultivation increased

in 2007 from 2.9 million to 3.3 million. According to UNODC estimates, 14.3 percent of Afghans were involved in opium cultivation during 2007. Considered in terms of its estimated \$4 billion illicit export value, opium represented about one-third of Afghanistan's total GDP (licit and illicit). On the other hand, the portion of narcotics money actually received by farmers was a small share of the whole: opium poppy's \$1 billion farm-gate value accounted for only 11 percent of total licit and illicit GDP.

Poppy is a hardy, low risk crop. High profits, access to land and credit, and trafficker-facilitated access to illicit markets outside of Afghanistan make poppy immensely attractive to farmers in Afghanistan's circumstances. However, the reduction of poppy cultivation in the poorer northern and central provinces and the explosion of poppy cultivation in agriculturally rich areas such as Helmand, Kandahar, and Nangarhar, where poppy has displaced wheat and other legitimate crops, disproves the notion that most farmers grow poppy because they have no viable alternatives. In its 2007 Opium Survey for Afghanistan, UNODC stated "opium cultivation is no longer associated with poverty and is closely linked to the insurgency."

Thirteen of Afghanistan's 34 provinces were poppy-free in 2007. This compares favorably to the six provinces that were declared poppy free in 2006. In Badakhshan, according to UNODC, the governor combined persuasion and eradication to slash cultivation from 13,056 ha in 2006 to 3,642 ha in 2007. Governor-led eradication cut opium production in Balkh from 10,037 ha in 2006 to zero in 2007. Many farmers in Balkh province reverted to planting marijuana, a traditional crop in Balkh. UNODC estimated that 70,000 ha of marijuana were cultivated country-wide in 2007, an increase of 20,000 ha over 2006.

The eastern province of Nangarhar demonstrated the historic volatility of Afghan poppy cultivation with a 285 percent jump in area planted in 2007 to 18,739 ha, placing the province second to Helmand in total cultivation. Nangarhar farmers had previously responded to a strong anti-narcotics campaign by the governor by virtually ceasing to grow poppy altogether in 2005. This fluctuating trend continued in fall and winter 2007, when the new governor, Gul Agha Sherzai, pursued his own pre-planting and eradication campaign, which is anticipated to cause a substantial drop in cultivation in 2008.

Afghanistan's poppy free provinces are in the relatively secure central and northern parts of the country, while poppy cultivation has exploded where the insurgency is strong, particularly in the south and southwest. The United States, UK, UNODC, ISAF and other major international stakeholders now acknowledge that a symbiotic relationship exists between the insurgency and narcotics trafficking in Afghanistan. The Taliban taxes poppy farmers to fund the insurgency. Traffickers provide weapons, funding, and personnel to the insurgency in exchange for the protection of drug trade routes, poppy fields, and members of their organizations. For their part, narcotics traffickers thrive in the insecurity and absence of governance in areas where the Taliban is active. The nexus between militants and narcotics trafficking was vividly illustrated when the Taliban gained control in February 2007 of the Musa Qala district in northern Helmand. When Afghan and coalition troops retook the district nine months later, they found that Taliban governance had deliberately sheltered a flourishing narcotics industry. The full production cycle, from raw opium to finished heroin, was traded in Musa Qala's open narcotics markets, benefiting local traffickers and Taliban tax-collectors alike.

The southern province of Helmand province was in a class of its own in 2007, growing 53 percent of Afghanistan's poppy crop with 102,770 ha under cultivation. Helmand's 2007 poppy crop increased 48 percent over 2006. Poppy cultivation has quadrupled in Helmand since 2005 and has almost entirely taken over a once prosperous agricultural region growing legal crops. Helmand opium production is organized on a large scale, employing thousands of seasonal migrant laborers and supporting cultivation with systems of credit and distribution. Massive amounts of

development assistance to Helmand have not held back the explosion of poppy cultivation and trafficking there. As the recipient of \$270 million in FY2007 alone, if Helmand were an independent country, it would be the sixth largest recipient of bilateral USAID development assistance in the world.

Drug Flow/Transit. Drug traffickers and financiers lend money to Afghan farmers in order to promote drug cultivation in the country. 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 other criminal activities, including trafficking in persons. Traders sell to the highest bidder in these markets with little fear of legal consequences, and gangsters and insurgent groups tax the trade.

Drug labs operating within Afghanistan process an increasingly large portion of the country's raw opium into heroin and morphine base. This process reduces the bulk of raw opium about one-tenth, which facilitates its movement to markets in Asia, Europe, and the Middle East with transit routes through Iran, Pakistan, and Central Asia. Opiates are transported to Turkey, Russia, and the rest of Europe by organized criminal groups that are often organized along regional and ethnic kinship lines. Pakistani nationals play a prominent role in all aspects of the drug trade along the Afghan/Pakistan border.

Precursor chemicals used in heroin production must be imported into Afghanistan. Limited police and administrative capacity hampered efforts to interdict precursor substances and processing equipment. Afghan law requires the tracking of precursor substances, but the MCN has failed to create an active registry to record data. Progress in this regard requires the establishment of new laws, a system for distinguishing between licit and potentially illicit uses of dual-use chemicals, and a specialized police force to enforce the new system. UNODC has established a five-man unit at CNPA that is charged with tracking precursor chemicals.

Domestic Programs/Demand Reduction. The Afghan government acknowledges a growing domestic drug abuse problem, particularly opium and increasingly heroin. In 2005, Afghanistan's first nationwide survey on drug use was conducted in cooperation with UNODC. This survey estimated that Afghanistan had 920,000 drug users, including 150,000 users of opium and 50,000 heroin addicts, with 7,000 intravenous users.

The NDCS includes rehabilitation and demand reduction programs for drug abusers. Given Afghanistan's shortage of general medical services, however, the government can only devote minimal resources to these programs. To address demand reduction needs, the UK and Germany have funded specific demand reduction and rehabilitation programs. For its part, the United States is funding five, 20-bed residential drug treatment centers in Afghanistan, including the only residential facility in the country dedicated to serving female addicts. In 2007, the United States also supported 26 mosque-based drug education programs, five drug prevention/life skills pilot programs in Afghan schools, drug prevention public awareness programs, and a research study on the effects of second-hand opium smoke.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation/The Road Ahead. In 2007, the United States enhanced its five pillar Afghanistan counternarcotics strategy, which calls for decisive action in the near term and identifies a more extensive array of tactics in all sectors, including:

-- Use public information campaigns to win support for the Afghan government's counternarcotics program. The U.S. Embassy will increase support for radio, print media, and person-to-person outreach campaigns. Particular emphasis will be placed on grassroots, person-to-person community

outreach activities through the Multiplying Messengers and PEP programs, which engage local community, religious, and tribal leaders on counternarcotics issues.

-- Attack the problem at the provincial level. The U.S. expanded the Good Performer's Initiative in 2007 to provide greater incentives to governors, including those who succeed in keeping their provinces poppy-free. Provincial counternarcotics planning will be integrated with military planning at local commands in key provinces such as Helmand and Nangarhar.

-- Engage in a stronger eradication campaign. Until such time as the Government of Afghanistan approves more efficient and safe methods of eradication, the United States will continue to support the centrally-led PEF program, which conducts non-negotiated eradication to increase the impact of eradication by targeting large landowners and by encouraging governors to eradicate where it will have the greatest deterrent impact.

-- Develop alternative sources of income to poppy in rural areas. USAID continued its comprehensive Alternative Development Program (AD), which is providing \$228,950,000 for AD projects in the major opium cultivation areas of Afghanistan. Starting in late 2006, USAID implemented a rural finance program that provides credit to farmers and small- and medium-sized enterprises in areas where financial services were previously unavailable.

-- Accelerate narcotics-related investigations, arrests, prosecutions, and incarcerations. In keeping with the overall justice sector strategy pursued jointly by Afghanistan, the United States, and international partners, the United States will expand its training efforts in Afghanistan for provincial and district-level prosecutors during 2008.

-- Destroy drug labs and stockpiles. The NIU and the U.K.-sponsored Afghan Special Narcotics Force (ASNF), in cooperation with the DEA, will target drug labs and seize drug stockpiles.

-- Dismantle drug trafficking/refining networks. DEA will work closely with the CNPA, NIU, and ASNF in pursuing criminal investigations and disrupting the narcotics trade.

V. Statistical Table

Drugs Seized (kg)					
(Through September 2007)					
	2003	2004	2005	2006	2007
	----	----	----	----	
Opium	2,171	17,689	50,048	40,052	39,304
Heroin	977	14,006	5,592	1,927	4,249
Morphine Base	111	210	118	105	617
Hashish	10,269	74,002	40,052	17,675	71,078
Precursor Chemicals Seized					
(Through September 2007)					
	2003	2004	2005	2006	2007
	----	----	----	----	
Solid (kg)	14,003	3,787	24,719	30,856	37,509
Liquid (liters)	0	4,725	40,067	12,681	33,008
Arrests (for trafficking)					
(Through September 2007)					
	2003	2004	2005	2006	2007
	----	----	----	----	
Arrests	203	248	275	548	760
Drug Labs Destroyed					
(Through September 2007)					
	2003	2004	2005	2006	2007
	----	----	----	----	
Labs Destroyed	31	78	26	248	50

Bangladesh

I. Summary

A major narcotics arrest in Dhaka, in October 2007, supported law enforcement officials' claims of a sharp increase in methamphetamine abuse in Bangladesh, particularly among upper-class urban youths. The arrest resulted in the first seizure of drug-making equipment suggesting substantial domestic production, some of which might be available for shipment to other countries. A November 2007 seizure of 23.5 kg of heroin at Dhaka's international airport confirmed that at least some heroin continues to be transshipped through Bangladesh. There is no evidence that Bangladesh is a significant cultivator or producer of narcotics. Government of Bangladesh (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. An ongoing lack of cooperation among law enforcement agencies has made narcotics control difficult, although, in late 2007, the Ministry of Home Affairs led an effort to improve coordination. While corruption at all levels of government traditionally has hampered the country's drug interdiction efforts, the Caretaker Government that came to power in January 2007 has made fighting graft a top priority. Law-enforcement officials say the anti-graft push has made efforts to go after politically connected drug dealers easier. Bangladesh is a party to the 1988 UN Drug Convention.

II. Status of Country

The country's porous borders make the illegal flow of narcotics from neighboring countries easy and make Bangladesh an attractive transfer point for drugs transiting the region. The number of drug users in Bangladesh has been estimated at between 100,000 and 1.7 million, with 20,000-25,000 injecting drug users and 45,000 heroin smokers, indicating by the wide range of the estimate the lack of any real knowledge of the extent of drug abuse by the estimators. Other drugs used in Bangladesh are methamphetamines, marijuana, and a codeine-based cough syrup. 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 in 2005 and growing methamphetamine (locally, Thai "yaba" tablets which consist of caffeine and methamphetamine) use among the young elite. Yaba was initially popular among college students who used it to stay awake all night to study for exams, but has since become a popular stimulant at parties and is known as the "sex drug." A large proportion of street urchins in Dhaka also sniff glue as an appetite suppressant as well as for its drug effects, according to the head of a leading drug rehabilitation organization.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Continuing ineffective government coordination to counter narcotics abuse led to the creation of a new interagency monitoring group in November 2007. The new group is led by top officials from the Ministry of Home Affairs and the Department of Narcotics Control (DNC). Additionally, all narcotics cases fall under the speedy trial act, under which a decision must be reached within three months.

Law Enforcement Efforts. Law enforcement units engaged in operations to counter narcotics include the police, the DNC, the border defense forces known as the Bangladesh Rifles (BDR), customs, the navy, the coast guard, local magistrates and the Rapid Action Battalion (RAB), an elite group that plays a leading role in fighting terrorism, corruption and narcotics abuse. Customs, the navy, the coast guard and the DNC all suffer from poor funding, inadequate equipment, understaffing and lack of training. For example, the DNC budget for 2007-2008 of nearly 150

million taka (slightly more than \$2 million) is marginally less than the budget for the previous year. Its work force of about 935 people also is nearly 350 positions short of the number of positions approved by the government. There is no DNC presence at the international airports in Chittagong and Sylhet and only two at Dhaka airport, and DNC officers throughout the country are not authorized to carry weapons. Land crossings are particularly porous, particularly the border with Burma, over which much yaba and other drugs flow. One law-enforcement official noted that some border checkpoints historically have not had female constables who could perform body searches on women crossing into Bangladesh. Although RAB has become perhaps the highest-profile anti-narcotics force in the country, it has neither a special counternarcotics section nor specific counternarcotics training. Its drug-fighting resources, which appear stronger than other law-enforcement agencies, include a recently purchased chemical analyzer that can be used to identify drugs and a newly-trained 44-dog canine corps.

Bangladesh's counternarcotics operations received a huge morale boost in late October 07, when the RAB made one of the largest drug busts in the country's history. In a raid on a Dhaka office the RAB seized about 130,000 yaba tablets, with a street value of more than \$1 million, and large amounts of drug-making equipment and raw materials. RAB officers arrested a man suspected of being a leading drug baron. One immediate result of the raid was to send the street price of yaba from 200-300 Taka a tablet to 700 Taka (\$10), or more.

The DNC keeps tabs primarily on seizures by its own officers. Drugs seized by the department from January through September 2006 (latest statistics) are as follows: 18 kg of heroin (compared to 16.3 kg in all of 2006 and 20.2 kg in 2005); 1,373 kg of marijuana (compared to 1,345 kg in 2006 and 1,589 kg in 2005); more than 20,000 bottles of phensidyl, a codeine-based, highly addictive cough syrup produced in India; 215 ampoules of pethedine, an injectable opiate with medical application as an anesthetic; and 5,652 tablets of yaba. The RAB reported seizing nearly 133,000 tablets of yaba in 2007 through October, almost all of which came from the one Dhaka raid, compared to about 5,000 tablets in all of 2006 and less than 1,000 tablets in 2005. Heroin seizures by RAB through October 2007 were 19.8 kg, compared to 38.5 kg in all of 2006 and 341 kg in 2005. More than 80,000 bottles of phensidyl were seized through October, compared to nearly 190,000 bottles in all of 2006 and about 120,000 bottles in 2005.

Corruption. The Caretaker Government that came to power in January 2007 made fighting the country's endemic corruption a top priority. The chairman and members of the largely ineffective Anti-Corruption Commission were replaced with a new team led by a retired army chief. This new body has charged many of Bangladesh's leading politicians, businessmen and civil servants with graft. The Government also formed a National Coordination Committee to help with the graft investigations. Several task forces were set up to help the committee with its work in Dhaka and outlying districts. Between 100 and 200 high-profile graft suspects were in jail as of October 2007. RAB officials say the new environment has made it much more conducive to target suspected drug barons. 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 as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Bangladesh acceded to the UN Convention against Corruption in February 2007. The GOB and USG signed a Letter of Agreement on Law Enforcement and Narcotics Control (LOA) in September 2002 under which the U.S. provides equipment and technical assistance to the DNC and its central chemical laboratory. The LOA also provided for training, via the U.S. Department of Justice, to law enforcement personnel involved in counternarcotics activities.

Cultivation/Production. The DNC eradicated about 60,000 poppy plants and destroyed about 20 kg of poppy seeds in a single operation in early 2007. The DNC acknowledged that some small 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 reported 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. Customs officials seized 23.5 kg of low-quality heroin at Dhaka's international airport on November 12, 2007. Media reported that two Bangladeshis, bound for China and suspected of belonging to an international drug smuggling syndicate, were arrested after the heroin was found in their luggage. A month earlier, the RAB reported the seizure of three kg of heroin from the Sylhet village home of a Bangladeshi UK resident who was in country on vacation. The heroin, according to RAB, came through India to Bangladesh from an unknown location. Two years earlier, two smuggling cases of about 75 kg of heroin to the UK and the resulting investigations by the GOB 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). Law enforcement officials believe 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. 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. A 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 says it is the only organization that includes street children in its drug rehabilitation program.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG continues to support Bangladesh's counternarcotics efforts through various commodities and training assistance programs. With State Department narcotics assistance funds, the U.S. Drug Enforcement Administration held a training seminar in Bangladesh in June 2007. Thirty-one counternarcotics officers—including participants from the Bangladesh Rifles border security force, the police, customs and DNC—participated in training that covered topics from operational planning and undercover operations to proper evidence handling and report writing. The instruction included drug identification using test kits supplied by the DEA, and hands-on training in proper handcuffing techniques. The U.S. Agency for International Development provides about \$3 million annually to Family Health International to implement the Bangladesh AIDS Program, which includes working with intravenous drug users. DOJ efforts to improve the anti-money laundering and financial intelligence capabilities of the Bangladesh Bank support counternarcotics activities in the country.

The Road Ahead. The USG will continue to provide law enforcement and forensic training for GOB officials, much of which will be useful to Bangladesh's counternarcotics efforts. The U.S. Embassy in Dhaka has about \$52,000 available from previous years in narcotics assistance funds that it plans to provide to APON to improve its facilities for rehabilitation of female drug addicts. In late 2007, the U.S. Embassy also began distributing to local narcotics enforcement agencies hundreds of kits to test for marijuana, methamphetamines and opiates.

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. 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 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 GOI continually tightens licit opium diversion controls, but some licit opium is diverted into illicit markets. 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 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 in 2004/05, but are now down to 1,401 metric tons at the end of the 2006/07 crop year.

Licensed farmers are allowed to cultivate a maximum of 10 "ares" (one tenth of a hectare). "Opium years" straddle two calendar years. All farmers must deliver all the opium they produce to the government alone, meeting a minimum qualifying yield (MQY) that specifies the number of 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. 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, then comparing it with exact field measurements. Since licit poppy cultivation is not confined to an enclosed area, many of the farmers inter-crop 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 uprooted, and the cultivator is 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 2007, 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. This trend continued in 2006/2007, with a total of 5,913 hectares cultivated and 62,658 farmers under license. Much of this reduction took place in Uttar Pradesh, where CBN is in the process of phasing out opium cultivation. The estimated production for the 2006/07-crop year is 346 metric tons of opium.

Although there is no reliable estimate of diversion from India's licit opium industry, some diversion does take place. The GOI estimate is less than 10 percent of production. There is no evidence that significant quantities of opium or its derivatives diverted from India's fields reaches the U.S. In 2007, the GOI reports it seized 281 kg of licit opium, which had been diverted to illicit use.

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 by the government purchasing agents. 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.

Industrial processing of 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. 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 2007

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. After rising for several years, arrests and prosecutions declined under the NDPSA in 2007. However, the overall conviction rate continues to increase, reaching 50 percent in 2006 (9,921 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 and opium seizures increased from 2005 to 2006, both will reportedly decline in 2007. Seizure statistics for other drugs, such as cocaine, methaqualone and ephedrine, tend to fluctuate more dramatically as a result of larger single seizures. After several years of explosive growth, marijuana seizures are down (from 157,710 kg in 2006 to 60,123 kg in 2007), and hashish seizures have stabilized at between 3,000 and 4,000 kg per year.

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. That may help explain the lower seizure figures in all categories in 2007, as traffickers reacted to their year-earlier losses. In June 2006, 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. In August 2006, New Delhi Police seized 100 kg of ephedrine, 600 kg of Ketamine, and 4,400 kg of methaqualone in two separate operations. At least some of those drugs were in the process of being shipped to Canada using commercial express

mail services. In September 2006, 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.

In 2005, a joint investigation by the DEA and NCB 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 consisted of over 20 individuals in the U.S. and India, and 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, resulting in the arrest of seven individuals in the United States and five in India.

Subsequent joint investigations have shown the continuing use of the Internet and commercial courier services to distribute drugs and pharmaceuticals of all kinds from India to the U.S. and other countries. Although ephedrine seizures within India were down in 2007, one seizure in the U.S. in September 2007 found 523 kg of ephedrine shipped through commercial carrier from India through the U.S. and headed to Mexico. The shipment was disguised as green tea extract. 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 two years, 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. Although there have been fewer large seizures over the past year, the number of smaller seizures associated with couriers attempting to travel through India has increased.

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. Still, despite the efforts of the overwhelming majority of honest officials, the documented movement of narcotics and precursor chemicals to illicit uses in India is consistent with a certain level of official corruption.

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. India has contemporary mutual legal assistance and extradition treaties with the

U.S. The MLAT has been in force since October 2005 and the extradition treaty, the replacement for the 1931 US-UK treaty, has been in force since 1999. 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.

Cultivation/Production. The bulk of India's illicit poppy cultivation has traditionally been 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 poppies are often cultivated by tribal groups that consume the opium themselves, but there have been recent indications that cultivation there is becoming commercialized. The need to combat the many insurgencies in the Northeast states has limited the number of personnel available for such time-consuming, labor-intensive crop destruction campaigns. For those reasons, the GOI had not conducted any major poppy eradication campaign in the Northeast since 2000, when 200 hectares were destroyed. In early 2007, CBN launched a major operation in the Tirap District that resulted in the destruction of 800 hectares of opium poppy. Tirap is one of five districts of Arunachal Pradesh that border Burma and China and produce the bulk of illicit cultivation in the state.

Of greater concern was the discovery of more than 6,500 hectares of illicit opium cultivation in two districts of West Bengal (Murshidabad and Nadia). CBN and West Bengal police destroyed the crop in March, but the size of the area of cultivation raises concerns that local farmers have joined hands with larger, more organized drug syndicates, and that an effective law enforcement presence has been absent. Altogether, the Government of India reported that it destroyed 19,877 acres of illicit opium poppy plants in 2006/07, greatly exceeding that reported in previous years.

Another new trend that bears watching is the connection between illicit opium and marijuana cultivation and Maoist (Naxalite) insurgencies in other parts of the country. There are reports that insurgent groups in Jharkhand finance their operations through opium cultivation destined to be shipped for refining into heroin to laboratories in Uttar Pradesh that previously depended on diversion from the licit crop in that state for raw opium. Arrests in Andhra Pradesh indicate insurgents have sold marijuana to purchase arms.

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; 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; China is the other. Seizures of methaqualone, which is trafficked in both pill and bulk forms, have varied widely, from 472 kg in

2005 and 4,521 kg in 2006 to none so far in 2007. 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 is on the rise. While smoking “brown sugar” heroin and cannabis remain India’s principal drugs of abuse, intravenous drug use (IDU) of LOPPS is also present. 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 showing licit opiate abuse accounting 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 while the illicit supply chain delivers drugs varying wildly in purity, with the result of overdoses in some locations. 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. It also has treatment and rehabilitation programs in nearly 100 government-run hospitals and primary health centers.

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.-India extradition relationship is challenging. Extraditions from India are less successful given general protracted and inconclusive proceedings, given o extensive court filings and continuances. 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 has been underway since 2002. In 2006, India's NCB provided prompt and effective cooperation under the MLAT in connection with a narcotics prosecution in EDPA; other requests have been stalled, however. U.S. officials met with appropriate Indian counterparts in June 2007 to discuss implementation of the MLAT. The Department of Homeland Security through U.S. Customs and Border Protection has provided Targeting and Risk Management and International Air Cargo Interdiction Training.

The Road Ahead. The NCB's move to the Ministry of Home Affairs has enhanced the U.S. relationship with the Ministry and NCB. In recent years, DEA offered more courses to more law enforcement officials from a wider variety of state and central government law enforcement agencies than ever before. Other training included standard and advanced boarding officer training by the USCG. Our joint LOA 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. The USG also is supporting efforts 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

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

	2006/07	2005/06	2004/05
Hectares Licensed	6,269	7,252	7,901
Farmers Licensed	62,658	72,478	79,016
Hectares Harvested	5,913	6,976	7,833
Gum Yield (MT)	346	N/A	N/A
Opium Yield (kg/ha)	58.5	59.9	N/A

	2007/08 (Estimate)
Hectares Licensed	4,680
Farmers Licensed	N/A
Hectares Harvested	N/A
Gum yield (MT)	282
Opium Yield (kg/ha)	60.3

Opium prices paid to farmers in rupees (RS. 39 equals one USD). The price of opium for the 2007/08 crop year has yet to be declared by the GOI

	2006/7	2005/6	2004/5
44-54 kg/ha	800-1075	750-1075	756-1076
55-70 kg/ha	1100-1600	1100-1600	1102-1601
71-100+ kg/ha	1625-2200	1625-2200	1627-2205

Drug Seizures 2005-2007 (2007 statistics through October; 2006 figures revised)

	UNIT	2007	2006	2005
Opium	kg	1283	2826	2009
Morphine	kg	10	36	47
Heroin	kg	644	1162	981
Cannabis	kg	60,123	157,710	153,660
Hashish	kg	3,157	3,852	3,965
Cocaine	kg	4	206	4
Methaqualone	kg	0	4,521	472
Ephedrine	kg	5	1,276	8
Acetic Anhydride	kg	190	133	300
Amphetamine	kg	0	0	0

PERSONS	2007*	2006	2005
Arrested	9,729	20,688	19,746
Prosecuted	9,775	19,582	20,138
Convicted	6,133	9,921	9,074

*Through October

Nepal

I. Summary

Although Nepal is neither a significant producer of nor a major transit route for narcotic drugs, hashish, heroin and domestically produced cannabis are trafficked to and through Nepal every year. An increase in the number of Nepalese couriers apprehended by the police in 2007, suggests that Nepalese 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. Nepalese officials claim the end of the Maoist insurgency has slightly improved interdiction and monitoring efforts in previously inaccessible parts of the country. The Government of Nepal continues to push legislative efforts 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 Nepal, 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 porous border with India and through Kathmandu's international airport. Legal, 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.

Monitoring and interdiction efforts have improved since the official end in 2006 of the Maoist insurgency, which had obstructed rule-of-law and counter narcotic efforts in many parts of the country. The NDCLEU reports that the Maoists no longer levy a tax of 200 Nepali rupees per kg (approximately \$3.20 in 2007 U.S. dollars) on cannabis production.

III. Country Actions Against Drugs in 2007

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. The government is planning to amend the Act to incorporate provisions for psychotropic substances, demand reduction, treatment and rehabilitation.

In 2006, the Home Ministry updated the ten-year-old Narcotics Control National Policy. Noting the growing incidence of HIV infection among narcotics-using sex workers, abuse of narcotics and psychotropic medicines among youth, and illicit trafficking by organized mafia, the new 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 2006 policy called for the creation of a Narcotics Control Bureau in the Ministry of Home Affairs that would include the NDCLEU and a special Nepal Police Task Force trained in counter narcotics. As of November 2007, this Bureau has yet to be

made functional. In addition, the National Policy established 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. These entities exist and reportedly oversee all narcotics control programs, law enforcement activities, and legal reforms.

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 another 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 (UNODC) 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 tourists, the government has restricted the travel of several countries' nationals to Nepal. Citizens of Nigeria, Swaziland, Ghana, Zimbabwe, Iraq, Afghanistan, and residents of the Palestinian territories are unable to obtain visas on arrival. The Home Ministry and the NDCLEU reported that Nigerians in particular 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 limited human resources and inadequate technological equipment. Coordination and cooperation among NDCLEU and Nepal's customs and immigration services, while still problematic, are improving. Narcotics officials admit that the destruction of areas of illicit drugs cultivation is not as effective as it could be; however, final statistical data for 2006 indicate an improvement over 2005. In 2006, 328 hectares of cannabis cultivation were destroyed, compared to 121 hectares in 2005. In 2005, 4 hectares of opium cultivation were destroyed; data was unavailable for 2006. Nepal does not have a crop substitution program.

The NDCLEU reports that arrests and drug seizures increased in 2007. From January-September 2007, police arrested 78 foreigners (13 in Kathmandu) and 524 Nepalese citizens (115 in Kathmandu) on the basis of drug trafficking charges—as compared to all of 2006, when police arrested 46 foreigners and 473 Nepalese citizens. Local police made 80 percent of the arrests in 2007, while the NDCLEU accounted for the remaining 20 percent. In the same time period, the NDCLEU and local units reportedly seized 7,731 kg of cannabis—more than twice as much as the amount of cannabis seized in all of 2006 (3,624 kg). The NDCLEU also seized 15 kg of heroin from January-September 2007, comparable to the amount seized in all of 2006. Most of the seizures were of “brown sugar”—low quality heroin smuggled from India. Police made relatively few seizures of more expensive white heroin from Afghanistan. The NDCLEU further reported the seizure of 3,843 kg of hashish (2,517 kg in 2006) in Nepal from January-September 2007. Most seizures of heroin and hashish in 2007 occurred along the Nepal-Indian border, within Kathmandu, or at Tribhuvan International Airport (TIA) as passengers departed Nepal. The NDCLEU did not report seizures of opium for 2006 or 2007.

Corruption. Nepal has no laws specifically targeting narcotics-related corruption by government officials, although provisions in both the Narcotics Control Drug Act of 1976 and Nepal's anticorruption legislation can 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 1988 UN Drug Convention, the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic

Substances. Nepal has signed but has not yet ratified the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Cultivation/Production. Cannabis is an indigenous plant in Nepal, and cultivation of certain selected varieties is rising, particularly in the lowland region of the Tarai. 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 been no 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. As of November 2007, the government is still reviewing policies for the control and regulation of precursor chemicals for a proposed amendment to the Narcotics Drugs Control Act.

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 do occur at the India/Nepal border. Government officials report that 2007 saw considerable improvements in stemming drug flow and transit through Nepal and better border security compared to previous years. Nevertheless, the NDCLEU says customs and border controls are weak along Nepal's land borders with India and China, while the Indian border is essentially open. Security measures to interdict narcotics and contraband at TIA and at Nepal's regional airports with direct flights to India are 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. This also suggests that Nepal may be increasingly used as a transit point for destinations in South and East Asia, as well as in Europe-particularly 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, assistance from 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.

Bilateral Cooperation. The United States works with GON agencies 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. The United States will provide support to various parts of the legal establishment to combat corruption and improve rule of law, as well as support improvements in the Nepali customs service. The United States also will encourage the GON to enact stalled drug legislation.

Pakistan

I. Summary

Pakistan is on the frontline of the war against drugs as a major transit country for opiates and hashish from neighboring Afghanistan. In 2007, there was frequent conflict between militants and Pakistani forces near the border with Afghanistan, especially in the Federally Administered Tribal Areas (FATA) regions of North and South Waziristan, and increasingly in the settled areas of the Northwest Frontier Province. The imperative of combating militants in the FATA diverted resources and political attention away from Pakistan's goal of returning to a poppy-free status, and Pakistan saw an increase of poppy cultivation in 2007. Roughly 2,315 ha were cultivated in 2007 compared to cultivation of approximately 1,908 ha in 2006. Over 600 ha were eradicated, impressive under the circumstances, bringing harvested poppy down to 1,701 ha. A large opium processing lab in Baluchistan was destroyed by the ANF (Anti-Narcotics Force) in June 2006. The Government of Pakistan (GOP) maintains that no opiate laboratories have been detected operating in Pakistan. The number of drug addicts in Pakistan is estimated to be from two to three million.

GOP counternarcotics efforts are led by the Anti-Narcotics Force under the Ministry of Narcotics Control. The long-anticipated GOP five-year Master Drug Control Plan, due in early 2007, has not been approved or released to date by the ANF. This is a concern. The past year has seen major counternarcotics interdictions by the Frontier Corps Baluchistan and the Pakistan Coast Guards. Customs and Excise, the Maritime Security Agency, and the Home Departments of the Northwest Frontier Province (NWFP) and Baluchistan Province also are active in disrupting traffickers. Counternarcotics cooperation between the GOP and the United States has long been strong. U.S. assistance programs in counternarcotics and border security continue to strengthen the capacity of law enforcement agencies and improve their access to remote areas where much of the drug trafficking takes place, evidenced by 11 MT of heroin and 15 MT of opium seized in 2007. The 1931 US-UK extradition treaty is in force with respect to Pakistan; however, it is outmoded. Pakistan's Extradition Act is also in need of modernization. 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, with GOP authorities taking little action to resolve judicial delays. Pakistan is a party to the 1988 UN Drug Convention. The US-Pakistan Joint Working Group on law Enforcement and Counter-Terrorism has met four times; it is anticipated that the next meeting will occur in 2008. The JWG is chaired at the Ministerial level on the Pakistan side and Assistant Secretary-level on the U.S. side, and addresses the effectiveness of U.S. counternarcotics programs in Pakistan and other law enforcement cooperation.

II. Status of Country

The GOP is committed to regaining the poppy-free status it reached in 2001. Since then tensions between the GOP and Pakistan's tribal populations on the Afghan border have increased. Small cultivators in remote areas tried to exploit this tension by resuming poppy cultivation at levels not seen for a decade. Poppy cultivation went from 213 ha in 2001 to 7,571 ha in 2004. The GOP responded with forceful eradication campaigns, destroying 4,400 ha in 2004. Thus Pakistan reversed the trend in 2005 and 2006, reducing the poppy harvest (i.e., after eradication) to 1,549 ha by 2006. In the tribal belt where militant activity is a continuous threat, 2,315 ha were cultivated this year. Under these circumstances, and given the temptation to look the other way to win over these locals from extremism, the net harvest of only 1,701 ha, while a turn in the wrong direction clearly shows that the authorities are seriously committed to poppy eradication.

Opium production in neighboring Afghanistan is at an all-time high, particularly near the Pakistan border. Since poppy cultivation continues to rise in Afghanistan, Pakistan remains a significant

transit country of heroin, morphine, opium, and hashish, and is a conduit to Iran, the Arabian Peninsula, East Asia, and Africa by land and sea. The U.S.-funded Border Security Project, which began in 2002, is building GOP interdiction capabilities along the 1600-kilometer Afghan border, as demonstrated by drug seizures in 2007 by border security forces. However, successfully interdicting drug shipments is difficult given the vast terrain, the sheer number of smuggling routes, and the fact that smugglers are well armed and not afraid to engage GOP forces.

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. The 2006 UNODC survey estimates 628,000 opiate users in Pakistan. The UNODC survey reveals that the number of chronic heroin abusers has increased and that the numbers of injecting drug users has doubled in the last 6 years from 60,000 to 125,000, with alarming implications for Hepatitis and HIV infection rates.

Pakistan has established a chemical control program that closely monitors the importation of controlled chemicals used to manufacture narcotics. It is possible that significant quantities of diverted precursor chemicals transit Pakistan, but there is no indication that Pakistan is a source country for these precursor chemicals. The ANF and DEA are working to determine the routes and methods utilized by traffickers to smuggle chemicals through Pakistan into Afghanistan. Most Afghan labs are in Helmand province near the Baluchistan border or in Nangahar near the Khyber Agency in the NWFP. 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, to facilitate further investigation within Pakistan.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The ANF, in coordination with UNODC, continues to work on developing a five-year plan to interdict and eradicate narcotics in Pakistan. Publication of the national plan was anticipated in early 2007, and delay in its release is a concern. The goal of the plan is to identify prioritized strategies, agency responsibilities, and funding requirements for attacking drug supply and demand. The GOP also seeks to regain "poppy-free" status, which it had secured from the United Nations in 2001, by enforcing a strict "no tolerance" policy for cultivation. Federal and provincial authorities continue anti-poppy campaigns in both Baluchistan and NWFP, informing local and tribal leaders to observe the poppy ban or face forced eradication, fines, and arrests. Security concerns in the Khyber Agency, where the majority of Pakistani poppy continues to be harvested, prevented full realization of the GOP's goal to be "poppy-free" in 2006-2007.

ANF is the lead counternarcotics agency in Pakistan. Other law enforcement agencies have counternarcotics mandates, including the Frontier Corps Baluchistan (FCB) and Frontier Corps NWFP (FCN), the Pakistan Coast Guards, the Maritime Security Agency, the Frontier Constabulary (FCONS), the Rangers, Customs and Excise, the police, and the Airport Security Force (ASF). The GOP approved significant personnel expansions for the ANF, the FCB and FCN, and the FCONS in 2006 and 2007. The Pakistan Coast Guard has started using counternarcotics cells to better coordinate and execute counternarcotics operations.

Law Enforcement Efforts: In 2007, GOP law enforcement and security forces reported seizing 10.9 MT (MT) of heroin/morphine and 15.3 MT of opium. 93.8 MT of hashish was also seized in this time period.

According to the ANF, in 2007, all GOP law enforcement authorities reported arresting 50,100 individuals (48,724 cases) on drug-related charges for 2007. The ANF itself had 1,702 cases

pending, 1,187 from 2006 and 515 new cases through September 2007. Of that total there were 301 convictions through October 1, 2007. 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. To date 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.

Since many strong cases were reversed on appeal, in an effort to address those reversals, the ANF has hired its own special prosecutors. The ANF also added additional attorneys as part of its expansion. The DEA continues to advance the concept of conspiracy investigations (i.e., active planning with serious intent to commit a crime) with the ANF to target major traffickers. Through September 30, 2007, drug traffickers' assets totaling Rs 110.8 million rupees (about \$1.8 million USD) remained frozen.

In 2005, Prime Minister Shaukat Aziz approved 1,166 new positions for the ANF with the first group of 600 graduating in mid-2007. 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 Special Investigative Cell (SIC) to target major drug trafficking organizations operating in Pakistan. Each vetted investigator undergoes a thorough screening and a five week training course at the DEA training facility in Quantico.

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, it is not surprising that some narcotics-related corruption among government employees occurs. The National Accountability Bureau (NAB), a Pakistani agency tasked with investigation and prosecution of corruption cases (not only narcotics-related), reports that it received 13,722 complaints of corruption in 2006, of which it investigated 701 cases and completed 241 cases. The investigations resulted in 165 arrest warrants and 46 convictions. NAB recovered Rs.930 million rupees (almost \$15.5 million) from officials, politicians, and businessmen in 2006 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 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 between the U.S. and Pakistan, nor does Pakistan have a mutual legal assistance law and has not been helpful with U.S. requests. 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. The treaty, as well as Pakistan's Extradition Act are outmoded. 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. Obstacles to extradition include inexperience of GOP public prosecutors, the existence of an interminable appeals process that tolerates defense-delaying tactics, and corruption. There is a similar lack of action in responding to U.S. requests for mutual legal assistance. Pakistan is a party to the UN Convention against Corruption, and has signed, but has not yet ratified the UN Convention on Transnational Organized Crime.

Cultivation/Production: Through interagency ground monitoring and aerial surveys, the GOP and USG confirmed that Pakistan's poppy harvest increased by roughly 400 ha. In 2007, Pakistan cultivated 2,315 ha compared to cultivation of approximately 1,908 ha in 2006. The actual number of ha harvested only increased by around 200 ha to 1,701 due to a strong eradication effort. 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 42.5 MT in 2007.

Cultivation in the "non-traditional" areas in NWFP remained almost completely contained this year, with Kala Dhaka as the only trouble spot. The USG does not fund any application of aerially applied herbicides in Pakistan.

The NWFP Government struggled this year to contain and eradicate poppy in the FATA agencies where both the Pakistani Army and the FCN are combating an aggressive militancy with elements of al-Qaida. Both the FCN and FCB engage frequently with militants and have limited resources to combat poppy cultivation. In Khyber, eradication efforts are limited to the lower Barra river valley. The upper Barra poses the risk of armed confrontation with poppy growers and militants controlling the high ground. Politically, some officials are reluctant to enforce eradication efforts in some places because they might disrupt community acquiescence to counterterrorism operations. In addition, extensive efforts to combat militants mean that there are shortages of law enforcement forces to enforce eradication. Ground monitoring teams continue to observe, particularly in Khyber, a trend of increased cultivation within walled compounds to prevent eradication.

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 Iran, Western Europe, the Middle East, the Arabian Peninsula, Africa, and East Asia. The UNODC's Afghanistan Opium Survey 2007 notes that 193,000 ha of poppy were cultivated in 2007. This large increase in poppy cultivation in Afghanistan almost certainly means more opiates transiting Pakistan as well as the possibility of escalating domestic drug use in Pakistan. The GOP is alert to the possibility that law enforcement efforts in Afghanistan could push Drug Trafficking Organizations (DTOs) and labs into Pakistan. Many of the DTOs already have cells throughout Pakistan, predominantly in remote areas 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. But most of the heroin is smuggled through Pakistan to more lucrative markets in Iran, the Arabian peninsula, and onward to Europe, 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, Buprenorphine (an opiate adapted for use in the treatment of opiate addiction), 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 or carpets), 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 2007, 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, completed a drug use survey. The survey indicates that Pakistan has approximately two to three million drug addicts, with around 628,000 opiate abusers. The alarming trend from the survey is the near doubling of the number of injecting drug users to an estimated 125,000. The drug-users in the survey self reported that eight percent of them were HIV positive, 11 percent reported being infected with Hepatitis and 18 percent reported being infected with Tuberculosis. With the increased use of intravenous drug abuse these diseases have the potential to spread rapidly. 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 2007, 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 seminars for religious leaders in each provincial capital. The USG funds a 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 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 the RLA-Resident Legal Advisor, the United States is focusing on streamlining enforcement legislation, making it easier for the ANF and other law enforcement agencies to prosecute 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 lead counternarcotics agency in Pakistan, the United States also focuses on improving anti-smuggling 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, the USG has built and refurbished 64 Frontier Corps outposts in Baluchistan and NWFP, and another 62 Levy (tribal police force) and 11 Frontier Constabulary outposts in the NWFP. Another 39 new outposts are still under construction in NWFP and Baluchistan, for a total of 176 border facilities. Construction of 113 kilometers of roads in the border areas of the FATA is complete, and ongoing construction of 266 kilometers continues to open up remote areas to law enforcement. Since 1989, the State Department also has funded construction of more than 500 kilometers of counternarcotics program roads in previously inaccessible areas, facilitating farmer-to-market access for legitimate crops while providing authorities access for poppy eradication. The Department has implemented over 820 development projects to provide water and electricity to remote areas and to encourage alternative crops in Bajaur, Mohmand, and Khyber Agencies. An additional 4 projects are projected for completion by the end of 2007. Alternative crop programs were extended into Kala Dhaka and Kohistan in 2006, where this year seven kilometers of new road were completed and 45 kilometers are underway. 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 Ministry of Interior (MOI) Air Wing program provides significant benefits to counternarcotics efforts and also serves to advance counterterrorism objectives. DEA provides operational assistance and advice to ANF's Special Investigative Cell (SIC) to raise investigative standards. The Department of Defense began providing assistance to the Pakistan Coast Guards to improve the GOP's counternarcotics capabilities on the Makran Coast.

The USG-supported Border Security Project continues to make progress in strengthening security along Pakistan's Afghan border through training to professionalize border forces, provision of

vehicles and surveillance and communications equipment to enhance patrolling of the remote border areas, and support for the USG-assisted MOI Air Wing to enhance border surveillance and interdiction. In 2007, the nine Huey IIs of the Air Wing executed 186 operational missions. These included transporting law enforcement forces to raid suspected drug compounds and drug processing facilities, poppy surveys, casualty evacuations (casevacs) for personnel injured during FC and ANF operations, support for law enforcement agencies along the Afghan border, and border reconnaissance. The three fixed-wing Cessna Caravans, equipped with FLIR surveillance equipment, executed 132 operational missions, including surveillance, casevacs, 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 in 2008.

The Road Ahead. The centerpiece of USG assistance to Pakistan is a newly launched effort to support the Government of Pakistan’s FATA Sustainable Development Plan (SDP). The U.S. has launched a five-year, \$750 million FATA Development Strategy which features job creation, health, and educational services, institution building, infrastructural development, and measures for expanding the local economy. This supports the GOP’s nine-year \$2 billion dollar SDP. In addition, the U.S. is providing training and equipment to the Frontier Corps and Frontier Constabulary to improve security conditions in the FATA and NWFP. State INL’s historic role in supplanting a poppy-based economy in these peripheral areas with alternative development has been instrumental in shaping these plans. This local development also extends the writ of the government.

The USG has allocated \$17 million in 2007 to NAS to expand road and bridge building activity and programs to upgrade law enforcement institutions, such as the Frontier Corps, the Frontier Constabulary, and the FATA internal police force called Levies, recruited from the tribes in FATA. NAS will partner with the FATA Secretariat to provide training and commodities to the newly raised Levy Forces and managerial and capacity building support to the FATA Construction Unit. These initiatives will enhance security throughout the seven FATA Agencies, enabling USAID and other developmental plans to move forward.

The United States will continue to assist the GOP in its nation-wide efforts to eliminate poppy, to build capacity to its borders, to conduct investigations that dismantle drug trafficking organizations, to increase convictions and asset forfeitures, and to reduce demand for illicit drugs through enhanced prevention, intervention, and treatment programs. Implementation of these strategies will require GOP perseverance in strict enforcement of the poppy ban and eradication efforts, development of an indigenous drug intelligence capability, GOP interagency cooperation, more effective use of resources and training, and enhanced regional cooperation and information sharing.

V. Statistical Table

Drug Crop—Opium Poppy					
	2007	2006	2005	2004	2003
Cultivation	2,315 ha	1,908 ha	3,147 ha	6,600 - 7,500 ha	6,811 ha
Harvested	1,701 ha	1,545 ha	2,440 ha	3,145 ha	3,641 ha
Eradication	614 ha	363 ha	707 ha	4,426 ha	3,641 ha
Seizures heroin (including morphine base)	10.9 MT	35.3 MT	Jan-Nov - 24 MT	24.7 MT	34 MT
Seizures opium	15.3 MT	8 MT	Jan-Nov - 6.1 MT	2.5 MT	5.4 MT
Seizures hashish:	93.8 MT	110.5 MT	80 MT	136 MT	87.8 MT
Illicit Labs Destroyed:	No labs have been destroyed to date.				
Arrests (total persons)	50,100	Jan-Oct - 34,170	Jan-Nov - 33,932	49,186	46,346
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. We do not have reliable new estimates, but most experts believe that the number has grown. The recent 2006 UNODC survey estimated 628,000 chronic opiate 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. Government institutions coordinate closely with NGOs to address narcotics problems. In early 2005, the U.S. Government strengthened its relationship with Sri Lanka on counternarcotics issues by offering training for the Sri Lankan Police. Sri Lanka is a party to the 1988 UN Drug Convention.

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. At present, there is no legislation to control precursor chemicals. GSL officials continue to raise internal awareness of and vigilance against efforts by drug traffickers attempting to use Sri Lanka as a transit point for illicit drug smuggling. Domestically, officials are addressing a modest upsurge in domestic consumption, consisting of heroin, cannabis, and increasingly, “Ecstasy.”

III. Country Actions against Drugs in 2007

Policy Initiatives. Sri Lanka has made progress in implementing its counternarcotics strategy, first developed in 1994. The GSL remains committed to ongoing efforts to curb illicit drug use and trafficking. The lead agency for counternarcotics efforts is the Police Narcotics Bureau (PNB), headquartered in the capital city of Colombo. No new PNB officers were recruited in 2007; however, the PNB recruited more officers in 2006, resulting in increased investigations and interdictions. The National Dangerous Drugs Control Board (NDDCB) assists PNB in an advisory capacity. In early 2006, a special court was established to assure speedy trials in drug cases. In 2006, the President of Sri Lanka initiated a three-year “End to Drugs” program which continued throughout 2007. Under this initiative, law enforcement authorities are intensifying educational and awareness efforts against drug abuse, and the GSL is providing assistance to non-governmental organizations that provide counseling and rehabilitation to drug addicts. In October 2007, the Parliament passed two narcotics-related bills: a bill putting into effect the UN and South Asian Association for Regional Cooperation (SAARC) Conventions against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, and a Drug Dependent Persons (Treatment and Rehabilitation) Bill.

Accomplishments. The PNB, the Excise Department, and Sri Lanka Customs worked closely to target cannabis producers and dealers, resulting in several successful arrests. The PNB was an active partner for the U.S., taking full advantage of U.S.-sponsored training for criminal investigative techniques and case management practices.

Sri Lanka continued to work with the SAARC and the United Nations Office of Drugs and Crime (UNODC) on regional narcotics issues. GSL officials maintain regular contact with counterparts in India and Pakistan, the origin countries for most illicit drugs in Sri Lanka. The SAARC Drug Offences Monitoring Desk (SDOMD) is co-located within Colombo’s PNB. Counternarcotics officials based in India and Pakistan regularly share information with the SDOMD, though other SAARC countries reportedly do not maintain regular contact. In 2007, PNB launched a quarterly newsletter based on this shared information.

Law Enforcement Efforts. PNB continued to cooperate closely with the Customs Service, the Excise Department, and the Sri Lankan Police to curtail illicit drug supplies in and moving through the country. As a result of these efforts, in 2006 GSL officials arrested 12,551 persons on charges of using or dealing in heroin and over 34,728 persons on cannabis charges. Police seized a total of 65.4 kg of heroin, with one major haul yielding 15.4 kg. Police also seized 18,219 kg of cannabis in 2006. PNB did not make any Ecstasy-related arrests in 2006.

PNB has one sub-unit at 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. Financial constraints and the ongoing ethnic conflict have delayed plans to establish additional PNB sub-stations.

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, launched in 2004, continued operations through 2007. 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 over 15 kg of heroin in Mannar. He is currently in remand prison awaiting his court hearing.

Agreements and Treaties. Sri Lanka is a party to the 1988 UN Drug Convention and a 1990 SAARC Convention on Narcotic Drugs and Psychotropic Substances, regional agreement among South Asian states. In October 2007, Parliament passed implementing legislation for both conventions. 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 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 is a party to the UN Convention against Transnational Organized Crime and 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 estimated land area under cannabis cultivation is 500 hectares. 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. A resurgence in fighting in and near the northwestern coastal waters has recently limited transportation of heroin by sea. As a result, traffickers have increased their use of air routes. 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), a policy organization that advises law enforcement authorities, has established task forces in regional provinces 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. The security situation has prevented the NDDCB from establishing task forces in those in the Northern and Eastern provinces. The GSL continued its support to local NGOs conducting demand reduction and drug awareness campaigns. During 2006, the GSL and NGOs treated 2,738 people for drug abuse. 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. PNB has observed UNODC's International Day against Drug Abuse and Illicit Trafficking since 1990 and has instituted an annual drug awareness week in June.

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 seminars and scheduling training for colleagues of the original trainees at academies and stations throughout the island. U.S. government officials, primarily DEA, conducted narcotics officer training for local counterparts at a seminar organized by the host government.

The Road Ahead. The U.S. government will maintain its commitment to aid the Sri Lankan police in its transition to a community-focused force with additional assistance for training and dialogue between U.S. counternarcotics agencies and Sri Lankan counterparts. The U.S. 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. Domestically, Australian government policies are designed to address fully both the law enforcement needs and the demand reduction sides of the equation. Australian law enforcement agencies work closely with their U.S. counterparts in Australia and the United States, and have a robust and growing law enforcement liaison structure in numerous overseas posts where they also work closely with U.S. counterparts.

II. Status Of Country

Cannabis remains the most abused drug in Australia but law enforcement and health officials continue to be concerned about the increased use of crystal methamphetamine and cocaine. The trend towards the use of crystal methamphetamine ('ice') is of particular concern to Australian law enforcement, given its destructive effect on users and the public. Law enforcement agencies throughout Australia continue to seize greater amounts of methamphetamine precursor chemicals and have shut down sophisticated clandestine laboratories with increased frequency. MDMA (Ecstasy) is still very prevalent in the major cities throughout Australia, although a recent study indicates use may be falling. Large shipments of MDMA have been seized entering Australia from Europe and Asia, and law enforcement officials continue to encounter sophisticated MDMA production laboratories in the Sydney and Melbourne areas. Cocaine use also appears to be increasing throughout Australia. The number of cocaine seizures has increased, with a majority of the seizures involving couriers and smaller amounts, but there have also been large shipments seized from Canada, Hong Kong and Chile. Cocaine remains the drug of choice in Australia for the affluent due to the high price (US\$277/gram to US\$92-115,000/kilogram). But its use has been increasing across all socio-economic levels. Australian media are describing crystal methamphetamine as the "new heroin," a reference to the heroin abuse "epidemic" which swept through Australia in the late 1990's and early 2000's. The heroin "epidemic" resulted in a significant increase in heroin overdoses and deaths. A variety of factors contributed to a subsequent decrease in heroin availability and many heroin users began utilizing other drugs. Of note, a recent annual drugs survey reported this downward trend in heroin may not be continuing as many abusers of crystal methamphetamine may be switching back to heroin due to the government's high profile campaign against crystal methamphetamine.

III. Country Actions Against Drugs In 2007

Policy Initiatives. In an effort to address the increase in the numbers and sophistication of clandestine synthetic drug laboratories, changes in legislation have limited the availability of pseudoephedrine, a precursor chemical for methamphetamine. All products containing pseudoephedrine are now stored behind the pharmacy counters, and products with high concentrations of pseudoephedrine also require a doctor's prescription. In response to this legislation, many organized crime groups have undertaken large scale smuggling of ephedrine and pseudoephedrine products from locations throughout Asia, and most recently Africa. Australian law enforcement officials seize large illicit shipments of pseudoephedrine on a regular basis. With the view that stable governments in the regions are less likely to be utilized by drug trafficking groups in establishing drug production facilities, the Australian Government has strengthened the Australian Federal Police (AFP) capacity to respond to international crises, particularly within the region. The AFP's International Deployment Group (IDG) has been increased by about 400

personnel, taking the total to 1200. This has been the largest single increase in AFP staff since the force was established in 1979. The extra resources will allow the IDG to establish a 150 member-strong Operational Response Group that is ready to respond at short notice to emerging law and order issues in the region and to undertake stabilization operations. The AFP's international network currently has 86 officers located in 31 posts in 26 countries worldwide. Many of these posts have close working relationships with area DEA Country Offices.

Law Enforcement Efforts. Responsibility for counternarcotics efforts is divided among the Federal Government, primarily the AFP, the Australian Customs Service (ACS), the Australian Crime Commission (ACC), and the Therapeutic Goods Administration (TGA), in addition to state/territorial police services. Australia also has a large and growing international deployment of AFP overseas liaison officers focusing on transnational crime, including international drug trafficking. Australian law enforcement has made it a priority to identify and dismantle clandestine laboratories whose numbers appear to have stabilized after several years of drastic increases. In the period of July 2006/2007, a total of 333 clandestine labs were seized in Australia. For the period of July 2005/2006, there were 390 clandestine labs seized, and in 2004/2005, 381 clandestine labs seized. Although a majority of the seized laboratories are unsophisticated, small capacity operations, there has been an increase in the number of sophisticated methamphetamine/crystal methamphetamine "superlabs" seized throughout the country. Law enforcement authorities continue to report the seizure of large-scale active and inactive MDMA labs in the country. For July 2006/2007, 17 MDMA labs were seized, up from 7 MDMA labs seized during the July 2005/2006 period. During the 2005/2006 period, some of the MDMA clandestine labs were 'superlabs'.

Corruption. Australian federal agencies rarely are implicated in corruption and misconduct. The Australian Crime Commission (ACC), the Australian Federal Police (AFP), the internal affairs sections of State Police departments and legislative-established commissions actively investigate and pursue corruption or misconduct charges. Generally, investigations involving public corruption are reported by the media. As a matter of policy, the Government of Australia (GOA) 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. Likewise, no senior official of the federal government is known to engage in, encourage or facilitate such illicit production, or to launder proceeds of illegal drug transactions, to post's knowledge.

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. In addition, Australia is a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime and the UN Corruption Convention. Australia also is actively involved in many international organizations that investigate drug trafficking. Australia acts as co-chair of the Asia-Pacific Group on money laundering, is a member of the Financial Action Task Force, INTERPOL, the Heads of Narcotics Law Enforcement Association (HONLEA), the International Narcotics Control Board, the South Pacific Chiefs of Police, the International Drug Enforcement Conference (IDEC) and the Customs Cooperation Council among others.

Cultivation/Production. The licit cultivation and processing of opium poppies in Australia is strictly confined to the Australian state of Tasmania. Tasmania is considered one of the world's most efficient producers of poppies with the highest yield per hectare of any opiate producing country. With an annual average licit opium production of approximately 2.5 tons per hectare, Tasmania supplies around one half of the world's legal medicinal opiate market. The Australian poppy industry utilizes the Concentrated Poppy Straw process, which processes the dry poppy plant material 'poppy straw' for use in the production of codeine and thebaine. The Australian

Federal Government and the Tasmanian State Government share responsibility for control of the poppy industry. During the growing and harvesting season, crops are regularly monitored by the Poppy Advisory and Control Board field officers and any illegal activity is investigated by the Tasmania Police Poppy Task Force. The export to the U.S. of Australia's narcotic raw material (NRM) is regulated by the '80/20 rule' which reserves 80 percent of the NRM market to traditional suppliers (India and Turkey) while the remaining 20 percent is shared by non-traditional suppliers (Australia, France, Hungary, Poland and currently, Former Yugoslavia). There were approximately 1000 poppy growing licenses granted for the 2006/2007 growing season in which 13,000 hectares were under poppy cultivation. Domestically produced marijuana (cannabis) continues to be Australia's most abused illicit drug. Cannabis cultivation and distribution is not dominated by any group and appears to be organized on an individual basis. Sophisticated hydroponic cultivation sites of various sizes have been seized throughout the country. Use of hydroponic grow sites continues to be the preferred method of the more advanced marijuana trafficking organizations. There is still no evidence indicating any large exportation of Australian produced marijuana, but there have been instances of small amounts of Australian-produced hydroponic marijuana being transported to Asian nations for use by expatriate communities in those countries.

Drug Flow/Transit. The U.S. Embassy in Canberra continues to receive information indicating MDMA traffickers may be utilizing Australia as a transit point for MDMA shipments to other parts of the world. These reports remain unconfirmed, but the situation continues to be monitored closely by both the DEA and Australian law enforcement organizations.

Domestic Programs/Demand Reduction. The availability of treatment services for drug users remains an integral part of Australia's National Drug Strategy. There is a wide range of treatment options available throughout Australia, including detoxification, therapeutic communities, residential facilities, outpatient treatment, day programs, and self-help groups. As part of the "Tough on Drug Strategy" launched in 1997, the Australian government has committed substantial resources to reducing the demand for illicit drugs throughout the country. This strategy, coupled with the activities of state/territorial agencies and non-governmental organizations, is aimed at reducing the demand for all types of drugs throughout the country. In 2001, the New South Wales government approved a heroin injection room in the Kings Cross area of Sydney. The Commonwealth of Australia government has opposed the operation of these injection rooms and is pursuing alternative harm reduction methods. To date, this safe injection room remains in operation.

IV. U.S. Policy Initiatives and Programs

Bilateral and Multilateral Cooperation. The United States undertakes a broad and vigorous program of counternarcotics activities in Australia, enjoying close working relationships with Australian counterparts at the policy making and working levels. There is an active collaboration in investigating, disrupting, and dismantling international illicit drug trafficking organizations. The United States and Australia cooperate under the terms of a Memorandum of Understanding that outlines these objectives. U.S. and Australian law enforcement agencies also have agreements in place concerning the conduct of bilateral investigations and the exchange of intelligence information on narcotics traffickers. Both sides continue to pursue closer relations, primarily in the area of information sharing.

The Road Ahead. Australia continues to take a leadership position in the international fight against drug trafficking in its domestic, regional and worldwide activities. The expanded Operational Response Group allows them to have greater participation in regional law and order activities and stabilization efforts. Strong bilateral relations between Australia and the U.S. on counternarcotics issues are confidently expected to continue.

Burma

I. Summary

Burma took many wrong turns in 2007, including in the war on drugs. Both UNODC and U.S. surveys of opium poppy cultivation indicated a significant increase in cultivation and potential production in 2007, while production and export of synthetic drugs (amphetamine-type stimulants, crystal methamphetamine and Ketamine) from Burma continued unabated. The significant downward trend in poppy cultivation observed in Burma since 1998 halted in 2007, with increased cultivation reported in Eastern, Northern and Southern Shan State and Kachin State. Whether this represents a sustained reversal in poppy cultivation in Burma, which remains far below levels of 10 years earlier, remains to be seen. It does indicate, however, that increases in the value of opium are driving poppy cultivation into new regions. An increased number of households in Burma were involved in opium cultivation in 2007. While Burma remains the second largest opium poppy grower in the world after Afghanistan, its share of world opium poppy cultivation fell from 55 percent in 1998 to 5 percent in 2006, and rose slightly in 2007. This large proportional decrease is due to both decreased opium poppy cultivation in Burma and increased cultivation in Afghanistan. The Golden Triangle region in Southeast Asia no longer reigns as the world's largest opium poppy cultivating region; that dubious honor is now held by Afghanistan.

Despite increased cultivation in 2007, Burma's opium cultivation declined dramatically between 1998 and 2006. The UN Office on Drugs and Crime (UNODC) estimates a decrease from 130,300 ha (ha) in 1998 to 21,500 ha in 2006, an 83 percent decrease. Cultivation in 2007 increased 29 percent, from 21,500 ha in 2006 to 27,700 ha. The most significant decline over the past decade 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 and 2007. However, there are indications that cultivation has increased in regions closely bordering UWSA Region 2.

Burma has not provided most opium farmers with access to alternative development opportunities. Recent trends indicate that some opium farmers were tempted to increase production to take advantage of higher prices generated by opium's relative scarcity and continuing strong demand. Increased yields in new and remaining poppy fields (particularly in Southern Shan State), spurred by favorable weather conditions in 2007 and improved cultivation practices, have partially offset the affects of decreased cultivation. Higher yields in some areas may also signal more sophisticated criminal activity, greater cross border networking, and the transfer of new and improved cultivation technologies.

Burma's overall decline in poppy cultivation since 1998 has been accompanied by a sharp increase in the production and export of synthetic drugs, turning the Golden Triangle into a new "Ice Triangle." Burma is a significant player in the manufacture and regional trafficking 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 beyond the region. There are also indications that groups in Burma have increased the production and trafficking of crystal methamphetamine or "Ice"—a much higher purity and more potent form of methamphetamine than the tablets.

Through its Central Committee for Drug Abuse Control (CCDAC), the Government of Burma (GOB) cooperates regularly and shares information with the U.S. Drug Enforcement Administration (DEA) and Australian Federal Police (AFP) on narcotics investigations. In recent years, the GOB has also increased its law enforcement cooperation with Thai, Chinese and Indian counternarcotics authorities, especially through renditions, deportations, and extraditions of suspected drug traffickers.

During the 2007 drug certification process, the U.S. determined that Burma was one of only two countries in the world that had “failed demonstrably” to meet its international counternarcotics obligations. Major concerns remain: unsatisfactory efforts by Burma to deal with the burgeoning ATS production and trafficking problem; failure to take concerted 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 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 and 2006, especially in Wa territory. However, in 2007, a significant resurgence of cultivation occurred, particularly in eastern and southern Shan State and Kachin State, where increased cultivation, favorable weather conditions, and new cultivation practices increased opium production levels, led to an estimated 29 percent increase in overall opium poppy cultivation and a 46 percent increase in potential production of dry opium.

According to the UNODC, opium prices in the Golden Triangle have increased in recent years, although prices in Burma remain much lower than the rest of the region due to easier supply. Burmese village-level opium prices or *farm-gate* prices increased from \$153 per kg in 2004 to \$187 in 2005, to \$230 in 2006 and to \$265 per kg in 2007. Burmese opium sales contribute about half of the annual household cash income of farmers who cultivate opium, which they use to pay for food between harvests. Forty-five percent of the average yearly income (\$501) of opium cultivating households in Shan State was derived from opium sales in 2007.

In 2007, the UNODC opium yield survey estimated there were approximately 27,700 ha planted with opium poppies, with an average yield of 16.6 kg per hectare (significantly higher than the 2006 average yield of 14.6 kg per hectare). [Independent U.S. opium poppy cultivation surveys also indicated increased poppy cultivation and estimated opium production to approximately 27,700 ha cultivated and 270 metric tons (MT) produced]. The UNODC’s opium yield survey concluded that cultivation had increased 29 percent in Burma from 2006 levels, with a 46 percent increase in potential production to 460 MT. This represented a 67 percent increase in the total potential value of opium production in Burma, from \$72 million in 2006 to \$120 million in 2007. Nonetheless, both surveys indicated that opium production is still down 90 percent from its peak production in 1996.

The general decline in poppy cultivation in Burma since 1996 has been accompanied by a sharp increase in the local production and export of synthetic drugs. According to GOB figures for 2007, [the GOB seized approximately 1.5 million methamphetamine tablets, compared to 19.5 million seized in 2006. 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 them limited autonomy and continued tolerance of their 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 and 2007, according to UNODC and U.S. surveys, there are indications from many sources that Wa leaders replaced opium cultivation with the manufacture and trafficking of ATS pills and “Ice” in their territory, working in close collaboration with ethnic Chinese drug gangs.

Although the government has not succeeded in persuading the UWSA to stop its illicit drug production and trafficking, the GOB’s Anti-Narcotic Task Forces continued to pressure Wa traffickers in 2007. UWSA also undertook limited enforcement actions against rivals in Shan State in 2006 and 2007. In May 2006, UWSA units found and dismantled two clandestine laboratories operating in territory occupied and controlled by the UWSA-South in Eastern Shan State. 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 remained 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 1.27 percent of the total adult population in Eastern Shan State to 0.97 percent in Kachin State and an estimated 0.83 percent in the Wa region, the main area of opium production until 2006.

III. Country Actions Against Drugs in 2007

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 entire region to be drug-free by 2015. To meet this goal, the GOB initiated its 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 in areas receiving focused attention, due to the availability of some alternative livelihood measures (including crop substitution), the discovery and closure of clandestine refineries, stronger interdiction of illicit traffic, and annual poppy eradication programs. The UNODC estimates that the GOB eradicated 3,598 ha of opium poppy during the 2007 opium poppy cropping season (ranging between July-March in most regions), compared to 3,970 ha in 2006.

The most significant multilateral effort in support of Burma’s counternarcotics efforts is the UNODC presence in 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 through 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 Japan and Germany, with additional contributions from the UK and Australia. The U.S. previously funded the UNODC Wa project, but halted funding over death threats issued by UWSA leadership against U.S. DEA agents following the January 2005 indictment of seven UWSA leaders in a U.S. district court for their role in producing and smuggling heroin to the U.S.

Law Enforcement Measures. The CCDAC, which leads all drug-enforcement efforts in Burma, is comprised of personnel from the national police, customs, military intelligence, and army. The CCDAC, under the control of the Ministry of Home Affairs, coordinates 27 anti-narcotics task

forces throughout Burma. Most are 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 from a severe lack of adequate funding, equipment, and training to support its law-enforcement mission. The Burmese Army and Customs Department support the Police in this role.

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. In 2007, Thailand assigned an officer from the Office of Narcotics Control Board (ONCB) to its mission in Rangoon. Burma-China cross border law enforcement cooperation has increased significantly, resulting in several successful operations and the handover of several Chinese fugitives who had fled to Burma. While not formally funding alternative development programs, the Chinese government has actively encouraged investment in many projects in the Wa area and other border regions, particularly in commercial enterprises such as tea plantations, rubber plantations, and pig farms. China has assisted in marketing those products in China through lower duties and taxes. There are also indications that China conducted its own opium cultivation and production surveys in 2007 in regions of Burma bordering the PRC, although they have not shared data resulting from those surveys with other parties.

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 bi-annual basis, the last being held September 11, 2004, in Calcutta.

The GOB has to date taken no direct action against any of the seven UWSA leaders indicted by U.S. federal court in January 2005, although authorities have taken action against other, lower ranking members of the UWSA syndicate. In 2007, one of the indicted leaders, Pao Yu-hua, died of natural causes and another indicted leader, Ho Chun-t'ing, was captured by Hong Kong Police. Another notorious Burmese drug lord, Khun Sa, who was held under house arrest in Rangoon following his surrender to the GOB in December 1996, died from natural causes in October 2007.

Narcotics Seizures. Summary statistics provided by Burmese drug officials indicate that through September 2007, Burmese police, army, and the Customs Service together seized 1154 kg of raw opium, 354 kg of low quality opium, 73 kg of heroin, 91 kg of marijuana, approximately 1.5 million methamphetamine tablets, 455 kg of methamphetamine powder, 395 kg of methamphetamine ICE, 238 kg of ephedrine, 3,116 kg of powdered precursor chemicals, and 8,723 liters of precursor chemicals.

On January 19, 2007, based on DEA and AFP information, the Lashio CCDAC ANTF dismantled a heroin refinery in the Man Lin Hills near Lashio, Shan State. This operation resulted in the arrest of two defendants and the seizure of approximately 20.3 kg of heroin, 20.3 kg of brown opium, 1.02 kg of opium residue, 1,100 kg of ammonium chloride, 770 kg of sodium chloride, 1,470 liters of ether, 438 liters of hydrochloric acid, 183 liters of chloroform, and various equipment used in the refining of heroin.

On February 14, 2007, based on DEA and AFP information, the Muse CCDAC ANTF dismantled a heroin refinery near Khar Li Khu Village, Mong Ko Township, Burma. This operation resulted in the arrest of 7 individuals, and the seizure of 7 kg of brown opium, 89 kg of ephedrine, 22.75 liters of mineral spirit, 3 kg of sodium hydroxide, 2 liters of hydrochloric acid, 183 liters of chloroform, and various equipment used in the refining of heroin.

On April 21, 2007, the Tachilek ANTF seized a total of approximately 264,000 methamphetamine tablets.

On April 23, 2007, based on DEA and AFP information, CCDAC ANTF seized 224.3 kg of opium, 300 grams of heroin, opium seeds, 7.1 million kyat (approximately \$6,000), and 50,000 Chinese Yuan (approximately \$6,250) in Pan Se, Nam Kham Township, Burma.

During a May 26, 2007 raid on a heroin refinery in Kokang region, the Muse ANTF captured a Kachin Defense Army (KDA) major. Returning from the refinery, ANTF was ambushed by approximately 60-armed individuals. In the ensuing firefight, the KDA major was rescued and the opposing force escaped with the drugs and money seized at the refinery. Four ANTF officers were killed and two were wounded. The attackers were identified as KDA and were believed to be primarily interested in recovering the KDA major.

On June 7, 2007, based on DEA information, the Taunggyi ANTF seized 195.2 kg of opium from three locations and dismantled a heroin refinery.

Corruption. Burma does not have a legislature or effective constitution; and has no laws on record specifically related to corruption. While there is little evidence that senior officials in the Burmese Government are directly involved in the drug trade, there are credible indications that mid-and-lower level military leaders and government officials, particularly those posted in border and drug producing areas, are closely involved in facilitating the drug trade. The Burmese regime closely monitors travel, communications and activities of its citizens to maintain its pervasive control of the population, so it strains credibility to believe that government officials are not aware of the cultivation, production and trafficking of illegal narcotics in areas it tightly controls. A few officials have been prosecuted for drug abuse and/or narcotics-related corruption. 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 as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Burma is a party to the UN Convention against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in persons, and has signed but has not ratified the UN Corruption Convention.

Cultivation and Production. According to the UNODC opium yield estimate, in 2007 the total land area under poppy cultivation was 27,700 ha, a 29 percent increase from the previous year. The UNODC also estimated that the potential production of opium increased by 46 percent, from 315 MT in 2006 to 460 MT in 2007. The significant increase in potential opium production in 2007 indicated in the UNODC estimates reflect improved agricultural methods and an end to several years of drought, resulting in more favorable growing weather in major opium poppy growing areas, such as Shan State and Kachin State.

Burma as yet has failed to establish any reliable mechanism for the measurement of ATS production. Moreover, while the UNODC undertakes annual estimates of poppy cultivation and production, the U.S. has been unable to conduct its annual joint crop survey with Burma since 2004 due to the GOB's refusal to cooperate in this important area.

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 inside the ethnic Chinese Kokang autonomous region. Ethnic Chinese criminal gangs dominate the drug syndicates operating in all three of these areas. Heroin and methamphetamine produced by these groups is trafficked overland and via the Mekong River, primarily through China, Thailand, India and Laos and, to a lesser extent, via Bangladesh,

and within Burma. There are credible indications that drug traffickers are increasingly using maritime routes from ports in southern Burma to reach trans-shipment points and markets in southern Thailand, Malaysia, Indonesia, and beyond. Heroin seizures in 2005, 2006 and 2007 and subsequent investigations also 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 be able to support a drug habit. Traditionally, some farmers used opium as a painkiller and an anti-depressant, in part because they lack access to other medicine or adequate healthcare. 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. According to several HIV Estimation Workshops conducted in 2007 by the National AIDS Program and the World Health Organization, there are an estimated 60,000 to 90,000 injecting drug users in Burma. Surveys conducted by UNODC and other organizations suggest that the addict population could be as high as 300,000. According to the UNODC, Burma's opium addiction rate is high, at 0.75 percent. 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; there are surely more now..

The growing HIV/AIDS epidemic has been tied to intravenous drug use. According to the National AIDS Program, one third of officially reported HIV/AIDS cases are attributable to intravenous drug use, one of the highest rates in the world. Information gathered by the National AIDS Program showed that HIV prevalence among injecting drug users was 46.2 percent in 2006 – a figure that remained stable in 2007. 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 any 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 70,000 addicts over the past decade. Prior to 2006, the Ministry of Health treated heroin addicts with tincture of opium. However, based on high levels of relapse, the Ministry of Health in 2006 began to treat heroin addicts with Methadone Maintenance Therapy (MMT) in four drug treatment centers, found in Rangoon, Mandalay, Lashio, and Myitkyina. The Ministry of Health also began dispensing methadone treatment in three additional sites, two in Kachin State and one in Rangoon. By August 2007, the Ministry of Health had treated more than 370 patients using MMT.

As a pilot model, in 2003 UNODC established community-based treatment programs in Northern Shan State as an alternative to official GOB treatment centers. UNODC expanded this program, opening centers in Kachin State. In 2007, UNODC operated 16 drop-in centers. Since 2004, more 2,000 addicts received treatment at UNODC centers. In 2006 and 2007, 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), 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, which had a budget of \$98.5 million to fight AIDS, TB, and Malaria in Burma, withdrew in 2005. In 2006, foreign donors established the 3 Diseases Fund (3DF) to provide humanitarian assistance for AIDS, TB, and malaria. The 3DF, with its budget of \$100 million over five years, supports the work of local and international NGOs, the United Nations, and the Ministry of Health. In 2007, the 3DF supported HIV/AIDS programs such as HIV surveillance and training on blood safety. The 3DF also provided funds for antiretroviral therapy and the MMT program.

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 has limited engagement with the Burmese government in regard to narcotics control. U.S. 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 and 2007, these joint investigations led to several 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. In 2005, 2006 and again in 2007, the GOB refused to allow another joint opium yield survey. A USG remote sensing estimate conducted indicated a slight increase in opium cultivation in 2007 and a significant increase in potential opium production, mirroring UNODC survey results. 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 must reverse the negative direction of narcotics production in 2007 to restore the significant gains it made over the past decade in reducing opium poppy cultivation and opium production. This will require greater cooperation with UNODC and major regional partners, particularly China and Thailand. Large-scale and long-term international aid—including increased development assistance and law-enforcement aid—could play a major role in reducing drug production and trafficking in Burma. However, the ruling military regime remains reluctant to engage in political dialogue within Burma and with the international community. Its barriers to those offering outside assistance have limited the potential for international support of all kinds, including support for Burma's counternarcotics 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 and effective law enforcement, with alternative development options, support for former poppy farmers and openness to outside assistance. The GOB must foster closer cooperation with the ethnic groups involved in drug production and trafficking, especially the Wa, refuse to condone continued involvement by ceasefire groups in the narcotics trade, tackle corruption effectively, and enforce its counternarcotics laws more consistently to reach its goals of eradicating all narcotics production and trafficking by 2014.

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; 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. 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 domestic demand for heroin and ATS.

Cambodia

I. Summary

With the recent discovery of a major methamphetamine laboratory, Cambodia now has a confirmed role in illegal drug production, consumption, and trafficking. In recent years, crackdowns on drug trafficking in Thailand and China have pushed traffickers to use other routes, including through Cambodia by land, river, sea, and air. Drug use, particularly of amphetamine-type stimulants (ATS), cuts across socio-economic lines. Recent efforts to improve Cambodia's counternarcotics performance include: effective law enforcement responses to the methamphetamine lab, a highly successful lab clean up effort, significant increases to the budget of the National Authority for Combating Drugs (NACD), and stiffening penalties for drug use and trafficking. However, continuing concerns about corruption, lack of capacity, and continuing low counternarcotics funding levels—even with the new budget increase—hamper government efforts. The NACD and the Anti-Drug Police cooperate closely with the U.S. Drug Enforcement Administration (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

The April 2007 discovery of a major methamphetamine production lab in Cambodia confirmed suspicions that in recent years the country's narcotics problem has grown from transit and consumption to production as well. Many experts believe that additional clandestine labs are operating in the country. Mobile groups harvest *dysoxylum loureiri* trees in environmentally protected areas in the Cardamom Mountains and extract safrole oil. The harvest, sale, and export of safrole oil—which can be used as a precursor for Ecstasy production as well as for other purposes, such as perfume or massage oil—is illegal in Cambodia. In October 2007, Thai authorities intercepted a 50-ton shipment of safrole oil which had originated in Cambodia and was reportedly destined for the U.S. and China.

ATS and heroin enter Cambodia primarily through the areas bordering Laos, Thailand, and Vietnam in the northern provinces of Stung Treng, Preah Vihear, and Ratanakiri.. Small shipments of heroin and ATS enter and exit Cambodia overland. Larger shipments of heroin, methamphetamine and marijuana are thought to exit Cambodia concealed in shipping containers, speedboats, and ocean-going vessels. Drugs, including cocaine and heroin, are also smuggled on commercial flights concealed in small briefcases, shoes, and on/in the bodies of individual travelers. Some cannabis cultivation continues despite a government eradication campaign.

ATS is the most prevalent narcotic in Cambodia, accounting for nearly 80 percent of drug use according to the NACD. Both ATS tablets, known locally as yama, and crystal methamphetamine are widely available. Heroin use is a significant problem among a relatively small number of users, three-quarters of whom are in Phnom Penh according to NACD statistics. Cocaine, Ketamine, and opium are also available in Cambodia. Glue sniffing is also a large problem, particularly among street children.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Cambodian narcotics policy and law enforcement agencies suffer from limited resources, lack of training, and poor coordination. Under new leadership and with a 55 percent budget increase in 2007, the NACD has made strides in becoming a more effective organization. A UNODC project slated to run from 2008-2010 aims to build capacity at the NACD through

structural and functional reform, managerial and technical capacity building, and a stronger national drug control network.

The NACD is implementing Cambodia's first 5-year national plan on narcotics control (2006-2010), which focuses on demand reduction, supply reduction, drug law enforcement, and expansion of international cooperation.

Over the past few years, the Cambodian government has worked to strengthen previously weak legal penalties for drug-related offenses. A new drug law, drafted with help from the Anti-Drug Police and passed in 2005, provides for a maximum penalty of \$25,000 (100,000,000 riel) fine and life imprisonment for drug traffickers, and allows proceeds from the sale of seized assets to be used towards law enforcement, and drug awareness and prevention efforts. However, some observers have noted that the law is too complex for the relatively weak Cambodian judiciary to use effectively. In July 2007, the Ministry of Health issued a directive increasing penalties for safrole oil production and distribution to two to five years in jail plus fines.

Law Enforcement Efforts. In general, drug-related arrests and seizures declined in 2007, although big cases such as the April superlab raid and the August bust of a tableting facility by military police show increasingly credible law enforcement action. According to NACD reports, 229 people were arrested for various drug-related offenses in the first nine months of 2007, compared to 439 in the first nine months of 2006. Similarly, total seizures of methamphetamine pills declined 13 percent and heroin seized declined 25 percent. After several years of increasing arrests and seizures, it is difficult to determine if lower levels in this time frame are part of a new trend in trafficking or law enforcement capability, or merely a statistical variation.

On April 1, 2007, police raided a methamphetamine lab in Kampong Speu province, arresting 18 suspects including 14 Cambodians, three Chinese and one Thai national, and seizing nearly six tons of drug-making chemicals. Two additional Cambodian suspects were later arrested. The laboratory was capable only of the first stage of methamphetamine manufacture, producing the intermediate product chloroephedrine. This lab, the first uncovered in Cambodia, was among the largest discovered in Southeast Asia to date.

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, 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, circumstances which raise questions about corruption.

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 due to government pressure were not prosecuted. In August 2007, Oum Chhay, a tycoon and political advisor who was charged with involvement in the Kampong Speu superlab, died in police custody. The police maintain that he committed suicide by jumping out a window. Some observers allege that he was murdered, noting with suspicion that he was being supervised by three guards at the time of his death, and that the fall was from a second-story window in which he landed on his back. 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 2007, had still not completed the law. A government committee was in the process of reviewing possible models in Singapore and Hong Kong. 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 signed the UN Convention against Corruption in September 2007 and the convention is pending ratification by the National Assembly.

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. The National Assembly ratified the 1972 UN Protocol amending the 1961 Single Convention in September 2007 and the King signed it into law the following month. 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-related arrests, eradication and seizures have declined dramatically over the past several years. In 2007, there was an up tick in eradication, with 1,075 square meters of cannabis plantations destroyed in the first nine months, compared to 144 square meters destroyed during the full year 2006. Four people were arrested for cannabis cultivation and/or trafficking between January and September 2007.

Drug Flow/Transit. Crackdowns on drug trafficking in Thailand and China have pushed traffickers to use other routes, including routes through Cambodia. Heroin and ATS enter Cambodia by both primary and secondary roads and rivers across the northern border, transit through Cambodia via road or river networks, and enter Thailand and Vietnam. Effective law enforcement of the border region with Laos on the Mekong River, which is permeated with islands, 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. Heroin, cannabis, and 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. An October 2006 circular from the Prime Minister called for law enforcement agencies to carry out security checks, including x-ray and other screening, at airports. However, according to the NACD, these checks are still conducted by contract employees of the airport concessionaire because the government lacks the funding to buy the required equipment. Some illegal narcotics transit these airports en route to foreign destinations. On February 15, 2007, a Taiwanese national was arrested at Phnom Penh International Airport with five condoms containing 265 grams of heroin strapped to his lower abdomen. On October 14, 2007, another Taiwanese national was arrested at Phnom Penh International Airport with 800 grams of heroin in his pockets.

Domestic Programs (Demand Reduction). With the assistance of USAID, UNODC, UNICEF, WHO, the Japanese International Cooperation Agency (JICA), and several 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, will work to increase the capacity of health and human services to deal effectively with drug treatment issues, beginning by conducting an in-depth baseline study of drug use in 2008. Several local NGOs, including Mith Samlanh and Korsang, have taken active roles in helping to rehabilitate drug users.

The Cambodian government recently launched a major initiative to establish additional drug treatment facilities. A 2006 circular from the Prime Minister directed each province to establish residential drug treatment centers. As of October 2007, there were ten government-run treatment centers, with additional centers under construction. A joint NACD/Ministry of Health assessment of these centers, conducted during January and February 2007, documented serious shortcomings. The centers could not conduct proper physical and psychological intake assessments, lacked trained medical staff, did not gain consent from patients over the age of 18, and failed to provide follow-up services or refer patients to organizations that can provide those services. While proven drug rehabilitation techniques include individual and group counseling, cognitive behavioral therapy, relapse prevention, and vocational training, the government facilities rely on confinement, military-style drills, exercise, and discipline to rehabilitate their patients. In addition to the government-run centers, Mith Samlanh operates a small residential rehabilitation program which offers medically-supervised detoxification, individual and group counseling, and referral into Mith Samlanh's extensive network of vocational training and other services.

During the first nine months of 2007, 727 drug users and addicts were admitted to the government-run centers and 89 had received such drug detoxification and rehabilitation services through Mith Samlanh. While estimates of the number of drug users in Cambodia vary widely—from the official 2007 NACD figure of 5,773 to a 2004 UNAIDS estimate of 40,000 with a 5 percent annual growth rate—it is clear that the need for drug treatment services far outstrips the available supply.

Cambodia is also implementing harm reduction programs for the first time. In 2004, the NACD granted permission to the Mith Samlanh to begin a needle exchange program in Phnom Penh. Korsang now also runs a needle exchange program as well. NACD and the World Health Organization are working to develop a pilot methadone maintenance program, which will likely be implemented at the Khmer-Soviet Friendship Hospital in partnership with Korsang, starting in late 2008.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. While Cambodia has moved beyond its recent turbulent political history to a period of relative political stability, the country is still 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 is the loss of many of Cambodia's 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 human capacity limitations. Even with the active support of the international community, there will be continuing gaps in performance for the foreseeable future.

Bilateral Cooperation. The recent lifting of U.S. congressional restrictions on direct assistance to the Cambodian government has given the U.S. government increased flexibility in partnering with Cambodia in battling narcotics. The Defense Department's Joint Interagency Task Force-West (JIATF-West) conducted two training missions in Cambodia in 2007 and renovated a military classroom and barracks in Sisophon. In February and March, U.S. Army personnel led training in basic land navigation, patrolling, reconnaissance, and respecting human rights in the line of duty in Battambang. In June 2007, U.S. Navy personnel instructed Cambodian military personnel in Phnom Penh in small boat maintenance.

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 three 2-week sessions during 2007, trainers from the U.S.-based drug treatment organization Daytop International provided training in residential drug treatment techniques to government officials, NGO workers, monks, military and police officials. This training, funded by the State Department's Bureau of International Narcotics and Law Enforcement (INL), was the first comprehensive training on residential drug treatment ever held in the country.

The U.S. and Cambodia worked closely together in the aftermath of the discovery of the Kampong Speu methamphetamine lab. Bangkok-based DEA agents traveled to the site immediately after the discovery to assist in the investigation, and a team of DEA forensic chemists and precursors specialists traveled from the U.S. and other countries to analyze the laboratory. Working through the UNODC, INL provided \$140,000 for the clean up effort, the largest monetary contribution by any country.

Drug use among populations targeted for HIV prevention is a growing concern as needle sharing is the most efficient means of transmitting HIV. USAID HIV/AIDS programs work with populations at high risk of contracting HIV, including sex workers and their clients, homosexual men, and drug users. These groups are not mutually exclusive as many sex workers also use and inject drugs. Prevention programs targeting high risk populations aim to reduce illicit drug use and risky sexual practices.

The Road Ahead. Cambodia is making progress toward more effective law enforcement against narcotics trafficking; however, its capacity to implement a satisfactory, systematic approach to counternarcotics operations remains low. Instruction for mid-level Cambodian 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.

With congressional restrictions on direct assistance to the Cambodian government lifted, the U.S. and Cambodia are working together to transfer some excess soldier and unit equipment from the U.S. (such as uniforms, boots, first aid pouches, compasses, cots, and tents) for use by Cambodian Army border battalions. Such equipment will help increase the Cambodian military's ability to conduct patrols along the borders. The JIATF-West training events in FY08 will consist of one event at the newly renovated Sisophon site and another event in Preah Vihear. JIATF-West will continue their training infrastructure renovation project, which will both facilitate future JIATF-West training and also build the capacity of Cambodian law enforcement and military authorities. State INL funding for FY08 will be used to support and strengthen Cambodia's narcotics interdiction capabilities. The U.S. is encouraged that Cambodia has recently signed the UN Convention against Corruption and will continue to press the government to adopt anti-corruption legislation.

China

I. Summary

The People's Republic of China is a major drug transit country to regional drug consumers in neighboring parts of Asia as well as for international drug markets (though not the U.S.). China continues to have a domestic heroin consumption problem along with an upsurge in the consumption of synthetic drugs such as Ecstasy and crystal methamphetamine, known as "ice." Chinese authorities view drug trafficking and abuse as a major threat to China's 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. China is a party to the 1988 UN Drug Convention.

II. Status of Country

Mainland China is situated adjacent to major narcotics producing areas in Asia, Southeast Asia's Golden Triangle, Southwest Asia's Golden Crescent, and Northeast Asia's Golden Azalea (North Korea). Burma continues to be the major source of opiates entering China. While the Golden Triangle area has been a longstanding problem, Chinese officials note that the Golden Crescent is the source of increasing amounts of heroin trafficked into Western China, particularly Xinjiang Province. China's 97-kilometer border with Afghanistan is remote, but Chinese authorities are increasingly concerned that opiates from Afghanistan can find their way into China through other countries in South and Central Asia. Quantities of heroin and methamphetamine produced in North Korea continue to find their way into China's northeastern provinces that border North Korea. Beijing claims that there are no heroin refineries in China. However, China is a major producer of licit ephedrine and pseudoephedrine which when diverted from licit uses can be used in the manufacture of methamphetamine. There is a widespread belief among law enforcement agencies, worldwide, that large-scale illicit methamphetamine producers in other countries use Chinese-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 enacted enhanced precursor chemical control laws in November 2005 and is fully engaged in multilateral and bilateral efforts to stop diversion from its chemical production sector, Chinese efforts have not matched the size of its enormous chemical industry with sufficient resources to effectively ensure against diversion.

Statistics on drug usage within China are contradictory. The National Narcotics Control Commission (NNCC) recently claimed that the number of drug users had declined. However, data from non-government sources indicate that drug abuse continues to grow at a moderate rate. 2006 NNCC statistics claim there are over 1,160,000 registered drug users in China, but some officials acknowledge the actual number of addicts is most likely much higher, and there have been published reports that China might have as many as 15 million drug abusers. Government reports indicate that 78.3 percent (700,000 people) of all registered drug addicts are heroin users. Youth between the ages of 17-35 comprise the largest percentage of registered addicts (59.3 percent), fueled largely by a dramatic increase in the disposable income of urban youth. Although the per capita reported HIV/AIDS rate in China is relatively low at 0.08 percent or 1 case in every 1,300 citizens, nevertheless, the government reported that 70.8 percent of all confirmed HIV/AIDS cases were intravenous heroin 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.

Ecstasy's popularity is increasing among the young in nightclubs and karaoke bars along China's wealthy east coast, particularly in Beijing, Shanghai, Nanjing, Guangzhou, and Shenzhen. According to the Beijing University National Surveillance Center on Drug Abuse (BUNSC), nearly 23 percent of drug abusers get their drugs at entertainment sites. In Beijing, nine entertainment venues were recently found to be selling drugs and shut down. With a very large, widely scattered, and developed chemical industry, China is one of the world's largest producers of precursor chemicals, including acetic anhydride, potassium permanganate, piperonylmethylketone, pseudoephedrine, ephedrine, and ephedra. China produces and 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 U.S. and other concerned countries in implementing a system of pre-export notification of dual-use precursor chemicals. China tries to strictly regulate the import and export of precursor chemicals. According to NNCC, Chinese authorities investigated 968 cases involving precursor chemicals in 2006 and seized 1460.88 tons of precursor chemicals, a significant increase over the 157 tons reported seized in 2005. In 2006 the NNCC issued 747 precursor chemical pre-export notifications involving 89,318 tons of precursor chemicals. Nevertheless, diverted precursor chemicals from China are a major source for methamphetamine production around the world, and most observers believe that China is also the source for precursor chemicals in Golden Triangle heroin production as well.

III. Country Actions Against Drugs in 2007

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 third year 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 June 2004, MPS Bureau of Narcotics Control (BNC) implemented a nationwide drug-related information gathering, sharing, and storing network allowing data comparison alerts, and improved overall coordination in counternarcotics operations. 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. According to China's State Food and Drug Administration (SFDA), the government is currently reviewing a new law, the Narcotics Control Law of China, regarding ephedrine and pseudoephedrine preparations and expects to approve it in 2007. In June 2007 MPS Minister and NNCC Director Zhou Yongkang announced China would intensify its war against drugs and called for reinforced efforts to fight heroin and curb the spread of new types of drugs. The People's Procurate and the Supreme Court have improved legal standards for cases involving new types of drugs. 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. China continues to participate in United Nations Office of Drug Control (UNODC) demand reduction and crop substitution efforts in areas along China's southern borders and has worked closely with Burma to implement an alternative crops program. In May 2006 the State Council authorized a 250 million RMB fund (approx. \$32.5

million) for crop substitution projects in Northern Burma and Laos. Nevertheless, according to the NNCC's 2006 report, Burma remains the major source of opium entering China. China continues to build on the counternarcotics MOUs with Laos, Cambodia, Thailand, Vietnam, Burma, and the UNODC and regularly hosts and/or participates in conferences and bilateral meetings. With UNODC support, NNCC conducted ongoing training in 2006 in cross-border drug enforcement cooperation, amphetamine type stimulant (ATS) data collection, and combating ATS crimes in Southern China. China participates in counternarcotics education programs sponsored by the International Law Enforcement Academy (ILEA), located in Bangkok, Thailand, and has provided training to neighboring countries. Chinese law enforcement agencies also participate in DEA sponsored professional exchanges. China has several anti-narcotics and transnational crime agreements with Shanghai Cooperation Organization (SCO) member countries in Central Asia.

Law Enforcement Efforts. The Chinese Government continues its aggressive counternarcotics campaign. In China, three agencies have primary responsibility for controlling the licit/illicit drug markets: the Ministry of Public Security (MPS), the State Food and Drug Administration (SFDA), and the General Administration of Customs (GAC). All three are part of the National Narcotics Control Commission (NNCC) that forms drug policy in China similar to the Office of National Drug Control Policy (ONDCP) in the U.S. In 2006, 58 drug smuggling investigations involving Golden Crescent heroin resulted in the arrest of 110 suspects and the seizure of 106.4 kg of heroin. Southwest Asian heroin seizures continued to increase in the first half of 2007. China Customs Anti-Smuggling Bureau (ASB) reported the arrests of 180 suspects and the seizure of 229 kg of suspected Afghan heroin between January 1 and June 15, 2007. To curb the growing Golden Crescent heroin threat specifically, Chinese authorities have stepped up border and airport checks in Guandong, Beijing, Shanghai, and Xinjiang. Overall, China invested RMB 110 million (U.S. \$13.75 million) in 2006 to improve the counternarcotics system in police, border, railway, aviation, customs, and postal departments nationwide. In the first half of 2007, police seized 1.8 tons of heroin, down 43 percent over the same period last year; 244 kg of opium, down 68 percent; 2.8 tons of methamphetamine, down 9 percent. However, police seized 3.6 million methamphetamine tablets, a 283 percent increase over the same period last year, and 1.9 tons of ketamine, up 42 percent.

According to the 2007 Annual Report on Drug Control in China, Chinese authorities were involved in 46,300 drug-related cases and apprehended 56,200 suspects in 2006. China seized 5.79 tons of heroin (a 16 percent decrease from 2005), 1.69 tons of opium (a 26.8 percent decrease from 2005), 454,000 Ecstasy tablets (an 80 percent decrease from 2005), 1.79 tons of ketamine (a 32 percent decrease from 2005), and 5.95 tons of methamphetamine (an 8 percent increase from 2005.) In 2006, the NNCC investigated 968 cases involving precursor chemicals and seized 1460.88 tons of precursor chemicals, a huge increase over the 157 tons seized in 2005.

NNCC regards 2007 as a transition year, when drug use moves further away from traditional to synthetic drugs. However, because almost 80 percent of China's drug addicts use heroin, the Golden Triangle and Golden Crescent will remain areas of serious concern for China. In 2006, in cooperation with Laos, Burma, Thailand, and the Philippines, Chinese authorities carried out an operation and captured and extradited 37 Chinese nationals living outside of China who were wanted as suspected leaders of drug trafficking rings, according to the Ministry of Public Security.

On a case-by-case basis, MPS provides DEA with strategic and operational intelligence which is used to target international drug rings. MPS has allowed DEA to interview witnesses in China and has allowed DEA to jointly conduct other investigative activity to help identify drug rings. In addition, MPS helps to facilitate the travel of U.S. law enforcement personnel, based at the U.S. Embassy in Beijing. DEA received several drug samples from MPS and Customs for analysis. DEA provided Chinese law enforcement counterparts with lead information that assisted in the development of an ongoing enforcement operation, "Operation Vulture Hunting," to target the

flows of Southwest Asian heroin into China. During the first three months of the operation there were 81 arrests and the seizure of approximately 80 kg of heroin. In January 2007, a joint operation among China, Canada, and the U.S. resulted in the seizure of approximately 25 kg of cocaine in New York and the arrests of one defendant in Canada and six defendants in China. The Chinese Government also successfully conducted joint counternarcotics operations with neighboring countries. According to the NNCC, China and Pakistan have strengthened counternarcotics cooperation, to include information-sharing and joint operations. Philippines, Hong Kong, Guangdong, and Beijing Police counterparts worked together to break up an international “ice” making and trafficking gang headed by a Fujian Province native. In June 2007, Chinese and Vietnamese police jointly destroyed 381 kg of narcotics including heroin, ketamine powder, and Ecstasy pills at Pingxiang Friendship Pass.

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. The government reported that it investigated more than 32,000 persons in 2005 for alleged corruption and more than half were found guilty. Most of the investigations involved people accused of taking bribes, dereliction of duty, or gambling. There were more cases involving higher level officials accused of taking bribes and embezzlement than in past years. One case involved the former Medicine Registration Division Director of the State Food and Drug Administration, Cao Wenzhuang, who was executed for accepting RMB 2.4 million (U.S. \$320,000) in bribes.

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 anti-corruption dialogue with the U.S. through the U.S.-China Joint Liaison Group on Law Enforcement Cooperation (JLG). Narcotics-related corruption does not appear to have adversely affected ongoing law enforcement cases in which U.S. 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 has used its legal assistance channels with foreign countries to capture 70 people overseas suspected of corruption. According to MPS, of these, 37 corrupt officials were repatriated to the Chinese mainland in 2006 from Hong Kong, Macao and 11 countries, including the U.S. and Canada.

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, the 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 Convention on Psychotropic Substances, the UN Convention against Corruption and the UN Convention against Transnational Organized Crime. The U.S. and China cooperate in law enforcement efforts under a mutual legal assistance agreement signed in 2000 and which entered into force in March 2001. In January 2003, the U.S. and China reached agreement on a Customs Mutual Assistance Agreement (CMAA.). In February 2005, NNCC and DEA signed a memorandum of intent to establish a bilateral drug intelligence working group (BDIWG) to

enhance cooperation and the exchange of information. In July 2006 ONDCP and NNCC signed a Memorandum of Intent to increase cooperation in combating drug trafficking and abuse.

China cooperates with international chemical control initiatives in Operation Purple and accounts for 70 percent of the worldwide seizures of potassium permanganate that have been made under that operation. China also participates in Operation Topaz, an intergovernmental operation to detect and prevent precursor chemicals used for the illicit manufacture of heroin, and Project Prism, targeting synthetic drug chemicals. China continued its participation in the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD).

Cultivation/Production. China has eliminated 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. Due to China's effective law enforcement, opium poppies are only grown in small quantities by ethnic minority groups for local consumption. Chinese officials state that there are no heroin refineries in China. Coca is not cultivated 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 ephedrine, licit synthetic pseudoephedrine, and ephedra products. China has a large pharmaceutical industry and these products all have legitimate medicinal use, but they can also be used in the production of ATS. The Chinese central government, supplemented by stricter controls in critical provinces such as Yunnan and Zhejiang, makes efforts to control exports of these key precursors. 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 Chinese-made chemicals that have been diverted is almost commonplace in law enforcement investigations around the world. Chinese authorities continued to seize clandestine methamphetamine laboratories. In the past, the majority of the labs were discovered and/or seized in the southern provinces of Fujian and Guangdong, although recently there have been laboratories seized in northeast China, specifically Shenyang and Liaoning Province.

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. Chinese authorities report that the majority of heroin produced in Burma travels via China to the international market. 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. Transshipment of drugs through Yunnan and Guangxi to Guangdong for storage, distribution, or repackaging has been especially widespread. Smaller amounts of heroin are also coming from Laos, Vietnam, and other Southeast Asian countries. Traffickers continue to use Guangzhou, Shenzhen, and Zhuhai in Guangdong Province as transit and transshipment points for heroin and crystal methamphetamine leaving China. In addition, Xiamen and Fuzhou in Fujian Province have also recently become major exit points. Between January 2006 and March 2007, Guangzhou seized 415.5 kg of heroin and arrested 510 suspects (309 of which were not Chinese) for attempted narcotics smuggling on commercial airlines. Chinese counternarcotics police have strengthened their efforts in Guangdong in 2006, disabling 17 foreign drug-trafficking gangs and capturing more than 30 foreign drug dealers. Chinese authorities acknowledge that Western China is experiencing significant problems as well. They report that drugs such as opium and heroin are being smuggled into Xinjiang Province for distribution throughout China. They are 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, specifically from Afghanistan. They have seen an increase in the number of Afghan heroin seizures in western China. MPS and DEA report that Pakistan serves as a key trafficking route for heroin from

Afghanistan into China. In 2006, Pakistan arrested 54 couriers from airports in Lahore, Islamabad, and Peshawar destined for China. They seized an average of 0.75 kg of Golden Crescent heroin from each courier.

Domestic Programs (Demand Reduction). The most recent MPS statistics indicate there are over 1,160,000 registered drug users in China, but officials acknowledge the actual number of addicts is higher, with some published reports indicating there may be as many as 15 million drug abusers. Government reports indicate that 78.3 percent (700,000 people) of all registered drug addicts are heroin users. Youth between the ages of 17-35 comprise the largest percentage of addicts. Although the per capita reported HIV/AIDS rate in China is relatively low at 0.08 percent or 1 case in every 1,300 citizens. The government reported that 70.8 percent of all confirmed HIV/AIDS cases were intravenous heroin addicts. In addition to the standard reform through labor camps, the government is using media campaigns, the establishment of drug-free communities, compulsory drug rehab treatment, and voluntary rehab centers to reduce drug demand. Gansu Province assigned 2000 drug control officers to communities and villages and set up 30,000 after-care groups covering 96,000 drug users. NNCC and MPS set up an online drug users' database to improve monitoring and information sharing across agencies. According to NNCC figures, 269,000 drug addicts underwent compulsory drug rehabilitation, 71,000 drug addicts were re-educated through labor, and 36,000 drug addicts underwent community rehabilitation. As part of its National People's War on Illicit Drugs, China takes a multi-agency approach to educating people about drug prevention. China Central Television (CCTV) produced 80 special programs on drug control, and other Chinese news media published more than 4500 stories on drug control. CCTV held a Drug Control Publicity Week featuring in-depth reports on drug control and an eight-hour special on the People's War on Drugs. There was extensive coverage of a successful China-Philippine joint counternarcotics investigation. The Ministry of Education held special classes in middle and primary schools on drug prevention. Guizhou Province conducted special training courses on new-type drugs for owners and managers in 16,000 entertainment locations. A 30-part TV play, "Borderless Operation," addressed the fight against transnational drug organizations. NNCC produced a drug control fairy tale, "Escaping Terrorist Island," published a mini novel, "Behind the Heaven," and composed a popular song, "Let Life Be More Splendid", all dealing with counternarcotics themes. Two well known movie stars, Liu Yuanyuan and Tao Hong, became counternarcotics spokespersons, performing in public awareness messages airing on TV and radio. Shanghai distributed 2.4 million booklets to families, and Guangdong set up 1000 village-level drug control education bases.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Counternarcotics cooperation between China and the U.S. continues to develop. Chinese authorities are working with the U.S. on a number of ongoing investigations and initiatives, including use of precursors in the production in China of steroids and human growth hormones that are subsequently illegally exported to the U.S. DEA hosted the second annual bilateral drug intelligence working group (BDIWG) in June 2006 at DEA Headquarters and discussed ways to enhance strategic and investigative cooperation. China also has police liaison officers posted in several countries around the world, including the U.S. The 2005 Memorandum of Intent between DEA and MPS in February 2005 has led to a steady improvement in U.S.-China efforts to combat drug trafficking.

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, 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 improve over the coming year.

Hong Kong

I. Summary

Hong Kong is not a major transshipment point for illicit drugs destined for the international market, however can be seen as a transit point as some drugs flow through because it is a major shipping hub. Hong Kong is not a major transshipment point for drugs because of its efficient law enforcement efforts, the availability of alternate 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 Country

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 transshipment point has diminished due to law enforcement efforts and the availability of alternate routes in southern China and a diminished demand for Southeast Asian heroin in North America. 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. The 56th edition of the Hong Kong Central Registry of Drug Abuse for 2006, with a comparison of the first halves of 2006 and 2007, reported that the total number of reported drug abusers in recent years continued to decline from 18,513 persons in 2001 to 13,204 in 2006.

Though heroin is traditionally the most commonly abused drug in Hong Kong, the number of heroin abusers has been declining for years. In 2006, there were 8,101 (or 61.7 percent of drug abusers) reported heroin users. There was a general rising trend in the abuse of psychotropic substances as a whole between 1997 and 2006. The number of psychotropic substance abusers reached a record high of 7,368 in 2006. Among psychotropic substances, the more commonly abused types include Ketamine (23.2 percent of drug abusers), triazolam/midazolam/zopiclone (16.9 percent), MDMA/Ecstasy (11.6 percent), cannabis (7.4 percent), crystal methamphetamine (6.5 percent), and cough medicine (5.7 percent). The comparison of the first half of 2006 to that of 2007 showed a decrease in heroin abusers from 5,211 to 4,788, but an increase in psychotropic drug abusers from 4,054 to 4,410 with Ketamine being abused by almost half (approximately 2,150) of the abusers.

In 2006, the Hong Kong Government 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. Country Actions Against Drugs in 2007

Policy Initiatives. Although there were no major policy changes in 2006 and 2007, 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 2007, the Hong Kong Police continued id checks on entertainment premises in order to deter young people from visiting venues where drugs are more easily available.

The 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. Due to an effective chemical tracking program, in March 2007, a significant chemical trafficker was identified as suspected of involvement in diverting large quantities of precursor chemicals to illicit uses through use of his licit pharmaceutical business. This individual had amassed over US\$207 million dollars in cash which was seized. A related investigation by the HKCED and U.S. DEA identified bank accounts in Hong Kong totaling over US\$10.1 million dollars being maintained by this same individual.

Corruption. The HKSAR government strongly opposes illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, and the laundering of proceeds from illegal drug transactions. 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. Upon resuming the exercise of sovereignty over Hong Kong, China advised the UN Secretary General that the 1961 Single Convention and the 1972 protocol, the Convention on Psychotropic Substances, and the 1988 UN Drug Convention apply to Hong Kong. Also, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption apply to Hong Kong. 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 and with Ireland in 2007 to bring the total number of countries with which Hong Kong has such agreements or treaties to 17, including the U.S. Hong Kong has also signed transfer of sentenced persons' agreements with eight countries, including the U.S. In 2007 Hong Kong signed a mutual legal assistance agreement with Finland.

Hong Kong law enforcement agencies enjoy a close and cooperative working relationship with their mainland counterparts and counterparts in many countries. Hong Kong law enforcement agents cooperated with Japan to seize HK\$18 million (apx. US\$2.3 million) in drug proceeds and charge one person with money laundering. A joint investigation with New Zealand authorities resulted in two arrests for money laundering and HK\$10.3 million (apx. US\$1.3 million) seized.

Last year Hong Kong's Joint Financial Intelligence Unit (JFIU) entered into Memoranda of Understanding in respect to intelligence sharing with the financial intelligence units of Australia, Korea, Japan, Singapore and Canada. In the ten years since Hong Kong returned to Chinese control, liaison information sharing and data-networking functions between Hong Kong and Chinese authorities, such as customs information, have been formalized and have successfully increased the levels of inter-system cooperation and efficiency. Training has also become an important element of cooperation between U.S. and Hong Kong law enforcement counterparts. In September 2007, the U.S. DEA and Hong Kong Customs Drug Investigation Bureau (CDIB) hosted a joint training workshop, which focused on enhancing the investigative and tactical capabilities of investigators in drug interdiction operations. The training workshop stressed the continued open exchange of information and increased international cooperation between the two participating agencies.

Hong Kong participates in Project Prism and Operation Cohesion, both managed by the International Narcotics Control Board, to control the illegal diversion of chemical precursors. Hong Kong also participates in joint tracking programs, which allow Hong Kong Customs and the U.S. Drug Enforcement Agency to target the movement of precursor chemical shipments exported from, transshipped or transiting via Hong Kong to high-risk countries. In addition to the monitoring of controlled chemical precursors, Hong Kong monitors the movement of ephedra, a raw material for the manufacture of ephedrine. The 1988 UN Drug Convention, 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention Against Psychotropic Substances are 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 significant producer of illicit drugs.

Drug Flow/Transit. Some drugs continue to flow through Hong Kong for the overseas market, to destinations including Australia, China, Japan, Taiwan, Europe, and the United States. In July 2007, based on an aggressive container profiling program, the HKCED seized 160 kilograms of cocaine which was concealed within containerized cargo believed to be destined for European markets. The container was transiting through Hong Kong in order to disguise its origin. Traffickers use land routes through mainland China to smuggle heroin into Hong Kong. In 2007, Hong Kong Customs authorities arrested 14 Thai nationals at Hong Kong International Airport attempting to smuggle heroin into Mainland China.

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 and out of 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 cargo, 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 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. Trafficking destined for mainland China by Southeast Asians continues to be prominent.

Domestic Programs. The Hong Kong Government uses a five-pronged approach to confront domestic drug problems, including legislation and law enforcement; preventive education and publicity; treatment and rehabilitation; research; and external cooperation. 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 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. The Hong Kong Government also implemented a public awareness campaign to educate the public about the harmful effects of Ketamine and Ecstasy, the two most commonly abused drugs among youth. A HKG-sponsored Hip Hop Dance and Music Competition encourages youth to participate in healthy activities and reinforces a healthy drug-free lifestyle. The Hong Kong Government also launched a new drug education kit to disseminate counternarcotics messages in schools and publicizes the consequences of cross-boundary drug abuse.

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 100,000 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 counternarcotics education programs in local schools and conducting counternarcotics seminars with parents, teachers, social workers and persons from various uniform groups. For the 12 month period ending in August 2007, 163,000 school-age children participated in drug education programs provided by the government.

The Hong Kong Government also continued to implement a comprehensive drug treatment and rehabilitation program in 2007. 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. The Hong Kong Government will launch a pilot cooperation scheme in early 2008 to refer abusers to designated medical practitioners who will provide comprehensive health check-ups and motivational interviews, to alert abusers of any signs of health deterioration as a result of drug use, and to heighten abusers awareness of early treatment options.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. 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 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. This new program allows the U.S. DEA and Hong Kong Government to monitor and track other precursor chemical shipments sourced from countries or territories in Asia, which transit through Hong Kong, and are destined to high-risk countries.

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

Indonesia—the fourth largest country in population in the world—has historically not been considered a major drug producing, consuming or transit country. However, in recent years Indonesia has experienced a major increase in the production, transshipment, trafficking and consumption of narcotics. The executive branch of the Indonesian government has made anti-corruption efforts a major policy initiative along with counterterrorism and counternarcotics. Since 2002, Indonesia has seen a significant increase in the number of large-scale clandestine MDMA and methamphetamine laboratories seized by Indonesian authorities.

MDMA (Ecstasy) and methamphetamine production syndicates exploit Indonesia's lax precursor chemical controls and use corrupt means to operate with relative impunity. These clandestine laboratories are capable of producing multi-hundred kilogram quantities of amphetamine type substances (ATS). However, in August 2006, there was a highly successful police raid disrupting some illicit drug operations.

In addition, regional drug trafficking syndicates are exploiting Indonesia's 1.2 million miles of coastline, lack of border and port security resources, etc., for the transshipment of heroin and ATS. Increases in narcotics production/trafficking have been mirrored in drug abuse rates. These rates—specifically intravenous drug use-combined with inadequate health care, rehabilitation and demand reduction programs has resulted in a significant increase in HIV/AIDS infection.

The Indonesian counter narcotics code is sufficiently inclusive to cover arrest, prosecution and adjudication of narcotics cases. Nevertheless corruption in Indonesia is an on-going challenge to the rule of law. Among the 161 countries ranked by Transparency International in their Corruption Index, Indonesia was ranked 130th. The level of political corruption in Indonesia seriously limits the effectiveness of all law enforcement, including narcotics law enforcement and poses the most significant threat to the country's counter drug strategy. However, the current Indonesian National Police (INP) Chief Sutanto is committed to reducing corruption and illegal activities by members of the police. Sutanto has made significant progress in internal investigation reform, human rights and governance of the national police. In 2006 over 4000 officers were disciplined for violations of the Code of Ethics and Discipline Code with 230 officers being terminated for ethics violations alone.

The INP leadership has been consistently improving, with the integration of more modern law enforcement management systems and procedures including anti-corruption efforts. The INP participates in several international donor-initiated training programs and continues to commit increased resources to counter narcotics 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. The INP relies heavily on assistance from major international donors, including the U.S., for the skills and equipment it needs to carry out its mission. Indonesia is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2006, Indonesian authorities continued to seize large-scale clandestine methamphetamine and MDMA laboratories, suggesting that Indonesia is quickly becoming a manufacturing site for narcotics. As recently as 2005, Indonesia has been listed as an important importer of pseudoephedrine. Lax and inadequate precursor chemical controls combined with porous borders and endemic levels of corruption continue to be a significant threat to Indonesia's counter drug

efforts. The diversion and unregulated importation of precursor chemicals remains one of the most significant problems facing Indonesia's counter drug efforts. To date, Indonesian authorities have been unsuccessful in controlling the diversion of precursor chemicals and pharmaceuticals. Numerous large international pharmaceutical and chemical corporations have large operations throughout Indonesia.

The Indonesian National Narcotics Board (BNN) estimates that approximately 3.2 million people or, 1.5 percent of Indonesia's total population are drug abusers. According to INP arrest data, in 2006, the INP conducted 14,105 narcotics investigations. All major groups of illegal drugs are readily available in Indonesia: amphetamine-type stimulants, especially, MDMA Ecstasy, as well as, heroin, marijuana and modest amounts of cocaine.

The large scale production of MDMA and methamphetamine is one of the most significant drug trafficking threats in Indonesia. Clandestine mega MDMA and methamphetamine laboratories are capable of producing multi-thousand kilogram quantities. Indonesian/Chinese organized crime syndicates use familial connections in the People's Republic of China (PRC) as a source for precursor chemicals and laboratory equipment. Furthermore, production syndicates rely upon chemists trained in the Netherlands for the production of MDMA, as well as Taiwanese chemists for the production of crystal methamphetamine.

Southwest Asian Heroin. Despite Indonesia's proximity to the "Golden Triangle" there remains no market base for Southeast Asian heroin in Indonesia. However, Southwest Asian heroin is trafficked through Indonesia by West Africans and Nepalese trafficking groups utilizing sources of supply in Afghanistan, Pakistan and Thailand. These trafficking groups utilize human couriers traveling via commercial air carrier, to smuggle drugs to Europe, Canada, and the United States.

Cocaine. While there is no known market base for cocaine in Indonesia, authorities in Indonesia have made several small cocaine seizures in Jakarta and Bali, based on information provided by the DEA. Cocaine is suspected of being transshipped through Indonesia, via commercial air carrier, en route to Australia and Japan, with small user amounts remaining in Indonesia for use by Western tourists.

III. Country Actions Against Drugs In 2007

Policy Initiatives. The Indonesian counter narcotics code is sufficiently inclusive to enable, police, prosecutors and judiciary to arrest, prosecute and adjudicate narcotics cases. Under Indonesian Laws No. 22/1997 on narcotics and 5/1997 on psychotropic substances, the Indonesian courts have sentenced approximately 57 drug traffickers to death. The continued lack of modern detection, enforcement and investigative methodologies and technology, and pervasive corruption, are the greatest obstacles to advancing Indonesia's counternarcotics efforts.

According to the BNN, the GOI has established new policies and strategies, in a "goal oriented rolling Plan of Action", consisting of stages covering 3 years for each stage. These stages will continue until Indonesia reaches a drug-free condition, hopefully by 2015. The mission of Indonesia's National Drug Plan is: 1) To reduce illicit drug supply, trafficking and production; 2) To reduce drug use among Indonesian youth; and 3) To minimize the harmful effects of drugs and drug use in Indonesian society.

The primary policy goals of Indonesia's National Drug Plan are to: 1) To minimize the level of illness, disease, injury and premature death associated with the use of illicit drugs; 2) To minimize the level and impact of drug-related crime and violence within the community; and 3) To minimize the loss of productivity and other economic costs associated with illicit drug use.

In March 2007, lawmakers from Indonesia's House of Representatives Commission III and the BNN proposed a new regulation, to be attached to the national narcotics law which would allow for

law enforcement agencies to confiscate convicted drug traffickers assets to fund Indonesia’s drug trafficking eradication program. Under the new regulation, assets seized by the GOI would be used to rehabilitate impoverished drug abusers and would serve to supplement the budget of the BNN. The BNN receives approximately \$30 million per year from the state budget, far below \$53 million the agency requests for its yearly budget.

Law Enforcement Efforts. The Indonesian National Police (INP) Narcotics and Organized Crime Directorate continues to improve its ability to investigate and dismantle international drug trafficking syndicates. The Narcotics Directorate has become increasingly active in regional targeting conferences designed to coordinate efforts against transnational drug organizations. The Indonesian National Police, Narcotics and organized Crime Directorate, has a good working relationship with its Thai and Australian counterparts and participates in joint investigations with DEA and other U.S. law enforcement agencies.

Recorded drug cases, including trafficking throughout Indonesia:					
2001:	3,013				
2002:	3,544				
2003:	3,729				
2004:	7,753				
2005:	20,023				
2006:	14,105				
Drugs Seized:					
	Heroin (kg)	Cocaine (kg)	Cannabis (mt)	MDMA (tablets)	Meth. (kg)
2001	13.5	15.2	15.7	22,627	412.5
2002	19.0	8.3	59.8	68,324	46.2
2003	13.0	13.4	43.3	183,721	16.3
2004	12.7	6.32	50.4	251,072	28.4
2005	17.71	1.0	20.9	233,467	318.15
2006	11.9	1.12	111.17	466,907	1,241.2
2005	Marijuana Plants:				160,211
2006	Marijuana Plants:				1,019,307

The Indonesian Narcotics Control Board (BNN) continues to strive to improve interagency cooperation in drug enforcement, interdiction, and precursor control. In 2005, under the auspices of BNN, the United States Government (USG)-sponsored PACOM JIATF West Joint Interagency Counter Drug Operations Center (JIACDOC) was opened in Jakarta, Indonesia. In 2006, the BNN had begun staffing and subsequently utilizing the JIACDOC's facilities to improve coordination and information exchange between various Indonesian law enforcement agencies and supporting ongoing narcotics investigations.

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. The Narcotics Directorate has become increasingly active in the regional targeting conferences designed to coordinate efforts against transnational drug and crime organizations. In 2006, INP attended the 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.

Corruption. Indonesia has laws against official corruption and an effective anti-corruption commission; but despite these laws, corruption in Indonesia is endemic. As a matter of government policy and practice, the GOI does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal transactions.

Corruption of Indonesia's judiciary is pervasive and poses a significant threat to the country's counter drug strategy. Indonesian prosecutors' low wages encourage official corruption and explain a low level of motivation. The average salary of an Indonesian prosecutor with 30 years of seniority is approximately \$400 a month. Furthermore, corrupt police and prosecutors abuse their authority in illegal searches, as Indonesian courts do not exclude evidence obtained without a warrant. Corrupt prosecutors are suspected of carrying out investigations to elicit bribes from suspects. Similarly, corrupt officers in narcotics cases are reported to request bribes for a reduction in charges with defense attorneys serving as facilitators.

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 its 1972 Protocol. Indonesia is a party to the UN Convention against Corruption and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Cultivation/Production. The large-scale production of MDMA and methamphetamine is one of the most significant drug trafficking threats in Indonesia. Indonesian/Chinese trafficking syndicates exploit Indonesia's lax precursor chemical controls, weak law enforcement and political corruption to establish large-scale clandestine MDMA and methamphetamine laboratories capable of producing multi-hundred kilogram quantities. These syndicates secure precursor chemicals from the People's Republic of China (PRC). Production syndicates rely upon chemists trained in the Netherlands for the production of MDMA (Ecstasy), as well as chemists from Taiwan and Hong Kong for the production of crystal methamphetamine.

Normally, the production of MDMA and crystal methamphetamine in Indonesia never occurs in the same laboratory. Separate production syndicates specialize in either MDMA or methamphetamine. However, in 2005, INP seized the world's first combination clandestine MDMA/methamphetamine laboratory near Jakarta, Indonesia. This large-scale dual MDMA/methamphetamine laboratory was the third largest clandestine laboratory seized by law enforcement in the world and was capable of producing thousand-pound quantities of both illicit drugs. Subsequent investigation revealed that the construction of this clandestine laboratory was financed by an ethnic Chinese organized crime syndicate based in Hong Kong and mainland China. This syndicate utilized chemists from Taiwan for the production of methamphetamine and chemists from the Netherlands for the production of MDMA.

Marijuana is cultivated throughout Indonesia; the equatorial climate of Sumatra allows for year round growing and cultivation of marijuana. Large-scale (greater than 20 hectares) marijuana cultivation occurs in the remote and sparsely populated regions of the province, often in mountainous areas. Regional marijuana cultivation syndicates are believed to be exploiting INP's limitations by locating cultivation sites in remote and high elevation areas where there is little law enforcement presence.

Drug Flow/Transit. The INP reports that the majority of heroin seized in Indonesia originates in Afghanistan. The heroin trade in Indonesia is predominantly controlled and directed by Nigerians. Heroin is smuggled by West African and Nepalese trafficking organizations utilizing sources of supply in Karachi, Pakistan and Kabul, Afghanistan. West African and Nepalese couriers travel utilizing commercial air carriers transiting Bangkok, Thailand, and India, en route to Jakarta, Indonesia. In addition to heroin being trafficked domestically in Indonesia, heroin is also transshipped from Indonesia by couriers traveling via commercial air carrier to Europe, Japan and Australia.

Historically, MDMA has been smuggled into Indonesia from sources of supply in the Netherlands. However, in recent years importation has been unnecessary as there has been large-scale MDMA and methamphetamine production in Indonesia itself. MDMA and methamphetamine produced in Indonesia is trafficked both domestically and internationally. In addition, MDMA and methamphetamine produced in the People's Republic of China (PRC) is smuggled to Indonesia by Chinese organized crime syndicates based in Hong Kong. Specifically, Indonesian authorities point to two of the largest methamphetamine seizures of 2006, 200 kg (February 2006) and 956 kg (August 2006), which originated from the PRC and were smuggled via maritime cargo and fishing vessels.

INP reports that marijuana trafficking in Indonesia is controlled by Indonesian trafficking syndicates based out of Jakarta. The majority of marijuana cultivated in Indonesia is consumed domestically and typically is not trafficked to the international market. Although cocaine seizures continue to occur in major Indonesian airports, the market for cocaine in Indonesia is believed to be very small.

Demand Reduction. The GOI views drug abuse and narcotics trafficking as a major long term threat to social, Islamic and political stability. Government agencies continue to promote counternarcotics abuse and HIV/AIDS awareness campaigns through various media outlets. The BNN is responsible for the development of Indonesia's demand reduction programs. During 2006, BNN engaged in a large anti-narcotics campaign targeting a wide demographic of Indonesia's citizenry. No statistics exist regarding the success of these counternarcotics abuse programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Indonesia and the U. S. maintain excellent law enforcement cooperation in narcotics cases. During 2006, the United States sent hundreds of INP officers to training on a variety of transnational crime topics. Furthermore, 120 Indonesian law enforcement officers attended training at the International Law Enforcement Academy (ILEA) in Bangkok. Similarly, training and development initiatives by Department of State INL funded DOJ ICITAP Indonesia Program, DEA, and PACOM JIATF West has trained hundreds of law enforcement officers from a variety of Indonesian government agencies. In 2006, DEA provided training in the areas of drug intelligence analysis, precursor chemical control, basic drug investigations and airport narcotics interdiction. USCG provided maritime boarding officer training as well. INP and BNN maintain excellent relationships with the DEA regional office in Singapore and continue to work closely with DEA in narcotics investigations.

The Road Ahead. In 2008 the U.S. will assist the BNN and its member agencies further utilizing the resources and capabilities of the Counter Drug Operations Center and Network. The U.S. will further work with INP and BNN to standardize and computerize the reporting methods related to narcotics investigations and seizures, develop a drug intelligence database, and build an information network designed to connect to the major provinces of Indonesia. This will permit Indonesian law enforcement to contribute to and access the database for investigations. Similarly, the U.S. will work with INP and BNN to further expand the scope and impact of narcotics investigations targeting the large-scale production of methamphetamine and MDMA in Indonesia.

Japan

I. Summary

While methamphetamine abuse remains the biggest challenge to Japanese anti-narcotics efforts, marijuana use also is widespread and MDMA (Ecstasy) trafficking has increased significantly. Cocaine use is much less prevalent but still significant. According to Japanese authorities, virtually all illegal drugs consumed in Japan are imported from overseas, usually by Japanese or foreign organized crime syndicates. In spite of legal and bureaucratic obstacles, Japanese law enforcement officials are becoming more proactive in addressing Japan's illegal drug distribution problem. Japanese Police conducted several complex drug investigations during 2007, both independently and in cooperation with the U.S. Drug Enforcement Administration (DEA) office in Tokyo. 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. Methamphetamine trafficking is a significant source of income for Japanese organized crime syndicates, and more than 80 percent of all drug arrests in Japan involve methamphetamine. MDMA is also a significant problem in Japan—over 1 million Ecstasy tablets had been seized by police as of November 2007, and officials say that they expect MDMA abuse to increase. Marijuana abuse also has grown steadily in Japan since 2000. In 2007, Japanese authorities discovered the first domestic commercial marijuana “indoor grow” operation. More generally, Japan is not a significant producer of illicit 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 Japanese National Police Agency, there is no evidence that methamphetamine or any other synthetic drug abused in Japan is manufactured domestically.

III. Country Actions Against Drugs in 2007

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 and between Japanese and foreign law enforcement officials, promotes greater utilization of advanced investigative techniques against organized crime syndicates, and mandates programs to 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 and plans to add three more in 2008.

Law Enforcement Efforts. Japanese police are increasingly effective at gathering intelligence and making arrests in spite of legal and operational constraints, but their investigations are largely reactive in nature. Prosecutors do not have the plea-bargaining tools to motivate the assistance of co-defendants and co-conspirators in furthering investigations. Japan also has laws restricting the proactive use of informants, undercover operations, and controlled deliveries using a human courier. When laws and circumstances allow, proactive policing does occur. Although wiretapping remains infrequent, police are increasingly making use of legislation that took effect in 2003 authorizing the use of telephone intercepts. In addition, officials maintained detailed records of Japan-based drug trafficking, organized crime, and international drug trafficking organizations. Japan regularly shares intelligence with foreign enforcement agencies and participates readily in international drug trafficking investigations with a Japanese nexus.

The supply of methamphetamine in Japan appears to be on the rise after a period of decline. The mid-2006 closure of several methamphetamine mega-labs in Indonesia, Malaysia, and the Philippines, combined with tightened security measures in the Sea of Japan, are believed to have been responsible for a decline in availability that led to a spike in methamphetamine prices that lasted until mid-2007. Law enforcement officials believe Chinese traffickers, using supplies from China and Canada, have stepped in to fill the production gap. Methamphetamine prices have returned to their May 2006 levels, indicating a significant rebound in available supply.

After a year of unremarkable interdictions in 2006, increased efforts by Japanese customs officials produced dramatic results in 2007. In August 2007, police and customs officials seized 688,000 MDMA tablets, 155 kg of methamphetamine, and 280 kg of marijuana from a vessel originating in Vancouver, Canada. In the first half of 2007, police had seized 112 kg of methamphetamine, eight times more than the 14 kg confiscated during the same period in 2006. More than 1 million tablets of MDMA/Ecstasy had already been seized by November, five times more than in all of 2006. Marijuana and cannabis resin seizures January – June 2007 were 12 kg and 83 kg respectively, approximately the same as the previous year. Cocaine, heroin, and opium seizures remained low, roughly at their 2006 levels.

Corruption. There were no reported cases of Japanese officials being involved in drug-related corruption in 2007. 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's parliament failed to agree on an anti-conspiracy bill for the fourth consecutive year. As a result, Japan still cannot ratify the UN Convention against Transnational Organized Crime. Japan 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. Japan has signed but not ratified the UN Convention against Corruption. 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, the Philippines, and Canada. Drugs other than methamphetamine often come from these same source countries, but airport customs officials have made several recent seizures of cocaine transiting from the United States, and authorities confirm that methamphetamine, MDMA, and marijuana are being imported in large quantities 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. The United States will build on the successes of the last year by strengthening law enforcement cooperation related to controlled deliveries and drug-related money-laundering investigations. Other U.S. objectives include 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 continue to work closely with its Japanese counterparts to offer support in conducting investigations on international drug trafficking, money-laundering, and other drug-related 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 made tremendous progress in reducing opium cultivation between 2000 and 2007, and estimates by the USG and UNODC of poppy cultivation in 2007 were at the lowest levels ever. However, the momentum of this effort may be slowing, and gains remain precarious. Thousands of former poppy growers who have yet to receive alternative development assistance create a substantial potential for a renewal of poppy production. Trafficking in illegal drugs and controlled chemicals continues unabated throughout the country. Both awareness programs and treatment capacity targeting abuse of methamphetamines expanded during 2007, but remain insufficient to respond to the very high level of methamphetamine abuse which now affects virtually every socio-economic group in Lao society. Law enforcement capacity is woefully inadequate, and the inability to establish an effective deterrent to regional trafficking organizations makes Laos a transit route of choice for Southeast Asian heroin, amphetamine-type stimulants (ATS), and precursor chemicals en route to other nations in the region. The combination of weak law enforcement, a central geographic location, and new highways and river crossings connecting China, Thailand and Vietnam will be likely to exacerbate this already troubling transit situation. Laos is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2007, the Government of Laos (GOL) continued its battle to eliminate cultivation of opium, with continuing but diminishing assistance from international donors. Donors sought primarily to alleviate rural poverty, and secondarily to reduce cultivation of illegal drugs. High prices for unprocessed opium, driven by a reduction in supply and a remaining population of opium addicts estimated at 12,000, frustrated efforts to completely end poppy cultivation. Inhabitants of many villages in former opium growing regions face increasingly desperate circumstances. Many former poppy growers, finding themselves without the assistance they expected, face severe food security problems. These circumstances create significant incentives for resumption of poppy cultivation by growers and communities that had abandoned it. Only the provision of adequate medium- to long-term rural development assistance will enable the Laotian authorities to completely and sustainably eliminate opium cultivation.

Methamphetamine and similar stimulants constitute the greatest current drug abuse problem in Laos. The abuse of methamphetamines, once confined primarily to urban youth, is becoming more common among rural peoples in highland areas and has had some visible impact on virtually every socio-economic group in Laos. The scope of this problem has overwhelmed the country's limited capacities to enforce laws against sale and abuse of illegal drugs, and to provide effective treatment to addicts. Methamphetamine in Laos is largely consumed in tablet form, but drug abuse treatment centers report admission of a growing number of users of injected amphetamine-type stimulants (ATS). Continued emphasis on drug abuse prevention through comprehensive drug awareness programs, and greatly increased capacity to provide effective treatment to addicts, are both essential to control the growth in domestic demand for ATS.

Heroin abuse in Laos, once limited to foreign workers and tourists, has emerged as a potentially serious problem in highland areas bordering Vietnam. Injected heroin is replacing smoked opium as the preferred method for illegal drug abuse in some ethnic minority communities, bringing with it an attendant potential for increased transmission of HIV/AIDS, hepatitis or other blood-borne diseases. The Laotian government is working to develop a treatment capacity to address this new

problem, but at present, there is only one facility in Laos which has a marginal capability to address the problem of heroin abuse.

Laos occupies a strategic geographic position in the center of mainland Southeast Asia. It contends with long, remote and geographically difficult borders which are very difficult to effectively control. Illicit drugs produced in Burma and precursor chemicals diverted from China are trafficked through landlocked Laos to Thailand and Vietnam, and from major ports in those countries to other nations in the region. Recently completed sections of the Kunming-Bangkok Highway in northwestern Laos, and the Danang-Bangkok Highway in southern Laos, have further aggravated this problem, as new high-speed truck routes overwhelm limited existing border control capacity. Enhanced law enforcement and border control, and more effective regional cooperation, could assist in ameliorating this problem, but will require substantial investment in Laos and its neighboring countries.

III. Country Actions against Drugs in 2007

Policy Initiatives. Laos did not introduce any significant new drug control policy initiatives in 2007. The Lao government instead emphasized implementing existing policies, including its policy commitment to complete elimination of opium cultivation, and on securing sufficient support from international donors to make drug control policies effective in practice.

Law Enforcement Efforts. Laos' law enforcement and criminal justice institutions remain inadequate to deal effectively with the problems created by domestic sale and abuse of illegal drugs and international trafficking in drugs, chemical precursors and other contraband. Laos does not currently possess means to accurately assess the extent of production, transit or distribution of ATS or its precursors. There has been an increase in reported seizures of ATS moving in transit through Laos to neighboring countries. Methamphetamine addiction and related crime in Laos have grown rapidly. Laos' principal narcotics law enforcement offices are Counter Narcotics Units (CNU's), the first of which was created in 1994 and which now exist as elements of provincial police in all provinces. The CNU's, however, remain generally understaffed, poorly equipped, and with personnel inadequately trained and experienced to deal with the drug law enforcement environment in Laos. CNU's in most provinces generally number fewer than 15 officers, who are responsible for patrolling thousands of square kilometers of rugged rural terrain, and starting in 2007, for drug education as well. This limited law enforcement presence in rural areas creates an obvious vulnerability to establishment of clandestine drug production or processing activities by regional organizations seeking new locations, although it cannot be confirmed that this has yet actually happened. Assistance provided by the USG, UNODC, South Korea and China has mitigated equipment and training deficiencies to some extent, but prosecutions that do occur almost exclusively involve street-level drug pushers or low-level couriers. As in many developing countries, Lao drug enforcement and criminal justice institutions have demonstrated a continuing serious inability to investigate and develop prosecutable cases against significant drug traffickers without external assistance, and Lao authorities have generally pursued such major cases only under international pressure.

The Lao National Assembly passed a narcotics law that defines what substances are prohibited and which pharmaceuticals are permissible for medical use. The new law also outlines criminal penalties for possession and contains provisions for asset seizure. Prosecutors still lack legal means to seize assets of convicted drug traffickers except for those assets that were the instruments of the drug trafficking offense. Extrajudicial asset seizures reportedly may occur in some cases. The National Assembly and the Lao National Commission for Drug Control and Supervision (LCDC) are now working on implementing regulations for the new law.

Laos did not make significant progress in disrupting domestic distribution of illegal drugs in 2007. There is no reliable estimate of illegal sales on a national basis, but secondary information, such as increasing property crime, the emergence of youth gangs, growing methamphetamine addiction and the emergence of heroin addiction among Lao and ethnic minority groups all suggest that trafficking in drugs for internal sale and abuse in Laos is increasing. Individuals or small-scale merchants undertake the majority of street-level methamphetamine sales. Criminal gangs involved in drug trafficking across the Lao-Vietnamese border, especially gangs that involve ethnic minority groups represented on both sides of the border, constitute a particular problem for Lao law enforcement. Such cross-border gangs now reportedly play a leading role in the significant expansion of injected heroin use in northern Laos, and in the cultivation of marijuana for export in the central province of Bolikhamxai.

Opium distribution is now relatively limited. Net production within Laos has diminished below estimated consumption levels, making Laos now probably a net importer of unprocessed opium. The majority of opium addicts still reside in households or villages that produce, or used to produce, opium poppy. There is some opium distribution between villages; especially as remaining opium cultivation is displaced to more distant and remote locations. Despite progress made by the Lao government in reducing the number of opium addicts, Laos continues to suffer from one of the highest opium addiction rates in the world.

Corruption. Corruption in the Lao People's Democratic Republic (PDR), long present in many forms, may be increasing as the flow of illicit drugs and precursors in and through Laos grows. Lao civil service pay is inadequate, and those able to exploit their official positions, 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 official corruption, and some officials have been removed from office, and/or prosecuted, for corrupt acts. The GOL has made fighting corruption one of its declared policy priorities, and has made serious efforts to do this, but such efforts confront entrenched corruption throughout much of the government bureaucracy. As a matter of government policy, Laos strongly opposes the illicit production or distribution of narcotic drugs, psychotropic or other controlled substances, and the laundering of the proceeds of illegal drug transactions. No senior official of the GOL is known to engage in, encourage, or facilitate the illicit production or distribution of illegal drugs or substances, or the laundering of proceeds of illegal drug transactions.

Agreements and Treaties. The USG signed initial agreements to provide international narcotics control assistance in Laos in 1990, and has signed further Letters of Agreement (LOAs) to provide additional assistance to projects for Crop Control, Drug Demand Reduction, and Law Enforcement Cooperation annually since then. Laos has no bilateral extradition or mutual legal assistance agreements with the United States. During 2007, Laos delivered no suspects or fugitives on drug offenses to the United States under any formal or informal arrangement. Laos is a party to the 1988 UN Drug Convention. It has made substantial progress in the control of opium cultivation, production and addiction, but has not yet achieved all objectives of the 1988 UN Convention. Laos is party to the 1961 UN Single Convention, but is not yet party to the 1972 Amending Protocol to the Single Convention. Laos is a party to the 1971 UN Convention on Psychotropic Substances. Laos is a party to the UN Convention against Transnational Organized Crime, and its three protocols. Laos is also a party to the UN Convention against Corruption. GOL officials consult frequently with UNODC on narcotics control issues and strategy, and UNODC continues to support a number of crop control, demand reduction and law enforcement programs. Laos has legal assistance agreements with China, Thailand, Vietnam, Cambodia, Burma and Indonesia. Lao membership in ASEAN and APEC has increased the number of bilateral and multilateral legal exchanges for Laos since 2000, and training programs supported by several international donors are improving the capacity of the Ministry of Justice, police, customs and immigration officials to

cooperate with counterparts in other countries. Laos has declared its support for the ASEAN initiative to promote a drug-free region by 2015. Laos has extradition treaties with China, Thailand, Vietnam and Cambodia. The GOL has assisted in the arrest and delivery of individuals to some of those nations, but does not use formal extradition procedures in all cases. Laos has participated in bilateral conferences with Thailand on drug control cooperation, and cooperates with Thailand and UNODC in measures to prevent drug trafficking along the Mekong. Laos has met trilaterally on narcotics issues with Vietnam and Cambodia, and participates in an occasional regional consultative group on drug issues under UNODC auspices which brings together officials from those four countries, Burma and China.

Cultivation/Production. In 2007, Laos again made measurable progress in further reducing opium poppy cultivation. Estimates of poppy cultivation in Laos by the UNODC (1500 hectares, down from 2500 hectares in 2006) and the USG (1100 hectares, down from 1700 hectares in 2006) stood at the lowest level since such estimates were first prepared in the 1980's. The remaining poppy cultivation observed in these surveys was encountered in five northern provinces: Phongsaly, Luang Namtha, Oudomxay, Luang Prabang and Huaphan. Opium production, as estimated by UNODC, also declined from 2006, from an estimated 20 metric tones in 2006 to an estimated 9.2 metric tones in 2007. UNODC reported that its survey found a reported average price for opium in Laos of \$974/kilogram, nearly double the \$550/kilogram reported in 2006. With the decline in estimated production and increasing price, UNODC estimates that Laos has now become a net importer of opium to supply its remaining population of opium addicts.

Most opium produced in Laos is consumed domestically in northern border areas, where raw and cooked opium is smoked or eaten. The share of the opium product in Laos at this time that is refined into heroin is thought to be very small or nonexistent. Sustained high farm prices in growing areas suggest that the supply of available opium is decreasing more rapidly than the demand. Reportedly, increased prices for opium were one of the factors that led to a notable spread in injected heroin abuse among ethnic minority groups resident in poppy-growing border areas during 2007. The USG Crop Control projects implemented in Laos from 1990 to 2005 did not employ chemical herbicides or any other form of compulsory eradication of opium poppy. The government of Laos began forced eradication in 2003, and since 2006, USG crop control assistance has supported the limited use of involuntary eradication (by hand) when individual farmers are found attempting to cultivate poppy. Opium eradication in 2007 totaled more than 700 hectares. Within the areas of the Lao-American Projects for opium poppy reduction in Houaphan, Phongsaly and Luang Prabang, growers themselves, or officials of their villages, carried out eradication of poppy as a condition of written agreements between villages and GOL authorities that villages would cease production of opium. In recent years, and particularly since it declared Laos to be formally opium-free in 2006 (a policy assertion it justifies by arguing that net eradication which GOL officials carry out reduces harvestable cultivation to insignificant levels), the GOL has stated that it may employ compulsory poppy eradication in selected areas where alternative development programs are not available, or have not by themselves sufficed to reduce and eliminate poppy cultivation. The GOL reported to UNODC that its officials eradicated a total of 779 hectares of poppy in 2007.

Despite the positive results of the 2007 opium crop survey, the UNODC Resident Representative in Laos noted in announcing those results that the situation of the farm population that has depended primarily or exclusively on poppy cultivation remains "precarious" and that "the current reduction in cultivation is dependent on the existence and creation of appropriate and sustainable livelihood opportunities." However, UNODC reports that international donor support for such alternative development programs continues to diminish. UNODC has reported that many former opium growers survived the loss of income from opium only by consuming their savings, generally in the form of livestock. Such savings, where they existed, are now depleted. The U.S. Embassy in Laos

has received frequent reports from the World Food Program of serious food security concerns among rural populations, but the WFP and other donors also report diminishing international resources available for food security assistance. Villages and farming groups who stopped growing poppy because they expected alternative livelihood assistance are becoming disillusioned. Continued diminution in medium-term international support for alternative livelihoods among populations previously dependent on poppy cultivation creates a substantial continuing risk that 2008 and future years will be characterized by resumption of poppy cultivation among farm populations that correctly perceive no other remaining alternative.

After several years in which cannabis cultivation and reported seizures diminished, there now again appears to be substantial “contract” cannabis production in central Laos, as evidenced by significant recent seizures in that region. Continuing use of cannabis as a traditional food seasoning in some localities complicates attempts to eradicate this crop.

Drug Flow/Transit. Laos’ highly porous borders are dominated by the Mekong River and remote mountainous regions. This terrain is notoriously difficult to control, and is permeable to trafficking of illicit drugs or other contraband, although there are no reliable estimates of the possible volume of such flows. An increase in the number and size of seizures in neighboring countries of drugs that reportedly passed in transit through Laos suggests an increasing transit problem. Illegal drug flows include methamphetamine, heroin, marijuana and precursor chemicals destined for other countries in the region, some of which is diverted for consumption in Laos. Opium and methamphetamine from Laos are shipped to the U.S. via parcel post and commercial express packages.

New regional transportation infrastructure, trade agreements, and special economic zones intended to facilitate regional trade and development may inadvertently also benefit transnational criminal trafficking organizations. The opening of two new transit arteries in Southeast Asia that pass through Laos, one a continuous paved highway running from Danang in central Vietnam to Bangkok, and another from Kunming to Bangkok, have greatly complicated the already difficult challenge posed by illicit transit of drugs or other contraband for Lao law enforcement and border control agencies. Truck-borne cargo containers transit Laos from the Chinese border at Boten to the Thai border at Houayxai in six hours, and the trip from Lao Bao, Vietnam, through southern Laos to Mukdahan, Thailand takes only four hours. There are also indications of continued drug and chemical smuggling on the Mekong River. Laos is not a principal destination for the majority of cargo that transits its territory, but the volume of traffic overwhelms Laos’ limited capacity for border control, and becomes a continuing problem for Laos’ geographic neighbors. In addition to increased volume, new bilateral and regional trade agreements will also result in proportionally fewer cargo inspections and a greater reliance on intelligence to identify suspect shipments of drugs or other contraband. Laos, which has very limited capabilities in this area, will have to rely substantially on regional cooperation with its neighbors to effectively impede trafficking in illegal drugs or other contraband. While clearly beneficial for legitimate trade, the potential for abuse of these developing arrangements for illicit trafficking in drugs or other contraband is considerable.

Illicit trafficking in drugs also may be growing on less developed routes. There are unconfirmed reports that heroin destined for southern Vietnam may now be moving along sections of the former Ho Chi Minh Trail in Laos. Transit costs are low, and anecdotal evidence suggests that some trafficking organizations formerly involved with opium may now be shifting to moving and marketing methamphetamine, which is easier to move and has a growing market in Laos. It is likely that some individuals or organizations that traffic in drugs are also involved in legitimate businesses, in part as a way to cover their drug-trafficking activities.

Domestic Programs. Laos made limited advances during 2007 in reducing the demand for and consumption of illicit drugs. The most significant single new development was the opening of a new 100-bed drug addiction treatment facility in Udomxai Province, built with funds from China.

Brunei funded construction of two smaller drug abuse treatment facilities in Sayabouri, which opened in January 2007. The United States supported the renovation of the women's rehabilitation facility at the Somsagna treatment center on the outskirts of Vientiane, which can house up to 64 female patients. The U.S. is also preparing to finance construction of a new smaller center in Vientiane Province about 70 kilometers from the capital, which is scheduled for completion in 2008.

Despite this augmentation of Laos' treatment capacity, the capacity of existing facilities remains well short of even the most optimistic estimates of the numbers in Laos addicted to methamphetamine or other illegal drugs. Available evidence suggests that many untreated addicts turn to crime as a means to support their addiction. Most existing treatment facilities are notably deficient in staff proficiency and effective vocational training. The national treatment center at Somsagna has reported guardedly hopeful results, but limited marketable post-release skills have left many addicts vulnerable to recidivism. The U.S. is providing assistance to treatment facilities throughout Laos to enhance their capabilities to offer effective pre-release vocational preparation. In 2008, the GOL will undertake a new nationwide drug awareness program and media campaign with U.S. support.

Estimates by the GOL in 2007 indicate that the number of remaining opium addicts has stabilized at approximately 12,000, after years of steady decline. Many opium addicts may remain unreported, either because they reside in extremely remote areas, or because they wish to conceal their addiction, or both. Significant impediments to the effective treatment of all opium addicts include the ill health of many elderly opium users, the isolated location of some addict populations, and the lack of sufficient rural health care infrastructure to displace traditional medicinal use of illegal opium, which often serves as the entrance to addiction. Detoxification of opium addicts will probably become increasingly difficult as their numbers diminish, since those remaining are likely to be the most resistant to treatment. Recidivism is estimated at approximately 45 percent, and information about follow-on rehabilitation is scanty. Moreover, during 2007 a disturbing new development became visible as a significant number of former opium users among ethnic minorities living on the border with Vietnam reported having turned from opium to abuse of injected heroin. The GOL hopes to ultimately treat all remaining opium addicts, since ending opium addiction and thus eliminating the market for domestic consumption of opium is critical to complete and sustainable elimination of cultivation of opium poppy.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The United States continues to be a substantial, albeit diminished, donor of drug control assistance to Laos. Other donors (primarily European but now including some other Asian countries) have become the largest contributors to alternative development programs for opium poppy crop reduction. The Lao-American Opium Crop Control Projects in Phongsaly and Luang Prabang Provinces, which delivered integrated rural development assistance to reduce poppy cultivation, were completed in December 2007. The limited remaining assistance in the USG Crop Control project will in 2008 be delivered to more direct and limited village-based alternative livelihood programs, designed to provide assistance to hundreds of former opium growing communities that have not yet received such assistance. The U.S. cooperates closely with international organizations such as UNODC and the World Food Program in areas where serious economic distress in farming communities makes resumption of opium cultivation a continuing significant possibility.

Bilateral Cooperation. Since U.S. drug control assistance to Laos began in 1989, the U.S. has provided over \$42-million, which has been employed primarily to support the successful, multi-year effort that has reduced poppy cultivation in Laos to a historically low level. During 2007, with the established Lao-American Projects closing down, the NAS (Narcotics Affairs Section) in

Vientiane cooperated closely on Crop Control and Demand Reduction projects with the Programme Facilitation Unit (PFU), an element of LCDC, primarily responsible for implementing alternative development and opium addict detoxification. U.S. funds for drug demand reduction activities support enhancements to methamphetamine abuse treatment centers including vocational training, and a variety of national drug awareness and prevention programs. Limited U.S. law enforcement assistance funds support very limited operational costs, training and equipment for Counter Narcotics Units (CNU's) and the Lao Customs Department. These limited funds are complemented by continuing regular Lao participation in regional training opportunities offered by the U.S. and Thailand at the International Law Enforcement Academy in Bangkok. Bilateral cooperation in drug law enforcement improved somewhat in 2007, with DEA receiving drug samples from the GOL for the first time since 2005.

The Road Ahead. Laos' two-decade effort to sustainably eliminate opium poppy cultivation has reached an advanced stage, but as noted by GOL, UNODC and third country officials—and large numbers of Lao farmers—it is by no means over. If significant near-term emergency food security support, and medium- to long-term assistance to establish viable alternative livelihoods, is not delivered in 2008 and the coming few years, it is very probable that the decline in poppy cultivation observed in 2007 will be the last for many years. If former poppy growers revert to opium cultivation, persuading them a second time to stop will be far more difficult. Laos does not have the law enforcement and criminal justice capabilities and resources necessary to prevent large-scale trafficking of methamphetamine and other illicit drugs and contraband through Laos, nor the distribution, sale and abuse of illegal drugs among the Lao people. For this reason, the GOL will be compelled to rely for its immediate future on drug demand reduction measures for drug abuse prevention and treatment to respond to its epidemic of illegal drug abuse. Existing programs to educate youth and other vulnerable groups on the dangers of addiction must be enlarged and reinforced, and drug abuse treatment availability must be greatly further enhanced. Better Lao integration in regional anti-trafficking initiatives and a substantially enhanced investment in law enforcement and criminal justice institutions are essential for Laos to respond effectively to regional and international trafficking and organized crime.

Malaysia

I. Summary

Malaysia is not a significant source country or transit point for U.S.-bound illegal drugs; however, domestic drug abuse in Malaysia remains on the rise, and Malaysia is increasingly being used as a regional hub for methamphetamine production. The government continues promoting its “drug-free by 2015” policy. Malaysia’s counter narcotics officials and police officers have the full support of senior government officials, but instances of corruption hindered adequate enforcement and interdiction. Malaysia has a low conviction rate (2 percent) for arrested drug traffickers, and the country relies heavily on preventive detention rather than active prosecution (98 percent of the time). Malaysia’s sensitivities to issues of national sovereignty circumscribe U.S. – Malaysian cooperation. It is noteworthy that in the past two years the Royal Malaysia Police (RMP) have had five different Narcotics directors. Each time a new director is put in place, a lengthy transition period takes place and momentum toward cooperation is stalled. The U.S. maintains active programs for training Malaysian counter narcotics officials and police. Malaysia is a party to the 1988 UN Drug Convention.

II. Status of Country

Malaysia is not a significant source country or transit point for U.S.-bound illegal drugs. Nevertheless, regional and domestic drug-trafficking remains a problem and international drug syndicates are increasingly turning to Malaysia as a regional production hub for crystal methamphetamine and Ecstasy (MDMA). 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 as local consumption continues to rise. Police report that Ketamine and crystal methamphetamine are the fastest growing illicit drug in Malaysia.

Between January and August 2007, police encountered and identified 10,800 addicts of whom 4,934 were new cases. Since 1988, the Malaysian Government cumulatively has identified 300,241 drug addicts, and the government-linked Malaysia Crime Prevention Foundation estimated, in October 2007, that there are currently some 900,000 to 1.2 million drug addicts in Malaysia. Statistics continue to show that the majority of the nation’s drug addicts are between 19 and 39 years of age and have not completed high school.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Malaysia continues a long-term effort launched in 2003 to reduce domestic drug use to negligible levels by 2015, a goal shared by the whole of ASEAN. Senior officials including the Prime Minister continue to 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 or referred to the “Preventive Measures Act” where they can be held for two years (renewable to eight years).

Law Enforcement Efforts. Malaysian authorities raided three clandestine drug labs in 2007, and had several successful drug seizures confiscating large quantities of methamphetamines and

Ecstasy (MDMA). Police arrested 36,534 people for drug-related offenses between January and August 2007, and held in detention or rehabilitation centers a total of 111,416 drug addicts during the same period. Enforcement officials continued to show successes in ATS related seizures and have also recorded a higher level of heroin seizures over the same period than last year. The Royal Malaysian Police recorded a forty-six percent increase in confiscated property derived from drug related cases for the first eight months of 2007.

Malaysian police are generally effective in arresting small-time drug offenders but have shown limited success in arresting mid- to upper level syndicate members. The Royal Malaysian Police have acknowledged these shortcomings and have begun implementing training plans to improve their investigations and procedures. These training programs include the DEA KLCO instituting a narcotics “skill set” as part of the DEA sponsored “Baker Mint” anti-narcotics training. This training includes a 40 hour course on DEA approved classroom and practical instruction. Prosecutorial successes are generally of even quality with police investigations, i.e., more trouble convicting higher-level drug syndicate members. In one widely publicized example in 2007, three accused drug traffickers facing the death penalty were released from custody when the prosecutor failed to show up in court for the trial. Most suspected traffickers continue to be detained under Malaysia’s “special preventive measures,” including the Restricted Residence Act and the Emergency Ordinance 1969, which allow for detention without trial of suspects who pose a threat to public order or national security. There is very limited judicial oversight for these preventive detention laws.

Corruption. As a matter of government policy, Malaysia 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 Malaysian and foreign media organizations continued to highlight cases of government, no senior officials were arrested for drug-related corruption in 2007. Malaysia’s Anti-Corruption Agency (ACA) investigated competing complaints filed against several senior police officers and one deputy cabinet minister for corruption involving known drug trafficking syndicates, including allegations of corruption concerning the release of suspects from preventative detention. The ACA’s investigations found no evidence to substantiate any of the allegations, and all parties remained in office.

Agreements and Treaties. Malaysia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and to the 1971 UN Convention on Psychotropic Substances. Malaysia signed a mutual legal assistance treaty (MLAT) with the U.S. in July 2006. The U.S.-Malaysian MLAT has not yet entered into force. Malaysia also has a multilateral MLAT with seven Southeast Asian nations, and an MLAT with Australia. The U.S.-Malaysia Extradition Treaty has been in effect since 1997, and in 2007 the first successful extradition was completed.

Cultivation/Production. While there is no notable cultivation of U.S.-listed drugs in Malaysia, local officials report significant cultivation/presence of a local plant known as ketum (*Mitragyna speciosa*) with known psychoactive properties and used for its narcotic effects throughout the region. ATS production has shown a marked increase over the past year leading local officials to admit that international drug syndicates are beginning to use Malaysia as a base of operations.

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 Tamil Nadu (Southern), India and is exported to several countries in the region. There is evidence of increased transit of cocaine although police have not yet thoroughly developed

information on this trend. Production of ATS in Malaysia is unquestionably on the rise, as evidenced by the elimination of three large methamphetamine labs in 2007 and the seizure of a substantial quantity of precursor chemicals found at each of these labs.

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 6,447 persons were undergoing treatment at Malaysia's 29 public rehabilitation facilities as of June 2007, indicating over a fifty percent increase from last year.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. counternarcotics training continued in 2007, 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 2007, U.S. officials from the Department of Justice, DEA, and FBI presented a training workshop for Malaysian prosecutors, counternarcotics and criminal investigators on interviewing and interrogation techniques. In addition, USCG conducted basic and advanced boarding officer training for Malaysian maritime law enforcement officers.

The Road Ahead. The United States' goals and objectives for the year 2008 are to improve coordination and communication between Malaysian and 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 counternarcotics 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.

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 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 that 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 of Mongolia (GOM) has made the protection of its borders a priority. U.S.-sponsored projects to promote cooperation among the security forces have provided some assistance, as has training. 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 2007

Policy Initiatives/Law Enforcement. The Mongolian Government and law-enforcement officials have increased their participation in international fora focused on crime and drug issues. In September, Mongolian police took part in a regional counternarcotics conference in Russia called "Channel 2007." During the event, the Mongolians reportedly provided their Chinese counterparts with information on African drug traffickers based in Beijing. Chinese law enforcement was later able to identify the group in question and take appropriate measures.

Corruption. Mongolian internal corruption and related criminal activity appear unrelated to narcotics activities. The Anti-Corruption Agency (ACA), an independent governmental body with 90 employees, was formed on January 1, 2007, and on September 7, 2007, acquired investigative power, previously held by police and prosecutors. The ACA quickly succeeded in compelling the country's top 252 officials, including all Parliamentarians, Cabinet ministers and Supreme Court justices, to declare their assets and income. 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 Government was not afraid to imprison senior officials convicted of drug offenses. In October, a court in Ulaanbaatar imposed a ten-year sentence to Shatarbal Dugerjav, who had worked as a Counselor at Mongolia's Embassy in Bulgaria. In March 2005, Dugerjav was driving his car when a search by Bulgarian police found 138 kg of psychotropic drugs in the vehicle, allegedly bound for Turkey.

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 GOM 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. While drug use is not widespread, marijuana, the most commonly used illegal drug, grows wild in various parts of the country. Police said a growing number of Mongolians and foreign residents were collecting and smoking cannabis; however, there were no reliable surveys on drug use. Cocaine, amphetamines, heroin and abused over-the-counter drugs were less common and less available than cannabis. Hashish is smuggled into Mongolia from China in small quantities. During the first ten months of 2007, Mongolian law enforcement uncovered eight cases of drug possession/trafficking, yielding 5 kg of cannabis, 60 grams of hashish, and an unidentified amount of psychotropic drugs. Seventeen people were investigated in connection with these cases: 13 Mongolians, three Russians and one Briton. As of November 5, none had been convicted. No illegal drug lab was identified in Mongolia during the year. The Mongolian Government is alert to precursor chemical trade and the potential for diversion.

Demand Reduction. Domestic, non-governmental organizations work to fight drug addiction, including glue sniffing by street children. International donors are working with the government to help Mongolia develop the capacity to address narcotics and related criminal activities before they become an additional burden on Mongolia's development.

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, including border protection, the Anti-Corruption Agency, and per the request of Mongolian law enforcement, training and assistance for Mongolian police.

North Korea

I. Summary

Drug trafficking with a connection to the Democratic People's Republic of (North) Korea (DPRK) appears to be down sharply and there have been no instances of drug trafficking suggestive of state-directed trafficking for five years. Small-scale trafficking along the DPRK-China border continues, but as time passes since the last incident of large-scale trafficking involving the use of DPRK state assets and personnel, it certainly seems possible that the DPRK has curtailed trafficking in narcotic drugs. However, there is insufficient evidence to say for certain that state-sponsored trafficking has stopped at this time. The DPRK became a party in March 2007 to the 1988 UN Drug Convention.

II. Status of Country

There were no confirmed instances of large-scale drug trafficking involving the DPRK or its nationals during 2007. Anecdotal evidence suggests that small-scale trafficking and drug abuse in the DPRK itself and along its border with China continue. The China-DPRK border region is the only area in the world where there are continuing reports of drug trafficking involving DPRK nationals. Most reports indicate small-scale trafficking by individual North Koreans who cross the border into China. In some cases there are reports of slightly larger-scale trafficking by locally prominent individuals living along the border who misuse their modest positions of local influence in the ruling party to traffic in methamphetamine. Also, there are indications that some foreign nationals from Japan and South Korea might travel to this area to purchase the stimulant drugs available there.

III. Country Actions Against Drugs in 2007

Law Enforcement Efforts. Most of the reports about drug trafficking along the China-DPRK border emerge only after the individuals involved are apprehended. There is no evidence of a central role for DPRK state institutions in organizing the trafficking, as had emerged regularly in the past, especially in Japan during the mid- to late nineties, and continuing until the 2003 incident in Australia involving the "Pong Su," a DPRK cargo vessel involved with the delivery and seizure of a large quantity of heroin. In fact, it appears that both China and the DPRK try to discourage such trafficking through law enforcement efforts and information campaigns on both sides of the border. An atmosphere of lawlessness, however, remains along this border as individuals who wish to leave the DPRK can apparently do so through payments to guides or so-called "snakeheads," while, at the same time, other DPRK goods, such as copper wire, are smuggled into China for profit.

There also continues to be press, industry and law enforcement reporting of DPRK links to large-scale counterfeit cigarette trafficking in the North Korean Export Processing Zone at Rajiin (or Najin). It is unclear the extent to which DPRK authorities are complicit in this illegal activity, although it is all but certain that they are aware of it, given the relatively high-profile media reports. The fact that it is continuing suggests that DPRK authorities have been unwilling to take enforcement steps to counter it. Furthermore, such an example of non-narcotics-related acts of criminality suggests that DPRK-tolerance of criminal behavior may exist on a larger, organized scale, even if no large-scale narcotics trafficking incidents involving the state itself have come to light.

Agreements and Treaties. In 2007, the DPRK became a party to the 1988 UN Drug Convention. The DPRK also became a party to the 1961 UN Single Convention and the 1971 UN Convention on Psychotropic Substances.

Cultivation/Production. At an international meeting on illicit drug issues in Vienna in March 2007, Japanese police authorities stated that they were able to link through chemical analysis methamphetamine seized in Japan in the mid-to-late nineties with pharmaceutical factories in North Korea. They also said that methamphetamine drugs, which had been seized recently in Japan, but had been viewed as Chinese in origin, were “very similar” in their chemical properties to the aforementioned methamphetamine seized in the nineties and linked to the DPRK. The Japanese authorities explained that Japanese companies built and operated three North Korean chemical factories in the period just before and during the Second World War. Since the same factories still remain in operation in North Korea, Japanese officials are, therefore, in a unique position to comment on the chemical properties of the drugs produced at these factories, thought to be the source of the illicit stimulants. These comments by Japanese police link North Korea more closely to past drug trafficking activity, and also suggest that some drug smuggling to Japan from DPRK may be continuing, with the drugs possibly camouflaged as Chinese in origin.

Nevertheless, as time continues to pass since the last seizure of drugs anywhere in the world having a clear link to a DPRK state entity—it is now almost five years since such a seizure has come to light—the question naturally arises as to whether the DPRK has abandoned its involvement in drug trafficking. There is no clear answer to this question. The Department has no evidence to support a finding that state trafficking has stopped, and no clear evidence it is continuing. But the absence of any seizures linked to DPRK state institutions, after a period in which such seizures involving very large quantities of drugs occurred regularly, does suggest, at least, considerably less state trafficking, and perhaps a complete end to it.

On the other hand, the continuing large-scale traffic in counterfeit cigarettes from DPRK territory suggests, at the least, that enforcement against notorious organized criminality is lax, or that a lucrative counterfeit cigarette trade has replaced a riskier drug trafficking business as a generator of revenue for the DPRK state.

IV. U.S. Initiatives and Programs

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 has been no evidence for almost five years that it continues to traffic in narcotics.

The Philippines

I. Summary

The Government of the Philippines (GRP) attributes a reported decline in the number of users of illicit drugs to continued joint efforts of the Philippine law enforcement authorities in disrupting major drug trafficking organizations and in dismantling clandestine drug laboratories and warehouses. The Dangerous Drugs Board (DDB) reports that in 2007, there was a significant increase in seizures of clandestine labs, while the number of drug abusers reportedly declined. The Philippine government continues to build the capacity of the Philippine Drug Enforcement Agency (PDEA), which was established by the GRP in 2002; the PDEA Academy graduated its first 55 agents in February 2007. Based on 2007 seizures, the Philippines continues to be a producer of methamphetamine. There is some evidence that terrorist organizations may use drug trafficking to fund their activities. The Philippines is a party to the 1988 UN Drug Convention.

II. Status Of Country

According to the DDB, in the Office of the President, there has been a continuous decline in the number of drug users and a downward trend in the number of drug-related arrests in the Philippines. The most recent DDB survey (2007) reported that there are approximately 3.4 million regular and occasional drug users, compared with 6.7 million in 2004, the last year the survey was conducted. Methamphetamine, locally known as “shabu,” is the primary drug of choice in the Philippines. However, the significant number of seizures of clandestine laboratories has resulted in the continuous decline of supply of methamphetamine. The DDB reports that the current price of methamphetamine has escalated from 2,000 pesos per gram in 2006 to 5,000 pesos in 2007, although according to the PDEA, the price varies from 3,000 pesos on the streets of Manila to 5,000 pesos in outlying provinces. In quantities of 10 grams or more, the price can be as low as 2,500 pesos per gram.

Methamphetamine is clandestinely manufactured in the Philippines. Precursor chemicals are smuggled into the Philippines, or illegally diverted after legal importation, from the People’s Republic of China (PRC), including Hong Kong. Ephedrine has also been smuggled from India, although there have been no seizures since 2005. In 2007, there were 220 local drug trafficking groups identified, compared with 105 in 2006. According to the DDB, there were eight known transnational drug organizations operating in the country in 2007, compared with seven in 2006. Each group includes at least five major foreign drug lords from the PRC and Taiwan. Muslim separatist groups participate in the distribution of methamphetamine in the Philippines, particularly in the southern section of the country. The Abu Sayyaf Group (ASG) along with elements of the Moro Islamic Liberation Front (MILF) are also directly involved in smuggling, as well as protection of methamphetamine production and its transportation to other parts of the country and across southeast Asia. The Philippines is a source of methamphetamine exported to Australia, Canada, Japan, South Korea, and the U.S. (particularly Guam and Saipan).

Dealers sell methamphetamine hydrochloride 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 chlor-ephedrine mixture into crystal form. Another production method involves the use of red phosphorous.

The Philippines produces, consumes, and exports marijuana. Cultivation of marijuana is in mountainous, often government-owned, areas inaccessible to vehicles. Marijuana has gained popularity because of the price increase of methamphetamine. Although Philippine law

enforcement officials have conducted numerous eradication operations, the lack of fuel for military and police helicopters makes it difficult for the Philippine government to keep up with rapid marijuana re-cultivation. The New People's Army (NPA) insurgent group control and protect most marijuana plantation sites. Most of the marijuana produced in the Philippines is for local consumption, with the remainder smuggled to Korea, Japan, Malaysia, and Taiwan.

Methylenedioxy-methamphetamine (MDMA) Ecstasy is gaining popularity among young expatriates and affluent members of Philippine society. Although there was no significant increase in seizures during 2007, there is a reported MDMA smuggling organization operating in Mindanao, in the southern region of the country. PDEA reports an increase in the number of dealers operating in the Manila metropolitan area.

According to the DDB, while there are no reports of Ketamine abuse in the country, intelligence indicates the presence of transnational drug groups that utilize the country as a venue for the production of Ketamine powder for export to other countries.

III. Country Actions Against Drugs In 2007

Policy Initiatives. The administration of President Gloria Macapagal Arroyo has pledged to continue to concentrate on the full and sustained implementation of counternarcotics legislation and the PDEA as the lead counternarcotics agency. In 2002, President Arroyo created by executive order the Philippine National Police (PNP) Anti-Illegal Drugs Special Operations Task Force (AIDSOTF) to maintain law enforcement pressure on narcotics trafficking while PDEA became fully functional by 2007. In 2006, PDEA began training its first new agent academy class, which provided approximately 55 new newly trained PDEA agents in February 2007. A second class of 200 new agents began training in November 2007; U.S. DEA agents from Manila support PDEA's training goals by serving as adjunct instructors in the new agent courses and in-service classes for existing PDEA personnel.

In mid-2007, the Secretary of the Department of Interior and Local Government ordered the then-Chief of PNP to recall over 600 officers who were seconded to PDEA. Only a small number of PNP officers were allowed to remain in PDEA temporarily, primarily in the headquarters unit and special teams, drastically reducing PDEA's investigative capability in many provinces. For example, there is now only one PDEA agent in Region I (Ilocos Norte, Ilocos Sur, La Union provinces), the primary area for export of marijuana.

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 2007, cities, towns, and barangays (neighborhoods) continued to utilize counternarcotics law enforcement councils, as mandated by NADPA, to conduct community awareness programs, such as rallies, seminars, and youth activities.

The GRP has institutionalized a drug-testing program (urinalysis) for law enforcement personnel, students, drivers, firearms owners, and workers. Additionally, the GRP has promulgated a national drug-free workplace program, which provides for random drug testing of employees, and assistance for employees who admit to having a drug problem.

Law Enforcement Efforts. Counternarcotics law enforcement remains a high priority of the GRP. Lack of resources continues to hinder operations, but law enforcement efforts are relatively effective, given low funding levels. 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 2007. Significant successes included the seizures of a number of clandestine laboratories and warehouses.

PDEA reports that in 2007, authorities seized 368.82 kilograms of methamphetamine, which they valued at \$44.978 million (at PHP5,000 per gram and PHP41/\$1), 31.72 kilograms of Ketamine, which they valued at \$12,222,848.17 million (at \$100 per gram), 1,204 kilograms of processed marijuana leaves and buds, which they valued at \$734,472 (at \$0.50 per gram), and 2.528 million plants (including seedlings), which they valued at \$11.66 million (at \$4.60 each). Philippine authorities claimed to have seized total narcotics worth approximately \$58,343,301, arrested 10,293 people for drug related offenses, and filed 3,359 criminal cases for drug crimes in 2007. By comparison, 8,616 individuals were arrested in 2006 and 9,040 cases were filed in court in 2007. Out of 13,667 drug cases filed from 2003 to 2007, only 4,790 led to convictions (most of which were cases of simple possession). The rest were either acquitted or dismissed. PRC and Taiwan-based traffickers remain the most influential foreign groups operating in the Philippines. In September 2007, the PNP recovered 246 kilograms of high-grade “shabu” from an overturned vehicle on the South Luzon Expressway, south of Manila; PNP estimated the potential street price of the methamphetamine to be P1.23 billion (\$ 27.33 million).

The Philippine authorities dismantled nine clandestine methamphetamine mega-laboratories and 13 warehouses in 2007. 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; and c. The relative ease, increased profit, and lesser danger of importing precursor chemicals for methamphetamine production (ephedrine/pseudo-ephedrine), compared to importing the finished product.

Along with a nearly 80 percent loss of its investigative manpower in July 2007, the lack of a functioning laboratory remains a significant operational weakness for PDEA, as in previous years. Dismissals and resignations in early 2007 have also decreased the number of experienced staff at the laboratory. In addition, the lab lacks basic equipment. The Japanese International Cooperation Agency donated a sophisticated gas chromatograph mass spectrometer scanner to PDEA in 2006, but the capacity of the PDEA lab has not been fully developed; many exhibits are analyzed at the PNP crime laboratories, particularly in the provinces. In addition, the lack of a functioning lab means there is no adequate storage facility for evidence; currently, PDEA stores seized drugs and chemicals (some highly toxic) in shipping containers in the headquarters parking lot. PDEA recently selected an experienced, fully qualified forensic chemist to take over operations and develop standard operating procedures; this was the first vital step in creating a credible, functional laboratory service.

Pervasive problems in law enforcement and criminal justice system such as corruption, low morale, inadequate resources and salaries, and lack of cooperation between police and prosecutors also hamper drug prosecutions. The slow process of prosecuting cases not only demoralizes law enforcement personnel but also permits drug dealers to continue their drug business while awaiting court dates. GRP statistics in 2007 showed only a 35 percent conviction rate in drug cases; the leading cause for dismissal of cases is the non-appearance of prosecution witnesses, including police officers. By the time a case gets to trial, witnesses have often disappeared, or been persuaded through extortion or bribery to change their testimony.

In 2003, the President created the Anti-Illegal Drugs Special Operation Task Force within the Philippine National Police, and the Anti-Illegal Drugs Task Force within the National Bureau of Investigation to permit those agencies to support PDEA’s counternarcotics efforts. These task forces have proven to be highly effective, having conducted several of the most significant seizures and arrests. They require an annual Memorandum of Agreement with PDEA to remain in

compliance with the law. The 2008 agreement is stalled, however, thus jeopardizing on-going investigations and GRP counternarcotics goals.

The Comprehensive Dangerous Drug Act prohibits plea-bargaining in exchange for testimony once a suspect has been charged; this concept conflicts with standard practices in the U.S. and other Western countries. There is no incentive for a defendant to plead guilty and offer testimony against superiors in the drug trafficking organization, so investigations in the Philippines generally end with the first arrests. Often, runners and street dealers are the only ones charged, and they have no motive to give up their sources and patrons. This is a significant weakness in the Comprehensive Dangerous Drug Act.

Current Philippine laws regarding electronic surveillance and bank secrecy prevent Philippine enforcement agencies from using electronic surveillance techniques, and restrict access to bank information of suspected drug traffickers. 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. Hence, most drug arrests result from information from disgruntled drug trafficking insiders who voluntarily give leads to the Philippine authorities.

The terrorist Abu Sayyaf Group (ASG) and New People's Army (NPA) are directly 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. Philippine police and military officials report 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; many ASG members are drug users themselves. Likewise, NPA cadres throughout the country earn money to feed their members by providing protection to drug traffickers and marijuana cultivators.

Additionally, corruption and inefficiency in the judicial process encourage foreign traffickers to establish their clandestine laboratories in the Philippines vice other countries in Asia. They are less likely to be caught, particularly since their communications cannot be intercepted, and if they are arrested, they are unlikely to be convicted.

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 the Comprehensive Dangerous Drug Act (CDDA), which clearly prohibits GRP officials from laundering proceeds of illegal drug actions. Four PDEA employees were arrested in 2006 for the theft of seven kilograms of seized methamphetamine from PDEA headquarters. These personnel have been detained and charges are still pending against them. Ten PDEA and PNP AIDSOTF officers were arrested in October 2006 for conducting illegal raids, and for kidnapping the subjects of those raids. Both the PNP and PDEA have divisions for internal policing, for corruption, and other violations of policy and law. There are strong indications that drug money is 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 drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. However, a city mayor from Quezon province was convicted in 2007 on charges from a 2001 drug trafficking investigation, and is now serving a term of life imprisonment. Numerous other active and former

politicians and officials, some of them senior, have been implicated in drug trafficking and money laundering, but have yet to be charged.

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 smuggling of migrants. 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 has signed the UN Convention Against Corruption.

Cultivation/Production. DDB reports that there are at least 60 marijuana cultivation sites spread throughout the mountainous areas of nine regions of the Philippines, compared with PDEA's estimate of 120 sites in 2006. Using manual techniques to eradicate marijuana, various government entities claim to have successfully uprooted and destroyed 2.536 million plants and seedlings in 2007, compared with 2.713 million plants and seedlings in 2006.

Drug Flow/Transit. The Philippines is a narcotics source and transshipment country. Illegal drugs and precursor chemicals enter and leave the country through seaports, economic zones, and airports. The Philippines has 7,000 islands and over 36,200 kilometers of coastline. Vast stretches of the Philippine coast are virtually unpatrolled and sparsely inhabited. Traffickers often use shipping containers, fishing boats, and cargo vessels (which off-load to smaller craft) to transport multi-hundred kilogram quantities of methamphetamine and precursor chemicals. AFP and law enforcement marine interdiction efforts are made ineffective by a lack of intelligence sharing and basic resources such as fuel for patrol vessels. Commercial air carriers and express mail services remain the primary means of shipment to Guam, Hawaii, and to the mainland U.S., with a typical shipment size of one to four kilograms. One unique case involved female airline passengers carrying methamphetamine to Guam, Hawaii, and California on their person. There has been no notable increase or decrease in transshipment activities in 2007.

Domestic Programs and 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, the implementation of random drug testing for secondary and tertiary students; mandatory drug testing for military and law enforcement personnel, and driver's license and firearm license applicants; and other demand-reduction classes. Abusers who voluntarily enroll in treatment and rehabilitation centers are exempt from prosecution for illegal drug use. The southern Philippines enjoys a robust, though underfunded Drug Abuse Resistance Education (DARE) program in both public and private elementary schools. For instance, in the conflicted southern Mindanao region, which suffers from a high rate of methamphetamine abuse, the DARE program promotes healthy behavior in children and positive police-community relations.

IV. U.S. Policy Initiatives And Programs

U.S. Policy Initiatives. The USG's main counternarcotics assistance goals in the Philippines are to: a. Work with local counterparts to provide an effective response to counter the still-growing clandestine production of methamphetamine; b. Cooperate with local authorities to prevent the Philippines from becoming a source country for drug trafficking organizations targeting the United States market; c. Promote the development of PDEA as the focus for effective counternarcotics enforcement in the Philippines; and d. Provide ILEA, JIATF-West, and other drug-related training for law enforcement and military personnel.

Bilateral Cooperation. The U.S. assists the Philippine counternarcotics efforts with training, intelligence gathering and fusion (coordination centers), and infrastructure development.

In July 2005, the DEA Manila Country Office and Joint Inter-Agency Task Force-West (JIATF-W) began to develop a network of drug information fusion centers in the Philippines. The primary facility, the Maritime Drug Enforcement Coordination Center (MDECC) is located at PDEA Headquarters in Quezon City. There are three satellite centers, called Maritime Information Coordination Centers (MICCs), located at the headquarters of the Naval Forces Western Mindanao, Zamboanga del Sur (southwestern Mindanao), Coast Guard Station General Santos City (south-central Mindanao), and at Poro Point, San Fernando, La Union (northwestern Luzon). These centers are intended to serve as regional collection points for information about drug smuggling and other maritime security issues, and provide actionable target information that law enforcement agencies can use to investigate, interdict, and prosecute criminal organizations. In February 2006, a draft executive order was submitted to the Office of the President for signature, requiring all Philippine government agencies involved in maritime security and counternarcotics operations to comply with an earlier Memorandum of Agreement and partner in the Maritime Drug Enforcement Coordination Center (MDECC) project; the Philippine Drug Enforcement Agency, Philippine Coast Guard, and National Intelligence Coordinating Agency have voluntarily assigned representatives to the MDECC, but the Armed Forces of the Philippines (particularly Philippine Navy) await the executive order.

The Road Ahead. The USG plans to continue work with the GRP to promote law-enforcement institution building and encourage anti-corruption mechanisms via JIATF-West programs, as well as ongoing programs funded by the Department of State (INL and S/CT, and USAID). Strengthening the bilateral counternarcotics relationship serves the national interests of both the U.S. and the Philippines.

Singapore

I. Summary

The Government of Singapore (GOS) enforces stringent counternarcotics policies through strict laws, including the death penalty and corporal punishment, 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 potentially an attractive target for money launderers and those engaged in drug transshipment. Singapore is widely recognized as one of the least corrupt countries in the world. Corruption cases involving Singapore's counternarcotics and law enforcement agencies are rare, and their officers regularly attend U.S.-sponsored training programs as well as regional forums on drug control. Singapore is 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 illicit drugs or precursor chemicals, it is one of the busiest transshipment ports in the world. The sheer volume of cargo passing through makes it likely that some illicit shipments of drugs and chemicals move undetected. With few exceptions, Singapore does not screen containerized shipments unless they enter its customs territory. Neither Singapore Customs nor the Immigration and Checkpoint Authority (ICA) keep data on in-transit or transshipped cargo unless there is a Singapore consignee involved in the shipment.

According to GOS statistics, the number of drug abusers arrested in 2006 increased 34.8 percent to 1,218, up from 793 in 2005. The change in part reflects additional enforcement actions related to amendments made to the Misuse of Drugs Act enacted in August 2006. The number of first-time offenders in Singapore increased slightly in 2006, with 477 arrests compared to 463 in 2005. Nearly half (49 percent) of drug abusers used synthetic drugs, including Ketamine, Methamphetamine, MDMA (Ecstasy), Erimin-5, and Nimetazepam. Buprenorphine (Subutex) users accounted for 31 percent, and heroin offenders for 9.7 percent, of total drug abusers.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Singapore continues to pursue a strategy of demand and supply reduction for drugs. The GOS 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 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.

Singapore has continued efforts to curb synthetic drug abuse, of which Ketamine is the most prevalent. Amendments made to the Misuse of Drugs Act in 2006 designated Ketamine as a Class A Controlled Drug and increased penalties for trafficking accordingly. Anyone in possession of more than 113g of Ketamine is presumed to be trafficking in the drug and can face maximum penalties of 20 years imprisonment and 15 strokes of the cane.

Amendments to the Misuse of Drugs Act also established long-term imprisonment penalties for repeat synthetic drug abusers. Those arrested for a third time are subject to five to seven years imprisonment and three to six strokes of the cane; and seven to 13 years imprisonment and six to 12 strokes of the cane for subsequent offenses. Singapore's long-term imprisonment regime, first introduced in 1998, is thought to have helped curb the country's heroin use.

Additional amendments to the Misuse of Drugs Act classified Buprenorphine, the active ingredient in Subutex, as a Class A Controlled Drug. This means that, unless dispensed by a licensed physician or practitioner, the importation, distribution, possession and consumption of Subutex is a felony offense. Subutex, first introduced by the Ministry of Health in 2000, is a heroin substitute clinically used in the detoxification/rehabilitation of heroin addicts. Drug abusers were found to be abusing Subutex by mixing it with other drugs, mainly Dormicum, a prescription sleeping pill. Buprenorphine was the most commonly abused drug in Singapore in 2006, comprising more than one-third of total narcotics offenders.

Law Enforcement Efforts. Arrests for drug-related offenses increased 34.8 percent, from 793 arrests in 2005 to 1218 arrests in 2006, a reflection of new enforcement measures under the amended Misuse of Drugs Act. These statistics include persons arrested for trafficking offenses, possession, and consumption. Nearly 46 percent of all drug arrests involved synthetic drugs, including Nimetazepam (14.9 percent); Ketamine (15.3 percent); Methamphetamine (10.2 percent); and MDMA or Ecstasy (5.5 percent). Non-synthetic drug-related arrests included marijuana (10 percent) and heroin (9.7 percent). Singapore recorded no cocaine-related seizures or arrests in 2006. Of the total arrests, 477 involved new drug abusers.

In 2006, authorities executed 52 major operations, during which they dismantled 25 drug syndicates. A majority of these arrests were conducted during sweeps of drug distribution groups, which were infiltrated by undercover Singapore narcotics officers. CNB officers frequently perform undercover work, purchasing small, personal-use amounts of narcotics from generally low and mid-level traffickers and drug abusers. These sweeps often produce additional arrests when subjects present at arrest scenes test positive for narcotics in their system.

Singapore's CNB seized the following quantities of narcotics in 2006: 6.1 kg of heroin; 14.9 kg of cannabis; 4,136 tablets of MDMA; 0.5 kg of crystal Methamphetamine; 22 tablets of tablet Methamphetamine; 5.3 kg of Ketamine; 38,230 Nimetazepam tablets; and 6,432 Buprenorphine tablets.

Corruption. Singapore's Corruption Practices Bureau (CPB) actively investigates allegations of corruption at all levels of government. Neither the government nor any senior government officials is thought to 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 counternarcotics laws. Its officers and other elements of the Singapore Police Force 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, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Singapore and the United States continue to cooperate in extradition matters under the 1931 U.S.-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. 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 2007.

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, although Singapore is not a known transit point for illicit drugs or precursor chemicals. 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 creates enforcement challenges. Singapore Customs authorities rely on intelligence to uncover and interdict illegal shipments. They reported no seizures of transshipment or transit cargoes involving illicit narcotics shipments in 2006. GOS officials have been reluctant to impose tighter reporting or inspection requirements at the port, citing concerns 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, primarily as part of an enhanced posture to combat terrorism and control the proliferation of weapons of mass destruction (WMD) and their precursors. Singapore became the first Asian port to join the Container Security Initiative (CSI) in 2003, under which U.S. Customs personnel prescreen U.S.-bound cargo. Singapore also participates in other counterterrorism-related programs such as the Proliferation Security Initiative, the Megaports Initiative, and the Secure Freight Initiative. The country's new export control law went into effect in 2003, and it is implementing an expanded strategic goods control list that takes effect in January 2008. While these initiatives aim to prevent WMD from entering the United States, the increased scrutiny and information they generate could also aid drug interdiction efforts.

Singapore is a major regional aviation hub. Changi International Airport handled 35 million passengers in 2006. The Changi Airfreight Center is one of the world's busiest and operates as a Free Trade Zone where companies can move, consolidate, store or repack cargo without the need for documentation or customs duties. CNB seized narcotics at Changi Airport in 2006, including a 20-kilogram shipment of marijuana smuggled from Johannesburg, South Africa.

Domestic Programs (Demand Reduction). Singapore uses a combination of punishment and rehabilitation of first-time drug offenders. Rehabilitation of drug abusers typically occurs during incarceration. 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. The United States and Singapore enjoy good law enforcement cooperation, in particular under the Drug Designation Agreement, which provides a basis for sharing the forfeited proceeds of crime in joint investigations. In 2006, approximately 45 GOS law enforcement officials attended training courses at the International Law Enforcement Academy (ILEA) in Bangkok on a variety of transnational crime topics. The GOS has cooperated with the

United States and other countries in the forfeiture of drug-related proceeds discovered in Singapore banks, including the equitable sharing of seized and forfeited drug-related funds with the United States.

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 and 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 en route 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, which 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. 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 continues to be the most widely abused drug, while marijuana remains popular as well. Heroin and cocaine are only sporadically seen in the ROK. Club drugs such as Ecstasy and LSD continue to be popular among college students. In early 2007, ROK authorities discovered a mobile clandestine lab in South Korea that two individuals had been using to produce small amounts of methamphetamine from legally-obtained cold medicines. In response, the South Korean government implemented stricter controls on the purchase of over-the-counter medicines containing ephedrine and pseudoephedrine, requiring customer registration for quantities greater than 720 mg (a three-day standard dose).

III. Country Actions Against Drugs 2007

Policy Initiatives. In 2007, the Korean Food and Drug Administration (KFDA) continued to implement stronger precursor chemical controls under amended legislation approved in 2005. The KFDA continued its efforts to educate companies and train its regulatory investigators on the enhanced regulations and procedures for monitoring the precursor chemical program. The KFDA also implemented in 2007 new regulatory oversight procedures to track and address diversion of narcotics and psychotropic substances from medical facilities and emerging patterns of abuse in South Korea of additional substances, including gamma butyrolactone (GBL), psychotropic-containing appetite suppressants, and the veterinary anesthesia Ketamine.

Law Enforcement Efforts. In the first nine months of 2007, South Korean authorities arrested 878 persons for narcotics use, 6,041 persons for psychotropic substance use, and 591 persons for marijuana use. ROK authorities seized 18 kg of methamphetamine. Ecstasy seizures increased to 18,151 tablets from 319, approaching previous levels before 2004 (20,385 tablets). South Korean authorities seized 19.6 kg of marijuana.

Corruption. There were no reports of corruption involving narcotics law enforcement in the ROK in 2007. 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 attachés 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 six months of 2007, local authorities seized 274 marijuana plants, down significantly from 3,783 in the first nine months of 2006. 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 13,927 poppy plants in the first six months of 2007.

Drug Flow/Transit. Few narcotic drugs originate in South Korea. The exportation of narcotic substances is illegal under South Korean law, and none are known to be exported. However, the ROK does produce and export the precursor chemicals acetone, toluene, and sulfuric acid. Transshipment through South Korea's ports remains a serious problem. ROK authorities recognize South Korea's vulnerability as a transshipment nexus and have undertaken greater efforts to educate shipping companies of the risk. ROK authorities' ability to directly intercept the suspected transshipment of narcotics and precursor chemicals has been limited by the fact that the vast majority of the shipping containers never enter ROK territory. Nonetheless, the ROK continued its international cooperation efforts to monitor and investigate transshipment cases. In the previous year, ROK authorities and the Seoul DEA Country Office completed a modified controlled delivery of crystal methamphetamine, which was originally intended for transshipment through South Korea from China to Guam. These efforts resulted in the dismantling of an international crystal methamphetamine organization in the U.S. and South Korea. Redoubled efforts by the Korean Customs Service (KCS) have resulted in increased seizures of methamphetamine and marijuana (12.4 kg and 7.7 kg respectively in the first 6 months of 2007) transported by arriving passengers and through postal services at South Korea's ports of entry. Most methamphetamine smuggled into South Korea comes from 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. ROK authorities also report increased instances of marijuana use among the foreign population in South Korea in recent years. These reports coincide with increased law enforcement efforts targeting this segment of the population.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives and Programs. The U.S. Embassy's Drug Enforcement Administration (DEA) 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 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. In 2007, 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, KCS, Korean National Intelligence Service (KNIS), and the Korean National Police Agency (KNPA) in attendance. 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. South Korean authorities also indicate a growing concern about the importation of narcotics, psychotropic drugs, and illegal medicines purchased via the internet, predominately from web sites maintained in the United States. In the first nine months of 2007, South Korean authorities intercepted 341 internet-based drug purchases. In response, Korean authorities established a Memorandum of Understanding with a number of Korean internet portal sites to allow the KNPA to track and intercept such purchases. The South Korean government is currently seeking further international cooperation to better navigate the legal complexities surrounding the prosecution of transnational cyber crimes. The DEA Seoul Country Office will continue its extensive training, mentoring, and operational cooperation with ROK authorities.

Taiwan

I. Summary

Domestic usage and seizures of psychotropic drugs like Ketamine and MDMA increased in Taiwan in 2007, but there is no evidence to suggest that Taiwan is reverting to a transit/transshipment point for drugs bound for the U.S. 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 and methamphetamine in 2007, 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. 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 and passed 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 anti-narcotics 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, Thailand and Burma remain the primary sources of drugs smuggled into Taiwan. In 2007, 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 2007

Policy Initiatives. Taiwan's Legislative Yuan (LY) again failed to enact any new counternarcotics legislation in 2007 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 was not enacted during 2007, however, a continued effort is being made to encourage the LY to implement such legislation. A proposal aimed at establishing a unified drug enforcement agency modeled after the U.S. Drug Enforcement Administration (DEA) remains in the preliminary proposal stages. However, within the Executive Yuan (EY), an Anti-Drug Council was established to coordinate and approve an island-wide counternarcotics strategy.

In June 2007, the Taiwan Ministry of Justice hosted a National Drug Control Conference and International Drug Control Symposium. This event brought together experts from law enforcement, academia, and health care from several different countries. Representatives from the DEA Hong Kong Country Office and the DEA Bangkok Regional Office were invited and participated in this event.

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) and Customs all contributed to counternarcotics efforts in 2007. MJIB, NPA/CIB, and Coast Guard Administration continue to cooperate on joint investigations and openly share information with their DEA counterparts.

In September 2007, Taiwan authorities, with less than a day's notice, detained a U.S. fugitive transiting Taiwan en route to Vietnam and deported him back to the United States to stand trial on a charge of conspiracy to manufacture and distribute marijuana.

In October 2007, a joint investigation involving MJIB, the DEA's Hong Kong and Singapore offices, and Indonesian authorities culminated in the seizure of a large-scale crystal methamphetamine clandestine laboratory in Batam, Indonesia. This successful multi-lateral investigation thwarted the production of thousands of kilograms of crystal methamphetamine, and led to the dismantling of this major trafficking syndicate that is believed to have had a significant impact on crystal methamphetamine distribution within the region. In 2007, MJIB representatives traveled to several East Asian countries seeking cooperation and exchanging intelligence with foreign narcotics agencies to take preemptive steps in tracking the sources of drugs in an effort to dismantle the organizations responsible for importing drugs into Taiwan. Furthermore, the NPA/CIB has stationed agents in other countries such as Thailand, Malaysia, and Indonesia to enhance international cooperation in the counternarcotics effort in the East Asian region.

From September 2006 through September 2007, Taiwan authorities seized 159.8 kilograms of heroin/cocaine, 699.2 kilograms of marijuana/MDMA/amphetamine, 1560.1 kilograms of Ketamine/nimetazepan, and 623.3 kilograms of ephedrine.

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 2007.

Agreements. In 1992, AIT and its counterpart, TECRO, signed a Memorandum of Understanding on Counternarcotics Cooperation in Criminal Prosecutions. In 2001, AIT and TECRO signed a Customs Mutual Legal Assistance Agreement. In March 2002, the AIT-TECRO Mutual Legal Assistance Agreement (MLAA) entered into force and remains the primary avenue for enforcement and other legal cooperation.

Drug Flow/Transit. Thailand and Burma 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 and then smuggled into Taiwan and other international markets.

Fishing boats, cargo containers and couriers remain the primary means of smuggling these types of drugs into Taiwan. There have also been 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 2007, but the use of psychotropic drugs like Ketamine and MDMA has increased. Seizures of both domestically-produced methamphetamine and methamphetamine that was imported from the PRC remained at the same levels in 2007.

Domestic Programs/Demand Reduction. 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. Working with the local authorities to prevent Taiwan from reverting to its earlier status as a 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 December 2006, the DEA and U.S. Customs and Border Protection conducted training for Taiwan Customs officers. The topics included information on regional drug trafficking trends, intelligence analysis, and concealment techniques. In March 2007, the DEA provided law enforcement tactical training to forty officers from MJIB. The training highlighted officer safety, operational planning, defensive tactics and weapon safety. In August 2007, the DEA also sponsored one NPA/CIB officer to attend a Clandestine Laboratory Training Seminar at the Justice Training Center in Quantico, Virginia.

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 2007, resulting in several significant drug seizures and arrests in Taiwan and throughout the region.

Road Ahead. AIT and DEA anticipate building upon and enhancing what is already an excellent working relationship with Taiwan's counternarcotics agencies. The DEA has provided training in several areas that included an advanced narcotics in-service seminar, clandestine lab safety, tactical safety, and precursor chemicals training. As a result of those efforts, Taiwan counterparts have pursued an island-wide forensic clandestine laboratory response capability. In the coming year, the DEA is already planning to conduct an International Asset Forfeiture Seminar in Taipei and further plans to conduct additional drug enforcement training. 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 for 2008. DEA will also continue to promote the Drug Signature Program to receive samples of drugs seized in Taiwan.

Thailand

I. Summary

Thailand is not a significant drug cultivation or drug production nation, but is now a net importer of drugs and also serves as a transshipment point. The trade and use of illicit drugs remains a serious problem for the Kingdom. 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 cocaine are mainly used by some affluent Thai and foreign visitors, and are of continuing concern.

Trafficking of illicit drugs through the Kingdom poses a continuing challenge to Thai law enforcement agencies. When suppression succeeds in targeted border areas, smugglers promptly change their routes in response. Heroin and methamphetamine continue to move from Burma across Thailand’s northern border for domestic consumption as well as export to regional and international markets. Methamphetamine, and some heroin, moves into Thailand from Burma not only via well-established northern trafficking routes, but increasingly via Laos across the Mekong River where it is then smuggled into Thailand’s northeastern border provinces. Drugs also travel southbound through Laos into Cambodia where they then enter Thailand across the Thai-Cambodian border, as well as being trafficked directly through Laos to Vietnam and Cambodia for regional export. Some opium enters Thailand from Laos, and large quantities of marijuana are moved into/through Thailand from Laos, while smaller quantities are smuggled from Cambodia. Small amounts of marijuana are grown domestically, as well. Thailand is a party to the 1988 UN Drug Convention.

II. Status of Country

There is, effectively, no cultivation or production of opium, heroin, methamphetamine or other drugs in Thailand today although various regional and international drug trafficking networks use Thailand as a transit nation as well as a market for sale of drugs produced in Burma and elsewhere.

Use of low-dosage methamphetamine tablets produced in Burma of caffeine, filler, and methamphetamine—known locally as “ya ba” or “crazy medicine”—slightly decreased from 2006 although “ya-ba” remains Thailand’s most-commonly abused illicit drug. Recent emergence of crystal methamphetamine or “ice” production in the Shan State of Burma worries Thai authorities, who believe that its more intense addictive nature could cause an increasing impact on domestic Thai consumption.

Thailand has for some time been a net importer of opium. The small quantities that are likely produced in Thailand cannot support even the domestic needs in traditional opium smoking ethnic regions, much less refining into heroin. Nevertheless, small pockets of local opium cultivation continue, usually by ethnic highland peoples attempting to supplement their meager incomes or meet their own consumption needs. 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 appeared to reduce poppy cultivation, although it was not eliminated by their self-proclaimed target date. A long-term decline in opium production over recent years has been accompanied by increasing production of methamphetamine tablets in Burma. These two developments have had an impact on drug abuse and transit patterns in Thailand, with less opiate trafficking and abuse, but growing abuse of synthetic drugs.

Small markets remain active in Thailand for Ecstasy and 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 affluent Thai and foreigners in large cities. Some of the cocaine that arrives in Thailand is for onward transit to regional countries such as China. While the cocaine market is still largely controlled by West African criminal organizations, South Americans have become engaged in Thailand and elsewhere in the region.

Marijuana is sold and consumed widely without much enforcement attention being paid to it, and a steady market continues to transit Thailand. It is still used by some as a flavoring ingredient in curries and noodle soup. In southern Thailand, the expanding use of Krathom is of concern to central government authorities, as chewing of the addictive leaf has become commonly accepted among many communities, which view it as an easy way to remain alert and ready for work. The Office of Narcotics Control Board (ONCB) reports that users also mix the Krathom plant leaf with cola drinks, cough syrup or tranquilizers to form a narcotic-laced drink. Krathom is reportedly popular due to its cheapness, difficulty to detect and broad acceptance by village society. 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. Most Ketamine used in Thailand is produced in India. Besides being a veterinary tranquilizer, it has hallucinogenic side effects and is sometimes used 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 because it is readily available and cheap.

Treatment data reported by the Thai government and United Nations Office of Drugs and Crime (UNODC) indicates that “ya ba” use remains widespread although Thai authorities report that usage continued to drop because of stronger law enforcement, in particular interception of traffickers along border areas, and some increased preference by users for other drugs such as the crystal form of methamphetamine “ice” and Ecstasy. Consumption rates and trafficking volumes of “ya ba” remain less than before former Prime Minister Thaksin’s controversial drug war of 2003, with prices today about three times higher than what they were prior to the “drug war.” Heroin and opium usage continued to decrease in 2007 as well. “Ice” usage increased in 2007, continuing a trend since 2004 although usage remains relatively limited, perhaps as a result of the much higher cost of this drug in comparison to “ya ba.” The use of Kratom (*Mitragyna speciosa*), a plant with addicting stimulant properties found in southern Thai provinces, increased as did marijuana usage.

There were also many crystal methamphetamine “ice” seizures, which Thai officials believe was destined largely for markets outside the country. “Ice” abuse in Thailand is still mostly limited to entertainment districts in the larger cities. “Ice” is smoked in a fashion similar to crack cocaine and costs 3,000 baht (USD \$88) per gram on the street. The “ice” that transits Thailand for regional markets usually goes to established markets in Malaysia, Indonesia, Singapore, the Philippines, Taiwan and Japan.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In late 2006, the Royal Thai Government’s National Narcotics Control Management Centre (NNCMC) launched a year-long program to target trafficking areas and groups deemed to be at high-risk of using illicit drugs. Targeted locations include Bangkok and five nearby central Thai provinces, five southernmost provinces, select border areas and former opium-growing areas in Thailand’s north where small poppy fields are nevertheless detected and destroyed, albeit infrequently. Youth, former addicts and ex-drug prisoners also were encouraged to join drug education and resistance programs. Nationwide local administrative organizations were enlisted to take these programs at the community level.

In October 2007, the Prime Minister endorsed a Cabinet decision to abolish a controversial three-year old incentive system by which investigators and their superiors in the Anti-Money Laundering Office (AMLO) received personal cash awards for successful seizures of illicit funds. The United States and others urged the RTG to rescind this system due to its likely negative influence on case development priorities, and the U.S. Government subsequently ceased providing training and other assistance to AMLO while the rewards system remained in place. Although the executive order that terminated this system contains a controversial grandfather clause which allows payments of incentives already approved, in practice few if any additional rewards payments are expected to be made.

Law Enforcement Efforts. Ongoing RTG efforts to interdict the trade and use of illicit drugs included the following measures in 2007: Stronger border interception; utilizing units of the civil service, police and army to patrol, operate check points and monitor high traffic areas; strengthening local communities by education and drug resistance programs; enhancing international assistance and operational cooperation; surveying and manual eradication of poppy cultivation areas; education and alternative livelihood support for northern hill-tribe villagers; and better statistical research and measurement of drug users, traffickers, and released prisoners. The Thai Office of Narcotics Control Board conducts year-round surveillance in upland areas of northern Thailand where new opium poppy plantings are most likely to occur, usually on plots of half an acre or less. The Office coordinates at least one manual opium eradication campaign per year that is carried out by Thai 3rd Army units that have become expert in this activity. These campaigns are conducted with modest financial support from the U.S. Mission, and with leads and intelligence developed by the DEA Bangkok Country Office.

Thailand's regional efforts at border interdiction and law enforcement coordination include continued policing of the northern and northeast border regions of the country. Improved cross-border operational communications along the Mekong River has been fostered in part by continuing scheduled joint Lao-Thai river patrols using U.S. Government-purchased small boats and other equipment. Lao and Thai border law enforcement authorities take advantage of improved, more frequent contacts and meetings as well as better communications tools to support operational cross-border communications. Thai law enforcement authorities employ extensive field training and modern equipment to respond to the border trafficking threat. A wide assortment of counternarcotics 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 constructed with the help of JITAF-West in northeastern Thailand further bolsters counter narcotics coordinating and operational capabilities within the Thai Police Narcotics Suppression Bureau (PNSB) network.

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.

Agreements and Treaties. Thailand is a party to the 1988 UN Drug Convention and the 1971 UN Convention on Psychotropic Substances. It has signed but not ratified the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Thailand 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. During calendar year 2007, Thai authorities extradited five individuals to the United States. The United States and Thailand also have had a bi-lateral Mutual Legal Assistance Treaty in force since 1993.

The ONCB continued its efforts to develop better operational relationships with counterpart agencies in Laos by expanding its network of Border Liaison Offices (BLO) along the Thai-Lao Mekong River Border. The BLO initiative was originally proposed to countries in the sub-region as well as China by the United Nations Office of Drugs and Crime (UNODC) in order to promote effective, timely bilateral law enforcement communications and cooperation between locally-based government law enforcement agencies. Thai authorities laud the program as having led to much more effective and timely operational communication with their Lao counterparts. Thailand also continues to host and fund frequent bilateral and multilateral border meetings with Laos, Burma, Cambodia, Malaysia and Vietnam in order to develop better law enforcement planning and operational cooperation. U.S. law enforcement assistance funds were used to provide modest support to Thailand's BLO network in 2007.

Drug Flow/Transit. Thailand remains an important regional transit country for heroin and methamphetamine entering the international marketplace, including the United States. Much of the heroin leaving Thailand is destined for regional consumption with small quantities transported and marketed in Taiwan, Australia or other countries. However, several criminal organizations still ship small amounts of heroin to New York, New Jersey, Chicago (and other Midwestern locations), the Pacific Northwest, and California. Drugs are transported into northern Thailand via couriers and small caravans along mountainous jungle trail networks, and are increasingly transshipped from Burma 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 Thai mail system also continues to be a common means for moving drugs within and out of the country. Burmese-based international drug trafficking organizations continue to produce hundreds of millions of tablets of methamphetamine ("ya ba") each year. A substantial portion of these end up in Thailand, and "ya ba" remains the number one drug of abuse in the Kingdom.

The increase in cocaine importation and trafficking in Thailand continued in 2007, and there are indications of smuggling cocaine from South America 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. Ecstasy trafficking continues to become more common in Thailand, though high street 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 moves much of its financial 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 caught in possession of quantities of drugs that clearly were 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. A highly visible and effective drug awareness and demand reduction program known as “To Be Number One” continues under the patronage and active involvement of a senior member of the Royal Family who is a highly respected figure in Thai society. This and other drug education and awareness campaign are conducted in cooperation with private organizations, NGO’s and public institutions and uses radio, television and printed media to reach intended audiences.

In 2007, the U.S. Mission provided financial support to a Thai Ministry of Health monitoring project in northern Thailand aimed at determining the effectiveness of treatment programs by interviewing former methamphetamine users. The program is conducted by a regional Thai government drug treatment hospital in Chiang Mai city, in collaboration with U.S. academic researchers who are funded by the U.S. National Institute for Health. The results gleaned from this research are intended to help the Thai and U.S. demand reduction community better understand how to better develop future treatment programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Thailand and the United States maintain an exemplary, long-standing partnership to combat drug trafficking and international crime. Thai-U.S. bilateral cooperation makes possible a broad range of investigations that are conducted jointly by Thai law enforcement agencies and the U.S. Drug Enforcement Administration (DEA), training programs that build capacity in anti-narcotics and other law enforcement areas and cooperation with third countries on a range of narcotics control and anti-transnational crime activities.

The United States continues to provide capacity-building and operational support to Thailand, under annual Letters of Agreement (LOA). Most visible among these activities is the continued operation of the jointly funded and managed Thai-U.S. International Law Enforcement Training Academy (ILEA) in Bangkok, which provides law enforcement operational and management skills training to government officials and police officers from 12 regional countries, plus Hong Kong. In addition to a full schedule of training programs for regional officials, ILEA conducts numerous bilateral skills-building courses and seminars dedicated to benefit Thai law enforcement and government agencies. These programs include training by Federal, state and local U.S. law enforcement professionals, purchases of non-lethal equipment and other commodities, and targeted 3rd-party funded training—all aimed at facilitating Thailand’s capacity to combat the illicit drug trade and transnational 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 drug trafficking organizations. Five SIU teams currently operate in Thailand, and all are focused on the most important trafficking groups in the region. An intensive forensics crime analysis training program was also begun in 2007 to enhance Thai police and Ministry of Justice ability to build better criminal prosecutions using crime scene and other forensic evidence. This program is funded by the Department of State and carried out by the Department of Justice, and

will be succeeded in 2008 by a more comprehensive program of assistance and capacity building to Thai law enforcement agencies.

The Road Ahead. The United States will continue to closely support the Thai Government’s efforts to interdict illicit drugs moving into the region and the United States, as well as collaborate on a broad range of international crime control issues via material, legal and technical support approaches. The U.S. will continue supporting Thai/Lao maritime border security by providing small river patrol boats and associated training/equipment, support Thailand’s effective work to improve border liaison with neighboring Laos, contribute to manual opium eradication programs, and provide modest support to the alternative livelihood programs for upland populations that have been carried out in northern Thailand by Thai agencies under Royal Patronage for three decades. The U.S. will contribute to 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 offer a comprehensive program of regional law enforcement training and cooperation, and build Thai agency technical skills in order to enhance capacity to fight transnational crime and illicit drug trafficking.

V. Statistical Table

Drug Seizures	2007 (as of 12/11)	2006	2005	2004
Methamphetamine (“ya ba”)	12.1 million tablets	13.7 million tablets	17.7 million tablets	31 million tablets
Crystal methamphetamine (“ice”)	45.1 kg	93.9 kg	322.6 kg	47 kg
Ketamine	1.6 kg	42.7 kg	47.5 kg.	163.9 kg
Opium seized: includes raw, cooked, and poppy plants	1,158.8 kg	787.6 kg	5,767.5 kg	1,595 kg
Heroin	256.8 kg	91.7 kg	954.6 kg	820 kg
Ecstasy	18.3 kg	6.8 kg	8.6 kg	31 kg
Ecstasy: expressed in another manner	73,182 tablets	27,800 tablets	34,368 tablets	124,980 tablets
Cocaine	15.8 kg	38.8 kg	6.78 kg	12.3 kg

Note: The seizure data above was gathered from the Asia and Pacific Amphetamine-Type Stimulants 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. Some changes have been made to previously published prior-year information in order to remove duplicate reporting and errors.

Vietnam

I. Summary

The Government of Vietnam (GVN) continued to make progress in its counternarcotics efforts during 2007. 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). 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. Vietnam is a party to the 1988 UN Drug Convention.

II. Status of Country

This year, the GVN claims about 37.5 ha of opium and 0.4 ha of cannabis under cultivation nationwide, all of which were eradicated. 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, but recently there was a seizure in Thailand of Safrole (sassafras oil-From which Ecstasy can be produced) manufactured in Cambodia. 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.

In 2007, the GVN continued to view other Golden Triangle countries, primarily Burma and Laos, as the source for most of the heroin supplied to Vietnam. GVN authorities are particularly concerned about rising ATS use among urban youth. During 2007, 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. Officials also noted, however, significant annual budget increases for counternarcotics efforts. 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 five to 15 individuals (who are often related to each other) usually do most narcotics trafficking.

III. Country Actions Against Drugs in 2007

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 2007, 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 2007. Officially sponsored activities cover every aspect of society, from schools to unions to civic organizations and government offices. In 2007, 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 nine months of 2007, there were 7,185 drug cases involving 9,343 traffickers. Total seizures include 123 kg of heroin, 53 kg of opium, 224 kg of cannabis, 24,300 ATS tablets, and 10,050 other tablets and ampoules of addictive pharmaceuticals. The numbers of cases and traffickers during the first six months of 2007 represent decreases of 22.09 and 34.5 percent, respectively, compared with the same period of 2005. Officials attributed the lower figures to increased admissions of addicts in drug treatment centers, greater effectiveness of counternarcotics forces on the borders and success at raising public awareness. During the first nine months of 2007, courts throughout the country tried 8,357 traffickers in 6,274 cases.

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 2007, cooperation levels between GVN law enforcement authorities and DEA's HCO continued to gradually improve, although DEA agents have not been officially permitted to work directly with GVN counternarcotics investigators. Cooperation was limited to receiving information and investigative requests from DEA, holding meetings and providing somewhat limited responses to DEA's requests. Thus far, counternarcotics police have declined to share detailed investigative information with DEA. During 2006 and 2007, DEA did receive operational cooperation on one money laundering investigation 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 2007 to prosecute officials, although the targets were relatively low-level. In September, two prosecutors of the Thai Nguyen Provincial Supreme People's Procuracy were arrested for alleged bribe taking in a drug case. Earlier, two drug police officers were also arrested on the same charge in the case.

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 37.5 ha of opium replanted nationwide. The total poppy cultivation in 2007 showed a significant decrease compared to the previous year. 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. Local ATS production relies on ATS powder brought from outside the country, which is then processed into pills. GVN law enforcement forces have seized some ATS-related equipment (i.e., pill presses). In January, Vietnam's first-ever prosecution for heroin production, involving 44 kg produced in 2001 and 2003, concluded with the court handing down eight death sentences and thirteen life imprisonments. Officials described the method of production used by the perpetrators as "simple and manual," and "not at a level sufficient to produce saleable heroin." As part of its efforts to comply fully with the 1988 UN Drug Convention, the GVN continued in 2007 to eradicate poppies when found and to implement crop substitution. There were, however, some reports of trafficking in heroin among hill tribes along the border with Laos.

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 2007 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, Ecstasy, and especially "ice" methamphetamine (crystal methamphetamine), and other drugs such as diazepam and Ketamine continue to worry the government. Such drugs are most popular in Hanoi, Ho Chi Minh City and other major cities. During 2007, numerous cases involving ATS trafficking and consumption were reported in the media, including mass arrests following raids on popular nightclubs.

Domestic Programs/Demand Reduction. According to the Standing Office for Drug Control (SODC), by the end of June 2007, there were 166,291 officially registered drug users nationwide. Included in that figure are 88,315 addicts living in the community, and 45,263 and 32,713 other addicts living, respectively, in MPS (Ministry of Public Security) prisons and MOLISA (Ministry of Labor, War Invalids and Social Affairs) treatment centers. Vietnam has 87 provincial-level treatment centers providing treatment to about 58,000 drug addicts annually, a six-fold increase compared with 2001. The number of "unofficial" (i.e., not acknowledged officially) drug users is at least 1.5 times higher. During the first six months of 2007, 45,572 drug users received treatment, including 8,303 new recipients. This year, the SODC reported that heroin accounts for 84.72 percent of drug use, while ATS use saw a significant increase, especially among the youth. Ministries distributed hundreds of thousands of counternarcotics leaflets and videos, and organized counternarcotics 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 53 percent of known HIV cases are IDUs. A 2006 national sentinel surveillance indicated a 23 percent HIV prevalence among IDUs. However, in some provinces, the HIV prevalence is reported at as high as 45 percent among IDUs. The Vietnamese National Strategy for HIV Prevention and Control, launched in March 2004, presents a comprehensive response to 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 126,543 HIV cases in the country. Out of that number, 24,788 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 FY07 funding, about \$65.8 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 seven current focus provinces (Hanoi, Hai Phong, Quang Ninh, Ho Chi Minh City, Can Tho, An Giang and Nghe An) where the epidemic is most severe; however, PEPFAR also supports HIV counseling and testing and community outreach for drug users and sex workers in 30 provinces. From 2005 through 2007, USG-supported programs have trained nearly 43 substance abuse counselors/case managers 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. Under the Vietnam-U.S. Counternarcotics Assistance LOA, U.S. Customs and Border Protection delivered contraband enforcement training to GVN customs, border guards, and maritime administration officials. This training included three field visits for GVN officials to U.S. ports to observe best practices and three in-country training courses held in major port cities. Also under the LOA, DEA International Training Units conducted an Airport Interdiction and Seizure Seminar in September. During July and August, DEA and JIATF-W sponsored two-week Officer Tactics and Safety training seminars for MPS and Border Army officials in Hanoi and HCMC. Between January and September 2007, using State Department law enforcement assistance, 44 Vietnamese law enforcement officers attended the International Law Enforcement Academy (ILEA) in Bangkok. The USG also provided port security and vulnerability assessment and container inspection training to Vietnam. The USG also contributed to counternarcotics efforts in Vietnam through the UNODC. The USG also contributed to counternarcotics efforts in Vietnam through the UNODC.

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 2007, 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. USG-GVN operational cooperation remains very limited pending the development of a legal framework in Vietnam to allow foreign law enforcement officers to participate in some manner in law enforcement investigations 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 first step in this direction, but is non-binding in character and directly

addresses law enforcement cooperation only at the central government level, rather than the operational or investigative agency level.

EUROPE AND CENTRAL ASIA

Albania

I. Summary

Albania is a transit country for narcotics traffickers moving primarily heroin from Central Asia to destinations around Western Europe. In 2007, seizures of heroin declined slightly, while seizures of other drugs remained high. Cannabis continues to be produced in Albania for markets in Europe, but cultivation has largely moved into the more remote mountain regions of Albania that the government has difficulty accessing. The Government of Albania (GOA), in response to international pressure and with international assistance, is confronting criminal elements more aggressively but continues to be hampered by a lack of resources and endemic corruption. Albania is a party to the 1988 UN Drug Convention.

II. Status of Country

Albania's ports on the Adriatic and porous land borders, together with poorly financed, poorly managed and under-equipped police, border security and customs controls, make it 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 2007

Policy Initiatives. The GOA 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 GOA outlawed the circulation of speedboats and several other varieties of water vessels on all of Albania's territorial waters for a period of three years, which appears to have slowed the movement of drugs by smaller waterborne vessels, particularly to Italy. 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 Commission in June 2006, and it has since been ratified by twelve European Union member countries. The EU noted in its 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, improved police techniques, and an increase in overall capacity. Drug seizure numbers from both Italy and Greece show a marked decline in drugs seized coming from Albania to these countries, which demonstrates the success of Albania's efforts. Albanian authorities organized major police operations and drug seizure operations throughout the country, particularly 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 September 2007, police arrested 315 persons for drug trafficking, and an additional 29 are wanted, similar numbers to the previous year. The police seized 125 kg of heroin, 3256 kg marijuana, and 12kg of cocaine through September. The police also destroyed 177,068 cannabis plants and 847 poppy plants, and confiscated one liter of hashish oil. Although the amount of heroin seized was nearly equal to last year, marijuana seizures declined sharply. The two-fold increase in the number of cannabis plants destroyed is seen as the reason for the decline of Albania's export of marijuana. This coincides with a noted decrease in the number of drugs seized by Italian authorities, who for

the first five months of 2007 had seized only 57kg of heroin coming from Albania and 40 kg of marijuana. The increase in the seizures of cocaine in Albania signals a slight rise in the trafficking of cocaine into Albania both for domestic consumption and for export to Greece and Italy. The rise in the cannabis seizures raises questions about the accuracy of the data in last year's report, when the government statistics suggested that the numbers from 2005-2006 had declined because of reduced cultivation.

During the first quarter of 2007, a record single seizure of heroin was made through the investigative efforts of the Tirana Anti-Narcotics Sector. Using methods and techniques learned from USG- sponsored training in narcotics investigations, including surveillance and information handling, the Anti-Narcotics Sector of the Tirana Directorate conducted a two-week investigation that resulted in the seizure of more than 25 kilograms of heroin, several luxury vehicles, weapons, and cell phones along with the arrest of two major drug traffickers. This seizure was the largest ever recorded by the Albanian Police.

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 government's anticorruption pledge, in May 2006, Albania ratified the UN Convention against Corruption. In 2007, the police and judiciary became more active in investigating government officials and law enforcement personnel for corruption. The office of the Prosecutor General reported that the number of criminal proceedings for offences related to illegal activity of public officials (corruption, abuse of duty, etc) increased by 28 percent during 2006. 304 persons were investigated for these offences, and 191 of them were sent to trial, 130 of whom were convicted and sentenced (a 55 percent increase compared to 2005). Of the overall 13 percent increase in cases proceeding to trial, a majority of the increase involved corruption, illegal government activity and trafficking.

The overall increased number of corruption cases suggests that authorities are cracking down on a tendency to "look the other way" to curry favor with criminals. Although these numbers are a significant improvement over 2005 and 2006, Albania continues to lack the judicial independence for truly unbiased proceedings and many cases are never resolved. One bright note is that toward the end of 2007 the government arrested several senior officials from the Tax Administration, and several others from the Ministry of Transportation and Telecommunications, including a Deputy Minister, on charges of corruption.

Agreements and Treaties. Albania is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. An extradition treaty is in force between the United States and Albania. Albania is a party to the UN Convention Against Transnational Organized Crime (TOC) and its protocols against migrant smuggling and trafficking in persons. The TOC Convention enhances the bilateral extradition treaty by expanding the list of offenses for which extradition may be granted. The U.S. submitted an extradition request to Albania in 2007 under this Convention with a successful result.

Cultivation and Production. With the exception of cannabis, Albania is not 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. 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 2007, and the trade in synthetic drugs remains virtually non-existent. 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. The trafficking in narcotics in Albania continues as one of the most lucrative illicit markets. Organized crime groups use Albania as a transit point for drugs 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 Afghanistan, which is smuggled via the "Balkan Route" of Turkey-Bulgaria-Macedonia-Albania to Italy, Montenegro, Greece, and the rest of Western Europe. A limited, but growing, amount of cocaine is smuggled from South America to Albania, both for domestic consumption and external distribution. Additionally, criminal networks are increasingly using ethnic Albanians to smuggle cocaine and heroin from other countries into Albania, Italy and Greece.

Domestic Programs (Demand Reduction). The Ministry of Health believes that drug use is on the rise, but has no reliable data about drug abuse. According to health professionals, the addict population is as large as 30,000 users and current registered drug use could be just the tip of the iceberg for Albania. The GOA has taken steps to address the problem with a National Drug Demand Reduction Strategy but is hampered by the inadequate public health infrastructure that 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 is the only facility in Albania equipped to handle overdose cases and is staffed by only three clinical toxicologists. This clinic has seen an average of 2000 patients per year over the past five years, and the number of cases has remained constant over this period. The clinic estimates that around 80 percent of the cases result from addiction to opiates, predominately heroin, and most were intravenous drug users. There were only two NGO's operating in Albania during 2007, which dealt with drug related cases. Albania has few regulations on the sale of benzodiazepines, which are sold over the counter at local pharmacies, and the domestic abuse of these medications is believed to be rising, though no data is available.

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 deep politicization at all levels of government resulting in the absence of a strong civil service class and thus many trainees are subject to reassignment during times of political transition. This was especially acute in changes in the Albanian State Police following the 2007 municipal elections. Between 2005 and mid-2006, almost 90 percent of all Chief Controllers from Albania's major border crossing points were transferred or removed from their posts and replaced by new personnel. In many cases, newly-assigned personnel had no apparent background, training or understanding of border functions.

The DEA and the FBI have conducted drug training and 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. ICITAP continued to offer the Anti-Narcotics and Special Operations Sectors full-time advisory support, an advanced level of training (in cooperation with the FBI) to assist in combating this illicit trade. ICITAP and State/INL continued to provide support for the GOA's anti-narcotic strategy and efforts through its activities within the International Consortium and the Mini-Dublin Group.

In 2007, OPDAT conducted six regional training programs, funded by State/INL, providing instruction to all judges handling criminal cases on new criminal laws and procedures enacted in 2004, following on its similar training of all prosecutors in 2005-2006. OPDAT and ICITAP worked with the Albanian Ministry of Interior, Ministry of Finance, General Prosecutor's Office, and State Intelligence Service to form an Economic Crime and Corruption Joint Investigative Unit (JIU) to improve the investigation and prosecution of economic crime and corruption, which formally began operations in September of 2007.

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 protect 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 2006 to attend the First International Symposium on Witness Protection, and participated in the follow-up conference on Witness Protection in Lyon, France in September 2007. With the assistance of OPDAT and ICITAP personnel who accompanied the Albanian officials, progress was made during the Lyon conference in securing regional witness protection agreements with other European countries.

The United States, through State/INL, 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. Part of the integrated border management initiative, formally approved by the Albanian Council of Ministers on 29 September 2007, included the establishment of an autonomous Border and Migration Department with direct command and control of all borderpolicing resources answerable to one central authority. 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 Albanian government has made 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 development of Albanian civil society have hampered progress. The U.S., together with the EU and other international partners, will continue to work with 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 the total amount of interdicted illegal drugs increased in the first nine months of 2007, the original base of cases was not large so 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 the 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.) The 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 illicit narcotics, according to the police, is not large. The most widely abused drugs are cannabis and opium. Heroin and cocaine first appeared in the Armenian drug market in 1996. Since the introduction of heroin the overall trend demonstrates an increase in its abuse, although heroin seizures declined 56 percent in the first nine months of 2007 (332.485 grams) compared to the first nine months of 2006 (762.38 grams). Cocaine seizures increased significantly, from 0.35 grams in the first nine months of 2006 to 172.8 grams in the first nine months of 2007. The total seizure amounts remain small, however, and the overall market demand for heroin and cocaine remains fairly small. The GOAM established an Interdepartmental Committee on Combating Drug Use and Drug Trafficking. Chaired by the Chief of Police, the Committee has not met for more than two years, indicating a failure on the government's part to effectively coordinate counternarcotics activities among Armenia's various agencies.

III. Country Actions Against Drugs in 2007

Policy Initiatives. There has been no new major legislation 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. The latter criminalized the illicit trafficking of drug manufacturing precursors (e.g. substances involved in the processing of heroin) and drug manufacturing equipment. Legislative changes may be enacted soon, however. A measure to expand probable cause in search and seizures and lengthen criminal penalties for engaging in the drug trade is currently working its way through the National Assembly. In addition, the Prosecutor General's office has proposed that minor drug use be decriminalized. Currently, drug use is a criminal offense that can result in jail time. The Prosecutor General's proposal would change that and make drug use an administrative offense, resulting in a fine. This legislation is also currently

before the National Assembly. Thus, if these two pieces of legislation both eventually passed, Armenia would focus on traffickers, and de-emphasize enforcement against drug users.

Law Enforcement Efforts. Preventive measures to identify and eradicate both wild and illicitly cultivated cannabis and opium poppy continued in 2007. In September and October the police conducted its annual massive search for hemp and opium poppy fields in the countryside, as well as distribution networks in the cities. In August, Armenian law enforcement agencies participated in “Channel,” a joint operation that in 2007 involved Russia, Ukraine, Kazakhstan, Belarus, Kyrgyzstan, Tajikistan, Uzbekistan, Finland, China, Azerbaijan, Georgia, Mongolia, Afghanistan, Poland, Latvia and Lithuania. The U.S. Drug Enforcement Administration also participated in Channel operations with observer status. During this exercise, the Armenian authorities gave 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, Police Internal Troops, Ministry of Defense, and the Prosecutor General’s Office) participate in this activity. The GOAM hopes to carry out “Channel” operations at least once more in 2008.

In the first nine months of 2007, the Armenian Police identified 702 violations of the criminal code dealing with illegal drug abuse and/or trafficking, compared to 703 such cases during a similar period in 2006, a statistically insignificant change. The GOAM claims that 330 individuals were involved in the 702 abuse and/or trafficking of illegal drug violations, compared to 394 individuals involved in the 703 cases in 2006. During the first six months of 2007, the GOAM seized 34.9 kg of illegal drugs, compared to 20.4 kg for the first six months of 2006, an increase of 42 percent. (Cannabis accounted for the vast majority of these seizures, 89 percent, while opium accounted for eight percent and heroin a little less than one percent.) Police sources attribute the increase in seizures 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 other factors indicate that the demand for illicit drugs, while small in comparison to other countries, is growing. 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. A World Health Organization (WHO) report claimed there were 9,000 intravenous drug users in 2006, up from 2,000 in 2001. The number of addicts treated at the Armenian Narcological Clinic, a drug treatment center, shows a steady increase: seven addicts sought treatment in 2001, 121 sought treatments in 2006, and 124 sought treatment in the first nine months of 2007. Undoubtedly, these numbers will increase even more if drug use is decriminalized. Moreover, anecdotal evidence indicates that the use of cocaine is more widespread than the seizure figures would indicate (172.8 grams in the first nine months of 2007). It is believed that cocaine is prevalent among the moneyed elite, and that the low interdiction and arrest rate for cocaine does not mean that the rich can hide their drugs better than the poor, but rather their money and influence preclude their arrest and prosecution. The Armenian Interagency Unit of Drug Profiling, funded by SCAD, operated from February 2005 until October of 2006. The unit collected information on passengers at Zvartnots International Airport and shared data on drug traffickers with law enforcement agencies. When the funding from SCAD dried up the GOAM failed to maintain the unit, although the police claim their airport unit works closely with the Border Guards and Customs services to identify traffickers. A new program scheduled to start in 2008, the Regional Integrated Border Management (RIBM) program, will centralize data in one place, giving all law enforcement agencies access to information on drug interdiction efforts.

Corruption. Corruption remains a problem throughout Armenia. While drug traffickers do not appear to have corrupted the system to an appreciable degree, numerous reports indicate that drug users, when found with drugs in their possession, often bribe cops to avoid arrest. 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. However, this unit has not shown any significant results. The GOAM 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.

Agreements And Treaties. Armenia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. 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. Armenia ratified the UN Convention against Corruption in March 2007.

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, 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 (heroin and opiates) and Georgia (opiates, cannabis and 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. There were also instances of small-scale importation from other countries in the past year. Most of these cases involved passengers arriving at the airport in Yerevan. For example, the synthetic opiate Subutex was found on passengers arriving from countries in Europe, particularly France, which has a large Armenian community. A criminal case was brought against five individuals accused of smuggling Ecstasy on flights from Istanbul. University students from India were charged with the sale of THC tablets brought from home.

Demand Reduction. The majority of Armenian addicts are believed to be using hashish, with heroin the second most abused drug. 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 SCAD program. The Drug Detoxification Center, part of the Armenian Narcological Clinic and funded by the Ministry of Health, 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 infrastructure and the establishment of a computer network that will enable Armenian law enforcement offices to access common databases. In 2007, the Department of State, through its Export Control and Related Border Security (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 the capacity building of Armenian law enforcement and will continue to engage the government on operational drug trafficking issues.

Austria

I. Summary

Austria remains primarily a transit country for illicit drugs and does not produce any illicit substances of its own. As in previous years, foreign criminal groups from former Soviet-bloc countries, Turkey, West Africa, and Central and South America, still dominate the organized drug trafficking scene in the country. Austria's geographic location along major trans-European drug routes allows criminal groups to bring drugs into the country. Production, cultivation, and trafficking by Austrian nationals, however, remain insignificant. Drug consumption in Austria is well below west European levels and authorities do not consider it to be a severe problem. The number of drug users is currently estimated at around 35,000. Cooperation with U.S. authorities continued to be outstanding during 2007. International cooperation led to significant seizures, frequently involving multiple countries.

In 2007, Austria continued its efforts to intensify regional police cooperation, particularly with regard to the Balkans. Austria also continued its year-long focus on providing policing know-how to countries in Central Asia. Austria is the seat of the United Nations Office for Drugs and Crime (UNODC) and has been a major donor for several years. Austria has been a party to the 1971 and 1988 UN drug conventions since 1997.

II. Status of Country

Despite a significant increase in drug users in Austria during 2007, the number of drug-related deaths increased only slightly, namely to a total of 197 for all of 2007. Authorities also confirm that the number of deaths from mixed intoxication continues to rise. According to police records, total violations of the Austrian Narcotics Act decreased. The latest prosecution statistics show 24,008 charges, a decrease of 9.39 percent from the previous year's total. Of these charges 1,317 involved psychotropic substances and 22,960 involved narcotic drugs. Ninety percent of the charges were misdemeanors. Austria's National Drug Coordinator estimates the number of total drug abusers at around 35,000. The number of users of MDMA (Ecstasy) remained largely stable in 2007. A 2006 Interior Ministry report states that the Ecstasy trafficking, to a large extent, is operated by Austrian rings. Usage of amphetamines rose during the past year. This is a Europe-wide trend as these substances become increasingly available in non-urban areas. According to a 2005 survey commissioned by the Health Ministry, approximately one-fifth of respondents admitted to consumption of an illegal substance at some time during their lives. Most respondents cited cannabis, with Ecstasy and amphetamines in second and third place respectively. Among young adults (ages 19-29), about 30 percent admitted "some experience" with cannabis at least once in their lifetimes. According to the study, 2-4 percent of this age group had already used cocaine, amphetamines, and Ecstasy, while 3 percent had experience with biogenetic drugs.

III. Country Action Against Drugs in 2007

Policy Initiatives. Throughout 2007, the Austrian government retained its no tolerance policy regarding drug traffickers while continuing a policy of "therapy before punishment" for non-dealing offenders. The Austrian government, heeding EU initiatives for stricter drug policies, introduced bills calling for stricter measures regarding certain types of abuses of the medical narcotics prescription system. According to critics, the controversial legislation would restrict prescriptions and infringe on patient privacy rights through increased surveillance of medical narcotics users. Austrian authorities are also pushing for stricter regulations regarding internet trade of illegal substances. Certain types of surveillance of illegal drug behavior is already possible under

a 2005 amendment allowing set up of cameras in high-crime public areas. Critics argue that this only moves the drug scene to other areas. The 2005 law also provides for the establishment of a “protection zone” around schools and retirement centers from which police may ban suspected drug dealers for up to thirty days.

During its EU presidency (January-July 2006), Austria initiated the EU’s “Partnership for Security,” with over fifty countries and organizations, including the U.S. and Russia, as participants. It reflects Austria’s strong, year-long focus on the Balkans. One element of this strategy is the “Police Cooperation Convention for Southeastern Europe,” which Austria co-signed. In May 2007, Austria headed the follow-up conference entitled “Drug Policing Balkans,” where high-level officials, including Embassy Vienna’s DEA representative, discussed drug smuggling along the Balkan route. In 2007, Austria held the co-chair for the Balkans region within the Dublin Group’s Regional Chair system. At the EU level, the GOA is also pushing for a European Narcotics Institute (European drug academy) styled along the lines of the U.S. NIDA. Austria, however, remains critical of the EU Drug Action Plan saying that it contains no evaluation of harm reduction measures. Throughout 2007, Austria maintained its lead role within the Central Asian Border Security Initiative (CABSI) and the Vienna Initiative on Central Asia (VICA). Vienna is the seat of the UN’s drug assistance agency, the United Nations Office for Drugs and Crime (UNODC). Austria contributed EUR 550,000 (\$790,000) to this organization in 2007. In past years, Austria has been working with the UNODC, the EU, and Iran to establish border control checkpoints along the Afghan-Iranian border in order to prevent drug trafficking, particularly in opiates. Within the UNODC, Austria also participates in crop monitoring and alternative development plans in Peru, Bolivia, Columbia, and Honduras.

Law Enforcement Efforts. Comprehensive seizure statistics for the previous year show an increase in seizures of cannabis, amphetamines, LSD, and psychotropic substances, and a decrease in Ecstasy, cocaine, and heroin. Experts stress that the degree of purity and concentration of Ecstasy, speed, and other illegal substances has become increasingly volatile, representing a growing risk factor. This is due, in large part, to the advanced technology used in drug laboratories. The labs use precursors, such as acetic anhydride and potassium permanganate, to produce illicit drugs. The latest drug report from the Interior Ministry states that Austria’s Precursor Monitoring Unit dealt with 157 cases in relation to precursors and clandestine drug laboratories—which represent a hardly noticeable decrease of 4.27 percent—compared to 164 cases in 2005. In 2007, two illegal drug laboratories were raided in Austria. A special training course on dismantling drug labs was held in cooperation with EUROPOL. The total street value of illicit drugs remained largely unchanged. One gram of cannabis sold for EUR 7.00 (\$10); one gram of heroin for EUR 80.00 (\$113); and one gram of cocaine for EUR 90.00 (\$127). Amphetamines sold for EUR 20.00 (\$28) per gram and LSD for EUR 30.00 (\$43) per gram.

Corruption. Austria has been a party to the OECD anti-bribery convention since 1999 and to the UN Corruption Convention since January 2006. The GOA’s public corruption laws recognize and punish the abuse of power by a public official. An amendment expected to become effective January 1, 2008 will substantially increase penalties for bribery and abuse of office offenses. As of fall 2007, there were no corruption cases pending involving bribery of foreign public officials. In October 2007, a court found a senior Vienna police official guilty of minor bribery charges, which are not drug related. As a matter of government policy, the GOA 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. 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. Austria is a party to the UN Convention Against Transnational Organized

Crime and its Protocol against Trafficking in Persons. An extradition treaty and mutual legal assistance treaty are in force between the U.S. and Austria.

Cultivation. Production of illicit drugs in Austria continued to be marginal in 2007. The Interior Ministry's annual report on drug-related crime noted a rise in private, indoor-grown, high-quality cannabis. Austria recorded no domestic cultivation of coca or opium in 2007.

Drug Flow/Transit. The Interior Ministry's drug report stresses that Austria is not a source country for illicit drugs, but remains a transit country. According to DEA's quarterly trafficking report, illicit drug trade by Austrian nationals is negligible. Foreign criminal groups (e.g. Turks, Russians, Albanians, Bulgarians, and citizens of the former Yugoslavia) carry out organized drug trafficking in Austria. The Balkan route is a particularly problematic entrance into the country. In addition to opiates, 90 percent of cocaine enters Austria by the Balkan Route. The illicit trade increasingly relies on Central and East European airports, including Vienna's Schwechat International Airport. Austrian authorities note that smuggling cocaine via luggage is on the decline, while body-carry and parcel shipments are on the rise. A continuing trend in Austria is for South African narcotics smugglers to use Caucasian women from former Soviet-bloc countries to smuggle drugs into Austria. The trafficking of Ecstasy products decreased slightly from previous years. However, GOA reports a noticeable increase of Austria being used as a transit country for Ecstasy coming from the Netherlands to the Balkans. Illicit trade in amphetamines and trading in cocaine increased. Criminal groups from Poland and Hungary were primarily responsible for this trade.

Domestic Programs/Demand Reduction. Austrian authorities and the public generally view drug addiction as a disease rather than a crime. This is reflected in relatively liberal drug legislation and in court decisions. The government remains committed to measures to prevent the social marginalization of drug addicts. Federal guidelines ensure minimum quality standards for drug treatment facilities. GOA's demand reduction program emphasizes primary prevention, drug treatment, counseling, and harm reduction measures, such as needle exchange programs. Ongoing challenges in demand reduction are the need for psychological care for drug victims and greater attention to older victims and immigrants.

Primary intervention 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 the classroom. Overall, youths in danger of addiction are primary targets of new treatment and care policies. Austria has syringe exchange programs in place for HIV and hepatitis prevention. Hepatitis B and C is commonplace among intravenous drug users at 59 percent. Policies toward greater diversification in substitution treatment (methadone, prolonged-action morphine, and buprenorphine) continued. Austria currently has approximately 8,000 people in rehabilitation programs. The government, however, remains skeptical regarding heroin substitution programs, arguing that there are better solutions.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cooperation between Austrian and U.S. authorities continued to be excellent in 2007. Several bilateral efforts exemplified this cooperation, including DEA support of Austria's Drug Policing Balkans initiative. Austrian Interior Ministry officials continued to consult the FBI, DEA, and DHS on how to update criminal investigation structures. In October 2007, the U.S. Embassy's LEGAT FBI Attaché spoke at a gathering of top-level Austrian and international security experts in Salzburg. Also in October 2007, Austrian Interior Minister, Guenther Platter, traveled to the U.S. to discuss, inter alia, drug trafficking and other forms of organized crime with USG experts. The U.S. Embassy also regularly sponsors speaking tours of U.S. counternarcotics experts in Austria.

The Road Ahead. The U.S. will continue to support Austrian efforts to create more effective tools for law enforcement. The U.S. will work closely with Austria within the framework of U.S.-EU initiatives, the UN, and the OSCE. The U.S. priority will remain the promotion of a better understanding of U.S. drug policy among Austrian officials.

Azerbaijan

I. Summary

Azerbaijan is located along a drug transit route running from Afghanistan and Central Asia to Western Europe, and from Iran to Russia and Western Europe. Domestic consumption and cultivation of narcotics as well as seizures have increased since 2006-2007. The United States has funded counternarcotics assistance to Azerbaijan through the FREEDOM Support Act since 2002. Azerbaijan is a party to the 1988 UN Drug Convention.

II. Status of Country

Azerbaijan's main narcotics problem is the transit of drugs through its territory, but domestic consumption is growing. Azerbaijan emerged as a narcotics transit route in the 1990s because of the disruption of the "Balkan Route" due to the wars in and among the countries of the former Yugoslavia. According to the Government of Azerbaijan (GOAJ), the majority of narcotics transiting Azerbaijan originates in Afghanistan and follows one of four primary routes to Western Europe and to Russia. 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, Ecstasy, hashish, cocaine and LSD. Domestic consumption continues to grow with the official GOAJ estimate of drug addicts reaching 18,000-20,000 persons. Unofficial figures are estimated at approximately 180,000 to 200,000, the majority of which is heroin addicts. Students are thought to be a large share of total drug abusers at 30-35 percent. The majority of heroin users is concentrated in major cities and in the Lankaran District (64.6 percent), which borders Iran. Drug use among young women has been rising.

II. Country Actions Against Drugs in 2007

Policy Initiatives. The GOAJ continued to refine 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 assumed the chairmanship of GUAM (Georgia-Ukraine-Azerbaijan-Moldova) in 2007 and has pushed sharing of counternarcotics information through the GUAM countries Virtual Law Enforcement Center (VLEC) in Baku. The VLEC was established with USG assistance. 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. In 2007 the Drug Enforcement Agency (DEA) increased its cooperation with Azerbaijan's Ministry of Internal Affairs and is developing strategies to further strengthen regional cooperation.

Law Enforcement Efforts. According to Ministry of Internal Affairs (MIA) information from January-October 2007, the MIA confiscated 107.2 kg of opium, 121 kg of marijuana, 67.6 kg of hashish, 58 kg of heroin and 1.1 grams of cocaine. The MIA statistics report that 95.3 percent of drug related crimes were solved. The MIA reported that one in seven crimes in Azerbaijan was related to the illegal trade in narcotics. During the reporting period, there was a 6.7 percent increase in crimes related to the illegal trafficking of narcotics and an 11.4 percent increase in crimes related to the sale of narcotics. Of the 1,659 people who were prosecuted for drug-related crimes in Azerbaijan, 95.5 percent were described as able bodied, unemployed people who were not in

school, 28.8 percent had a criminal record, 3.6 percent were women and 0.18 percent were underage children.

Corruption. As a matter of government policy, Azerbaijan does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions; however, corruption remains a significant problem in Azerbaijan and permeates the entire society. Several Azerbaijani prosecutors have attended 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.

Agreements and Treaties. Azerbaijan 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. 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 its role as a transit state, rather than as a significant drug cultivation site. Cannabis and poppy are cultivated illegally, mostly in southern Azerbaijan, but to a modest extent.

Drug Flow/Transit. Opiates originating in Afghanistan transit to Azerbaijan from Iran, or from Central Asia across the Caspian Sea. Drugs are also smuggled through Azerbaijan to Russia, then on to Central and Western Europe. Azerbaijan cooperates with Black Sea and Caspian Sea littoral states in tracking and interdicting narcotics shipments, especially morphine base and heroin. Caspian Sea cooperation includes efforts to interdict narcotics transported across the Caspian Sea by ferry. Law enforcement officials report that they have received good cooperation from Russia.

Domestic Programs. In 2007, Azerbaijan continued the anti-narcotics public service announcements begun in the summer of 2006, about the dangers of drug usage. The advertisements were aimed at a younger audience and were displayed in downtown Baku, in kiosks and on billboards.

IV. U.S. Policy Initiatives and Programs.

Bilateral Cooperation. In 2007, the U.S. Export Control and Related Border Security (EXBS) office 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 2007, EXBS sponsored border control and management courses for the SBS and SCC officers. Some of these courses provided participants with real-time, hands-on inspections and border control tactics at sea and in the field. Others 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 search tools and related equipment improved the Customs Contraband Teams' detection capabilities. A 2006 U.S. Customs and Border Protection assessment of Border Guard operations on the Iranian border prioritized the direction of U.S. assistance. The U.S. contribution of fencing, and construction materials to rebuild watchtowers, and vehicles significantly enhanced the Border Guards' ability to hamper illegal penetrations of Azerbaijan's southern border. During 2006, DTRA 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 which were delivered in early 2007. The facility will also be used for extended patrols by larger vessels from Baku. In August 2007, the Department of Justice International Criminal Investigative Training Assistance Program (DOJ/ICITAP) provided

a three-week high-risk entry course with mass spectrometer analysis and drug training. This capacity has already been put into use by the Minister of Internal Affairs, the Ministry of Justice and the Ministry of Health. A Customs Mutual Assistance Agreement is now in place.

The Road Ahead. The U.S. and Azerbaijan will continue to expand their efforts to conduct law enforcement assistance programs in Azerbaijan. While our assistance programs in Azerbaijan proper are strong, we have only a small window into what is happening in the Azerbaijani exclave of Nakhchivan or into activities in Nagorno Karabakh and the occupied territories. The increase in government revenues from the opening of the Baku-Tbilisi-Ceyhan oil pipeline has resulted in a significant inflow of cash into a developing economy with a high number of unemployed and underemployed young people; Azerbaijan's increasing wealth might well lead to increasing drug consumption under these circumstances. There are signs that an increased proportion of the budget of the Ministry of Internal Affairs is going into counternarcotics operations and seizures. Border control efforts have resulted in a few violent confrontations and increased casualties amongst security personnel and drug traffickers.

Belarus

I. Summary

Belarus continues to grow in importance as a drug-transit country and 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. The domestic drug market has shifted in recent years from plant-based narcotics to synthetic drugs. Illegal methadone use has increased and has begun to displace heroin. With help from other governments and NGOs, Belarus is improving its capabilities and legal framework to combat drug abuse and trafficking. However, corruption, lack of resources, and shortages of equipment continue to hinder progress. Belarus cooperates closely with the joint UNDP-European Union program BUMAD (Belarus, Ukraine, Moldova Anti-Drug Program), which works to reduce trafficking of drugs into the European Union and to bring those countries' drug policies in line with European standards. The program, which launched the final stage of its three-part project in February, seeks to develop systems of prevention and monitoring, improve the legal framework, and provide training and equipment. Belarus is a party to the 1988 UN Drug Convention.

II. Status of Country

Because of its porous borders and good transportation infrastructure, Belarus is increasingly used as a transit point for drug traffic. Belarus' customs union with Russia and the resultant lack of border controls between those two countries make drug transit easier. The potential loosening of customs controls among members of the Eurasian Economic Community (Belarus, Russia, Kazakhstan, Kyrgyzstan Republic, Tajikistan, and Uzbekistan) could make the problem worse. There is no evidence of large-scale drug production in Belarus though synthetic drug production is growing. According to law enforcement officials in neighboring countries, Belarus is a source of precursor chemicals.

III. Country Actions Against Drugs in 2007

Policy Initiatives. While drug production and cultivation are not major problems for Belarus, drug abuse prevention, treatment, 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 legal framework into full compliance with drug-related UN conventions. Though the government did implement many of the suggestions, several remain outstanding. Authorities still lack sufficient funding and training, and need to improve treatment, rehabilitation and information collection practices. Last 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 interagency 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. To better coordinate activities, authorities have approved an order to establish a BUMAD-supported National Drug Observatory at the Grodno State Medical University to act as a clearinghouse for drug-related information gathering efforts for all 19 government agencies involved in counternarcotics work or that monitor and report on national drug trends. While the authorities have approved the plan, they have yet to procure funding.

The Belarusian parliament is currently considering draft legislation to stiffen punishment for trade in narcotics and to monitor more strictly the importation and sale of precursor chemicals. Measures include criminalizing attempts to sow and grow plants and mushrooms that contain narcotic substances, increasing penalties for large-scale sales of narcotics, and increasing sentences for sales of illicit drugs at educational, military, and healthcare institutions. The law also will create a new class of “especially serious” drugs that will carry a stricter sentence than currently mandated. Parliament has passed this draft in its first reading, but it has not yet been passed into law.

Belarus has taken steps to increase border security. Border authorities are currently working on a joint project with the EC and UNDP called the Bombel Program, designed to raise Belarusian border management to EU standards. Phase one was completed this year. It focused on increasing border security through training for border guards in EU standard practices, continued development of an automated passport system, and modernization of the Belarusian Border Troops’ dog breeding center. Phase two, currently under way, focuses on improving migration control. Last year, the CIS Council of Border Troops’ Commanders established a common database for coordinating border security, and Belarus signed commitments with other Collective Security Treaty Organization member states for future joint counternarcotics activities.

Law Enforcement Efforts. According to official statistics, over 9,000 people have been convicted for drug-related crimes during the last three years, 41 percent of whom were under the age of 25. As of mid-2007, there were 2,281 people imprisoned for drug-related crimes, 444 of whom were women. Meanwhile, authorities seized over 500 kg of drugs so far this year. Street prices for most drugs have leveled off during the past year, though the price of ecstasy rose from \$15 to \$20 per dose, and the price of amphetamines rose from \$25 to \$30 per gram. In a report presented in September 2006, the State Border Troops’ Committee conceded that official seizure figures do not reflect the reality of the problem. Government officials admit that enforcement efforts suffer from insufficient communication and coordination and from inter-agency rivalries. Authorities in the Gomel region destroyed thirty large hemp plantations during the first half of 2007, but they acknowledge that the area in the Chernobyl-evacuated south-east corner of the country is difficult to monitor. Police discovered two amphetamine labs in Minsk and one in Vitebsk. Illicit use of diverted methadone has increased dramatically in recent years, with seizures increasing 14-fold in the past eight years. Drugs seized from January 1 to July 1 (in kg) are as follows: Poppy Straw and Marijuana (510); Raw Opium (30.4); Heroin (0.1); Amphetamine/Methamphetamine (2.1); Acetylated Opium (liquid heroin) (3.3); Hashish (3.7); Cocaine (0.2); LSD and other hallucinogens (0.3); Methadone (0.2). During the first ten months of 2007, The Ministry of Internal Affairs registered 3,712 crimes relating to drug production, trafficking, and usage.

Corruption. As a matter of government policy, 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. No senior officials of the government are known to engage in, encourage, or facilitate the illicit production or distribution of such drugs, or the laundering of proceeds from illegal drug transactions. In July 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. 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. In July, Lukashenko issued an edict calling for the formation of special anti-corruption and anti-organized crime departments in the KGB, prosecutor’s offices, and police stations. Nevertheless, corruption remains a serious problem among border and customs officials and makes interdiction of narcotics difficult.

Agreements and Treaties. Belarus is a party to the following UN conventions: the 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, the 1988 UN Drug Convention, 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. Belarus is also a member of the Collective Security Treaty Organization (CSTO) with Armenia, Kazakhstan, Kyrgyzstan, Tajikistan, Russia, and Uzbekistan, and conducts joint counternarcotics operations with those countries. In May, Belarus signed an agreement with Latvia outlining a plan to create a legal framework for the exchange of information, experience, research findings, and experts to fight cross-border crime. In 2005, President Lukashenko issued an edict that 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.

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 prison sentences of as long as 15 years. Nevertheless, some cultivation and production has been detected. Precursor chemicals continue to be imported in large volumes, but the current legal structure makes it difficult to prevent their distribution. New legislation currently debated in Parliament will require proof of purpose and destination for all such chemicals entering the country. There also has been a significant increase in poppy seed imports used for extraction of opium. Due to increased demand, price per kilo has risen from \$3 to \$35. As a result, authorities are considering restricting importation of poppy seeds. Police have reportedly discovered eight illicit methadone production labs in 2007, indicating a changing trend from importation to local production. Currently in Belarus, 1,990 entities have licenses for manufacturing and storage of precursors and 15,000 employees have access to the substances.

Drug Flow/Transit. According to the Ministry of Internal Affairs, heroin enters Belarus from Afghanistan via Central Asia and Russia. Poppy straw, opium, and marijuana enter through Ukraine; ecstasy and amphetamines from Poland and Lithuania; and methadone and 3-methylphenyl from Russia. In February, the State Border Troops Committee acknowledged increased drug smuggling activities along the Ukrainian border, and admitted that the border control infrastructure there is particularly weak. In October, the Committee announced plans to tighten security there. Officials stated that it is the only border where arms are frequently needed to stop smugglers. According to their customs union agreement, Belarusian border guards are not deployed on the border with Russia, which is policed by Russian forces. Over 22 million persons and 7 million vehicles cross Belarusian borders annually. According to official sources, customs officers currently inspect only five percent of all inbound freight, and border guards often lack the training and equipment to conduct effective searches. In an effort to address these problems, Belarus has been working with BUMAD and Bombel Programs to obtain necessary training and equipment.

Demand Reduction. Belarusian authorities have begun to recognize the growing domestic demand problem, particularly among young people. In March, the Ministry of Health's chief addiction officer Vladimir Maksimchuk announced that the number of registered drug users in the country increased fivefold over the past ten years, to 6,427, but acknowledged that the actual number of users was much higher. Oleg Pekarsky, the head of the Interior Ministry's Department for Drug Control and Prevention of Human Trafficking in February estimated the number to be as high as 60,000. Drug use is illegal and highly stigmatized in society. Drug addicts often avoid seeking treatment, fearing adverse consequences at work, school, and in society if their addiction becomes known. Prevention programs in schools remain under-funded. In February 2005, BUMAD and the GOB launched Minsk-based counternarcotics youth information campaign, "You and Me against Drugs," but the program ended later that year. BUMAD sponsored a Belarusian chapter of the NGO Mothers Against Drugs (MAD), but the government 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 and emphasizes detoxification and stabilization over rehabilitation. In September, the Ministry of Health opened a methadone substitution clinic in Gomel. The program concentrates on HIV-positive drug users and currently has seven people enrolled. The ministry plans to expand the group to 15, and to open an additional center in Minsk in 2008, but there is currently no legislation calling for the expansion of this or any other rehabilitation programs. The government runs only two detoxification centers in Belarus—one in Grodno and one in Minsk—but they offer only three-month programs. There are several small-scale NGO-run rehabilitation centers in various areas of Belarus.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG has not provided counternarcotics assistance to the GOB since February 1997. In 2005, President Lukashenko issued an edict that 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 stage of BUMAD's work and consequently postponed the launch of BUMAD-sponsored programs for legal assistance, border control, drug intelligence, community policing, drug observatories, and NGO networking. Since BUMAD's 2006 regional seminar in Minsk where Belarusian Foreign Minister Sergey Martynov acknowledged the need for more outside aid, the organization has reported that authorities have been more responsive to foreign law-enforcement assistance programs.

The Road Ahead. The USG will continue to encourage Belarusian authorities to enforce their counternarcotics laws.

Belgium

I. Summary

Belgium is not a major market for illicit drugs nor is it a major producer of illicit drugs or chemical precursors used for the production of illicit drugs. However, Belgium is a crucial transit point for a variety of illegal drugs, most significantly, cocaine and heroin. In the past few years Belgium has been a significant supplier of Ecstasy to the U.S. and other parts of the world, but in recent years, due to concentrated police efforts and a decrease in the social trend of Ecstasy consumption, production and trafficking of Ecstasy have been reduced greatly. As a result of Belgium's geographic location, efficient transportation networks and access to two major ports, (Antwerp, Belgium and Rotterdam, the Netherlands) it plays a significant role in the transshipment of cocaine from South America to Europe. Methods of shipment vary but most drugs seized have been in cargo freight and while being moved by couriers using air transportation. The majority of couriers—73 percent this past year—are of African descent and have been coming through West Africa and then arriving in Belgium by plane or train; this is a major change from previous years. This signifies that Colombian drug cartels are stockpiling the cocaine in Africa and using their established African operations to move the drugs to Europe. As has been the case for the past 3 years, usage and trafficking of cocaine in Belgium continued to increase in 2007. In 2005, with respect to the Zaventem Airport, 343 kg of cocaine were seized; this rose to 681 kg in 2006. To date in 2007 (September), cocaine seizures have already surpassed 600 kg. On the other hand, Ecstasy and amphetamine seizures have been decreasing over the past three years, indicating a decline in the overall usage and trafficking of these drugs.

Heroin seizures are up in comparison with the past several years, but the amount of the increase is too low to draw any definite conclusions. Belgian Federal Police and DEA officials estimate approximately 30 tons of heroin pass through the Benelux countries en route to the Netherlands and the U.K. Belgium consumes around 4 tons of heroin, which is mostly traceable to drug tourism from neighboring countries. Officials say it is difficult to have an impact on the heroin trade because of the difficulty in penetrating the Turkish trafficking groups.

Belgium is a preferred transit point for trafficking drugs because of its central location and efficient transportation system. 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. However, at times fighting the drug trafficking problem in Belgium is difficult because of a lack of funds and insufficient man power in the police force. Despite this, Belgian authorities continue to combat the production and trafficking of illicit drugs within their borders, using methods like canine checks and aerial surveillance.

Within the past year, Belgium has also become an important transshipment point for illegal ephedrine, used as a chemical precursor to methamphetamine, destined for the United States via Mexico. It is generally neither manufactured in, nor destined for Belgium. In instances where ephedrine shipping is discovered the Belgians cooperate by executing controlled deliveries to the destinations. This evidence of increased ephedrine shipping is seen throughout Europe due to stricter laws in the U.S. on methamphetamines.

Belgium is party to the 1988 UN Drug Convention, and is part of the Dublin Group of countries concerned with combating narcotics trafficking.

II. Status of Country

Belgium produces amphetamine type stimulants and Ecstasy as well as cannabis and hashish. Seizures of amphetamine type stimulants and Ecstasy are down as compared to the last several years suggesting a decrease in production. Additionally, Belgium's production of these synthetic drugs is relatively small compared to the Netherlands, which historically produced four times the amount of Ecstasy. Belgium still remains a key transit point for illicit drugs, mainly cocaine and heroin, bound for The Netherlands, the United Kingdom and other points in Western Europe. However, in the majority of large cocaine shipments, the end destination is the Netherlands, where Colombian groups continue to dominate drug trafficking. In the past, Israeli groups controlled most of the Ecstasy production and shipping to the United States, but these organized crime groups have been disrupted by enforcement measures and their influence has diminished.

Turkish groups control most of the heroin trafficked in Belgium. This heroin is principally shipped through Belgium and the Netherlands to the United Kingdom. Increased seizures indicate the growing demand in Belgium. Recently, Belgian authorities arrested two Turks with approximately 300 kg of heroin, alone which surpasses last year's total amount of heroin seized in Belgium. Authorities find it difficult to penetrate Turkish trafficking groups responsible for heroin shipping and trafficking because of the language barrier and Turkish criminal groups' reluctance to work with non-Turkish ethnicities.

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, domestic cultivation continues to increase.

Illegal ephedrine shipping through Belgium is on the rise. The country manufactures ephedrine to a very limited extent, but it is not a final destination for illegal shipments. 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 seen an increase in transshipments of ephedrine and other methamphetamine precursors.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Since 2004 Belgium has implemented a National Security Plan focused on reducing drug trafficking within the country. This National Security Plan, for 2004-2007, cites cocaine and heroin as the top, large-scale drug trafficking problems. The Plan concentrates on reducing cocaine shipments and clandestine drug laboratories, breaking up criminal organizations active in the distribution of narcotics, and halting the rise of drug tourism to Belgium, which has become an increasingly common phenomenon in the larger cities. Due to the recent escalation of regional governmental disputes, a replacement governing body has not been established in Belgium and steps to draft another security plan have not been completed. Also, whether or not the National Security Plan of 2004-2007 actually fulfilled its purpose or reached the desired outcome is unknown because a formal assessment has not yet been made.

Belgium is a major backer for COSPOL (Comprehensive Operational Strategic Planning for the Police), which is a new methodology for multinational police cooperation. It is a program that was created for the Police Chiefs Task Force functioning under direction of the EU. At the most recent COSPOL meeting, Belgian and other EU Police Officials discussed plans to share information in order to create a database of places indicating where illicit lab equipment and drug producing chemicals are shipped and manufactured. The database also includes information on the trade in drug related chemicals and laboratory materials.

Belgium also participates in “Drugwatch”, a non-profit information network and advocacy organization that provides policymakers, media and the public with current narcotics information. In cooperation with “Drugwatch”, Belgium is participating in a program focused on monitoring the internet to identify narcotic sale and production in Belgium.

The Federal Prosecutor’s Office, established in 2002, works to centralize and facilitate mutual legal assistance requests on drug trafficking investigations and prosecutions. Federal authorities have also noted a sharp rise in the establishment of cannabis 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 continue to cooperate closely and effectively with DEA officials stationed in Brussels. At Brussels’ Zaventem International Airport, non-uniformed personnel of Belgium’s police force search for drug couriers and have become increasingly proficient. This year, Federal Officers have detained 116 couriers and 46 parcels carrying drugs. Additionally, the National Security Plan for 2004-2007 utilizes 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. Dog teams are 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. A new initiative was taken this past year to set up a database for European airports. It will be used to transfer narcotic related information to airports throughout Europe in order to better cooperate with foreign police forces and governments.

In the past year (2007), Belgian authorities have discovered six clandestine laboratories, three used for Ecstasy production, two for amphetamines and one for LSD. These seizures bring the number of synthetic drug laboratories seized since 1999 to 62. In 2007 to date, Belgian authorities seized approximately 2,462 kg of cocaine, 522 kg of heroin, 406,356 MDMA/ Ecstasy pills, 252 kg of amphetamines, 58,503 kg of hashish/marijuana/cannabis, and 1,110 kg of khat.

Corruption. The Belgian government does not encourage nor does it 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, and the country’s Financial Intelligence Unit (FIU) (CTIF-CFI) is continually 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 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 of firearms. The United States and Belgium have an extradition treaty and a Mutual Legal Assistance treaty (MLAT). 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. Belgium also has an MOU with the USG to carry U.S. Coast Guard Law Enforcement Detachments (LEDET) on Belgium Navy vessels in the Caribbean Sea.

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. In Europe, only the Netherlands exports more Ecstasy for use in the United States than Belgium does. Canada is the primary source of Ecstasy for the United States. Cultivation of marijuana increasingly involves 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 pressures mount 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 is an important transit point for illegal drug trafficking in Europe. 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 other points in Western Europe. The port of Antwerp continues to be the one of the most preferred destinations for cocaine imported to Europe. Although the oft-quoted estimate is 16 tons entering the port each year, the actual number is believed to be considerably higher, perhaps as much as 60 MT. The flow of cocaine to Belgium is controlled by Colombian organizations with representatives residing in Africa and in the local region. Antwerp port employees are also documented as being involved in the receipt and off-loading of cocaine upon arrival at the port. This year the number of couriers coming from Africa through Zaventem International Airport has increased significantly, already reaching 116 intercepted. The amount of cocaine seized at the airport makes up one fourth of the total cocaine seized this year. Most of the cocaine originates in South America and transits through either West Africa or South America. The majority of the carriers were of African 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 continues to supply 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. Seized heroin has already reached 522 kg this year compared to last year's 277 kg. Turkish groups dominate the trafficking of heroin in Belgium. The Belgian Federal Police have identified trucks from Turkey (TIR Trucks) as the single largest transportation mechanism for westbound heroin entering Belgium.

Domestic Programs. Belgium has an active drug education program administered by the regional governments (Flanders, Wallonia, and Brussels), which 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. 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 counter narcotics 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. Counter narcotics 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. Also the United States recently trained and certified several Belgian Federal Officers in clandestine laboratory search and seizure methods.

The Road Ahead. Belgium has always been open to international support to combat illicit drug trafficking and production. The United States looks forward to close cooperation and support from Belgium in drug-related crime.

Bosnia and Herzegovina

I. Summary

Narcotics control capabilities in Bosnia-Herzegovina (“Bosnia”) 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 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 better cooperation among law enforcement agencies, gradual improvements in the oversight of the financial sector, and substantial legal reform, the political divisions within the Bosnian government have contributed to poorly coordinated enforcement efforts. Narcotics trade remains an integral part of the activities of foreign and domestic organized crime figures that operate, according to anecdotal evidence, 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 2007, Bosnia took some initial steps to set up a state-level body to coordinate the fight against drugs and develop the national counternarcotics strategy mandated by legislation passed in late 2005. In 2007, the Bosnian entity and local law enforcement agencies continued an counternarcotics campaign to raise awareness about the dangers and effects of drugs. Bosnia is making efforts 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. Information on domestic consumption is not systematically gathered, but authorities estimate Bosnia has 120,000 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 2007

Policy Initiatives. On November 8, 2005, the Bosnian state-level House of Representatives passed legislation designed to address the problem of narcotics trafficking and abuse. Although the state-

level counternarcotics coordination body and national counternarcotics strategy mandated by the legislation were not fully in place as of October 2007, Bosnia took some steps toward this implementation. In February the Ministry of Security formed a Section for Combating Drug Abuse and Precursors. In June a working group for the creation of a national strategy against narcotics held its first meeting, where it created three subgroups on Prevention/Education, Suppression, and Treatment. 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 Police (SBP) 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 September 2007 (latest available statistics), law enforcement agencies in Bosnia-Herzegovina (including the State Investigation and Protection Agency, the State Border Police, Federation Ministry of Interior, Republika Srpska Ministry of Interior and Brcko District Police) have filed 774 criminal reports against 1,284 persons for drug related offenses. These agencies also report having seized 6.8 kg of heroin, 2.7 kg of cocaine, 2.4 kg of amphetamines, 142 kg of marijuana, 6,235 cannabis plants, 5,060 cannabis seeds, 10,280 Ecstasy tablets, 29 grams of methadone, 2,285 tablets of “speed”, and 166 grams of hashish. The State Border Police (SBP), founded in 2000, is now fully operational with 2,199 officers and is responsible for controlling the country’s three international airports, as well as Bosnia’s 55 international border crossings covering 1,551 kilometers. The SBP 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 rural roads and river fords, that the SBP 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 October 2007, SIPA had hired 1,209 of a proposed staff of 1,700.

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 eastern Bosnia. Bosnia is not a major synthetics narcotics producer or refiner.

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 according to anecdotal evidence, 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.

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. Bosnia is also party to the 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention Against Psychotropic Substances, and the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons. 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. Bosnia is a party to the UN Convention against Corruption.

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 120,000 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. Sales of narcotics are 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/Demand Reduction. 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 percent 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. Entity and local law enforcement agencies continued a counternarcotics public information campaign that had begun in 2006 with the assistance of the European Police Mission. Law enforcement agencies organized round table discussions and presentations in elementary and high schools about the dangers of drugs. In Sarajevo Canton, police presented re-integration methods for former drug addicts and used official dogs to demonstrate techniques for drug detection. The Viktorija Association conducted counternarcotics campaigns, offered counseling, and provided therapy to recovering drug addicts. The PROI Association maintains a private facility to help drug addicts near Kakanj and expanded its capacity to 20 beds in 2007. During the year PROI presented anti drug messages to students through a drama program in elementary schools throughout Bosnia-Herzegovina. In June PROI organized a race against drugs involving both a fund-raising event and a large counternarcotics abuse demonstration in downtown Sarajevo. With UNICEF support PROI also helped 260 drug addicts receive blood tests to help prevent the spread of HIV/AIDS and Hepatitis.

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, depoliticizing the police, improving local governance, and introducing free-market economic initiatives. The USG will continue to work closely with Bosnian authorities and the international community to combat narcotics trafficking and money laundering.

Bilateral Cooperation. The USG’s bilateral law enforcement assistance program continues to emphasize task force training, improved cooperation between law enforcement agencies and prosecutors, and other measures against organized crime, including narcotics trafficking. The Department of Justice’s International Criminal Investigative Training Assistance Program (ICITAP) provided specific counternarcotics training to entity Interior Ministries, SIPA and SBP. The USG Export Control and Border Security (EXBS) program provides equipment and training to law enforcement agencies including the State Border Police (SBP) and the Indirect Taxation Administration (ITA) to stop the import of weapons of mass destruction and dual use items. EXBS Assistance increased SBP and ITA’s ability to detect and interdict contraband, including narcotics. The Overseas Prosecutorial Development Assistance Training (OPDAT) program provides training to judges and prosecutors on organized crime-related matters. The Drug Enforcement

Administration (DEA) in Rome maintains liaisons with its counterparts in Bosnian state and entity level law enforcement organizations. The DEA has also sponsored specific narcotic 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 program 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 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 distributed in Europe moves through Bulgaria from Southwest Asia and via the Northern route, while chemicals used for making heroin move through Bulgaria to Turkey and the Middle East. Marijuana and cocaine are also transported through Bulgaria. The Government of Bulgaria (GOB) continued to make incremental progress in improving its law enforcement capabilities and customs services; it closed one illegal drug-producing facility and confiscated the amphetamines being produced there. The Bulgarian authorities also increased their efforts to combat heroin trafficking. Legal and structural reforms in law enforcement have been enacted, although 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 cases and other serious crimes effectively. Bulgaria is a party to the 1988 UN Drug Convention.

II. Status of Country

In the past year, Bulgaria continued to be primarily a drug transit country and, to a lesser extent, a producer of narcotics. According to NGOs and international observers, Bulgaria continues to be a source of synthetic drug production, and synthetic drugs have overtaken heroin as the most widely used drugs in Bulgaria. Since 2000, heroin use has declined steadily, largely due to increased societal understanding of risks associated with its intravenous use (e.g., HIV/AIDS). This trend continued in 2007 despite the increase in heroin supply. Synthetics are also used as a substitute for cocaine, which is expensive 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, including the arrest of a notorious underworld boss and eleven members of his importing and trafficking organization operating in the southeast Black sea coastal area, there were no convictions of major figures involved in drug trafficking, or other serious related crimes such as organized criminal activity. Coordination among government agencies has improved and Bulgaria participated in efforts with international drug enforcement authorities. The Bulgarian government also reached out to neighboring states to cooperate in interdicting the illegal flow of drugs and persons. The lack of financing, inadequate equipment to facilitate narcotics searches, widespread corruption, and a cumbersome judicial procedure continue to hamper counternarcotics efforts.

II. Country Actions Against Drugs in 2007

Policy Initiatives. The Bulgarian government has continued to implement the five-year 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 effectiveness of this legislation has been widely disputed as it extended harsh penalties for drug possession to users as well as producers and distributors. 2006 amendments to the Code reduced punishments for possession, taking into consideration the risk level of the substances. Additional measures included engaging NGOs in counternarcotics partnerships. National programs for drug treatment and prevention have been consistently underfunded.

Law Enforcement Efforts. The Customs Agency under the Ministry of Finance and several specialized police services under the Ministry of Interior, including the Chief Directorate for Combating Organized Crime (GDBOP) and Border Police are engaged in counternarcotics efforts. From January to June 2007, Police seized 82 kg of heroin, 26 kg of cocaine, 2.5 kg of amphetamines, 57 kg of dry and 15 liters of fluid precursor chemicals, 140 kg of cannabis and 293,908 tablets of psychotropic substances. During the year, the Customs Agency seized 977 kg of heroin, 2.5 kg of cocaine, 5 kg of marijuana, 53 kg of opium and 1,863 tablets of psychotropic substances. In 2007, GDBOP closed one illegal amphetamine-producing facility and seized over 100 kg of heroin and 143 kg of amphetamines. Bulgarian authorities shared information and developed joint operations with international law enforcement agencies. During the year, cooperation between GDBOP and its foreign counterparts resulted in the seizure of 160 kg of heroin, 3 kg of cocaine and over 200 kg of amphetamines outside the territory of Bulgaria. GDBOP and prosecutors also worked with foreign counterparts to obtain evidence on the use of offshore corporations and bank accounts by Bulgarian money launderers to hide drug proceeds.

Corruption. Despite some progress, corruption in various forms in the government remains a serious problem. During the year 131 government officials, of them 43 police officers, were dismissed over corruption allegations. From January to October 2007, the Prosecution Service has referred to court indictments against 24 police officers involved in possession, production or distribution of narcotics. 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, primarily for domestic consumption, but the extent of this illicit drug cultivation is not known. Experts ascribe opportunistic cultivation of cannabis to the ready availability of uncultivated land and Bulgaria's receptive climate, particularly in the southwestern part. Cannabis is not trafficked significantly beyond Bulgaria's own borders. Recently, there has been a decrease in the indigenous manufacture of synthetic stimulant products, largely due to the efforts of Bulgarian law enforcement. Illegal laboratories have relocated to Eastern Turkey, Syria, Lebanon, and Armenia in order to be closer to consumers and to reduce risks associated with border crossings.

Drug Flow/Transit. Synthetic drugs, heroin, and cocaine are the main drugs transported through Bulgaria. Heroin from the Golden Crescent in Southwest Asia has traditionally been trafficked to Western Europe on the Balkan route from Turkey. 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, Montenegro, Kosovo and Macedonia. In addition to heroin and synthetic drugs, smaller amounts of marijuana and cocaine also transit through Bulgaria. Sporadic cocaine shipments from South America are transported via boat to the Black Sea and Greece, then on to Western Europe. 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, TIR trucks, and cars, with smaller amounts sent by air. Cocaine is primarily trafficked into Bulgaria by air in small quantities, and in motor vehicles, and by maritime vessel in larger quantities.

Domestic Programs/Demand Reduction. In January 2006, the Government approved a two-year National Program to add methadone maintenance as a heroin treatment option to the national healthcare system. There are three state-run methadone programs, which provide treatment free of charge and four private methadone clinics. All seven methadone programs offer treatment to more than 1000 patients. For drug treatment, there are 35 outpatient units and thirteen inpatient facilities nationwide, two of which are specialized psychiatric clinics for alcoholism and drug addictions. None of these facilities has a separate unit for juvenile patients. The Ministry of Education requires that schools nationwide teach health promotion modules on substance abuse. According to NGOs, the modules have not been effective in discouraging drug abuse. According to the Bulgarian National Center for Addictions (NCA), the number of students in grades 9-12 who reported using drugs at least once remained high and stood at 33.2 percent in 2007. Cannabis remained the most widely used drug, with use of cocaine and amphetamines increasing. The NCA engages in prevention campaigns and provides training seminars on drug abuse for students, post-graduates and other groups, including schoolteachers, social workers and journalists. The NCA operates prevention and education centers in 18 out of Bulgaria's 28 administrative districts. The centers, financially supported by the municipalities, have been consistently under-funded which hampers staff retention. Since 2003, the NCA also serves as a focal point and is co-funded by the EU Monitoring Center for Drug Addictions. After EU accession, the NCA has received adequate resources for prevention campaigns, but the other branches of the system for drug treatment and prevention, particularly at local level, continue to face financial constraints and staffing problems. Three universities provide professional training in drug prevention. Specialized professional training in drug treatment and demand reduction has been provided through programs sponsored by UNODC and the WHO.

IV. U.S. Policy Initiatives and Programs

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 and USAID. These programs are implemented by 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, the need for improved administration of justice at all levels and insufficient cooperation among Bulgarian enforcement agencies. A DOJ resident legal advisor works with the Bulgarian government on law enforcement issues, including trafficking in drugs and persons, intellectual property, cyber-crime and other issues. A Treasury Department representative supported Bulgarian efforts to investigate and prosecute financial crimes, including money laundering. USAID provides assistance to strengthen Bulgaria's 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 sustain and increase rates of narcotics seizures, while implementing steps to reduce domestic drug production. It also encourages the Bulgarian government to strengthen interagency cooperation and prosecute cases of high-level corruption and organized crime.

Croatia

I. Summary

Croatia is not a producer of narcotics. However, narcotics smuggling 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.

According to current statistics, the amount of available narcotics on the Croatian market increased and the kinds of available drugs broadened during the year, resulting in a greater number of addicts. The number of treated persons in 2006 was 7,427 (out of which 2,000 were treated for the first time), an increase from prior years (e.g. 2005—6,668 persons; 2004—5,768 persons). Of the total number of persons treated in 2006, 82 percent were men. Heroin and other opiates are the drugs of choice in Croatia.

II. Status of Country

Croatia shares borders with Slovenia, Serbia, Montenegro, Hungary, and Bosnia and Herzegovina, and has a 1000 km long coastline (4000 km if its 1,001 islands are considered), which presents an attractive target to contraband smugglers seeking to move narcotics into the large European market. Narcotics smuggling continued to increase along the “Balkan Route” destined for European markets, with the majority transiting through Croatia’s land borders.

III. Country Actions Against Drugs in 2007

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. The goal of the Action Plan is to achieve equal availability of programs throughout the country targeting primarily children, youth and families.

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 this year with international cooperation. Another amendment to the criminal code eases procedures 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. Police reported the following seizures: Heroin (82 kg in 2006 vs. 52 kg in the first 9 months in 2007) and hashish (12 kg in 2006 vs. 4 kg in the first nine months of 2007, marijuana 202.5 kg vs. 179 kg in the first nine months in 2007, cocaine 5.6 kg vs. 16 kg in the first nine months in 2007, amphetamine 11.6 kg vs. 7 kg in the first nine months of 2007, Ecstasy 16,340 tablets vs. 12,177 tablets in the first nine months of 2007). In 2005, police submitted charges against 5,700 persons for narcotics-associated crimes; in 2006 police initiated criminal charges against 6,017 individuals and in the first nine months of 2007 police initiated criminal charges against 5,041 persons. Crimes associated with the sale or abuse of narcotics make up 10 percent of total crimes recorded. During 2006, 8,346 registered criminal acts were associated with narcotics smuggling and abuse.

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, encouraged, or facilitated such activities. 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 on Psychotropic Substances. Croatia is also a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons, migrant smuggling, and illegal manufacturing and trafficking in firearms. Extradition between Croatia and the United States is governed by the 1902 Extradition Treaty between the U.S. and the Kingdom of Serbia, which applies to Croatia as a successor state. Croatia has signed bilateral agreements with 34 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. 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 passes by 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. 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 in cooperation with relevant ministries, develops the National Strategy for Narcotics Abuse Prevention (most recently in its Strategy for 2006-2012), and is the focal point for agency coordination activities to reduce demand for narcotics. Croatia has eight therapy communities with 32 therapy houses which operate as non-governmental organizations or religious communities, or were established and

registered as social care facilities for addicts. The facilities offer treatment and psychosocial rehabilitation to drug addicts. Therapy communities implement programs of psychosocial rehabilitation, work therapy, family counseling, prevention awareness programs, and cooperate with the Centers for Prevention of Addictions, Centers for Social Welfare, hospitals, clinics, various state bodies, and domestic and foreign humanitarian organizations. Demand reduction programs are coordinated by the Government's Office for Combating Drug Abuse. The Ministry of Education requires drug education in primary and secondary schools within its "healthy lifestyles" courses. Other ministries and government organizations also run outreach programs to reach specific constituencies such as pregnant women. The state-run medical system offers treatment for addicts, but slots are insufficient to accommodate all needing treatment. The Ministry of Health oversees in-patient detoxification programs as well as 21 regional outpatient prevention centers which provide testing, counseling, and referrals. According to GOC statistics, the highest number of treated addicts was registered in Istria, followed by the counties of Zadar, Zagreb, Sibenik, and Dubrovnik. The highest numbers of treated opiates addicts were registered in the county of Zadar, followed by Istria and Sibenik. High rates did not necessarily reflect high drug abuse rates, but rather an efficient system of their inclusion in treatment. The number of treated persons in 2006 was 7,427 (out of which 2,000 were treated for the first time), an increase from prior years (e.g. 2005—6,668 persons and in 2004—5,768 persons). Of the total number of persons treated in 2006, 82 percent were men. As in previous years, addicts were mainly addicted to heroin and opiates. In 2006 the GOC developed therapy guidelines for methadone therapy and in 2007 for buprenorphine. Pharmacotherapy with buprenorphine increased: 18 percent of practitioners used the treatment in 2006, compared with 3 percent in 2005. The increase in therapy is attributable to the coverage by the national health insurance system for such treatments. Methadone therapy increased by 34 percent in 2006 from the prior year, up from 886 persons in 2005 to 1,186 in 2006. The number of deaths in 2006 as a result of narcotic drugs decreased from the prior year by 15 percent. Out of 90 deaths, 81 persons were men and nine were women. Those deaths largely occurred in the city of Zagreb (38 percent), Split county (19 percent) and Istria county (10 percent). In 2006, the GOC spent 64 million kuna (\$12.5 million) for the implementation of the National Strategy for Suppression of Narcotics and its Action Plan, which is an increase of 28 percent from the previous year.

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 October 2006, Croatian police formed the first joint police-prosecutor task force to target a criminal organization involved in drug trafficking and other illegal activities. The task force yielded several arrests. In addition, Croatian police have been regular participants in training programs at the U.S.-funded International Law Enforcement Academy at Budapest.

Under the Export Control and Border Security (EXBS) program, police and customs officers have been trained this year on border security, tracker training, port security and vulnerability, seaport interdiction, and commodity identification, all of which will assist in preventing drug trafficking through Croatia. Equipment donations and related training for border police officers will further enhance Croatia's ability to detect and interdict shipments. In addition, U.S. Coast Guard dispatched a Mobile Training Team to conduct two consecutive Port Security/Port Vulnerability courses, and also trained two Croatian officers in International Leadership and Management, and International Crisis Command & Control. The DEA's Vienna Country Office has regional responsibility for cooperation with Croatia. The Croatian Criminal Police Directorate Drug

Division has shared intelligence and developed substantial investigations with DEA which have led to large seizures of cocaine (160 kilograms), arrests and the disruption of significant Balkan Drug Trafficking Organizations. Several significant bilateral investigations are still ongoing.

Road Ahead. For 2008, U.S. expert training teams will join in-country U.S. trainers to help Croatian police develop skills in surveillance, management development, witness support, fugitive tracking, and informant management. A resident advisor will continue to assist the Ministry of Interior in improving police and prosecutor cooperation in complex narcotics, corruption, and organized crime cases. Additional training and detection equipment donations planned for 2008 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 a coup d'état directed from Greece. Since then, the southern part of the country has been under the control of the Government of the Republic of Cyprus. The northern part is controlled by a Turkish Cypriot administration that in 1983 proclaimed itself the "Turkish Republic of Northern Cyprus (TRNC)," 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. Cyprus' geographic location and its decision to opt for free ports at its two main seaports continue to make it an ideal transit country for legitimate trade in most goods, including chemicals, between the Middle East and Europe. To a limited extent, drug traffickers use Cyprus as a transshipment point due to its strategic location and its relatively sophisticated business and communications infrastructure. Cyprus monitors the import and export of dual-use precursor chemicals for local markets. Cyprus customs authorities have implemented changes to their inspection procedures, including computerized profiling and expanded use of technical screening devices to deter those who would attempt to use Cyprus free ports for narcotics smuggling. A party to the 1988 UN Drug Convention, Cyprus strictly enforces tough counternarcotics laws, and its police and customs authorities maintain excellent relations with their counterparts in the U.S. and other governments.

II. Status of Country

Cypriots themselves do not produce or consume significant quantities of drugs. The island's strategic location in the eastern Mediterranean creates an unavoidable liability for Cyprus, as Cyprus is a convenient stopover for narcotics traffickers moving from Southwest Asia to Europe. Precursor chemicals are believed to transit Cyprus in limited quantities, although there is no hard evidence that they are diverted for illegal use. Cyprus offers relatively highly developed business and tourism facilities, a modern telecommunications system, and the ninth-largest merchant shipping fleet in the world. This year has seen approximately 2.3 million dollars worth of illegal narcotics proceeds 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 calls for 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 still continues. 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. Reports of narcotics overdoses in 2007 were as follows: sixteen confirmed drug related deaths. Of the deaths, eight were the results of an overdose; eight deaths were indirectly related to drugs. The number of overdose/drug-related deaths increased by six as compared to 2006. The use of cannabis and Ecstasy by young Cypriots and tourists continues to increase.

The Government of Cyprus has traditionally adopted a low tolerance toward any use of narcotics by Cypriots and uses a pro-active public relations strategy to remind Cypriots that narcotics use carries heavy penalties. The media reports extensively whenever narcotics arrests are made. The Republic 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, 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 2007

Policy Initiatives. In May 2004, Cyprus became a member of the European Union (EU). Prior to its accession into the EU, Cyprus implemented all the necessary requirements to comply with EU regulations. To meet EU regulations, Cyprus established the Anti-Drug Council, which is responsible for national drug strategies and programs. The Council is chaired by the Health Minister and is composed of heads of key agencies with an active role in the fight against drugs. They are appointed by the Council of Ministers for a period of three years. The Council acts as a liaison between the Republic of Cyprus and other foreign organizations concerning drug related issues, as well as having the responsibility for promoting legislative or any other measures in an attempt to effectively counter the use and dissemination of drugs. Moreover, the Cyprus Anti-Drug Council is the responsible body for the strategic development and implementation of the National Drugs Strategy and the National Action Plan on Drugs aligned with the EU Drugs Strategy. In connection with EU entry, Cypriot authorities also established the Cyprus Police European Union and International Police Co-operation Directorate, which replaces a similar operational unit established in 2002. The Division is responsible for cooperating with foreign liaison officers appointed to Cyprus, including the U.S. Drug Enforcement Administration (DEA), Nicosia Country Office (NCO), as well as Cypriot liaison officers appointed abroad.

The Cyprus Police, 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, France and Sovereign Base Areas assigned to Cyprus and regional liaison officers not assigned in Cyprus from Australia, Canada, Germany, and Italy with reporting responsibilities for Cyprus. In 2007, DLEU's budget increased slightly which helped support continuing training for its members in combating drug trafficking. The appointment of a new DLEU commander in 2006 has improved morale, arrest and seizure statistics. 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. In 2004, Cyprus established two new centers for the detoxification and rehabilitation of drug addicts. A new law enacted in Cyprus provides judges with the discretion to send convicted drug addicts to jail or to one of these centers under certain conditions.

Law Enforcement Efforts. Cyprus aggressively pursues drug seizures, arrests, and prosecutions for drug violations. Cyprus focuses on major traffickers when cases subject to their jurisdiction permit them to, and readily supports the international community in efforts against the narcotics trade.

Cypriot police are generally effective in their law enforcement efforts, although their techniques and capacity remain restricted by tight budgets. Nevertheless, U.S.-Cyprus cooperation is excellent and has yielded important results in several narcotics-related cases. Through the first eleven months of 2007, the Cyprus Police Drug Law Enforcement Unit opened 747 cases and made 761 arrests, an increase of 74 and 83, respectively, from last year. Of those arrested 620 were Greek Cypriots and 241 were foreign nationals. DLEU seized approximately 126 kg of cannabis, 394 cannabis plants, 229 grams of cannabis resin (hashish), 1.565 kg of cocaine, 2,860 tablets of MDMA (Ecstasy), .5 grams of amphetamines, 4.64 kg of opium, and 664 grams of heroin, and 2 tablets of methadone.

Area administered by Turkish Cypriots: The Narcotics and Trafficking Prevention Bureau functions directly under the General Police Headquarters. From January to November 2007, the Turkish Cypriot authorities arrested 255 individuals for narcotics offenses and seized 15.895 kg of hashish, 2.635 kg of heroin, 59 grams of cocaine, 634 kg of opium, 351 cannabis plants, 6332 tablets of Ecstasy and 257 mg of Ecstasy powder. Overall, with the exception of Ecstasy, the police report a decline in drug seizures.

Corruption. As a matter of government policy, Cypriot officials do not facilitate the production, processing, or shipment of drugs, or the laundering of the proceeds of illegal drug transactions in either the Government-controlled area or the area administered by Turkish Cypriots.

Agreements and Treaties. Cyprus is a party to the 1988 UN Drug Convention, the 1961 Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Cyprus is a party to the UN Convention against Transnational Organized Crime and its three protocols, and has signed but has not yet ratified the UN Convention against Corruption. An extradition treaty between the United States and Cyprus entered into force in September 1999. A mutual legal assistance treaty (MLAT) between the United States and Cyprus entered into force on September 18, 2002. Cyprus also became a member of the EU in May 2004.

Area administered by Turkish Cypriots: In 1990, a protocol regarding cooperation in the fields of security, trafficking of narcotics and psychotropic materials, battling terrorism, technical education and social relations was signed between the "TRNC" and the Republic of Turkey. The "TRNC" has no other agreements in this field as Turkey is the only country that recognizes it.

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 394 cannabis plants in the first 11 months of 2007.

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. The police seized 351 cannabis plants during the first eleven months of 2007. The seizures were not part of a large-scale cultivation organization.

Drug Flow/Transit. Although Cyprus is 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 2007. Tourism to Cyprus is sometimes accompanied by the import of narcotics, principally Ecstasy and cannabis. 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, suggesting Cyprus might be becoming a target market for domestic traffickers.

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. Such cargoes are unlikely to be inspected if they are manifested as goods in transit. 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 in transit 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. Since these goods do not enter the customs area of Cyprus, they would only be inspected by Cypriot authorities if there were good intelligence to justify such an inspection.

Area administered by Turkish Cypriots: The majority of hashish comes from Turkey, whereas heroin comes from Afghanistan by way of refineries in Pakistan, Iran, and Turkey. Ecstasy and cocaine come from Turkey, England and South America, respectively. 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 on drug abuse education 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 counterparts in the region. DEA also works directly with Cypriot customs, in particular, on development and implementation of programs to ensure closer inspection and interdiction of transit containers.

The Road Ahead. The USG 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 2008, the USG will continue to work with the Government of Cyprus to strengthen enforcement of existing counternarcotics laws and enhance Cypriot participation in regional counternarcotics efforts. DEA regularly provides information and insight to the GOC on ways to strengthen counternarcotics efforts. New laws to empower members of the Drug Law Enforcement Unit in their fight against drug traffickers are currently before Parliament.

Czech Republic

I. Summary

Illegal narcotics are imported to, manufactured in, and consumed in the Czech Republic. While the overall number of drug users in the country is relatively stable, the rates of use for marijuana, Ecstasy, and methamphetamines are among the highest in Europe. Marijuana, grown locally and imported from Holland, is used more than any other drug. Locally produced high-THC content marijuana is exported to neighboring countries, and methamphetamine (known locally as pervitine) is sold for domestic consumption and export. Levels of heroin reaching the Czech Republic have remained stable over recent years, while cocaine use is low. The Czech Republic is a producer of ergometrine, which is then used for the production of LSD. Extensive and ongoing police reforms and recurrent changes in police management have led to understaffing which has hampered the ability of the police to effectively do their job. 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 engaged in the drug trade. These factors include its central location, the current (and hopefully temporary) shift in the role of the police and Customs Service, the relatively short sentences for drug-related crimes, and the low risk of assets confiscation. A new law on public sector compensation has caused many police officers to pursue early retirement, leading to major understaffing. The abolition of the Financial Police has led to a decrease in detection rates of laundered drug money. The decrease in border control mechanisms as part of EU accession in 2004 and entry into the Schengen System at the end of 2007 have made detection of narcotics coming across the border more difficult. The maximum sentence for a drug-related crime is 15 years imprisonment, but often convicted drug traffickers receive only light or suspended sentences. A four-year governmental action plan, “The National Drug Policy Strategy for 2005-2009,” is re-evaluated internally every year for appropriate changes.

According to the annual report of European Monitoring Center for Drugs and Drug Addiction, the rate of marijuana use in the Czech Republic is the highest in Europe, with 24 percent of young adults having used the drug within the previous twelve months. Czechs are also the most likely to have used marijuana in their lifetimes. Consumption of Ecstasy and pervitine was among the highest in the EU.

The “Czech National Focal Point for Drugs and Drug Addiction” is the main body responsible for collecting, analyzing and interpreting data on drug use. According to their annual report the number of drug users was stable in 2006. The report estimates there were 19,700 pervitine and 10,500 opiate users—among the highest percentages of use in the EU. The use of Subutex (an opiate used in the treatment of addiction) was evaluated for the first time and showed 4,300 users.

A 2006 “Health Behavior in School-aged Children” study showed that 25 percent of 15 year old children have tried marijuana, and 19 percent of them used it in the last twelve months. Based on the Czech National Monitoring Center (Focal Point) the situation improved compared to 2002. At that time, 30 percent of polled 15 year-olds reported they had tried marijuana, and 27 percent admitted that they had used marijuana in the last twelve months.

The 2006 Czech Statistical Office study estimates that Czechs spend 6.4 billion crowns (\$366 million) annually on drugs, which is 0.2 percent of Czech GDP. Treatment efforts and activities taken to lower drug demand cost about 1.4 billion crowns (\$80 million) and suppression of supply

and law enforcement cost about 5 billion crowns (\$286 million). The Statistical Office estimates that Czechs consume more than 15 metric tons of drugs annually—10 tons of marijuana, 3.5 tons of pervitine and 2.2 tons of heroin. Czechs also annually consume 1.2 million Ecstasy tablets and over 250,000 LSD tabs.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Drug policy remains a contentious issue in Czech domestic politics. The Greens, one of three parties in the current government, promoted legalization of marijuana as a platform in their election campaign. Indeed, the recently-appointed Minister of Education, Ondrej Liska, has openly championed the decriminalization of marijuana in the near-term. The Criminal Code passed in 2005 for the first time made 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 in 2005, the Criminal Code fully envisions a more liberal approach to soft drugs in order to focus resources on drugs considered more damaging. An attempt to decriminalize marijuana is currently before Parliament. It is supported by the Ministries of Interior and Education, but it is not clear whether it will pass.

An important and long-awaited law on social services was passed and came into force in 2006. Among other things, it defines basic types of social services for drug users and identifies drug users as a target group. This is important especially for non-governmental organizations providing such services to drug users and requesting funding from the Ministry of Labor and Social Affairs.

The Governmental Committee for Coordination of Drug Policy is the main body responsible for the Czech National Drug Policy strategy. The strategy document created for 2005–2009 highlights the importance of enforcement operations against organized criminal enterprises and focuses efforts on the reduction of addiction and associated health risks, and the establishment of a certification system for drug prevention programs. The government also controlled the availability of pills containing chemical precursors. The Committee has recently been expanded to include representatives of local governments, medical specialists and NGOs representatives.

The National Drug Headquarters (NDH) 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, but their roles differ. In addition to Customs common operational work and investigations, they focus on the control of the major port-of-entry into the country located at Prague international airport. Additionally, they use mobile groups to monitor suspicious trucks on highways around the country. This work has become more difficult after the country’s 2004 entry into the EU, when border control checks were reduced. Customs is also responsible for monitoring the Czech Republic’s modest licit poppy crop, highway permits, and trafficking in cigarettes, as well as levying certain taxes and fees. As a result of these additional tasks and changes related to the December 2007 accession to the EU Schengen System, the monitoring of drug trafficking was no longer the highest priority.

The NDH cooperates regularly with the Customs Service based on an agreement signed between the Ministries of Interior and Finance. Discussions continue on whether the NDH and the customs drug unit should be joined under one institution owing to overlapping responsibilities.

The NDH cooperates regularly with other police units including the Unit Combating Corruption and Financial Crimes, as the NDH is responsible for financial investigations following the abolition of the Financial Police in January 2007. Despite its strong reputation, the Interior Minister decided to abolish the Financial Police as part of a broader reform package. The decision has been criticized as having been politically motivated. As a result, the NDH conducts its basic financial investigations alone and, in cases of extensive financial investigations, contacts the Unit Combating Corruption and Financial Crimes.

Law Enforcement. In the first ten months of 2007, the National Drug Headquarters, together with the Customs Service, seized 19.4 kg of heroin; 35,640 Ecstasy pills; 5.4 kg of methamphetamine, 78.3 kg of marijuana, 37 kg of cocaine, and 4,452 cannabis plants. They also uncovered 169 methamphetamine laboratories and 23 marijuana cultivation laboratories.

Among the National Drug Headquarters other significant successes in 2007: In April, after several months of intensive work, the police arrested an Israeli national who was distributing high-quality cocaine in the Czech Republic. He sold the drug in his neighborhood and in Prague clubs and discos for 3000-4000 crowns (\$170-\$230) a gram. The individual was arrested under an international warrant for his criminal activity in the U.S. Moreover, he was actively involved in activities of an Israeli criminal organization located in Spain that distributed Ecstasy produced in the Netherlands to the U.S., Australia, Germany and Spain. The seized cocaine and other drugs had a street value of 4 million crowns (\$230,000).

In June three ethnic Albanians were arrested for the illegal importation of heroin from the Balkans and onward exportation to other European countries. The police confiscated more than 4 kg of heroin with a street value of 4 million crowns (\$245,000).

In September the police arrested two Czechs who ran an Ecstasy drug trafficking ring. The group distributed the drug mainly in Moravia, selling it in Ostrava clubs and discos. During the arrests, the police found over 20,000 Ecstasy pills, with an estimated street value of five million crowns (\$285,000). The pills contained 26 percent of MDMA.

According to police statistics for the first half of 2007, 1,049 people were investigated for drug-related crimes. Police investigated 1,027 suspects for unauthorized production and possession of narcotics, psychotropic substances, and “poisons.” Police investigated 128 individuals for drug possession for personal use, and 22 others were investigated for contributing to the addiction of others.

According to the statistics provided by the Ministry of Justice for the same period, the state prosecuted 1,212 suspects for drug-related crimes; 129 were prosecuted for drug possession for personal use and 35 were indicted for spreading addiction. Courts convicted 753 individuals for drug-related offenses, including 57 convictions for drug possession for personal use and five for spreading addiction.

Statistics for the first six months of 2007 show that a majority of convicted criminals (53 percent) received conditional sentences for drug-related crimes, and only one-third of convicted criminals were sentenced to serve time in prison. Only 11 percent of this latter group received sentences higher than 5 years. The majority of those sentenced to serve time in prison (77 percent) received sentences ranging from one to five years. According to 2006 data, higher prison sentences are given to people convicted of production and lower sentences are given for possession.

Corruption. 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 does not give a definition of “small amount”. To avoid confusion and to eliminate potential corruption, the Police President and Supreme Public Prosecutor have issued internal regulations that provide guidelines that attempt to define “small amount”. While not binding, these guidelines are commonly followed. In 2006 no police officer was charged with drug-related crimes. 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 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. A 1925 extradition treaty between the U.S. and the Czech Republic, as

supplemented in 1935, remains in force. U.S. and Czech representatives signed supplements to the U.S.-EU extradition treaty in May 2006.

Drug Flow/Transit. Whereas in the past heroin trafficking in the country was mainly under the control of ethnic Albanian groups importing their product from Turkey, according to the Czech counternarcotics squad and Customs this is no longer the case. The importation of heroin is now mainly organized by Turks who have closer relations with suppliers in Turkey. Heroin is transported to the Czech Republic primarily using modified vehicles, in many cases vehicles importing textiles. Given the fact that Vietnamese immigrants specialize in the textile business in the Czech Republic, they play a role in further distribution. Heroin can be bought for a street price of 600 – 2000 crowns a gram (\$34 – \$115). Police and Customs suspect the Balkan route of heroin trafficking has moved south to Austria and, therefore, the Czech Republic is no longer viewed as a transit country for heroin.

Cocaine abuse is not as widespread as other drugs, but abuse is increasing due to the growing purchasing power of Czech citizens. Cocaine is frequently imported by Nigerians or Czechs through Western Europe from Brazil, Venezuela or, most recently, Argentina. Mail parcels, Czech couriers or “swallowers” are the most common methods of import. This year the Czech Customs Service has noted a significant increase in cocaine imports, especially from Holland. In the first nine months of 2007, they detected 27 kg of the drug, which is four times more than the whole of last year. Customs extended their cooperation with express courier services, which seem to be the most common way of importation. Cocaine can be bought for a street price of 1500 – 3500 crowns a gram (\$85 – \$200)

Pervitine is a synthetic methamphetamine-type stimulant that is popular in the Czech Republic. It can be easily produced in home laboratories from locally available flu pills containing up to 30 mg of pseudoephedrine. The Czech government has been preparing a new law regulating access to those flu pills. It is believed that pervitine is also produced in bigger laboratories from imported ephedrine from the Balkans or Russia, and exported 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 border areas, selling drugs in market places. Pervitine can be bought for a street price of 400 – 2000 crowns a gram (\$23 – \$115).

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. The police report an increase of larger one-time imports organized mainly by Czechs. Import is less risky due to EU open borders. Ecstasy tablets can be bought for a street price of 100 – 500 crowns a gram (\$5.70– \$28.60).

A trend toward larger-scale growth of cannabis plants in hydroponic laboratories continued in 2007. The cultivation is increasingly sophisticated and mainly organized by Vietnamese and Czechs. In the first ten months of 2007, the police detected 23 laboratories. 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 Czech or Dutch citizens, but local Vietnamese have also become involved in marijuana trafficking. The Vietnamese traffickers focus mainly on hydroponic cultivation of drug containing a high percentage of THC, the effective ingredient. This high TNC-content marijuana is then sold in the Czech Republic and exported to neighboring countries. Marijuana can be bought for a street price of 50 – 300 crowns a gram (\$2.90 – \$17.10).

Salvia Divinorum is a legal drug that is being abused among young people. A salvia plant is relatively easy to buy on the Internet for about 500 crowns (\$25). Toluene, a solvent, is commonly inhaled by poor, younger segments of the population, primarily in the north of the country. The

police also noted the appearance of 4-Methyl-aminorex (“Pink Panther”) pills that were used in the U.S. for dieting, but which are now prohibited in the U.S.

Domestic Programs/Demand Reduction. The main components of Czech demand reduction plans continue to be 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. 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.

To provide high-level treatment services all over the country, the National Strategy sets standards that are required of all drug treatment providers. In connection with this effort, the government began a certification process in 2005 for treatment facilities. A system of certifications of specialized primary prevention programs was launched in 2006. All providers of primary prevention programs must obtain certification prior to the end of 2008. Through May 2007, eight organizations applied for the certification of 16 programs. Those programs mostly related to primary prevention offered in basic schools, or programs of timely intervention, and educational programs.

For better orientation, the Czech government produced an online “Map of Help” in 2006 which lists contact information for all drug treatment programs in the Czech Republic, including those providing services by phone and the Internet.

In 2006 there were 90 contact centers and street programs in the Czech Republic. About 26,000 drug users used these services, and more than 3.8 million injection kits were exchanged, which is 600,000 more than in the previous year. Thanks to the successful needle exchange program, the percentage of HIV positive drug users is very low. Drug testing of individuals involved in serious traffic accidents or driving under the influence became mandatory in 2006.

In 2006 the state spent 363 million crowns (\$20 million) on its drug policy. Ninety-five million crowns (\$5 million) were provided from regional budgets and 48 million (\$2.6 million) was contributed from local budgets, similar to amounts from 2005.

The National Focal Point statistics have noted a positive trend: the increasing average age of long-term drug users: 25.3 years in 2006, compared to 23.4 in 2004, and 22 in 2002.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. covers Czech Republic drug issues through the DEA office in Warsaw but cooperation with the Vienna office is also very good. The Legal Attaché maintains close contact with National Drug Headquarters representatives and exchanges information as necessary. The relationship with Czech law enforcement counterparts is cooperative.

The Road Ahead. In the lead-up to Schengen accession at the end of 2007, the Czech Republic focused on the final stage of its accession process to the EU System of open borders. It will continue implementing police reforms to ensure a stable, effective and independent police force and will work on the re-codification of the Penal Code and Criminal Proceedings Code to ensure criminal prosecutions are conducted in a timely manner and sentencing is appropriate and predictable. Discussions about possible decriminalization of marijuana usage will continue. The dialogue between American and Czech officials on law enforcement and border security issues will only increase as the Czech Republic approaches possible entry into the U.S. visa waiver program.

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 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/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. Reports suggest 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 2007

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 \$22,000) 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 three years, there has been a significant increase in cocaine seizures in Denmark. 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." Cocaine trafficking in Denmark is controlled primarily by Serbian and West African nationals. Police also targeted members of the Hell's Angels and Banditos biker gangs by increased enforcement of tax laws. Authorities continue to target tax evasion by members of the biker gangs, as biker gangs are major factors in the drug trade. Heroin availability in Denmark has fluctuated based on the heroin production levels in Afghanistan. Balkan, Iranian and Pakistani nationals typically control heroin trafficking in Denmark. Final crime statistics for 2007 are not yet available, but the 2007 year-to-date law enforcement figures show an increase in the quantity of Ecstasy, heroin and cocaine seized by Danish authorities. The number of Ecstasy pills seized increased by 157 percent, from 22,712 pills in 2006 to 58,462 pills in 2007, despite a decline in the number of Ecstasy cases from 540 in 2006 to 274 in 2007. The quantity of heroin seized has also increased significantly, with a 62 percent increase from 28.87 kg in 2006 to 46.96 kg in 2007. The

amount of cocaine seized has increased slightly from 76.22 kg in 2006 to 78.97 kg in 2007. The amount of amphetamines seized in 2007 (45.07 kg) has decreased by 40 percent from 2006 figures (79.44 kg). Similarly, the amount of cannabis seized has decreased from 1035 kg in 2006 to 611 kg in 2007. These fluctuations are most likely attributable to market trends, rather than the intensity of counternarcotics efforts.

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 protocols against migrant smuggling and trafficking in persons, and 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 there were approximately 27,000 drug addicts in the country. The 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 school and prison systems, and international counternarcotics cooperation. In 2005, the Danish government dedicated additional resources to drug treatment programs. As a result, the Ministry of Health enrolled 5,330 new patients in drug treatment programs in 2005 and eliminated the waiting list for drug treatment programs. The number of people in drug treatment programs has increased from 9,438 in 2000 to approximately 13,300 in 2005. Drug treatment for heroin addiction is highest in demand. Of those receiving treatment, 5,525 people received methadone maintenance treatment in 2005. Seventy-five percent of treatment recipients are male. The average age of treatment recipients is 36 years old.

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. The DEA office in the U.S. Embassy in Copenhagen coordinates the bilateral cooperation with its Danish counterparts. Additionally, the defense attaché supports counternarcotics missions in Danish waters.

The Road Ahead. Danish enforcement efforts will be strengthened by legislation that authorizes police to use informants and conduct undercover operations. 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 in Estonia of illegal synthetic drug labs, seizures of narcotic substances and detection of drug trafficking conspiracies, as well as the arrest of record number of Estonian drug traffickers around the world, indicate drug production and transit activity are ongoing in Estonia. It is also an indication of the success of counternarcotics efforts by Estonian law enforcement agencies. Except for the higher HIV-infection rate among intravenous drug users, the drug situation in Estonia is similar to that in other European countries. Estonia is a party to the 1988 UN Drug Convention.

II. Status of Country

Estonia's most popular illegal narcotics include trimethylphenyl-an opiate-synthetic drug "cocktail" ("White Persian,") heroin, Ecstasy, amphetamines, gammahydroxybutyrate (GHB), cannabis and poppy. In the first ten months of 2007, the closure of three 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. Also in 2007, a record number of Estonian drug traffickers were arrested in foreign countries demonstrating the involvement of Estonian drug traffickers in the international illegal drug trade. Seizures of large quantities of narcotic substances by Estonian law enforcement agencies indicate that Estonia is located on a drug transit route in the region.

According to Government of Estonia (GOE) and NGO estimates, there are about 14,000 intravenous drug users (IDUs) in Estonia. Due to its large IDU population, Estonia has the highest growth rate per capita of HIV infections in Europe. As of October 2007, a total of 6,250 cases of HIV have been registered nationwide, 519 of which were registered in 2007. To date, AIDS has been diagnosed in a total of 176 people, 41 of whom were diagnosed in 2007. Male IDUs still account for the largest share of newly registered HIV cases; however, in 2007, young women made up 42 percent of new HIV cases, indicating that the epidemic is spreading to the general population.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, Estonia continued to upgrade its anti-narcotics legal framework. In March, the Government of Estonia (GOE) approved its 2007-09 Action Plan based on the National Strategy on Prevention of Drug Dependency for 2004-2012, adopted in 2003. The Action Plan sets targets and gives guidelines for implementing organizations to meet the six objectives of the strategy: prevention, treatment and rehabilitation, harm reduction, demand reduction, addressing the problem of drugs in prisons, and overall monitoring and evaluation of the Action Plan. In 2006, the Law amending the Narcotic Drugs and Psychotropic Substances Act (LANDPSA) came into force, harmonizing Estonia's legislation with European Union (EU) narcotics regulations. The LANDPSA also brought domestic law into compliance with the United Nations (UN) Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

Also in 2007, Estonia continued to implement its national 2006-2015 anti-HIV/AIDS strategy, which pledges to bring about a steady reduction in the spread of HIV and improve the quality of life of people with the disease. The strategy pays special attention to programs for various at-risk groups, including IDUs, which currently form the largest sub-group within the HIV positive population. Following parliamentary elections in March 2007, the new government coalition reiterated this pledge in its coalition agreement. The GOE plans to focus its prevention efforts on

young people and their parents, with the ultimate goal of reducing the number of new cases of HIV to the European regional average of 50-70 cases per one million people per year, or one-tenth the current rate.

Although the United Nations Global Fund to Fight HIV/AIDS, TB, and Malaria (GF) finished its four-year program in Estonia in September, the GOE has committed to take over all HIV-related activities carried out under Global Fund's \$10.4 million grant. While the Ministry of Social Affairs has overall coordinating responsibility, each cabinet Minister is responsible for HIV prevention, harm reduction and treatment in his or her administrative area (i.e., Ministry of Justice—HIV in prisons; Ministry of Defense—HIV in defense forces; Ministry of Education and Research—HIV prevention in schools and colleges). All ministries report to the governmental committee that coordinates HIV and drug abuse prevention activities, established in 2006. The committee is comprised of representatives from the Ministries of Social Affairs, Education and Research, Defense, Internal Affairs, Justice, and Finance, as well as 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 2005-2015 anti-HIV/AIDS strategy. The committee reports directly to the Cabinet on a bi-annual basis.

Law Enforcement Efforts. Combating narcotics is a major priority for Estonian law enforcement agencies. Police, customs officials and the border guard maintain good cooperation on counternarcotics activities. Currently, 88 police officers work solely on drug issues. Their primary mission is to destroy international drug rings (rather than catch individual suppliers). From January through September 2007, the Estonian police registered 860 drug-related criminal cases and successfully carried out several counternarcotics operations.

In April 2007, officers of the drug squad of the North Police Prefecture seized more than a kilogram of cocaine and a large amount of Ecstasy tablets estimated to have a street value of \$140,000. This was the largest amount of cocaine ever seized by that jurisdiction. According to the police, the packaging of the drugs clearly indicated the suspect was involved in drug smuggling. In August, two suspects were arrested with 15 doses of gammahydroxybutyrate (GHB). A search of their dwelling uncovered 23 grams of cocaine and three liters of GHB, which corresponds to more than 600 doses. In September, as a result of an extensive operation, the Estonian Central Criminal Police discovered a cache of various narcotics, including the largest amounts of hashish ever confiscated in Estonia. In addition to the 70 kg of hashish, the seizure netted 1,500 grams of cocaine, 300 grams of "White Chinaman"-heroin and several bags of marijuana with a total estimated street value of \$1 million. In October, as a result of long-term surveillance, the Estonian central Criminal Police raided a drug lab and seized 10 liters of liquid amphetamine, lab equipment and chemicals used in amphetamine production. They detained four persons suspected of manufacturing large quantities of amphetamines. The search of one suspect's apartment yielded 15 kg of liquid amphetamine. The total seizure amounted to an estimated 30,000 doses with a total value of \$140,000.

In October, the Central Criminal Police detained a criminal group recruiting young people from Estonia to traffic narcotics from South America. Previously only about seven drug traffickers of Estonian origin were arrested abroad every year. In 2007, 30 people from Estonia have been arrested for drug trafficking—seven detained in Europe and 23 in South American (including 12 in Venezuela.)

Combating the illicit narcotics trade is also a top priority for the Estonian Tax and Customs Board (ETCB). All customs, investigation, and information officers have received special training in narcotics control, and all customs border points are equipped with rapid drug tests. There are about 100 customs officers working on the Estonia-Russian border (part of the European Union's eastern-most border). About 150 Customs officers work in mobile units all over Estonia. There are 14

Customs teams with 18 drug sniffing dogs. In the first six months of 2007, the dogs found approximately ten kg of narcotic substances. All four Customs regions have a designated narcotics control liaison officer, and are supported by a narcotics analyst in the Tallinn headquarters. In May, Estonian Customs Officials—in cooperation with U.S. and Latvian law enforcement agencies—detained an international criminal group of eight people and seized roughly 8 kg of high-quality cocaine with a street value of \$2.1 million. The smugglers brought the drugs to the Estonian coast in a small boat from a freighter sailing in Estonian territorial waters and planned to forward them to other Baltic countries. In July, during X-ray screening, Estonian Customs Officials found 4.2 kg of heroin hidden in the car of a Latvian citizen. This seizure prevented up to 70,000 doses of heroin from reaching the streets.

Corruption. Estonia is a relatively corruption-free country; receiving high scores on international corruption and economic indexes, and out-performing all other new EU member states and some of the original EU members. 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 party to the main international drug control conventions: the UN Single Convention as amended by the 1972 Protocol, the UN Convention on Psychotropic Substances (1971), and the 1988 UN Drug Convention. A 1924 extradition treaty, supplemented in 1934, remains in force between the United States and Estonia, and a mutual legal assistance treaty in criminal matters was entered into by the countries in 2000. 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 domestic production of opium. Nevertheless, the closures of drug labs and seized products and precursors in different regions of Estonia demonstrate synthetic narcotics production is ongoing in Estonia. Most of the labs were small and very mobile, making them difficult to detect. In addition to production for domestic consumption, synthetic drugs produced in Estonia are exported to neighboring countries, including the Nordic countries and northwestern Russia.

Drug Flow/Transit. Estonia's geographical position makes it attractive to drug smugglers. Frequent arrests of drug traffickers and seizures of narcotic substances at the border indicate Estonia's involvement in the international drug trade, but also demonstrate the high performance level of Estonian law enforcement agencies. Frequent arrests of Estonian drug traffickers around the world show their involvement in the international drug trade.

Domestic Programs/Demand Reduction. In 2007, 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 key government ministries. There are more than 60 governmental, non-governmental, and private entities in Estonia working with IDUs to provide services to decrease demand and reduce harm. There are currently five voluntary HIV testing and counseling centers in Estonia funded by the GOE and local governments. A needle exchange program is operational in 23 cities and a number of mobile needle exchange stations are in operation in Tallinn and northeast Estonia. Methadone treatment is provided at six centers in Tallinn and northeast Estonia. Drug rehabilitation services are provided at 14 facilities nationwide, three of which are church-sponsored.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2007, the Estonian Defense Forces (EDF) implemented the first phase of a U.S. Department of Defense (DOD) project entitled “DOD HIV/AIDS Prevention Program” to raise the awareness of military personnel and to assist in the creation of a sustainable EDF HIV/AIDS prevention system. Also in 2007, the U.S. Embassy utilized the Department’s International Visitors Program on HIV to familiarize Estonian experts with U.S. practices in the fight against HIV/AIDS.

In 2007, the Export Control and Border Security program (EXBS) provided a Targeted Risk Management Training in Tallinn for Estonian Customs Agents (September 24-28) and provided over \$100,000 worth of inspection equipment to the Border Guards, Customs Agents, and Rescue Board.

The Road Ahead. In 2008, EXBS will hold a regional conference in the Balkans in which Estonian Customs Agents have been asked to participate as trainers. The U.S. will continue to work with Estonian officials to control drug flows in Europe and from Europe to the U.S.

Finland

I. Summary

Finland is not a significant narcotics-producing or trafficking country. Drug use and drug-related crime rates have been mixed over the past four years, although there was no significant increase in any of the classes of narcotics seized in 2006. Finland's constitution places a strong emphasis on the protection of civil liberties and this sometimes adversely impacts law enforcement's ability to investigate and prosecute drug-related crime. The use of electronic surveillance under the Finnish Coercive Measures Act, such as wiretapping, is generally permitted in serious narcotics investigations. Finnish political culture tends to favor the allocation of resources to demand reduction and rehabilitation efforts over strategies aimed at reducing supply. Finnish law enforcement believes that increased drug use in Finland may be attributable to the wider availability of narcotics within the European Union, increased experimentation by Finnish youth and cultural de-stigmatization of narcotics use.

While there is some overland narcotics trafficking across the Russian border, Finnish law enforcement believes that existing border controls are largely effective in preventing this route from becoming a major trafficking conduit into Finland. Estonian organized crime syndicates, and to a lesser degree, syndicates from other Baltic countries, are believed responsible for most narcotics trafficking into Finland. Estonia's accession to the Schengen Treaty has complicated law enforcement efforts to combat narcotics trafficking through the reduction in border checks of the nearly 5.5 million annual travelers and 800,000 cars, which transit between Helsinki and Tallinn. Asian crime syndicates have begun to use new air routes between Helsinki and Asian cities like Bangkok to facilitate trafficking-in-persons, and there is the possibility that these routes could be used for narcotics trafficking as well.

Finland is a major donor to the UNDCP and is active in counternarcotics efforts within the EU. Finland is a party to the 1988 UN Drug Convention. Finland maintains strong law enforcement and customs relationships with its Baltic neighbors, with Russia and with EU member states in combating the production and trafficking of narcotics in the region.

II. Status Of Country

Narcotics production, cultivation, and the production of precursor chemicals in Finland are very 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. Estonia, Russia and Spain are Finland's principal sources for illicit drugs, with Spain representing the origin point within the EU for most cocaine entering Finland. Finnish law criminalizes the distribution, sale and transport of narcotics; the Government of Finland operates with other countries and international law enforcement organizations regarding extradition and precursor chemical control.

The number of drug offences reported to the Finnish law enforcement authorities in 2006 saw a slight decrease when compared with 2005, whereas the total number of aggravated narcotics offences showed a slight rise. The number of persons suspected of aggravated narcotics offences increased by approximately 20 percent when compared with 2005.

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 marijuana, khat, amphetamines, methamphetamine, synthetic club drugs, Ecstasy, LSD and heroin and heroin-substitutes can be found. Finland has historically had one of Europe's lowest cannabis-use rates. Cannabis seizures have been mixed since 2003, with total numbers of seizures in several areas

increasing, yet with total quantities of cannabis seized having decreased. Ecstasy, GHB, Ketamine (Vitamin K) and other MDMA-type drugs are concentrated among young people and associated with the club culture in Helsinki and other large cities. Social Welfare authorities believe the introduction of GHB and other date rape drugs into Finland has led to an increase in sexual assaults. Changing social and cultural attitudes towards the acceptance of limited drug use also contribute to this phenomenon.

Heroin use began to increase in Finland in the late 1990s, but seizures have continued to decline since 2003. With the exception of a 55 kg seizure of heroin in 2005, seizures have never been larger than 1.6 kg since before 2003. Typically, heroin is smuggled by ethnic groups residing in Scandinavia using vehicles. They pass by way of Germany and Denmark to the rest of Scandinavia.

Abuse of Subutex (buprenorphine) and other heroin-substitutes seems to have replaced heroin abuse to some extent. 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. Finnish couriers do obtain Subutex from other EU countries, however. Finland witnessed a modest 2 percent increase in the seizure of narcotic medical prescriptions between 2005 and 2006, it also saw an overall 18 percent reduction in the actual volume of such drugs seized.

According to Finnish law enforcement, there are approximately two dozen organized crime syndicates operating in Finland; most are based in Estonia and Russia. Since Estonia's entry into the Schengen Treaty, Estonian travelers to Finland are no longer subject to routine customs inspection at ports-of-entry, making it difficult to intercept narcotics. For instance, a drug dealer in Helsinki can phone a supplier in Tallinn, and within three hours a courier can arrive in Helsinki via ferry with a shipment of drugs. Although Estonian syndicates control the operations, many of the domestic street-level dealers are Finns. Estonian smugglers also organize the shipment of Moroccan cannabis from Southern Spain to Finland. Again, overall amounts are small. Finnish law enforcement reports that cooperation with Estonian law enforcement is excellent, and both countries maintain permanent liaison officers resident in each other's countries.

Finnish law enforcement appears well prepared to address the potential use by Asian crime groups of new air routes from Helsinki to major Asian cities like Bangkok. In 2000, Finland had 4 non-stop flights per week between Finland and Asia. In 2007, Finnair alone was operating 30 non-stops per week to Asia, and expects to operate 37 such flights in 2008. To reduce the likelihood of Asian syndicates' exploiting such routes, Finnish law enforcement has established close cooperation with airline officials and Asian law enforcement to coordinate interdiction efforts, including the posting of liaison personnel in Beijing and Guangzhou.

III. Country Actions Against Drugs In 2007

Policy Initiatives. Finland's comprehensive 1998 policy statement on illegal drugs articulates 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. There is limited political and public support for stronger punitive measures. In 2005, Parliament passed a law expanding the authority of the Border Guards to cover the entire country (not just immediate border areas), thereby enhancing the Guards' ability to combat narcotics trafficking.

Law Enforcement Efforts. Finnish law enforcement continued to effectively investigate and prosecute instances of narcotics possession, distribution and trafficking. Within Finland, the Finnish Police and Customs have primary responsibility for interdicting and investigating narcotics trafficking and distribution. Within the police, the National Bureau of Investigation (NBI) is

charged with coordinating organized crime investigations, as well as serving as the Finnish focal point for international law enforcement cooperation. The police, as well as the Finnish Border Guards, who interdict narcotics during immigration checks, fall under the Finnish Ministry of the Interior. Customs falls under the Finnish Ministry of Finance, and also maintains responsibility for coordination of Finnish customs narcotics interdiction efforts with other nation's customs services. Finnish judicial authorities are empowered to seize assets, real and financial, of criminals.

During 2006, Finnish law enforcement effectively prioritized narcotics cases through Joint Intelligence Teams and Centers, which comprise representatives of the police, Customs and Border Guards. These centers are located at the national, provincial and local levels, where a broad range of intelligence and analysis capabilities are brought to bear in identifying priority narcotics investigations. For instance, the center responsible for Helsinki includes representatives from the NBI, Helsinki police, Customs, Border Guards, prison authorities and provincial police representatives. In 2006, the Finnish law enforcement community received additional government funding and manpower to pursue a number of interagency, target-oriented narcotics investigations, including the assignment of prosecutors to an investigation from its inception.

During 2006, Finnish Customs deployed a mobile X-ray scanning facility at Helsinki's Western Harbor to provide Customs with the ability to conduct scanning of incoming trucks and containers. Additionally, Customs enhanced its use of narcotics detection canine units at key ports of entry into Finland.

The 2006 Police report on narcotics offenses and seizures is the latest available. In 2006, Finland experienced a decline in the number of drug offenses, dropping from 15,209 in 2005 to 14,286 in 2006. However, the number of aggravated narcotics offenses increased from 654 in 2005 to 794 in 2006. 4,308 individuals were charged in 2006 for the country's 14,286 narcotics offenses, as were 506 for the nation's 794 aggravated offenses. In 2006, 14 percent of the suspects of aggravated narcotics offenses were foreigners; of those, 40 percent were Estonian and 14 percent were Russian.

Authorities estimate that recreational use of cocaine has increased somewhat. While overall amounts of cocaine entering Finland remain extremely low, Finnish law enforcement believes the importation of cocaine will continue to increase. Finnish authorities have asserted that cocaine predominantly enters Finland from Spain. In 2006, cocaine seizures increased to 82 (compared to 73 in 2005) and volume increased to 6.5 kg (from 1.2 kg in 2005). The increased volume can largely be attributed to a single end-of-year seizure made in the Southern Customs District. Additionally, Finnish Customs intelligence identified two Estonians who had entered Finland at the same time but utilizing different routes. One of the two was caught selling a kg of cocaine to a Finn in Helsinki. The other Estonian has not been caught. According to Customs, the man who was apprehended was a courier, while the other Estonian was responsible for arranging the smuggling. In addition to the one kg of cocaine seized by Customs, they believe that another 1.5 kg was successfully put into circulation. Cocaine has not threatened the position of cannabis, amphetamine or Subutex among the most popular drugs.

Finnish authorities have noted an increase in the number and quantity of steroid seizures on the Finnish market. During 2006, Finnish law enforcement agencies seized approximately 200,000 pieces of steroid-type substances, either in tablet form or ampoules. In addition, they seized almost 12 million steroid pills/ampoules as part of a major international case of doping smuggling from China to Russia via Finland.

One potentially worrying trend is that the few smuggling enterprises that do exist are becoming increasingly sophisticated. For instance, consignments of amphetamine have been hidden in trucks, and subsequently buried in remote, locations. The locations are then mapped and sold to criminals in Estonia handling the retail trade in Finland. To counter schemes of this type, the Finnish police

are increasingly dependant on cooperation with their Estonian counterparts—cooperation they describe as outstanding. It is now estimated that 90 percent of amphetamine is imported to Finland from or through Estonia. Finnish law enforcement believes that significant quantities of the amphetamine on the Finnish market are produced in Lithuania by Lithuanian crime groups. According to Finnish law enforcement, Estonian and Lithuanian organized crime groups appear to be working in close cooperation in trafficking amphetamine into Finland

According to Customs officials, there has been an increase in the number of Subutex couriers departing Finland on a regular basis to Estonia and Latvia. However, as the couriers possess valid Subutex prescriptions, Customs authorities are prevented from seizing these legal prescriptions. Suspected courier travel has increased from 30 suspected trips to Estonia and Latvia in early 2003 to a high of 800 suspected couriers by summer 2006. Effective December 21, 2007, changes in EU regulations will prevent Latvian and Estonian pharmacies from filling Subutex prescriptions for Finnish citizens. However, Finnish couriers are likely to attempt to identify other EU sources for Subutex, including France.

Narcotics-related weapons seizures in 2006 were down to 544 weapons seized (versus 674 in 2005). Weapons included firearms, gas weapons and electronic stun devices. Finnish authorities seized almost Euro 900,000 in trafficking-related cash (versus Euro 640,000 in 2005). Finland continued its impressive record on multilateral law enforcement, maintaining liaison officers in ten cities, including six officers in Russia. Finnish law enforcement personnel have continued to conduct criminal narcotics investigations involving Finland abroad, including the investigation of suspects beyond Finland's borders.

In 2006, Finland and Estonia conducted a joint organized criminal investigation aimed at reducing the distribution of amphetamines. The team was headed by a senior member of Finnish law enforcement. The investigation included joint suspect interviews and searches in both countries. The two countries agreed to expand the use and authorities of Joint Investigative Teams, which provided for enhanced levels of cooperation between Finnish and Estonian law enforcement personnel.

Finland also participated in a number of regional and European Union narcotics interdiction efforts, including Operation COMPAS, which involved the inspection of container traffic at European ports and focused on the interdiction of cocaine; PALLAS, which involved 18 EU member states and aimed at interdicting narcotics and chemical precursors; CONQUEST2, which focused on sea inspections of containers originating in heroin producing countries; SUMMER, which focused on interdicting narcotics on cars and passengers between Helsinki, Stockholm and Tallinn; and NORDIC, which involved Finnish, Danish, Norwegian and Swedish cooperation with Germany to target truck traffic departing Germany for Scandinavia.

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 extremely rare 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. Finland is also a party to the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Finland is a party to the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling and the UN Convention against Corruption. A 1976 bilateral extradition treaty is in force between the United States and Finland. Finland signed the bilateral instrument of the EU-U.S. Extradition

Treaty in 2004; Parliament's Legal Affairs Committee approved the Treaty in mid-2007, and full Parliamentary ratification is expected by early 2008. Finland has also concluded a Customs Mutual Assistance Agreement with the United States. Finland is a member of the major Donors' Group within the Committee on Narcotic Drugs. The vast majority of Finland's financial and other assistance to drug-producing and transit countries has been via the UNODC.

Cultivation/Production. There were no reported seizures of indigenously cultivated opium, no recorded diversion of precursor chemicals and no detection of illicit methamphetamine, cocaine, or LSD laboratories in Finland in 2006. Finland's harsh climate makes cultivation of cannabis and opium poppy almost impossible. Local cannabis cultivation is believed to be limited to small-scale, indoor hydroponic culture. Seizures by weight of cannabis plants have fluctuated over the past several years, dropping slightly to 36 kg in 2006. Between July and December 2006, Finnish law enforcement agencies seized a total of 4,630 cannabis plants in 401 cases. The majority of cultivation cases were very small, with an average of 1 to 10 plants per seizure. One significant seizure in 2006 involved 800 plants being cultivated outdoors in West Finland. The distribution of 22 precursor chemicals listed by international agencies is tightly controlled.

Drug Flow/Transit. Medical narcotics (including Subutex), amphetamine and methamphetamine represent the majority of police seizures in Finland. Finland is not a major transit country for narcotics. Most drugs trafficked into Finland originate 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. According to the Development Center for Social Affairs and Health, there are approximately 21,000 registered drug users in Finland, with some 10,000 undergoing treatment. Despite these low numbers, the Ministry of Health and Social Services has stated that the Government must do more to reduce demand. The central government gives substantial autonomy to regional and municipal governments to address demand reduction using general revenue grants, and often relies upon the efforts of Finnish NGOs. Finnish schools continued to educate students about the dangers of drugs. Finland's national public health service offered rehabilitation services to users and addicts. Such programs typically use a holistic approach that emphasizes social and economic reintegration into society and is not solely focused on eliminating the subject's use and abuse of illegal drugs. The government has been criticized for its failure to provide adequate access to rehabilitation programs for prison inmates. An additional challenge in Finland in terms of treatment is that there is no substitute treatment for amphetamine in Finland.

IV. U.S. Policy Initiatives And Programs

Policy Initiatives And Bilateral Cooperation. The U.S. has worked with Finland and the other Nordic countries through multilateral organizations in an effort to combat narcotics trafficking in the Nordic-Baltic region. This work has involved U.S. assistance to and cooperation with the Baltic countries and Russia.

The Road Ahead. The U.S. anticipates continued close cooperation with Finland in the fight against narcotics. Finnish law enforcement is expected to maintain its willingness to work with relevant U.S. law enforcement agencies, and is well positioned to exchange law enforcement information and collaboratively pursue narcotics traffickers and international organized criminal entities involved in the manufacture and distribution of narcotics.

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 presence 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 seizures reported in 2006 (latest published figures) declined by 6.73 percent from 2005 levels (to 78,287), the gross total of the quantity of seizures of cocaine (HCL), Heroin, Khat, AND MDMA all increased, whereas certain cannabis products, cocaine base ("crack" form) and LSD all decreased. Drug trafficking and possession arrests decreased in 2006 by 8.16 percent to 110,486. This represents a significant cumulative decrease from 2004 when 121,526 arrests occurred. 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 government statistics. By contrast, users of the next most popular drugs, heroin and cocaine, account for approximately 4 percent and 2 percent of the total number of drug abusers 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, the 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 primarily a policy organ, but cooperates closely with law enforcement officials. The French also participate in regional cooperation programs initiated and sponsored by the European Union.

Since the mid-1990s, death by drug overdose has declined dramatically from 564 reported deaths in 1994 to 57 deaths during 2005. Possession of drugs for personal use and possession of drugs for distribution both constitute crimes under French law and both laws are regularly enforced. Penalties for drug trafficking can include up to life imprisonment. French narcotics agencies are effective, technically capable and make heavy use of electronic surveillance capabilities. In France, the counterpart to the DEA is the Office Centrale pour la Repression du Traffic Illicite des Stupefiants (OCRTIS), also referred to as the Central Narcotics Office (CNO). French authorities report that France based drug rings appear to be decreasingly focused on a single activity, and are increasingly involved in other criminal activities such as money laundering and clandestine gambling.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In late 2004, France launched a five year action plan called “Programme Drogue et Toxicomanie” (Drug and Addiction Program) to reduce drug use among the population and lessen social health damage caused by the use and trafficking of narcotics. A full assessment of the program is expected to be published during 2008, when it reaches the end of its planned duration. Depending upon the result of this assessment, a new program will be introduced. The 2004 program’s successes include launching a 38 million Euro (approx. \$50.5 million) national information campaign on cannabis use in 2005 as well as a increased options in France’s medical treatment for cannabis and heroin users/addicts. The program also provided funding (up to 1.2 million Euros (approx. \$1.6 million)) for France’s contributions to EU and UN counternarcotics programs in four priority areas: Central and Eastern Europe, Africa, Central Asia and Latin America/Caribbean.

While France’s bilateral counternarcotics programs focus on the Caribbean basin, special technical bilateral assistance has also been provided to Afghanistan through France’s Development Agency (AFD). Ten million Euros went to training Afghan counternarcotics police and to fund a crop substitution program that will boost cotton cultivation in the Afghan provinces of Konduz and Balkh.

Law Enforcement Efforts. In 2007, French authorities made several important narcotics seizures:

On January 18, 2007, French customs officials at the port in the northern city of Dunkerque seized 356 kg of heroin, a record for the seizure of this drug in France. The heroin, which was valued at approximately 10 million Euros (approx. \$13 million), was being transported in a truck originating from Turkey and bound for Great Britain.

On March 9, 2007, French customs authorities seized 490,000 Ecstasy pills from the car trunk of a British national near Dunkerque. The suspect was reportedly working with drug traffickers in Brussels, and agreed to transport the drugs from Belgium to Great Britain. The estimated resale value of the Ecstasy seized was reported to be 735,000 Euros (\$967,157).

With the help of the OCRTIS and French and British customs authorities, on August 7, 2007, French maritime authorities conducted an important operation which led to the seizure of approximately 600 kg of cocaine from a sailing boat in the English Channel. The boat which originated in the Caribbean was headed to a port in northern Europe. The value of the cocaine seized is estimated to be between 16 and 18 million Euros (approx. \$22-\$24.85 million).

During 2007, French authorities also conducted frequent operations involving the seizure of cannabis. On September 10, 2007, French customs agents in the southern city of Montpellier seized 618 kg cannabis resin. The cannabis, which is estimated to be worth around 1.2 million Euros (approx. \$1.65 million) was packaged in 20 sacks that were covered by several barrels of hay.

Another operation, on October 13, 2007, led to the seizure of over 2 tons of cannabis resin by French customs agents in the northern city of Arras. The cannabis with an estimated resale value of over 4.3 million Euros (approx. \$6.1 million) was found concealed in several canvas sacs inside a truck en route from Spain to Germany.

Corruption. As a matter of government policy, 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 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 the

1972 Protocol, and 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 the prosecution of crime, including drug offenses. In 2004, bilateral supplemental extradition and mutual legal assistance instruments were concluded in order to implement agreements in these areas between the U.S. and the EU, which will enhance cooperation further once they enter into force. 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 that the cultivation and production of illicit drugs is not a significant problem in France. France cultivates opium poppies under strict legal controls for medical use, and produces amphetamines as pharmaceuticals. The government reports its production of both products to the International Narcotics Control Board (INCB) and cooperates with the DEA to monitor and control these products. According to authorities, the majority of illicit drugs produced in France come from smaller home laboratories.

Drug Flow/Transit. France is a transshipment point for illicit drug to other European countries. These traffickers move heroin from both Southwest and Southeast Asia (of Burmese origin) 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. New routes for transporting heroin from southwest Asia to Europe are developing through Central Asia and Russia and into 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 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. To counter this flow, France joined six other European countries to form the Maritime Analysis and Operations Center-Narcotics (MAOC-N) in Lisbon, which should bolster EU capacity to protect its southwestern flank. In addition, 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. France also has seconded a Liaison Officer to Joint Interagency Task Force South to coordinate maritime counternarcotics operations in the Caribbean Basin. 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. In an effort to combat the consumption of cannabis in France, which has consistently increased over the past 20 years, in October of 2007, Etienne Apaire, the President of MIDLT (since September 2007) announced a new government policy aimed at cannabis users. Beginning in 2008, the state will force those arrested for cannabis use to take a two day class on the dangers of cannabis consumption. The cost of the class, 450 Euros (approx. \$660.00), will be paid by the drug user. France's current law (dating from 1970) includes stiff penalties for cannabis use including up to a year prison sentence and a 3750 Euro (approx. \$5,515) fine though the penalties are rarely, if ever, applied. This new measure is intended to be a more effective approach towards the prevention of cannabis use.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives/Bilateral Cooperation. U.S. and GOF counternarcotics law enforcement cooperation remains excellent. During 2007, the DEA's Paris Country Office and the French Office Central Pour la Repression Du Trafic Illicite Des Stupefiants (OCRTIS), continued to routinely share operational intelligence and support one another's investigations. The DEA and the OCRTIS shared intelligence was developed from a program which identifies orders for precursor chemicals placed from French companies for exportation outside of France. This program resulted in the identification and seizure of dozens of illicit MDMA and Methamphetamine laboratories located both within the United States and France as well as many other countries around the world.

Additionally, during 2007, the OCRTIS and the DEA cooperatively conducted a controlled delivery of over two tons of pseudoephedrine to the Democratic Republic of the Congo. The subsequent investigation of this shipment confirmed that the shipment was intended for illegal reshipment to Mexico for suspected use in the clandestine manufacture of methamphetamine. Further investigation, resulted in the seizure of additional shipments of ephedrine products in the DRC, totaling nearly 10 tons, and in the identification of Mexican nationals involved in coordinating the diversion of these shipments from Africa to Mexico. In March of 2007, the OCRTIS seized the equivalent of over 1.3 million dollars U.S. in cash drug proceeds. Information developed from the French investigation was shared with the DEA and several other countries' law enforcement services, which has led to a number of valuable investigative links. The DEA and the OCRTIS regularly exchange information relating to suspected airline internal drug couriers traveling internationally, and other routine law enforcement information that leads to arrests and drug seizures.

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 the UNODC.

Georgia

I. Summary

Georgia has the potential to be a transit country for narcotics flowing from Afghanistan to Western Europe. In 2007, however, there were no western-bound, significant seizures of narcotics. Subutex, a licit opiate used for maintenance treatment of heroin addicts, continues to flow from Western Europe into Georgia, though cooperation with international law enforcement, especially in France, is beginning to affect the ease with which Subutex had previously entered the country. Separatist 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 2007, the GOG adopted a national Anti-Drug Strategy, increased penalties for drug offenses and passed new counternarcotics legislation. The GOG also is continuing receiving assistance from the United States Government and the EU to increase Georgia's border security. Statistics on seizures, arrests, and prosecutions for narcotics-related crime are kept by the Ministry of Interior. Statistics on the number of drug abusers in the country vary widely, though the National Forensics Bureau maintains statistics on the number of persons tested for driving under the influence of drugs and alcohol. State-supported treatment falls well below demand, but received increased funding in 2007. Georgia is a party to the 1988 UN Drug Convention.

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 trucks (long-haul trucks carrying nominally inspected goods under Customs Seal) the main means for westward-bound narcotics trafficking in the region. Judging from Ministry of Internal Affairs (MOIA) statistics, there were no significant seizures of drugs moving west in 2007.

Licit drugs, especially Subutex, are trafficked from Europe in small quantities via "used-car trade routes," where vehicles purchased in Western Europe are driven through Greece and Turkey destined for Georgia. Subutex, used as an intravenous drug, is popular due to a lower price in comparison to heroin, a longer high, and a wide profit margin for dealers. However, anecdotal evidence obtained from drug treatment centers suggests that Subutex use is beginning to decrease; law enforcement officials credit increased law enforcement cooperation with Western Europe.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In February, the Georgian Parliament adopted a comprehensive national Anti-Drug Strategy. The "Advisory Council on Drug Policy," which includes the Ministry of Health, MOIA, NGOs, doctors, and jurists, developed the strategy, which addresses prevention, treatment based on epidemiological evidence, and interdiction of drugs and precursors.

In his annual address to Parliament in March, President Saakashvili called for tougher counternarcotics legislation and specifically proposed asset forfeiture. New counternarcotics legislation was adopted by the Georgian Parliament in July. The new law outlines specific penalties to be levied against narcotics offenders, including: forfeiture of illegally obtained assets, deprivation of the right to hold a driver's license, engage in a medical, legal or pedagogical

profession, serve in a budgetary capacity in a government agency, be elected to public office, or purchase, maintain or carry arms. Previous amendments to the criminal code increased penalties for transshipment and intensified monitoring of drug users. These amendments included a year longer prison sentence for repeat offenders and for anyone who illegally transships narcotics while serving as a public official. Businesses are also subject to liquidation and fines.

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 five seizures of narcotics at border points in 2007, one by the Coast Guard. Most arrests for cultivation are believed to be small plots intended for personal use.

In the first nine months of 2007, drug related cases increased threefold in comparison to the same period in 2006. Law enforcement credits increased arrests and seizures of Subutex to strong cooperation with French law enforcement in the first half of 2007. Seizures and arrests related to Subutex dropped significantly over the summer months, putting 2007 Subutex statistics on track to level out with 2006 numbers by the end of the year. According to MOIA statistics:

Activities	2006 (Jan-Sept)	2006	2007 (Jan-Sept)
Drug-related cases	2,038	3,542	6,165
Felonies	1,357	1,926	1,531
Contraband	27	41	58
Dealings	90	137	137
Cultivation	95	100	77
Heroin seizure	4.79 kg	5.62 kg	6.79 kg
Marijuana seizure	11.14 kg	11.28 kg	1.35 kg
Opium seizure	0	218 g	123 g
Cocaine	0	0	.558 g
Subutex	4,539 pills	9,562 pills	7,913 pills
Methadone	0	17.1 g	83.4 g

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 allegations still surface.

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

Cultivation and Production. Estimates by the GOG on the extent of narcotics cultivation within the country are unreliable and do not include the unrecognized separatist 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 them 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 from 2004-2006, and the first nine months of 2007. This, for some, is proof that Georgia is indeed not a transit country; others point to inadequate policing and/or possible corruption. Even those who argue that drugs transit Georgia to Western markets believe that Georgia is a secondary route. For their part, counternarcotics police report that a lack of scanning equipment and canines trained in drug detection severely undermine their capability to properly examine vehicles at border points of entry. Intelligence has shown an increase in heroin trafficking along the Northern Black Sea route due to successes by Turkish law enforcement. The use of the Northern Black Sea route lends itself to multiple modalities, including TIR trucks transiting Georgia and embarking Roll-On/Roll-Off ferries at the Port-of-Poti and disembarking at western Black Sea ports. This information is corroborated with recent Ukrainian seizures at the Port of Illichivsk, Ukraine, a destination port for Georgian ferries.

Domestic Programs/Demand Reduction. There are no widely accepted figures for drug dependency in Georgia, and more generally, statistics in this subject area 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 Ministry of Justice's National Forensic Bureau maintains annual statistics on persons tested for drug abuse. In the first 9 months of 2007, the number jumped to 9,581 persons, compared to a total of 5,779 in 2006.

According to the UNODC Southern Caucasus Anti-Drug Program (SCAD), in 2007 the GOG increased funding for demand reduction and treatment efforts. 150,000 GEL (\$89,820) was allotted for treatment and rehabilitation, while 300,000 GEL was allotted for substitution treatment (methadone). This funding increase is a welcome change following 10 years of continually reduced budgets for demand reduction and treatment programs. In 2006, just 50,000 GEL (\$28,730) had been allocated to demand reduction. With government support, a handful of private clinics provide treatment, which is in great demand. Since private clinics are prohibited by law from procuring methadone for substitution therapy, the government purchases and imports the drug for use by the clinics.

IV. U.S. Policy Initiatives and Programs

Bilateral Programs. In 2007, the USG continued direct assistance on procuracy (State's Attorney) reform, anticorruption efforts, money laundering, writing a new criminal procedure code, upgrading the forensics lab, creating regional evidence collection centers, building a police academy and introducing a new curriculum, fighting human trafficking, and equipping the patrol police with modern communication equipment.

The Road Ahead. Adopting tougher counternarcotics legislation and increasing funding for demand reduction and treatment activities demonstrate the Government's commitment to carrying out its new counternarcotics strategy. Increased international cooperation with European law enforcement is also an encouraging trend.

Germany

I. Summary

Although not a major producer of illicit drugs, 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 2007, 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 Health Ministry publishes an annual report on licit and illicit drugs and addiction, and 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 2006. 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 and Austria. 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 2007

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. Germany is actively involved in a large variety of bilateral, European and international counternarcotics fora, including bilateral programs with Poland and France, the European Horizontal Group on Drugs, the European Monitoring Center for Drugs Addiction, at the Council of Europe and at the UN level. From January through July 2007, Germany held the EU Council Presidency and hosted a number of counternarcotics conferences, thereby continuing to develop and deepen the EU's drug and addiction policy. Germany also sponsors counternarcotics development programs in numerous countries. The National Inter-agency Drug and Addiction Council that had been established in 2004 advises the government with regard to the implementation of measures against drugs and addiction. The government continued to focus on demand reduction in the consumption of cannabis and to offer a variety of treatment and awareness raising programs in 2007. Research on cannabis consumption by juveniles was conducted in 2007.

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 overall amount of seized narcotics increased in 2006 compared to 2005, but the number of narcotics-related seizures remained about the same. In 2006, the three largest singular seizures of hashish and the largest seizure of cocaine in the last three

years occurred. In 2006, the number of heroin seizures remained about the same compared to 2005, but the amount increased by 12 percent (879 kg). Cocaine seizures increased significantly in 2006, namely by 59 percent compared to 2005. With regard to amphetamine and methamphetamine, increases in seizures and amounts were registered in 2006. Seizures in Ecstasy continued to decrease in 2006. The amount of seized cannabis increased by 29 percent in 2006 compared to 2005. The majority of narcotics traffickers are German nationals, followed by Turkish nationals. The Frankfurt/Main Airport Customs Office seized 490 kg of illicit drugs in the first half of 2007, compared to 618 kg in the first half of 2006. The Frankfurt/Main Airport is Europe's second busiest passenger airport and a major freight hub. Peru, Brazil, India, Venezuela and Argentina were the most frequent countries of prior transit for the illicit drugs seized in the first half of 2007.

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, and an MLAT will enter into force upon exchange of instruments of ratification. 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 is a party to the UN Convention against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in persons. 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 seven synthetic drug labs in Germany in 2006.

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 via the Balkan Route to Western Europe, especially to the Netherlands. Cannabis is trafficked to Germany mainly from the Netherlands. Amphetamine and methamphetamine are trafficked from the Netherlands as well as from Poland. 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. A heroin-based maintenance treatment research project to treat seriously ill, long-term opiate addicts was largely completed in 2005. The study found this treatment to be a very effective program for seriously ill, long-term addicts. A number of cities are continuing the treatment for project participants with special approval of the federal government. This project has triggered a debate whether to create a legal basis to allow such treatments in general. In 2006, there were approximately 23 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. Evaluations of these programs are conducted regularly. Drug-related deaths have been decreasing for several years. In 2006, they dropped from by 2.3 percent compared to 2005, making 2006 the year with the lowest number of drug-related deaths (1,296) since 1989. 19,319 first-time users of illicit drugs were registered in 2006, a decrease by 3.4 percent compared to 2005. First-time use of

Ecstasy, heroin, cocaine, and crack decreased in 2006, while the first-time use of methamphetamine and amphetamine 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, ICE (Immigration and Customs Enforcement) and their German counterparts, including the BKA, the State Offices for Criminal Investigation (LKAs), and the Federal Office of Customs Investigation-ZKA. German agencies routinely cooperate very closely with their U.S. counterparts in joint investigations to stop the diversion of chemical precursors for illegal purposes (e.g., Operations Crystal Flow and Operation Prism). 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 exchange programs to compare samples of cocaine and MDMA pills.

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 and contraband. Although not a major transit country for drugs headed for the United States, Greece is part of the traditional “Balkan Route” for drugs flowing from drug producing countries in the east to drug consuming countries in Western Europe. Greek authorities report that drug abuse and addiction continue to climb in Greece as the age for first-time drug use drops. Drug trafficking remains a significant issue for Greece in its battle against organized crime. Investigations initiated by the DEA and its Hellenic counterparts suggest that a dramatic rise has occurred in the number and size of drug trafficking organizations operating in Greece. The DEA and Hellenic authorities conducted numerous counternarcotics investigations during the year, which resulted in significant arrests, narcotics seizures, and the dismantling of major drug trafficking organizations. A number of judges were charged for allegedly taking bribes in exchange for favorable judgments or early prison release of defendants, including accused drug traffickers. A high profile police action on the island of Crete uncovered an organization selling marijuana and hashish to Western Europe. 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 can be 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, and in general, the marijuana produced is usually destined for the domestic market. However, in late November 2007, a high profile police action in a small town on the island of Crete uncovered an organization selling locally grown marijuana and hashish to coffee houses in Amsterdam. Hellenic authorities also recently arrested an individual who was mailing anabolic steroids, which were later found to have originated in Russia, from Greece to the United States. (Use of anabolic steroids is legal in Greece, but it is illegal to ship them to countries where they are categorized as a controlled substance.) The investigation is ongoing.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Greece participates in the Southeast European Cooperative Initiative’s (SECI) anticrime initiative, in the work of the regional Anti-Crime Center in Bucharest and in its specialized task force on counternarcotics. Enhanced cooperation among SECI member states has the potential to disrupt and eventually eliminate the ability of drug trafficking organizations to operate in the region.

Law Enforcement Efforts. Several notable joint U.S./Hellenic counternarcotics investigations occurred during 2007 with significant arrests and seizures. Drug trafficking organizations in the Balkan region, including Greece, usually transport southwest Asian (SWA) heroin from the Middle East and Turkey to Western Europe. Recent investigations and trends indicate more frequent cocaine seizures by Hellenic authorities.

During May 2007, Hellenic authorities seized 25 kilograms of cocaine hidden under coal contained in a maritime container. This shipment originated in South America.

During June 2007, the Athens Country Office and Hellenic Authorities concluded a ten-month investigation of a large-scale international cocaine trafficking organization. Five individuals were arrested after the seizure of 26 kilograms of cocaine and the discovery of a clandestine cocaine laboratory. This investigation confirmed DEA intelligence that international drug trafficking organizations are now shipping cocaine base to clandestine laboratory locations in Europe where it is converted into cocaine hydrochloride.

On July 12, 2007, the Hellenic Coast Guard (HCG), in cooperation with the Hellenic Customs Service (HCS), seized 52 kilograms of cocaine from a ship near Patras, Greece. The cocaine was secreted within two (2) boxes of bananas and originated in Ecuador.

On July 24, 2007, the Special Control Service, (YPEE) seized 19.6 kilograms of cocaine hidden within a container of sugar sent from Bolivia via Greece with an ultimate destination of Albania. The cocaine was found located inside the wooden pallets used to transport sacks of sugar.

On November 11, 2007, YPEE seized approximately 80 kilograms of cocaine that was hidden inside the doors and the frame of the container which had originated in Ecuador. A few months earlier, this organization had shipped 80 kilograms of cocaine via this method which was seized in Croatia.

Corruption. Officers and representatives of Greece's law enforcement agencies are generally under-trained, underpaid, under-appreciated, and overworked. According to numerous press reports, corruption in law enforcement is not uncommon. Transparency International's corruption rating of Greece places it in the lowest ranks of European Union member states. Prime Minister Karamanlis has made anti-corruption a key element of his party's program, and the government has taken steps to implement anti-corruption measures.

As a matter of government policy, Greece neither encourages nor facilitates illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances or the laundering of proceeds from illegal drug transactions. No known senior official of the GOG engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Greece is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by its 1972 Protocol. An agreement between Greece and the United States to exchange information on narcotics trafficking has been in force since 1928. 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 is the only illicit drug produced in Greece, with the single exception of a clandestine cocaine laboratory discovered in July. Cannabis is cultivated in relatively small amounts and apparently intended for local consumption. However as cited above, it was discovered in November that an organization on Crete was selling marijuana and hashish for a number of years in parts of Western Europe.

Drug Flow/Transit. Greece is part of the "Balkan Route" and as such is a transshipment country for Southwest Asian heroin, coming primarily from Afghanistan via Turkey, hashish and marijuana coming predominantly from the Middle East and Africa. Metric ton quantities of marijuana and smaller quantities of other drugs (principally synthetic drugs) moving east 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 Routier (“TIR”) trucks, in automobiles, on trains, and in buses. Some Southwest Asian heroin is smuggled into the United States but there is no evidence that significant amounts of narcotics are entering the United States from Greece. There also has been some suggestion that Turkish-refined heroin is traded for Latin American cocaine, however to date there is no proof.

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, 9.1 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, marijuana, and heroin. There has been a surge in the illegal use of tranquilizers and, to a lesser extent, Ecstasy pills, that reflects developments in the growing European synthetic drug market. The GOG estimates that there are between 20,000 and 30,000 addicts in Greece of whom about 19,000 are addicted to heroin, of whom 9,500 use injecting heroin, with the addict population growing. Recent enforcement trends indicate a rise in the distribution and use of cocaine within Greece and in Europe in general. Cocaine use has tripled in Europe over the past decade.

The Organization Against Narcotics (OKANA) is the state agency that coordinates all national drug treatment policy in Greece. It has 55 therapeutic rehabilitation centers, of which 33 offer “drug free” programs, seven offer methadone substitution programs, and 10 offer buprenorphine substitution programs. The average number of addicts treated in 2005 was 4,248, and the total number of those who received therapeutic treatment was slightly less than 6,000. OKANA has 69 prevention centers in 48 of the 52 regions in Greece, and treated 3,275 addicts in “drug free” therapeutic programs in 200 and 597 in substitution programs. 3,257 persons were registered in waiting lists for substitution programs. OKANA plans to extend its program to other regions and to open it to more addicts, but its plans are threatened by strong local reactions against the establishment of such treatment centers. In June 2005, the Mayor of Athens, in collaboration with the national broadcasting organization and the drug rehabilitation organization KETHEA, opened four narcotics prevention centers in Athens. The centers offer prevention, support and awareness services, and refer addicts to rehabilitation/detoxification centers in Greece.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA officers work with the Greek police to support coordination of regional counternarcotics efforts. As reported above, in June 2007, DEA officers and the Greek police closely coordinated a ten-month investigation of a large-scale international cocaine trafficking organization resulting in the arrest of five individuals and the seizure of 26 kilograms of cocaine along with the discovery of a clandestine cocaine laboratory. In March, DEA and Greek Police attended a seminar sponsored by the U.S. Consulate General in Thessaloniki Greece designed to promote cross-border cooperation in regional anti-smuggling efforts.

The Road Ahead. The United States continues to encourage the GOG to participate actively in international organizations focused on narcotics assistance coordination efforts, such as the Dublin Group of narcotics assistance donor countries. The DEA will continue to organize regional and international conferences, seminars, and workshops with the goal of building regional cooperation and coordination in the effort against narcotics trafficking.

Hungary

I. Summary

Hungary continues to be a primary narcotics transit country between Southwest Asia and Western Europe due to its 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). Although the abuse of opium-poppy straw, barbiturates and prescription drugs containing benzodiazepine is growing, their share in total drug abuse is declining. 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 been the lead ministry in 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 met Schengen Standards for border control and joined the Schengen area on December 21, 2007. Hungary is a party to the 1988 UN Drug Convention.

II. Status of Country

Hungary continues to be a primary 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 Justice and Law Enforcement 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.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Legislation passed in spring 2007 enabled law enforcement to streamline its process in charging an individual for possessing drugs for commercial use when the amount seized is over a certain threshold. There is an individual threshold set for each situation depending on the drug seized and the circumstances of the individual at the time of arrest. The Drug Prevention Coordination Committee, created in 1998, facilitates the implementation of the country's national counternarcotics strategy and coordinates among different ministries and national authorities to combat drug abuse. 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. 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 for youth are marijuana, Ecstasy, and to a lesser extent LSD.

Law Enforcement Efforts. Hungary met Schengen standards for border control by the end of December 2007, and joined the Schengen area. The Hungarian Border Guards were merged with the Hungarian National Police and greater cooperation, information sharing, and efficiency in border interdiction is expected. Preliminary data indicate that seizures of Ecstasy and cocaine continued to increase between 2006 and 2007. 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. 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. The Hungarian Ministry of Finance and the national headquarters of the Customs and Finance Guard supported anti-narcotics and anti-smuggling 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.

In connection with Hungary's accession 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. 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. Number and quantity of seizures by the Police and Customs of illicit drugs for 2006, as reported by the Institute for Forensic Sciences, are below:

Illicit Drug	Seizures	Quantity
Herbal cannabis (kg)	1540	266.5
Cannabis plant (pieces)	50	3529
Cannabis resin (kg)	67	3.0
Heroin (kg)	144	131.1
Cocaine (kg)	113	7.3

Amphetamines (kg)	368	21.81
Methamphetamine (kg)	11	0.013
Ecstasy (tablet)	145	13,8278
LSD (dose)	13	2148

Corruption. As a matter of government policy, Hungary 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. The Hungarian Government aggressively enforces its narcotics-related laws. In addition, it takes administrative steps (e.g., the regular re-posting of border guards) to reduce the temptation for corruption whenever it can. On the other hand, it is difficult to assess accurately the scope and success of Hungarian efforts to combat corruption, when the GOH treats corruption-related information and prosecutions as classified national security information.

Agreements and Treaties. Hungary is party to the 1961 UN Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. A mutual legal assistance and an extradition treaty between the U.S. and Hungarian Governments have been in force since 1997. These agreements have 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. The United States and Hungary have a bi-lateral extradition treaty and mutual legal assistance treaty in effect. Hungary is a party to the UN Corruption Convention.

Cultivation/Production. GOH authorities report that marijuana is cultivated in western Hungary with seeds being transported in from Slovakia; 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, not produced in Hungary.

Drug Flow/Transit. The Hungarian National Police report that synthetics are transported into Hungary from newly established labs in Serbia. They also report that the source of synthetics and cocaine is the Netherlands and of heroin Turkey and Albania via Romania. 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/Demand Reduction. Hungarian ministry officials report the drug abuse is significantly higher among youth between the ages of 12-25 and truly addicted drug abusers are more commonly found in the 25-34 age group. The majority of addicted drug abusers are male, with an average age of 25 years, and use amphetamines, heroin, or Ecstasy. Drug prevention programs are taught to teachers as part of the normal teacher education training. Public schools in Hungary include several drug prevention and health promotion programs in their normal education program. The life skills program is the largest of the counternarcotics programs and was developed in the early nineties with INL assistance through USIA. 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.

There are approximately 230 healthcare institutions that care for drug patients in Hungary. The Ministry of Health continues to establish and fund drug outpatient clinics in regions where such institutes are not yet available. The 2003 amendment to Hungarian counternarcotics legislation was designed to shift the focus of criminal investigations from consumers to dealers. Before this amendment was enacted, Hungarian civil rights advocates 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 called the “diversion program” allowed police, prosecutors, and judges to place drug users in a 6-month government-funded treatment program or mandate participation in a counseling program instead of prison. Drug addicts are encouraged to attend treatment centers while casual users are directed to 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 in its sentencing guidelines and focus again on prison sentences. However, the State Secretary for Drug Affairs has reconfirmed the GOH commitment to maintaining treatment programs, as an alternative to simple prison time for drug abusers. The number and proportion of drug users (including abusers of pharmaceuticals and inhalants) treated based on institution type in 2006 as reported by the Ministry of Health is below:

Institution Type	All Patients: Number/%	New Patients: Number/%
Addiction treatment centers	3,557/22.98	1,247/21.98
Specialized outpatient treatment centers	6,505/42.02	2,856/50.34
Child and youth psychiatric care centers	32/0.21	20/0.35
Psychiatric care centers	415/2.68	246/4.34
Psychiatric & addiction-treatment inpatient departments	4,971/32.11	1,304/22.99
Total	15,480/100.0	5,673/100.0

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 who continue

to provide advice and assistance to hospitals and clinics throughout Hungary to acquaint other medical professionals with American experiences in the field of diagnosis and treatment of drug addict offenders within the criminal justice system.

Road Ahead. The USG continues to support and encourage Hungarian legislative efforts to stiffen criminal penalties for drug offenses, and will continue to support 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. Overall seizures and narcotics offenses declined slightly during 2007, though authorities made record-setting seizures of amphetamines (24 kg) cocaine (3.7 kg) and ephedrine (220,000 tablets). 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 97 cases of importation of drugs and precursors in 2007 (latest available National Commissioner of Police figures through December 27). Icelandic officials raised concerns during the year that drug 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 first Youth in Europe – Drug Prevention Program study on prevention efforts demonstrated that controlled substance use is less widespread among Icelandic adolescents compared to adolescents in nine European cities that also participate in the program.

III. Country Actions Against Drugs in 2007

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 \$940,000 to a total of 63 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. Authorities have documented a substantial upward trend in narcotics violations over the past several years (from 1816 in 2005, to 2098 in 2006, and 1842 as of December 27, 2007). 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.

The Youth in Europe – Drug Prevention Program that is based on the conclusions of an Icelandic research program on drug prevention expanded to a total of 15 cities this year. The Icelandic

program, Drug Free Iceland 1997-2002, was launched by the City of Reykjavik and resulted in a substantial reduction in teen drug use between 1998 and 2004. The European program, Youth in Europe, has been based on key results from the Icelandic project and emphasizes the importance of organized leisure activities, as well as time spent with parents, as the Icelandic study showed that these reduced the likelihood of drug use. The program is sponsored by the pharmaceutical company Actavis Group, headquartered in Iceland, and is administered and coordinated by the City of Reykjavik, the University of Iceland, and Reykjavik University.

Law Enforcement Efforts. In 2007, KEF authorities made 54 seizures compared to a total of 49 in 2006. Nationwide drug seizure highlights include:

- In January, Reykjavik Metropolitan police arrested a man and confiscated between 300 and 400 cannabis plants.
- In February, police arrested a couple that was driving a car in northern Iceland on charges of possessing roughly 700 grams of hashish.
- In February, Reykjavik Metropolitan police arrested a man and seized roughly 30,000 steroid tablets and ampules in his home and elsewhere.
- In February, Icelandic Customs seized the largest ever attempted shipment of smuggled ephedrine tablets, 220,000 tablets.
- In February, KEF police arrested two women with 680 grams of cocaine hidden both internally and on their person.
- In February, Reykjavik Metropolitan police arrested a man and confiscated 3.7 kg of cocaine from a recently imported car that he had just taken delivery of. This is the largest seizure of cocaine ever in Iceland. Police arrested three more individuals in connection with the case.
- In March, Reykjavik Metropolitan police arrested a man in his home and confiscated 700 grams of hashish and 50 MDMA tablets.
- In April, customs officials stopped a Dutch couple arriving at KEF and confiscated 1.1 kg of cocaine that they had hidden on their person, and internally.
- In April, Sudurnes police arrested a man with approximately 700 doses of LSD in his possession.
- In June, KEF police arrested a man for smuggling 2 kg of cocaine in his luggage.
- In August, KEF police arrested a 16-year-old girl and a 28-year-old man for importing 500 grams of cocaine that they had concealed internally.
- In September, Reykjavik Metropolitan police confiscated 1.8 liters of liquid cocaine, the equivalent of 600 grams of powder cocaine, which came in an express delivery from the United States.
- In September, a major police operation led to a confiscation of 40 kg of narcotics, the largest quantity ever in a single seizure: 24 kg of amphetamines (also a record), 14 kg of Ecstasy tablet powder, and 1,800 Ecstasy tablets. SWAT Police, the Icelandic Coast Guard, and members of the Narcotics Department of the Reykjavik Metropolitan police stormed a sail boat docked at a harbor in a small town in eastern Iceland where they made the seizure. The operation was a cooperative effort between the Icelandic police and Europol. The investigation extended to other parts of the country and the European mainland. Police arrested five Icelanders in connection with the case.
- In November, Keflavik Customs seized 5 kg of amphetamines and approximately 500 g of cocaine in an express delivery from Germany. This is the largest confiscation of hard drugs ever found in an express delivery to Iceland.

-- In December, KEF police arrested a German man for importing 23,000 Ecstasy pills in his luggage. This is the largest seizure of Ecstasy pills where Iceland is the destination country.

During the year, police seized nearly 8 kg of hashish, 32 kg of amphetamines, 6 kg of cocaine, 1.8 kg of liquid cocaine, 1,700 units of LSD, 25,927 Ecstasy pills, 14 kg of powder for Ecstasy production, and confiscated approximately 1,118 cannabis plants (latest available National Commissioner of Police figures). In 2007, KEF authorities seized a total of 23,410 Ecstasy pills, 350 g of hashish, 5.7 kg of cocaine, and 5.3 kg of amphetamines.

The National Police Commissioner and the Sudurnes (formerly Keflavik Airport) Police Commissioner have expressed concern about attempts at infiltration into Iceland 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. In November police and border guards prevented the entry of eight members of Hell's Angels, who came to Iceland to celebrate the eleventh anniversary of Fafnir, an Icelandic biker gang. 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.

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 May, a former guard at Iceland's main prison, Litla-Hraun, was given a six month-suspended sentence for attempting to smuggle hashish and amphetamines into the prison for sale to inmates in 2006, and money laundering on the job as a public official. The guard, a temporary summer hire, admitted to having made eight attempts at smuggling drugs into the prison.

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.

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, a Christian charity that uses faith-based approaches to treating addiction, and Gotusmidjan, a treatment center for individuals, 15-20 years old, is operated in conjunction with the Government Agency for Child Protection. SAA was 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 and 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 2007 is around 2,300. The National Hospital annually admits some 300 drug addicts (often those with complicating psychiatric illnesses).

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. The Directorate of Customs and the national church launched an educational website in February, which expounds the message of the program, including drug awareness, information about the Directorate of Customs, and healthy living.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA has enjoyed good relations with Icelandic law enforcement authorities on information exchanges.

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 facilitated contacts between U.S. law enforcement agencies and Icelandic authorities 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 controlled deliveries and other areas of mutual concern. The USG will continue efforts to strengthen exchange and training programs in the context of its ongoing effort to improve 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. 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. The GOI signed the European Arrests Warrant Act 2003, through which Irish police (Garda) can work with police forces of other EU countries 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, which, of course, is part of the United Kingdom. Ireland is not a significant source of illicit narcotics, though, in a single raid in 2004, officials found a quantity of precursors intended to manufacture around Euro 500 million worth of Ecstasy and amphetamines.

III. Country Actions Against Drugs in 2007

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.

In March 2007, the Minister for Community, Rural, and Gaeltacht Affairs announced a 16 percent increase in funding to tackle drug misuse. The increased funding enables a doubling of the amount available for the roll-out of action plans of the RDTFs, the implementation of 67 projects in Local Drugs Task Force areas, and the implementation of initiatives under the Young People's Facilities and Services Fund. The National Advisory Committee on Drugs (NACD) and the National Drug Strategy Team (NDST) published a Cocaine Briefing Paper in March. It contained 13 recommendations which are being followed up with the appropriate Government Departments and Agencies and monitored through the Inter-Departmental Group on Drugs (IDG). The Criminal Justice Act 2007 was signed into law on May 10. The Act contains a number of changes to the criminal justice system, including increased Garda detention powers, changes to existing provisions in relation to the right to silence, and the introduction of mandatory sentencing for a range of drug related offences. A Program for Government, agreed by Government parties on June 12, committed the GOI to implementation of the recommendations of the Working Group on Drugs Rehabilitation, including providing extra detox beds and dedicated community employment places. Two cocaine-specific treatment centers will be established and several approved pilot cocaine projects will be supported. The Government will support the development of projects by local and regional Drugs Task Forces and targeted Garda counternarcotics use programs in schools and third-

level institutions, and will continue to use the Young People’s Facilities and Services Fund to assist in the development of youth facilities and services in disadvantaged areas. In October, the Minister for Justice, Equality and Law Reform announced that Ireland is one of seven countries participating in a new Portugal-based Maritime Analysis and Operations Centre-Narcotics (MAOC-N) to monitor drug trafficking in the Atlantic Ocean. The Centre will focus primarily on transatlantic drug smuggling routes from Latin America and increasingly from Africa. In November, the Minister for Justice, Equality and Law Reform, published the Policing Priorities for the Irish Police for 2008. The top priority is to tackle gun crime, organized crime and drugs.

Accomplishments. Prosecutions increased in 2006, the majority of which were for drug possession, which has risen steadily since 2003, and accounted for 73.2 percent of the total drug offences prosecuted in 2006. The number of simple possession offences increased from 7,432 in 2005 to 8,556 in 2006. The number of supply offences leading to a prosecution in 2006 was 2,525, representing 21.6 percent of the total number of offences prosecuted. The Irish Police continued to cooperate closely with other national police forces. In October, Irish Police arrested three men for their part in an international drug-dealing network which involved the importation of cocaine from South America via the postal system, following information from Belgian authorities.

Law Enforcement Efforts. Although official statistics are not yet available for 2007, 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 Garda National Drug Unit (GNDU) each year. The GNDU’s arrests tend to include most of the large seizures, but local police also have had success. For example, the Irish Police and the Irish Customs Service seized 1,525 kilograms of cocaine (valued at Euro 105 million, the largest ever seizure in the State) off the coast of Cork on July 2. The seizure followed the capsizing of a rigid inflatable boat. Police believe that the UK was the intended destination for the shipment. Six arrests (five British nationals and a Lithuanian national) were made in relation to this ill-fated smuggling operation. The six are to be tried in 2008. The drugs originated in South America and had been transported via the Caribbean through Spain on the U.S. flagged catamaran “Lucky Day.”

Police sources said, contrary to widely-held perceptions, the value of cocaine seizures decreased in 2006 while the value of heroin seized increased fourfold to almost Euro 26 million. Sources said the rise in the amount of heroin being offered for sale was directly related to the large opium crops in Afghanistan.

A breakdown of the type and quantity of drugs seized by police in 2006 follows.

Garda Seizures Of Main Drugs 2006

Source: Garda Annual Report 2006

Type of drug	Quantity	Cases
Cannabis	289,292 grams	511
Cannabis Resin	6,951,803 grams	3,300
Cannabis Plants	606 plants	42
Heroin (Diamorphine)	128,097 grams	1,115
Ecstasy MDMA	146,013 tablets, 106 grams, 1,500 milliliters	769
Ecstasy MDEA	9 tablets	2

Europe and Central Asia

Type of drug	Quantity	Cases
Ketamine	21 grams	5
Amphetamines	37,922 grams 6,399 tablets	236
Cocaine	190,193 grams	1,324
Diazepam	35,500 tablets, 4 grams	129
Flunitrazepam (Rohypnol)	197 tablets	8
Flurazepam	417 capsules	22
Temazepam	9 tablets	6
Alprazolam	91 tablets	10
Methadone	2,336 milliliters	23
Dihydrocodeine	339 tablets	8
Ephedrine	106 tablets, 6 capsules, 1375 milliliters	4
Methylamphetamine	136 grams	20
Dimethyltryptamine	2,000 milliliters, 37 grams	4
LSD	1,528 units	1

In January, officers from the Garda National Drugs Unit arrested a man and seized Ecstasy tablets worth Euro 1.8 million in Dublin. In February, a man was arrested after the seizure of cannabis worth Euro 1.2 million in Dublin. Two men were arrested in May, after six kilograms of heroin with a potential street value of Euro 1.2 million was seized in Dublin. In June, police seized 10 kilograms of cocaine and 420 kilograms of cannabis with an estimated street value of Euro 3.5 million after a raid in a west Dublin industrial estate. In August, 1.1 MT of cannabis (valued at Euro 13 million) was discovered by customs officials in Dublin Port on board a freight consignment from South Africa. Also in August, Police seized cocaine valued at almost Euro 1 million and arrested one man in Co. Louth. Also in August, two men were arrested when cannabis, heroin, cocaine, and Ecstasy, estimated to be worth Euro 6 million, were found in Dublin after a major planned search operation by Police. In October, members of the Special Detective Unit (SDU) seized over eight kilograms of heroin, with an estimated street value of Euro 2 million in Dublin. Also in October, Police seized 200 kilograms of cannabis worth an estimated Euro 1.5 million during raids in Dublin.

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 2007, 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. South American 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 whom live in Dublin. A total of 1,363 individual prisoners received methadone in Irish prisons, accounting for about 9 percent of the total population (12,157) sent to prison in 2006. 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 2007, 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 are 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 2007

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 six to 20 years and fines of over \$300,000. 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 this legislation once elected to office in May 2006, but the Prodi government, a center-left coalition of eight parties, has not done so. In April 2007, Minister of Health Livia Turco issued a decree that allows medicines derived from cannabis to be used in drug therapies to relieve severe and chronic pain. Minister of Social Solidarity Ferrero, who is designated as the GOI's overall drug coordinator, has publicly campaigned for new guidelines that raise the minimum amount of narcotics possession allowed, before punitive measures can be applied. Any proposal to change existing law would require consultation with other ministers (including the Justice and Interior Ministers), approval by the full cabinet, and a vote in parliament. In late October 2007, the lower house of the Italian parliament began to review the government's proposal to amend the law. At the multilateral level, Italy has contributed an average of \$12 million to UNODC, over the last several years, making it one of the largest donors to the UNODC budget. Italy has supported key U.S. objectives at the UN Commission on Narcotic Drugs (CND), and chairs the Dublin Group for Central Asia.

Law Enforcement Efforts. From January 1 to September 30, 2007, Italian authorities seized 1,516.9 kilograms of heroin; 2,981.1 kilograms of cocaine; 14,080.5 kilograms of hashish; 2,835.9 kilograms of marijuana; 1,515,147 marijuana plants; 305,195 doses and 5.8 kilograms of amphetamines; and 3,510 doses of LSD. In November 2006, a multilateral investigation involving DEA Rome, the Italian National Police (INP), the Italian Guardia di Finanza (GdF), as well as Colombian and Spanish authorities, successfully dismantled a major international cocaine trafficking and money laundering organization operating in South America and Europe. INP and

GdF personnel arrested 34 members of this organization, significantly impacting the drug trafficking and money laundering activities of several Italian organized crime groups.

In December 2006, a joint investigation between DEA Rome and the Italian Carabinieri, as well as law enforcement counterparts in France, Spain, Germany, Ecuador, and Colombia, culminated in the arrest of 90 members of a significant international drug trafficking organization responsible for multi-hundred kilogram cocaine shipments from South America to Italy. During the investigation, over 1,200 kilograms of cocaine, 4,800 kilograms of hashish and weapons were seized in Italy and other countries. The Carabinieri arrested 50 individuals in Italy and seized in excess of \$25 million in trafficker-owned assets. In January 2007, GdF officials in Trieste, Italy seized 110 kilograms of heroin (valued at \$70 million) from a truck, which had arrived on a ferry boat from Turkey. In May 2007, a joint DEA Milan and GdF money laundering investigation resulted in the identification and seizure of over \$6.2 million in drug proceeds from bank accounts in the U.S.

The fight against drugs is a major priority of the National Police, Carabinieri, and GdF counternarcotics units. The Italian Central Directorate for Anti-Drug Services (DCSA) coordinates the counternarcotics units of the three national police services and directs liaison activities with DEA and other foreign law enforcement agencies. Working with the liaison offices of the U.S. and western European countries, DCSA has 19 drug liaison officers in 18 countries (including the U.S.) that focus on major traffickers and their organizations. In 2006, DCSA stationed liaison officers in Tehran, Iran and Tashkent, Uzbekistan; in 2007 they added liaison officers in Kabul, Afghanistan, and Islamabad, Pakistan. Investigations of international narcotics organizations often overlap with the investigations of Italy's traditional organized crime groups (e.g. the Sicilian Mafia, the Calabrian N'drangheta, the Naples-based Camorra, and the Puglia-based Sacra Corona Unita). During a two-year investigation leading to a major drug bust in early 2005, Italian officials confirmed that a number of these organized crime groups were linked to drug trafficking. Additional narcotics trafficking groups include West African, Albanian, and other Balkan organized crime groups responsible for smuggling heroin into Italy. 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. We have no information that any 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 in the area of counternarcotics 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.

Agreements and Treaties. Italy is a party to the 1961 UN Single Convention as amended by its 1972 Protocol, as well as the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Italy has signed, but has not yet ratified, the UN 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, although 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. Italy maintains a liaison office in Albania to assist Albanians in interdicting narcotics originating there and destined for either Italy or other parts of Europe. Almost all cocaine found in Italy originates with Colombian and other South American criminal groups and is managed in Italy mainly by Calabrian-based organized crime groups. Multi-hundred kilogram shipments enter Italy via 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 West Africa 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-kilogram (usually concealed in luggage) enter Italy via express parcels or airline couriers traveling from South America. Ecstasy found in Italy primarily originates in the Netherlands and is usually smuggled into the country by means of couriers utilizing commercial airlines, trains or land vehicles. Italy is also used as a transit point for couriers smuggling Ecstasy destined for the United States. A method used in the past by trafficking groups 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 EU's open borders make this journey somewhat less risky. Hashish comes predominately 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.

Catha Edulus (aka Khat) is a shrub grown in the southern part of Arabia and Eastern Africa, primarily in the countries of Yemen, Somalia, and Ethiopia. The leaves of this plant contain the alkaloids cathine and cathinone (chewed for stimulant effects), which are controlled substances in Italy and the U.S. Italy is one of several European countries used by East African trafficking organizations for the transshipment of khat to major urban areas across the U.S. These organizations primarily use international parcel delivery systems and airline passenger luggage to transport multi-kilogram to multi-hundred kilogram quantities of khat. Italian law enforcement officials continue to cooperate with DEA in joint investigations targeting these groups in Italy and the U.S.

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 544 public health offices operated at the regional level; the Ministry of Interior supports 730 residential, 204 semi-residential facilities, and 183 ambulatories. Of the 500,000 estimated drug addicts in Italy, 176,000 receive services at public agencies. 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 for regional programs 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. In January 2006, the Director of the Italian Central Directorate for Anti-Drug Services (DCSA) met with senior DEA leadership at DEA headquarters in Washington, DC, in furtherance of bilateral operations. In January 2007, DCSA hosted a working group conference of law enforcement counterparts from Europe, Africa, and the Middle East as part of the DEA's annual International Drug Enforcement Conference (IDEC). DEA and DCSA personnel continue to conduct intelligence sharing and coordinate joint criminal investigations on a daily basis. Based on the October 1997 International Conference on Multilateral Reporting in Lisbon, Portugal, the DEA Headquarters Chemical Section and DCSA continue to exchange pre-shipment notifications for illicit drug precursor chemicals. During 2007, DEA continued the Drug Sample Program with the GOI, which consists of the analysis of seized narcotics to determine purity, cuttings agents, and source countries. From January-October 2007, DEA received approximately 72 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 Balkans 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. In 2007, the U.S. Coast Guard dispatched two Mobile Training Teams to conduct courses in Advanced Small Boat Operations and Seaport Security/Anti-Terrorism. Italy is a charter member of the Maritime Analysis and Operations Center-Narcotics (MAOC-N) in Lisbon, which should bolster EU capacity to protect its southwestern flank.

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. The USG will also continue to work with Italy in multilateral settings, such as the Dublin Group of countries that coordinate counternarcotics, and UNODC policies.

Kazakhstan

I. Summary

In Kazakhstan, during the first nine months of 2007, there was an increase in the number of drug-related crimes, an increase in the volume of seized drugs, and a decrease in the number of registered female and underage drug addicts. Kazakhstan significantly increased counternarcotics operations. The Government of Kazakhstan (GOK) encouraged law enforcement agencies, NGOs, political parties and the media to join together to combat drugs. The number of people arrested for drug-related crimes in 2007 increased 13.4 percent. Cannabis-type drugs (hashish and marijuana) accounted for 95 percent of total seizures. Heroin seizures decreased by 1.7 percent. Kazakhstan continues implementation of two large-scale programs to combat corruption and drug trafficking announced by President Nazarbayev. Strengthening the borders, especially in the south, is a priority for the government. The 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 of civil society, NGOs, and the mass media, they will not be able to effectively combat the problem of narcotics. Kazakhstan is a party to the 1988 UN Drug Convention.

II. Status Of Country

Kazakhstan's geographic location, extensive development of its transportation infrastructure, the openness of borders with most neighboring countries, and the stability of the social and economic situation in the country have made Kazakhstan a major transit country for narcotics and psychotropic substances from Southwestern and Southeastern Asia to Russia and Europe. The main source of drugs is Afghanistan. Crimes related to the trafficking and sales of narcotics are taking on an increasingly dangerous transnational character. In response, law enforcement officers in Kazakhstan are developing relationships with their colleagues in Uzbekistan, Tajikistan, Turkmenistan and Kyrgyzstan.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In November 2005, President Nazarbayev signed a decree approving a strategy to combat drug addiction and trafficking for 2006-2014. The purpose of the strategy is to create a full-scale system in which both the government and civil society counteract the problems of drug addiction and narco-business. The most important segments of the strategy include the dissemination of counternarcotics information; the strengthening of interagency and international cooperation in the fight against drug addiction and narco-trafficking; the strengthening of state agencies, including medical treatment centers; the improvement of legislation; the improvement of personnel training; and the development of educational programs.

The 2006-2008 "Astana-Drug Free City" program, announced by President Nazarbayev in September 2006, focuses on demand reduction, treatment of drug addiction, and combating drug trafficking. The Ministry of Internal Affairs (MVD), jointly with other law enforcement agencies, is charged with implementing this program. As a result of the program, law enforcements agencies in Astana reported 192 drug-related crimes this year, a figure 25.5 percent higher than last year. One hundred nineteen of the crimes related to the sale of drugs. Police closed 45 "drug markets" and two locations used by addicts to take pills, inject drugs, and smoke marijuana. As a result of special operations implemented in Astana 58.484 kg of drugs have been seized this year.

In order to avoid such incidents, the Ministry of Internal Affairs proposed legislation to allow for the destruction of drugs immediately after confiscation, leaving only small samples for evidentiary use. The MVD also submitted a draft law to improve criminal and criminal procedural legislation, and legislation on protection of witnesses and operative and investigative activity. In response to historic focus on quantity of seizures the MVD is working with the Procurator General's Office to prevent the inflation of seizure statistics and to improve the efficiency of law enforcement agencies. The MVD also submitted a draft law to increase the penalties for drug possession, large volume sales, and sales to minors. The draft also foresees increasing penalties against the owners of bars and clubs allowing the illegal use of drugs in their establishments.

Law Enforcement Efforts. Kazakhstan's law enforcement agencies seized 21,787 kg of drugs in the first nine months of 2007, compared with 22,549 kg during the same period last year. This figure includes 20,467 kg of marijuana (2.5 percent decrease), 378 kg of heroin (1.7 percent decrease), 197 kg of opium (47.2 percent decrease), and 187 kg of hashish (9.7 percent decrease). Cannabis-type drugs (hashish and marijuana) accounted for 95 percent of total seizures.

The GOK has also taken measures to deter narco-trafficking through its territory, including the establishment of internal checkpoints and strengthening border controls. These new measures, and the implementation of demand reduction programs, may have caused a decrease in narco-trafficking, also resulting in the decrease in total seizures. During the reporting period, all law enforcement agencies reported 8,271 drug-related crimes, up from 7,960 during the same period in 2006. Of these, MVD reported 7,807 crimes, the Committee for National Security (KNB) reported 258 and the Customs Control Committee (CCC) reported 192. Since the beginning of 2007, nine organized criminal groups were reportedly dismantled by law enforcement bodies. The Kazakhstani Supreme Court reported that in the January-September period, courts had 9,467 criminal cases related to illegal drug trafficking in process; 5915 cases were disposed of. Of these disposed cases, 6,112 people were convicted, 13 acquitted, and the cases against 54 people were dropped. The Committee on the Criminal Penitentiary System (CCPS) of the Ministry of Justice conducted programs to stop the flow of narcotics into correctional and pre-trial detention facilities. During the first nine months of this year, CCPS discovered 179 narcotics deliveries into correctional facilities. As a result, 26.516 kg of drugs, including 6.468 kg of heroin and 19.422 kg of cannabis-type drugs, were seized.

Uzbekistan President Islam Karimov proposed the idea of a Central Asia Regional Information Coordination Center (CARICC) during the visit of UN Secretary-General Kofi Annan to Uzbekistan in October 2002. CARICC, which will be based in Almaty, will be the focal point for communication, analysis and exchange of operational information on transnational crime and will assist in organizing and supporting the coordination of joint operations to combat narcotics among member countries (Azerbaijan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, Uzbekistan and Kazakhstan). According to the Ministry of Foreign Affairs, 50 specialists will work in CARICC. According to recent information, the agreement establishing CARICC has been signed by all member-countries except for Russia. In order to prepare for full operation of CARICC, a pilot phase was launched on November 1, 2007. During this phase, personnel will be selected and the premises provided by the Government of Kazakhstan will be renovated. CARICC will be officially opened when all countries have signed and their parliaments have ratified the agreement.

Corruption. While it is difficult to determine the extent to which narco-trafficking has corrupted law enforcement officials, it is certain that some instances of corruption have hampered the country's efforts against drugs. All state agencies were mandated to take measures to combat corruption. One case illustrative of corruption, was a police official in the eastern Kazakhstan city of Semey sentenced to ten years in jail for his involvement in the sale of large amounts of narcotics. The official, who had worked in the police for 15 years, was arrested after attempting to force a young woman to sell 25 grams of heroin and pay him 35,000 KZT (\$300). The young

woman contacted the KNB, which organized an undercover operation. Police officers in the northern city of Pavlodar were found to have replaced 100 kg of heroin, stored as evidence, with baking soda and salt. Official representatives of the Procurator General's Office announced that, throughout the country, approximately 500 kg of seized drugs, including 29 kg of heroin and around three kg of opium were lost or stolen, while in government custody. As a matter of policy, however, the Kazakhstan 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.

Agreements and Treaties. Kazakhstan is party to the 1988 UN Drug Convention and has signed the Central Asian counternarcotics Memorandum of Understanding with UNODC. The Kazakhstan national anti-narcotics law, passed in 1998, specifically gives provisions of international anti-narcotics agreements precedence over national law.

Cultivation/Production. In addition to drug transit through the territory of Kazakhstan, marijuana cultivation in the Chu Valley represents an indigenous source of drugs. Marijuana grows naturally on an estimated 138,000 hectares of the Chu Valley. Each year the MVD, jointly with other law enforcement bodies, conducts a country-wide operation, "Operation Mak" (Russian for "poppy") aimed at stopping drug-related crimes and detecting and eliminating drug cultivation. This year the operation was conducted from May 25 through October 20 and reported 4,016 drug related crimes vice 3,621 last year. Of these crimes, 1,561 were related to the sale of narcotics. Operation Mak resulted in the detention of 2,428 offenders, including 50 citizens of foreign countries. Eighteen tons of drugs were seized (12.6 percent more than last year), including 49.414 kg of heroin and 17.967 tons of marijuana were up-rooted and destroyed. In an interview with "Liter" newspaper, the Head of the Division on Combating Drugs of Almaty city said that the cost of a kilo of marijuana is approximately 70,000 KZT (\$578)—a significant price increase over the past, which he attributed to the success of Operation Mak in the Chu Valley.

Drug Flow/Transit. The main flow of drugs, including heroin and opium, enters Kazakhstan from Central Asia and Afghanistan. Drug couriers are mainly residents of Central Asian countries drawn into illicit activities by poverty and high unemployment rates. Couriers rely on vehicles and trains to smuggle the majority of the narcotics into Kazakhstan. During the past year, law enforcement agencies have reported an increase in the seizure of European-produced synthetic drugs, such as Ecstasy and LSD. Recently, Russia has also become a source of synthetic drugs.

Domestic Programs. According to official statistics for the first nine months of 2007, there are 54,902 registered drug addicts in Kazakhstan. This represents a 0.4 percent increase from last year. Of the total, 7,085 were using synthetic drugs. There were 34,534 opiate users and 11,329 consumers of cannabis-type drugs (hashish, marijuana). The number registered as drug addicts under the age of 18 has decreased by 13.5 percent (4,652 registered last year vice 4,029 registered this year). The number of registered drug addicts 14 years old and younger has decreased by 28 percent. The number of registered drug addicts between the ages of 18 and 30 decreased by 2.5 percent. To effectively implement the demand reduction program in Kazakhstan, educational institutions conduct roundtable meetings with representatives of the Procuracy, the MVD, employees of mental hospitals, and others to define interagency actions on prevention of drug addiction. To decrease drug demand among the population, the public affairs sections of various agencies, including MVD and the Ministry of Culture and Information, disseminate information to citizens on the dangers of narcotics and report drug seizures through the mass media on a regular basis. Video clips and interactive programs are shown on TV and interviews are published in the newspapers. The MVD has launched a new campaign which involves cellular phone companies, the mass media, and other parts of society to distribute information in the form of booklets and audio and video clips asking the population to assist police by reporting crimes. The MVD has instituted help-lines and special boxes for the collection of information in Astana. Anyone can now

submit information on locations where drugs are sold and consumed. Moreover, the MVD has plans to pay rewards for information.

The MVD is working with the Ministry of Health to establish a system for the psychological rehabilitation and reintegration of drug addicts. The National Scientific and Practical Center of the Ministry of Health was established in 2001 within the framework of the Program on Combating Drug Addiction and Drug Trafficking. The Center develops, tests, and implements new methods of treatment, rehabilitation, and prevention. However, the number of doctors working with drug addicts has been decreasing over the past three years.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. A key USG goal is to develop a long-term cooperative relationship between law enforcement agencies of the United States and Kazakhstan. This relationship will enhance the professional skills Kazakh officers and improve the organization and management of Kazakhstani law enforcement services, thereby improving their ability to fight drug trafficking, drug consumption, and terrorism. A USG priority area in Kazakhstan is on border security programs. In 2007, a professional relationship was established between the Kazakhstani Military Institute of the Committee for National Security, which trains border guards, and the U.S. Border Patrol Academy. It is expected that a proposed student and faculty exchange program will further this relationship.

The Road Ahead. The USG will continue to provide technical assistance, equipment, and training to law enforcement and security services to improve the effectiveness of searches of trucks and trains. The USG will also work with training academies to improve curriculum and training methods.

Kyrgyz Republic

I. Summary

The Kyrgyz Republic continues to have only very modest domestic 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 to a limited extent, America. The Government of the Kyrgyz Republic (GOKG) attempts to combat drug trafficking and prosecute offenders. The GOKG has been supportive of international and regional efforts to limit drug trafficking and has initiated major initiatives to address its own domestic drug use problems. The GOKG recognizes that the drug trade is a serious threat and is focused on secondary and tertiary drug-related issues such as money laundering, drug-related street crime and corruption within its own government.

Drug abuse continues to be a serious issue in Kyrgyzstan. 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.

Due to a change in leadership at the DCA (Specialized drug enforcement force) in August 2005, it appeared there was a positive change in direction for the DCA. After a period of readjustment of personnel and tactics, the DCA began a strong enforcement effort, exceeding agreed targets set for seizures during the second half of 2006.

In February 2007, the leadership of the DCA was again changed. The former Director, was elevated to Minister of the Interior, and a new DCA Director, took the reins of the DCA. Some top officials were lured away with the new minister, while others took positions within the MOI. The personnel turnover appeared to hamper DCA effectiveness. 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 un-staffed 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 the 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 itself; however, cannabis, ephedra and poppy grow wild in many areas.

III. Country Actions Against Drugs in 2007

Policy Initiatives. With U.S. assistance, the Kyrgyz Republic established its first inter-agency counternarcotics Mobile Interdiction Teams (MOBITS) in an effort to stem the trafficking of narcotics along its borders with Tajikistan and Uzbekistan.

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 a lead agency that coordinates all drug enforcement activities in the Kyrgyz Republic. To stop illegal transnational organized drug crime, the DCA continues to work with its counterparts in Russia, Kazakhstan, Tajikistan, and Uzbekistan. From May to December 2006, the DCA participated in training/mentoring programs coordinated by the U.S. embassy narcotics office with the objective of increasing seizures of drugs in transit. The seizure goal agreed on to stimulate DCA's efforts was 225kg of illicit narcotics. For the period of May to December 2006 the DCA made 70 seizures. The seizure breakdown as follows: 153kg of heroin, 170kg of opium, 583kg of marijuana and 26kg of hashish. This was a grand total of 934kg of illicit narcotics. The approximate street value was almost \$900,000. Though this was a substantial amount of narcotics, more work is required in the area of heroin and opium seizures. All arrestees during this special operation were prosecuted and received jail time. Since the beginning of 2007, the DCA has conducted six joint "controlled delivery" operations targeted on organized crime drug lords. In 2007, the DCA registered 87 seizures, but the amount of drugs seized in each case diminished. As of September 30, 2007 the DCA had seized 117kg of heroin, 26kg of opium, 673kg of marijuana, 5kg of Psychotropics and .33kg of hashish.

Kyrgyz officials have emphasized coordination among enforcement units (Ministry of Interior, National Security Service, Customs, and Border Guard) to increase effectiveness in the field of combating drugs. As a result, joint operations are now 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 officers are involved in this process. To combat this, U.S. Central Command (CENTCOM), the Nebraska National Guard, U.S. Customs, DEA and INL launched the initial phase of the MOBITS Assistance Project. In August 2007, 32 Kyrgyz law enforcement officers from the DCA, Ministry of the Interior, Customs Service and Border Guards were trained and completely equipped to form the first of four planned MOBITS Teams. The team was deployed in September 2007, after the completion of five weeks of training. Its mission is to identify drug trafficking targets and to seize all the illicit narcotics it can. These teams patrol remote southern areas between fixed border posts along the Kyrgyz border with Tajikistan and Uzbekistan.

Corruption. Corruption remains a serious problem and a problem for effective law enforcement. In 2007, several Kyrgyz law enforcement officials were apprehended while trafficking narcotics in Kyrgyzstan. The Kyrgyz DCA now possesses a relatively good reputation, and its staff goes through a very thorough vetting procedure and receives substantial salary supplements from the U.S./UN counternarcotics project. The MOBITS Units are also thoroughly vetted.

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 Corruption Convention and the UN Convention Against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in persons. It is also a party to the Central-Asian Counternarcotics Protocol, a regional cooperation agreement backed by the UN.

Cultivation/production. While there is no significant commercial production of drugs in Kyrgyzstan, cannabis and ephedra grow wild over wide areas, especially in the Chui valley region, and around Lake Issyk-Kul. In the past, Kyrgyzstan was a major producer of licit opium, and was the Soviet Union's main source of ephedra plant for decades. However, with skyrocketing opiate imports from Afghanistan, it has become less risky and easier to import drugs from Afghanistan via Tajikistan than to produce them locally. The Kyrgyz government carries out yearly eradication campaigns against illicit crops. Despite sporadic cases of drug cultivation, this problem, compared to that of drug trafficking and drug transit, has little impact on the general drug abuse problem.

Drug Flow/Transit. Despite improved law enforcement efforts, there has been no appreciable impact on the transit of Afghan narcotics through the Kyrgyz Republic. Illicit opium cultivation in Afghanistan is still high. Due to a very limited and rudimentary transportation system, traffickers mostly utilize lengthy overland routes leading through Afghanistan's neighboring countries. A significant share of the drugs smuggled through Central Asia in 2007 entered the region through Tajikistan. Together with Uzbekistan, Kyrgyzstan represents the main conduit for onward smuggling of opiates. Following a pattern observed across the Central Asian region in 2007, the share of opiates seized in Kyrgyzstan increased significantly. In particular, the southern border provinces of Osh and Batken again experienced a high flow of drugs in 2007. This is the area where the MOBITS Teams will be present and active. In the last few years, trafficking activities have increased on the long and mountainous border between the Tajik Garm region and Batken in Kyrgyzstan. Onward smuggling through the Kyrgyz Republic takes drugs mainly to the Uzbek part of the Fergana valley, and across the Northern border into Kazakhstan.

Domestic Programs/Demand Reduction. Existing economic problems and budget constraints prevent the Government of the Kyrgyz Republic from effectively addressing the rapidly deteriorating drug abuse and HIV/AIDS problem. Insufficient allocation of budget funds hampers successful implementation of prevention and treatment programs as well as training of professional staff. Although, for the past few years, funding for international financial and technical assistance programs to address HIV/AIDS problems in Central Asia has increased considerably, the GOKR have devoted insufficient attention to the conceptual and strategic development of a modern drug treatment service provision system capable of stemming drug abuse and/or a HIV/AIDS pandemic. The programs for drug users in the Kyrgyz Republic are conducted by state institutions in partnership with civil sector organizations. UNODC also has a number of drug assistance programs. The UNODC completed a regional demand reduction program, "Diversification of HIV Prevention and Drug Treatment Services for Injection and other Drug Users in Central Asia." This four-year project sought to improve and further develop a range of HIV prevention and drug treatment services for injection drug users in selected localities in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Efforts included outreach, low-threshold services and in-patient provision of HIV/AIDS prevention education, access to condoms and sterile injection equipment, counseling, detoxification, treatment and rehabilitation. Emphasis was placed on the replication of existing successful initiatives in the region, in-service training through exchanges among organizations in the region and training seminars organized at the regional and national levels. However, 2007 was the final year for this project.

USAID worked to reduce demand for illegal drugs by supporting work with vulnerable populations through its five-year Drug Demand Reduction Program (DDRP) that was completed this September 30, 2007. Focused in the Fergana Valley in Kyrgyzstan, DDRP worked with target populations, including vulnerable youth, prostitutes, and prisoners. DDRP aimed to increase these groups' access to and use of quality drug demand reduction services, social support, and other healthy alternatives to heroin/opiate use. The project used an evidence-based public health approach, drawing on regional and international experience in drug prevention and treatment. Vulnerable youth were the primary focus of an "ABC" program, which focuses on abstinence, faithfulness to one partner, and condom use through a social marketing campaign, as well as peer-to-peer HIV education.

IV. U.S. Policy Initiatives and Programs.

Road Ahead. The DCA currently has good momentum toward becoming a solid and respected drug enforcement force for the Kyrgyz Republic. DCA should continue to benefit from U.S. narcotics assistance delivered through the U.S. Embassy in Bishkek. An additional enhancement to U.S. counternarcotics programs has been the assistance of the Nebraska National Guard in

providing assessment, training and guidance to the DCA. The Guard's presence on the ground is of great value in forming working relationships with the DCA. Another initiative is the assignment of two liaison officers (former U.S. counternarcotics officers) to work with the MOBITS headquarters and to provide guidance, mentoring and technical assistance to the MOBITS teams. The most significant initiative in terms of funding is the MOBITS Interdiction Teams. This \$1 million project will give Kyrgyz law enforcement entities the capability to strike anywhere and apprehend drug traffickers while they are in the act of transporting narcotics.

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 (including a newer drug, peperzine) due to their low cost, as well as national information campaigns highlighting the dangers of intravenous drug use. There are no significant changes in narcotics use, market or price (although there is a tendency for prices to rise after a major drug seizure) in Latvia and most of this activity is concentrated in Riga. 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. Control of some cocaine smuggling through the Baltic region is directed by Latvian organized crime groups, though Russian (specifically Moscow), and Lithuania are the most likely ultimate markets. 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 2007

Policy Initiatives. Latvia is in the third 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.

In 2006 a program called “HIV/AIDS prevention and care among injecting drug users and in prison settings in Estonia, Latvia and Lithuania” was initiated with UN funding. The goal of the project is to establish a favorable environment in all project countries to better implement HIV/AIDS prevention and care activities among injection drug users and in prisons through addressing normative policy, capacity building and programmatic aspects of national HIV/AIDS prevention activities. The program is scheduled to last from 2006 to 2010.

Law Enforcement Efforts. Drug related crime rose 65 percent, from 700 cases in 2006 to 1078 cases in 2007. In 2007 the total amount of narcotic and psychotropic drugs seized rose by 54 percent from 2006. The amounts of hashish and ephedrine seized were the only two drugs that did not change significantly from last year. Seized amounts of amphetamines dropped by 50 percent and methamphetamine seizures were slightly down. All other seizures increased significantly. Poppy straw doubled, heroin was about ten times higher, and marihuana rose from 3.8 kg to 47.6 kg. The most significant increases were in seizures of Ecstasy, which rose from 2,299 tablets in 2006 to 91,905 tablets in the first nine months of 2007, cocaine, a seven fold weight increase from 2006, and LSD, which saw an extraordinary decrease in 2006, but has experienced another peak in

2007. Peperzine, a newer drug from Western Europe, is not yet illegal in Latvia; however, it is confiscated as misuse of a prescription drug. The marked improvement in seizures, according to an official in the Latvian State Police, is due to better experience among police officers and improved international contacts.

Corruption. Latvia's Anti Corruption Bureau (KNAB) was established in 2003 to help combat and prevent public corruption. According to a KNAB official, the 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. The United States and Latvia are parties to a mutual legal assistance treaty which entered into force on September 17, 1999. On December 7, 2005, Latvia and the United States signed a new extradition treaty and Mutual Legal Assistance protocol. The Latvian Saeima ratified the new extradition treaty in May 2007, but the U.S. Senate has not yet ratified it. 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. Cocaine is being smuggled through the Baltic region by Latvian organized crime groups, though much of it goes through the port of St. Petersburg (with command and control in Latvia) or through Latvia en route to Russia. Most of the cocaine in the region probably goes to Russia (specifically Moscow), and Lithuania where the market is large and prices are high. Latvian groups send tens of kilograms at a time hidden in commercial vessels from Guayaquil, Ecuador to St. Petersburg, and some groups drive vehicles with concealed cocaine overland from the Benelux countries to Latvia and Lithuania. 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 transiting Latvia is Afghan in origin and comes via the "Northern Route" (former Soviet Central Asia) and not the Balkan Route.

It is important to note that Latvia became a Schengen country on December 21, 2007, thus opening its borders to Western Europe. The Latvian State Police reported that the greatest rise in narcotics trafficking in Latvia occurred when it became an EU country in 2004. They do not expect the change after Schengen to be as marked.

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. Legislation and amendments to current legislation continue to be passed with the objective of further regulating and raising barriers to addictive drugs and activities. 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. In 2006, 910 patients were discharged from in-patient rehabilitation programs. Equally, there were 443 first treatment demands in outpatient programs. It is important to note that, because not all patients who receive treatment are registered as drug users, as many as one third of patients may not be accounted for among registered drug users.

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. At this time, the DEA has multiple cocaine cases ongoing involving Latvians, and one heroin case, as well as two drug-related money laundering cases. In 2007, the U.S. Coast Guard dispatched a Mobile Training Team to conduct a Maritime Operations & Planning course, and trained officers in International Leadership and Management, International Crisis Command & Control, and International Maritime Officer. Both the U.S. and Latvia help each other with other support as needed.

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

Synthetic drugs and cannabis are the most popular illicit narcotics in Lithuania. Lithuania also remains a source country for synthetic drugs, as well as a transit route for heroin and other illicit drugs. Although the government increased funding for drug prevention and control programs, the number of reported overdose cases increased. The seizure of narcotics reflected the strengthened counternarcotics efforts by law enforcement agencies. Lithuania is a party to the 1988 UN Drug Convention.

II. Status of Country

According to the Criminal Police Bureau, synthetic drugs (amphetamines and methamphetamines) and cannabis are the most popular narcotics in Lithuania. The relatively low price of synthetic drugs is one of the main causes behind their popularity. In 2007, police intercepted several shipments of locally produced amphetamines, closed down an illicit synthetic drugs laboratory, and intercepted heroin, hashish, and cocaine smuggled to and through Lithuania.

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 9.4 cases per 100,000 inhabitants in 2006. Nearly 79 percent of registered drug addicts are younger than 30 years old, and 80 percent are men. Approximately seventy-six percent of the registered 1,273 people living with HIV contracted the disease through intravenous drug use. The NCD's survey (2004) of drug use in Lithuania showed that 8.2 percent of Lithuania's residents had used some drug 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. 7.6 percent of the Lithuanian population reported having used cannabis at least once in their lifetime. According to the NCD, a significant increase in drug overdoses, especially cocaine overdoses, was reported over the past few years. In 2004, six cases of cocaine overdose were registered, in 2005 the number of cases was 17, and the number of cocaine overdose cases grew to 40 in 2006. Law enforcement officials in Lithuania believe that the consumption of poppy straw and poppy straw extract in Lithuania has decreased. They base this estimation on the decrease in seizures from 167 kg of poppy straw and 184 liters of poppy straw extract in 2005 to 51 kg of poppy straw and 48 liters of poppy straw extract in 2006.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Lithuania's Ministry of Interior, Ministry of Education and Science, Ministry of Health, Ministry of Justice, Ministry of Social Security and Labor, NCD (Narcotics Crime Division), police, and other institutions worked to implement the National Program on Drug Control and Prevention of Drug Addiction for 2004-2008. The key objectives of the strategy are: prevention of drug abuse among young people, drug supply reduction, care for drug addicts, international and inter-institutional co-operation in the field of drug demand and drug supply reduction and development of coordination systems at the local and national levels. Lithuania increased funding to the National Drug Prevention and Control Program from 14.6 million LTL (\$5.84 million) in 2006 to 17.8 million LTL (\$7.12 million) in 2007, an increase of more than 200 percent.

Law Enforcement Efforts. Lithuanian law enforcement officials recorded 1,198 drug-related crimes as of October 2007, a slight decrease from the 1,393 during the same period in 2006. As of October 2007, police and customs in cooperation with other countries' law enforcement agencies had seized 5.251 kg of hashish, 38 kg of cannabis seeds, 351 units of the cannabis planting stock,

21,853 Ecstasy tablets, 27.3 kg of methamphetamines, , and 100 liters of the precursor chemical benzyl methyl ketone (BMK). Lithuanian authorities also seized small quantities (less than five kg each) of, cocaine, LSD, hallucinogenic mushrooms, various psychotropic drugs, and other precursors.

Lithuania worked effectively with international partners to break up drug smuggling operations in 2007, making important seizures in cooperation with Belarusian, French, Norwegian, Swedish, Estonian, Latvian, Russian, and Polish law enforcement partners. In January, Lithuanian and Belarusian law enforcement officers dismantled a network of synthetic drug dealers and confiscated 4,500 Ecstasy pills. In July Lithuanian officers arrested a man with a cargo of over 40 kg of cannabis at the border with Poland. They suspected that the cannabis was brought from Belgium. In October, Lithuanian officers arrested two Lithuanian citizens with 3 kilograms of amphetamines in Estonia in a joint operation with Latvian and Estonian colleagues. In 2007, the police shut down one laboratory producing high-quality amphetamines and confiscated 1,089 ml of safrole from the laboratory site. In September, customs officers began using SCUBA gear to inspect the underwater portions of the hulls of ships for drugs, guns, and other illegal goods at the Klaipeda sea port.

As of November 1, the Lithuanian court system adjudicated 726 drug-related cases and convicted 775 persons. Sentences for trafficking or distribution of drugs range from fines to fourteen years of imprisonment.

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 drug trade. Lithuania has established a broad legal and institutional anticorruption framework. However, media, NGOs, and public opinion polls expressed the view that corruption was a lingering problem. There were no reports of drug-related corruption involving Lithuanian government officials.

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 United States and Lithuania. Lithuania ratified the UN Convention against Corruption in 2006.

Cultivation/Production. Laboratories in Lithuania produce amphetamines for both local use and export, according to the Lithuanian 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. As of October 2007, police, in cooperation with customs agents, eradicated 295 square meters of poppies and 153 square meters of cannabis.

Drug Flow/Transit. According to Lithuanian law enforcement agencies, Lithuanian-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). The Ministry of Education and Science continued implementation of the Program on Prevention of Use of Alcohol, Tobacco and Psychoactive Substances approved in 2006. The Program was adapted to each age range and integrated into school curricula, accounting for at least 5-6 hours per school year. Lithuania operates five national

drug dependence centers and ten regional public health centers. 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 0.7 million LTL (280,000 USD) in 2006 to purchase equipment and fund activities to prevent drug trafficking, train officials, and educate inmates. The NCD, police, and Ministry of Education and Science implemented targeted drug prevention programs involving parents, teachers, communities and at-risk-youth. The NCD continued implementation of the education project targeted at reducing the use of narcotics in bars and clubs and provided narcotics control and prevention training for members of municipal drug control commissions.

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. In 2007, the U.S. Coast Guard trained four Lithuanian officers in International Leadership and Management, and International Crisis Command & Control, International Maritime Officer, and Damage Control. 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 of Macedonia (GOM) made some progress in combating drug trafficking in the reporting period—illicit drug seizures in Macedonia significantly increased during the first 10 months of 2007, compared to the previous year, including a major seizure of nearly 500 kg of cocaine at the Kosovo-Macedonia border in January. Domestic use of illicit drugs continued to grow. Macedonian law enforcement authorities cooperated closely with regional counterparts, including the UN Mission in Kosovo (UNMIK), in counternarcotics operations. Such operations in some cases were hindered by ineffective interagency coordination and planning, 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 Afghan heroin (through Turkey and Bulgaria) to Western Europe. Hashish and marijuana produced in Albania travel along the same routes to Turkey, where they are exchanged for heroin that is then transported to Western European markets. Synthetic drugs on the Macedonian market are smuggled in from neighboring Bulgaria and Serbia. A favorable climate in southern Macedonia encourages small amounts of marijuana cultivation mainly for personal use. According to government sources, there were no reports of the production of precursor chemicals or synthetic drugs in Macedonia. A major seizure of nearly 500 kg of cocaine in January 2007 suggested that, unlike previously, cocaine is being transported to or through Macedonia in increasing quantities. According to MOI sources, trafficking in synthetic drugs appeared to increase in 2007, but seizures were not higher than in 2006. Macedonia produced, on approximately 500 hectares, licit poppy straw and poppy straw concentrate, but in quantities insufficient for the country's pharmaceuticals industry. As a result, some poppy straw was imported under license.

III. Country Actions against Drugs in 2007

Policy Initiatives. Macedonia's National Anti-drug Strategy, approved in 2006, was followed, in May 2007, by the government's adoption of a National Action Plan for implementing that strategy.

Law Enforcement Efforts. According to MOI statistics, in the first ten months of 2007, criminal charges were brought against 326 persons (slightly less than in the preceding year), including twelve juveniles and one police officer. Those charges involved 282 actual cases of illicit drug trafficking, or 33 cases more than in 2006. In 2007, police seizures of cocaine and hashish were on average significantly higher than in the previous year. Seizures of other drugs, such as heroin, marijuana, and other psychotropic substances were slightly lower or the same as during the previous year. Some MOI sources believe trafficking in some synthetic drugs, such as Ecstasy, actually rose in 2007, as evidenced by lower prices for such narcotics, reflecting an increased supply on the market.

The MOI reported the following quantities of drugs and psychotropic substances seized in the first nine months of 2007:

- cocaine: 486 kg (compared to less than 300 grams in 2006);
- heroin: 60 kg (two and a half times less than in 2006);

- marijuana: 208 kg (30 per cent less than in 2006);
- cannabis: 4413 plants seized (a significant increase from the 142 plants seized and destroyed the previous year);
- hashish: 851 grams (compared to only 16 grams in 2006);
- raw opium: one kg (compared to three kg of opium seized in 2006); and
- Ecstasy: 1,862 pills (slightly more than the 1,377 seized in 2006).

In January 2007, Macedonian authorities—in cooperation with UNMIK and the United States Drug Enforcement Administration (DEA)—seized nearly 500 kilograms of cocaine which allegedly had originated in Venezuela and was destined for Greece. The May 2005 Witness Protection Law and legislation, passed in 2006, that enhanced the ability of prosecutors to use wiretaps as evidence in criminal proceedings, were used to positive effect in several counternarcotics cases. The Customs Administration continued to strengthen its intelligence units and mobile teams. Police officials claimed cooperation with their Customs colleagues improved compared to past years. In late November, a Macedonian court convicted the two defendants involved in the major cocaine seizure case on drug smuggling charges and sentenced them to 14.5 years in prison each.

Corruption. Corruption is pervasive in Macedonia, with low salaries and high unemployment fostering graft among law enforcement officials. However, public perceptions of the degree of corruption in Macedonia decreased in 2007, and public confidence in the government's ability to combat corruption rose. A recent poll, in which 44 percent of the respondents said they had paid bribes, indicates that the problem remains acute. The judiciary remains weak and is frequently accused of corruption. As a matter of policy and practice, the Government of the Republic of Macedonia does not encourage or facilitate the illicit production or distribution of drugs, or the laundering of proceeds from illegal drug transactions.

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, applies to Macedonia as a successor state. Macedonia is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. In April 2007 Macedonia acceded to the UN Convention against Corruption.

Cultivation/Production. Macedonia is neither a major cultivator nor 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 licitly cultivate and process poppy for medicines. Authorized poppy production, some 500 hectares in 2007, is monitored by the Ministry of Health, which shares production data 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 branch of the Balkan Route used to ship Afghan heroin to the western European consumer market. The quantity of synthetic narcotics trafficked to Macedonia in 2007 appeared to increase, largely due to the low cost of such drugs on the street in Macedonia. Most synthetic drugs aimed at the Macedonian market originated in Bulgaria and Serbia, and arrived in small amounts by vehicle. As noted above, Macedonian authorities seized a shipment of nearly 500 kilograms of cocaine, destined for Greece, at a border crossing with Kosovo.

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 2007, 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, which treat 1,550 drug addicts. One of the seven centers is located in the largest prison in the country (with over 60 percent of the total prisoner population). Of the 1,500 prisoners in the country's main prison, an estimated 600 were identified as drug addicts. Macedonian health officials acknowledged that rehabilitation centers were overcrowded. The Ministry of Health announced the opening of four more rehabilitation centers in Skopje, and seven in the smaller towns, including along a major internal drug supply route. 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 2007, DEA agents worked with the Macedonian police to support coordination of regional counternarcotics efforts, including a major cocaine seizure in January 2007. MOI police, the financial police, Customs officers, prosecutors, and judges continued to receive USG-funded training in anti-organized crime operations and techniques. USG representatives continued to provide training, technical advice, equipment, 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, will continue to make the country an attractive secondary route for the transit of illegal drugs. DEA officials continue to expect increased use by traffickers of Macedonia as a "warehousing" base during transshipments. The United States Government, through law enforcement training programs, will continue to strengthen the ability of Macedonian 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 full implementation of the national counternarcotics action plan. USG law enforcement training agencies in Macedonia will focus on working with GOM counterparts to use the Wiretapping Law and other legislative tools to strengthen the ability of prosecutors to successfully pursue counternarcotics cases. The USG will continue to work with the GOM and international partners to strengthen Macedonia's criminal intelligence system, and to improve the government's ability to provide reliable statistics on drug use, arrests, prosecutions, and convictions of traffickers.

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 counternarcotics 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.

Moldova

I. Summary

Moldova continues to grow as a drug-transit country and drug-related crime rates continue to increase. The number of criminal proceedings initiated in 2007 increased noticeably from 2006. Moldova is not a significant producer of narcotics or precursor chemicals. Despite the fact that widespread poverty makes Moldova a relatively unattractive market for narcotics sales, drug usage within Moldova remained a concern. The number of officially registered addicts increased during the first nine months of 2007 by over ten percent. 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 and poppy plants. The market for domestically produced narcotics remains small, largely confined to local production areas. Geopolitical changes and Moldova's proximity to the European Union resulted in increased imports of synthetic drugs. The smuggling of narcotic or psychotropic substances is a significant problem for Moldova. Investigations conducted in 2007, revealed increased cases involving narcotic substances of synthetic origin, such as methamphetamine, amphetamine, and Ecstasy (MDMA) as well as diverted licit opiates such as codeine. According to the Moldovan Ministry of Interior (MOI), domestic drug traffickers remain closely connected to organized crime in neighboring countries. Moldovan authorities also reported an increase in homemade drugs. Control over the movement of licit narcotic and psychotropic substances, as well as precursors, is carried out by the permanent Drug Control Committee of the Ministry of Health.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The Moldovan Ministry of Interior is responsible for counternarcotics law enforcement. The Anti-Drugs Unit has 78 officers nationwide. The Anti-Drugs Unit continues to strengthen its efforts to counter narcotics activity based on the following GOM actions:

- Government Decision no. 314, passed on March 17, 2007. This decision approved the National Plan of Action for the years 2007-2009 to prevent drug abuse and drug smuggling. It covers the activities of the MOI and Ministry of Health;
- European Union (EU)-Moldova Plan of Action for 2005-2007; signed on February 22, 2005, in Brussels. The Plan of Action encourages political and economic interdependence between Moldova and the EU. The approval of the plan required Moldovan State Institutions (MOI, etc.) to assume responsibility for implementation of activities in their respective areas and to provide monthly, quarterly and semi-annual progress reporting;
- Ministry of Interior Decision no. 201, passed on July 6, 2005. This decision approved the Anti-Drugs Unit's Plan of Action for 2005-2007; and
- MOI Basic Organizational Measures Plan for 2007. This is a reoccurring annual plan that defines the activities of each MOI department.

Pursuant to its mission of curbing the increasing threat of transnational crime, in April 2006, the MOI established the Department of Operative Service (DOS). The DOS was created to ensure effective cooperation among existing GOM law enforcement authorities in combating trans-border

crimes. The Anti-Drugs Unit and other law enforcement agencies drafted a Common Action Plan to combat the trafficking of drugs (and precursors) through railway transportation. This plan involved the MOI, Information and Security Service, Customs Service, Border Guards Service and Ministry of Transportation and Roads.

Law Enforcement Efforts. Moldovan authorities registered 1,985 drug-related cases in the first nine months of 2007, compared with 1,691 cases during the same timeframe in 2006. During 2007, approximately 380 kg of narcotic substances were seized. Ninety-five kg of poppy straw and ten liters of liquid opium were seized, compared to 332 kg of poppy straw and 22 liters of opium seized for the same period in 2006.

Marijuana seizures constituted 230 kg, compared to 708 kg seized during 2006. Heroin seizures increased considerably in 2007: 1,676 grams seized during the first nine months of 2007 compared with twelve grams during the same period in 2006. Synthetic drug seizures also increased significantly from 2006 (with the exception of methamphetamine): 3,710 pills of prescription drugs, compared to 1,134 pills during 2006; 31,265 Ecstasy pills, compared to 237 pills in 2006; 189 ml of methamphetamine and 881 grams of amphetamine, compared to 2,100 ml and 405 grams in 2006.

During the first nine months of 2007, the MOI identified 154 cases of illegal trafficking of psychotropic substances and 16 cases of medical personnel prescribing narcotic and psychotropic substances or precursors in violation of the law (law on illegal movement and prescription of narcotic and psychotropic substances or precursors). As a result of this activity, over 3,000 pills (compared to over 2,500 pills during 2006) and over 5,000 ml of psychotropic substances containing ephedrine used for producing methamphetamine were seized.

Fifty-six boxes of drugs, warehoused by traffickers before attempting to smuggle them into prisons, were discovered, seized, and those involved prosecuted. By the end of 2007, 192 offenders, including seven penitentiary officials (out of 231) involved in the above crimes, were identified and apprehended.

Moldova will need to invest significant resources in education, border control enhancements, and further law enforcement initiatives if it hopes to stem the growth of its drug abuser population. However, Moldova remains the poorest country in Europe, and given its poverty and the scarcity of government resources, significant additional government investment quickly is unlikely.

In response to Moldova's call for international monitoring of the border, in December 2005, the EU dispatched a Border Assistance Mission (EUBAM) to help stem the flow of illegal trade between Ukraine and Moldova, to crack down on smuggling, strengthen customs procedures, and facilitate cross-border cooperation.

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 (GOM), as a matter of policy, does not encourage or facilitate the production or distribution of drugs or money laundering from illegal drug transactions.

On October 9, 2007, the Millennium Challenge Corporation's Threshold Country Program officially launched its implementation phase in Moldova. With a two-year budget of \$24.7 million in MCC assistance, Moldova seeks to reduce corruption in the public sector through judicial reform, reform of health care, tax, customs and police agencies, and reform of the CCECC. The Department of Justice (DOJ) Office of Overseas Prosecutorial Development, Assistance and Training will provide technical assistance and training to reform the CCECC; and DOJ's

International Criminal Investigative Training Assistance Program will provide technical assistance and training to the Ministry of Interior and the Customs Department.

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.

During the reporting period, the GOM signed a number of treaties which strengthened Moldovan law enforcement's ability to combat illegal drugs:

- February 12, 2007, The Hague—signing of the Strategic Cooperation Agreement between Moldova and Europol;
- February 12, 2007, Brussels—signing of the Memorandum of Understanding between the Ministry of Interior of Moldova and the Federal Police Service of the Kingdom of Belgium; and
- June 20, 2007, Chisinau—signing of the Cooperation Agreement between the Governments of Moldova and the Slovak Republic on cooperation in combating organized crime.

Each of these treaties established the legal basis for cooperation with foreign partners on various law enforcement initiatives, including narcotics control. These treaties also articulated the mechanisms to be used to exchange information between the signing parties.

Cultivation/Production. Each year, between June and August, the MOI launches a special law enforcement operation called “Operation Poppy.” This operation targets illicit poppy, hemp and marijuana fields for eradication, and re-emphasizes all other counter drugs efforts. As a result of Operation Poppy this year, 829 criminal cases were initiated (out of 1,737 during the entire year). The cases included the following: 258 cases of cultivation of poppy plants, resulting in eradication of 15,275 kg of raw material; 77 cases of cultivation of cannabis, resulting in eradication of 22,126 kg of raw material; 230 cases of illicit marijuana smuggling, resulting in 51 kg seized; 57 cases of illegal trafficking in poppy straw, resulting in 36.3 kg of dried poppy straw seized; 67 cases of illegal movement of opium extract, resulting in 2,098 ml of substance seized; 9 cases of heroin smuggling, resulting in 1,606 grams seized; 46 cases of illegal circulation of narcotic and psychotropic substances, resulting in 1,446 pills seized. In total, 1,890 persons were held liable for committing administrative drug-related offenses (i.e., cultivation of poppy and cannabis in small quantities).

Drug Flow/Transit. Seizures of illicit narcotics in 2007 continue to indicate that Moldova remains primarily a trans-shipment 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 Russia and near-by states.

Domestic Programs/Demand Reduction. As of October 2007, the number of officially registered addicts in the Republic of Moldova was 9,700. This number represents an increase of nearly 11 percent compared to the same period in 2006 (8,750). In 2007, the MOI organized a National Press Conference on the topic of “Drug Addiction—Ways of Prevention.” The MOI also publicized, through high profile media releases and on its internet site, information on cases involving the apprehension and arrest of drug traffickers. The MOI has augmented its collaboration with local public administrations. From August to September 2007, four meetings took place in different parts of the country involving representatives of public administration, education and health departments, narcotic drug specialists, local council representatives, prosecutors and local police to discuss drug abuse prevention and counternarcotics activities.

Private drug treatment is an option only for the wealthiest of drug abusers. The Moldovan government and NGOs continued to provide limited information about narcotics and conducted some education and communication campaigns. Neither NGOs nor government offered drug treatment adequate for 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 enterprises. The U.S. also offers assistance, including customs and border improvement programs aimed at strengthening Moldovan border control. Even if not specifically related to narcotics, these programs clearly have a “spin-off effect” of reducing the general illegal flow of goods through Moldova, including narcotics. During 2007, the U.S. Government (USG) financed basic and specialized law enforcement training programs (via the Department of State’s Bureau of International Narcotics and Law Enforcement Affairs) which included narcotics enforcement modules, as well as additional support through training and donation of equipment. The USG supported visits to the U.S. for Moldovan police officers, prosecutors, judges, anti-corruption and customs officers for various capacity-building and development programs. These programs focused on enhancing techniques related to combating corruption, money laundering, illicit drug trafficking and organized crime.

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 in June 2006, and is in the process of becoming a signatory to relevant international conventions and agreements. Montenegro is a party to the 1988 UN Drug Convention, as a successor state of the Union of Serbia and Montenegro.

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, although the police and press report that domestic drug addiction rates have been rising. Crimes connected with narcotics also have increased, and currently 50 percent of all Montenegrin prison inmates have been convicted for narcotics-related offenses. Protection of its borders is a national priority for Montenegro, 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.

III. Country Actions Against Drugs in 2007

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 2007, Montenegro continued discussions with neighboring states on regional cooperation in witness protection. The Montenegrin Government is also in the process of drafting a National Strategy for Suppression of Drugs, which is supposed to be adopted by the end 2007 or in early 2008.

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 in October 2006. Montenegro has retained a separate counternarcotics service in the police force, and plans to coordinate its efforts with the police surveillance unit, border police, the customs service, and the domestic intelligence service.— During 2007, police filed 327 criminal charges against 455 individuals for narcotics-related violations.

Police seized:

- 278.7 kg of marijuana
- 9.1 kg of heroin
- 9 grams of hashish
- 409.47 grams of cocaine
- 2421 tablets of Ecstasy

-- 902.88 grams of precursor chemicals

During the year, the police did not record any significant cases of either the production of synthetic drugs or growing of plants used to produce drugs.

Corruption. Corruption and the perception that corruption is tolerated 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 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 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 in June 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.

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. The Montenegrin police report that increased drug use accompanies the summer influx of tourists along Montenegro's coast.

According to the police, Montenegro is also a transit country for cocaine from Latin America. 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. In January 2007, Macedonian police on the Macedonia-Kosovo border seized 438 kgs of cocaine which had originally entered Montenegro through the port of Bar from Columbia.

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 and Programs

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 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 U.S. Department of Homeland Security (U.S. Coast Guard) through the Montenegro Border Security Program has also provided assistance in the past.

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 quickly. The successful five-year strategy (2002-2006) against the production, trade and consumption of synthetic drugs was positively assessed at the end of 2006, and a new long-term plan was endorsed by Parliament in June 2007. According to the Dutch National Police, the number of Ecstasy tablets seized in the U.S. that could be linked to the Netherlands dropped significantly from 0.85 million in 2005 to only 5,390 tablets in 2006. Operational cooperation between U.S. and Dutch law enforcement agencies is excellent, despite some differences in approach and tactics. During his May 2007 visit to The Hague, U.S. ONDCP Director Walters praised the Dutch for their efforts to curb the Ecstasy trade, noting that synthetic drug exports from the Netherlands to the U.S. have “largely dried up.” The Netherlands actively participates in DEA’s El Paso Intelligence Center (EPIC). The 100 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 from those countries. Dutch popular attitudes toward soft drugs remain tolerant. 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 geographic 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 2007

Policy Initiatives. Major Dutch Government policy initiatives in 2007 include:

Cannabis

According to the Justice Ministry’s Crime Prevention Plan, which was submitted to Parliament in November 2007, the fight against illegal cannabis cultivation, which began in 2006, will be stepped up over the next few years. Investigations will particularly focus on fighting the criminal organizations behind the cannabis plantations. According to the report, the National Taskforce on Organized Cannabis Cultivation will be set up in early 2008; law enforcement services, local and provincial governments, energy companies, housing corporations, insurance companies, and tax and welfare services will participate in the taskforce. The objective is to achieve a visible reduction in large-scale hemp cultivation by 2011.

In November 2007, the Justice Ministry’s Scientific Investigation and Documentation Center (WODC) published a report assessing the government’s intensified fight against cannabis

cultivation. The WODC's principal conclusions were that the integrated approach appeared to be productive, but, assuming that demand for cannabis would not change significantly, changes might occur in the organization of cannabis cultivation. The WODC anticipated increased measures by producers to conceal plantations and a shift in cultivation to safer locations in rural areas. The WODC also advised the government to step up controls on illegal activities of so-called "grow" shops, which sell, among other things, equipment for hemp cultivation. According to the WODC, some 6,000 cannabis plantations were dismantled in both 2005 and 2006, or about 500 per month. In response to the WODC report, Justice Minister Hirsch Ballin informed Parliament that the WODC's recommendations would be used to develop a broad action plan to fight organized cannabis cultivation.

In September 2007, the Rotterdam municipality approved the Mayor's proposal to close 18 "coffeeshops" located within 250 meters of a secondary school or college of higher professional education as of June 1, 2009. In July 2007, The Hague Mayor Deetman decided to close seven coffeeshops because they were located too close to schools. By 2011, all local governments should have enforced the "distance criteria."

In July 2007, Maastricht Mayor Leers agreed with coffeeshop owners to move eight of the 15 coffeeshops out of the city center to three sites on the city outskirts, close to the Belgian border. Neighboring Belgian cities decided to take legal action against the plan, arguing that, under the Schengen treaty, EU member-states are not allowed to cause any public nuisances in neighboring countries resulting from their drug policies. In 2006, Maastricht began a trial project to offer local residents special access passes to coffeeshops. The Netherlands allows the sale of small quantities of cannabis in coffeeshops under rigorous controls and conditions. The objective of the Maastricht trial is to cut down on drug tourism from neighboring countries. As a test case, a coffeeshop owner started a legal procedure against the Maastricht city council to assess whether the trial project is in line with EU law. The case is still pending. If the results of the case force no changes, the experiment will be expanded.

According to the annual THC Content study by the Trimbos Institute for Mental Health and Addiction, the THC content in Dutch-grown cannabis ("Nederwiet") dropped from 17.5 percent in 2006 to 16 percent in 2007, and that of imported cannabis from 18.7 percent in 2006 to 13.3 percent in 2007. The average price for one gram of "Nederwiet" rose almost 20 percent compared to 2006 to 7.30 euros in 2007. According to the study, the rise in price and decline in THC content were due probably to intensified police investigations into cannabis cultivation.

An amendment to the Opium Act making it easier for local governments to close down premises where drugs are sold illegally became effective on November 1, 2007. Under the law, mayors no longer have to prove that 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.

In November 2007, Health Minister Klink informed Parliament that he wants to extend by five years the availability of medicinal cannabis for scientific research and the development of a medicine. He indicated that medicinal cannabis should ultimately be a normal registered drug. In 2006, a Dutch company began to develop such a drug. Since 2003, doctors have been allowed to prescribe medicinal cannabis for chronically ill patients. The Health Ministry's Bureau for Medicinal Cannabis (BMC) buys the cannabis from two official growers.

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.

In October 2007, Health Minister Klink and Justice Minister Hirsch Ballin sent Parliament a letter announcing their decision to ban sales of fresh "magic mushrooms" as of early 2008. The

unpredictable impact of human consumption of hallucinogenic mushrooms and related risky behavior, and the fact that most EU countries also have such a ban in place were cited as the reasons for the ban. According to the Minister, the number of incidents involving “magic mushrooms” has risen significantly over the past few years, particularly in Amsterdam, where the number of incidents rose from 55 in 2005 to 128 in 2006, and 110 in January-October 2007. Sales of dried hallucinogenic mushrooms were banned in the Netherlands some time ago.

Cocaine Trafficking

Justice Minister Hirsch Ballin stated in the seventh (and final) progress report assessing the Schiphol drug policy, published in late 2006, that despite the dramatic decline in the number of cocaine couriers arrested at the Amsterdam airport, the 100 percent controls of inbound flights from the Netherlands Antilles and Suriname would continue indefinitely. In 2006, the number of drug couriers arrested on these flights dropped to 928, from more than 2,000 in 2005. Netherlands-bound drug couriers increasingly appear to transit the Dominican Republic and Mexico as they attempt to traffic Colombian cocaine to the Netherlands. In June 2007, an X-ray machine was installed at Schiphol airport to enable selected passengers on flights from the Netherlands Antilles, Aruba, Suriname and Venezuela to be screened on site. Previously, these drug scans took place in Schiphol’s detention center.

In December 2006, the KMar military police was instructed by the Justice Ministry to stop sharing the Schiphol “black list” of couriers intercepted at the airport with DEA The Hague for privacy reasons. The Ministry indicated that, since Dutch policy requires the names to be removed from the list after three years, entering the names into DEA database without a sunset provision would be contrary to Dutch law. To date, this issue has not been resolved and the suspension continues. DEA The Hague continues to supply the KMar at Schiphol with international trend information on routes being utilized by drug couriers.

In September 2007, Justice Minister Hirsch Ballin signed a cooperation agreement with six other EU member-states to combat South American “drug” vessels trying to get to Europe through West African ports. The agreement provides for joint actions by the Coast Guard, Navy and Air Force, and the exchange of information. The new Maritime Analysis and Operations Center for Narcotic Drugs (MAOC-N) is open and operating in Lisbon.

In September 2007, a Rotterdam Customs drug-sniffing dog found 1,674 kg of cocaine hidden in a container with coffee from Costa Rica. The drugs had a street value of more than 40 million euros. International cooperation between the National Crime Squad (NR) and the National Prosecutor’s office and authorities in Brazil and Uruguay resulted in the dismantling of an international drug and money laundering organization in September 2007. The NR arrested four people, including the main suspect, after a Brazilian investigation led to the discovery of an additional 485 kg of cocaine in Uruguay.

After a tip by the Rotterdam “Hit and Run Container” team (HARC – an interagency squad that includes the sea-port police, customs, and the FIOD-ECD fiscal and economic information service, and the public prosecutor’s department), Colombian authorities in August 2007 seized a container with 4,000 kg of cocaine (at an estimated street value of 180 million euros), underway from Peru to Rotterdam. Shortly before, the HARC team had found 40 kg of cocaine hidden in wooden beams, shipped from Brazil to Rotterdam in a container. The investigation of that case uncovered the possibility of a second shipment by the same group.

Ecstasy

The Government’s successful five-year strategy (2002-2006) against the production, trade and consumption of synthetic drugs was assessed positively at the end of 2006 by the Justice Ministry’s independent research center (WODC). The WODC concluded that:

- Cooperation among investigation and enforcement services has been improved;
- Dozens of investigations were initiated, leading to the arrest of hundreds of suspects;
- More than 20 million Ecstasy tablets and thousands of liters of chemical precursors were seized;
- 130 production labs were dismantled.
- There were indications that synthetic drugs production has dropped but has not been eliminated.

In May 2007, Justice Minister Hirsch Ballin sent Parliament a policy memorandum, “Continued Measures against Synthetic Drugs as of 2007,” outlining the Dutch government’s objectives and strategies to combat Ecstasy and other synthetic drugs over the next several years. The new policy measures include enhanced law enforcement efforts to combat the production and trade of synthetic drugs, vigorous drug use prevention and information efforts, and closer international cooperation. The plan was approved by Parliament in June, and is currently being implemented. According to a report by the Dutch national police, the Netherlands has successfully moved away from being the world’s leading MDMA-Ecstasy producing country. The police noted a shift in production to Belgium and countries such as Canada and Australia. (For more details on seizures, see section on cultivation/production.)

In April 2007, a joint investigation by DEA The Hague and the National Crime Squad (NR) into an MDMA trafficking organization resulted in the seizure of some 460 kg of MDMA and the arrest of five defendants. The investigation is ongoing.

In May 2007, the NR seized 800 kg of MDMA powder, 2.5 million MDMA tablets, 270 kg of amphetamine, and 210 kg of hashish in a warehouse at an industrial site in the south of the country.

Heroin

In July 2007, the Justice Minister informed Parliament that the program under which incarcerated addicts are offered treatment in detention centers, if necessary under coercion, would be expanded from 3,000 to 6,000 addicts per year in 2011. According to the Justice Ministry, some 30 to 40 percent of the prison population has addiction problems, often in combination with other (mental) disorders.

In 2007, a joint investigation by DEA The Hague and the National Crime Squad (NR) into an international heroin trafficking organization led to the seizure of some 24 kg of heroin and the arrest of 12 defendants in The Netherlands. The investigation also led to the seizure of some 300 kg of heroin in Turkey and the arrest of suspects in Turkey, Austria and Germany. The investigation is ongoing.

In October 2007, Justice Minister Hirsch Ballin denied press allegations that 160 kg of heroin seized by the police in a Turkish drug investigation had disappeared. He also denied use of controlled deliveries and of criminal undercover agents, as had been reported by a national TV program.

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 prohibits the possession, commercial distribution, production, import, and export of all illicit drugs. Drug use, however, is not an offense. The act distinguishes between

“hard” drugs that have “unacceptable” risks (e.g., heroin, cocaine, Ecstasy), and “soft” drugs (cannabis products). Trafficking in “hard drugs” is prosecuted vigorously and dealers are subject to a prison sentence of up to 12 years. When trafficking takes place on an organized scale, the sentence is increased by one-third (up to 16 years). Sales of small amounts of cannabis products (under five grams) are “tolerated” (i.e., not prosecuted, even though technically illegal) in “coffeeshops” operating under regulated conditions (no minors on premises, no alcohol sales, no hard drug sales, no advertising, and not creating a “public nuisance”). Commercial production and distribution of cannabis is illegal and is vigorously prosecuted.

The National Crime Squad (NR) has proved very effective in drug investigations; cooperation with DEA is close and effective. The co-location of DEA special agents with the NR office in The Hague, which focuses on cocaine investigations, and in Helmond, which focuses on synthetic drugs and precursor chemicals, continued in 2007; co-location has proved productive for both DEA and the NR. Since co-location began at the NR office in The Hague, DEA and the NR have jointly conducted nine major international drug trafficking investigations, which led to the arrest of 45 defendants in the Netherlands and the seizure of approximately 6,600 kg of cocaine by Dutch law enforcement authorities.

In May 2007, the Netherlands became a full member of DEA’s International Drug Enforcement Conference (IDEC) at the annual conference in Madrid, Spain. The Dutch delegation to IDEC consisted of an NR official and a senior prosecutor from the National Public Prosecutor’s office. The Dutch are expected to participate in all IDEC conferences in the future. The Netherlands will host the Synthetic Drug Enforcement Conference (SYNDEC III) in November 2007. The DEA delegation will include staff from DEA The Hague, DEA Brussels and DEA Headquarters. In June 2007, the DEA Chief of International Programs participated in the Pearls in Policing Conference on Police Leadership hosted by the National Dutch Police Force (KLPD) in The Hague. This conference, attended by some 40 senior international law enforcement officials, discussed the challenges faced by international law enforcement in the 21st century.

In 2007, DEA and the KLPD began joint clandestine laboratory training. DEA personnel traveled to The Hague for specialized training on MDMA clandestine laboratories and KLPD officers were provided specialized training on methamphetamine labs at the DEA Academy in Virginia. In addition, Dutch authorities provided equipment to the DEA Academy to set up an operational MDMA lab for use in training DEA agents and other U.S. law enforcement officers. DEA The Hague and KMar’s financial unit at Schiphol airport have also begun to cooperate on joint money laundering cases and cash courier seizures. In 2007, this new program led to the seizure of more than \$2 million in narcotics proceeds, and the arrest of a DEA fugitive from 1997, who was arrested at Schiphol with 1.2 million Euros in cash.

All foreign law enforcement assistance requests continue to be sent to the DINPOL (International Network Service), a division of the KLPD. The DINOPOL has assigned two liaison officers to assist DEA and other U.S. law enforcement agencies. Since the reorganization of the NR, the DINOPOL 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, such as controlled deliveries and undercover operations. Under Dutch law enforcement policy, prosecutors control most aspects of an investigation. Dutch police officers must get prosecutor concurrence to share information directly with foreign liaison officers on a police-to-police basis. This can hamper the quick sharing of information, which could be used proactively in an ongoing investigation. However, the quick sharing of police-to-police information is improving as a result of the increased access for DEA agents with NR units. Dutch law enforcement has also become much more willing to undertake controlled delivery operations with DEA without an MLAT. In fiscal year 2004, the Dutch did not accept any requests from DEA for controlled

delivery operations. In FY 2006, U.S. law enforcement proposed 31 controlled deliveries to the Dutch, of which five were accepted and one was successful. Most of these controlled deliveries are small amounts of cocaine (less than five kilograms) contained in parcels being sent from South America or the Caribbean (Source: KLPD National Police Force):

Drug Seizures	2005	2006
Heroin (kg)	902	984
Cocaine (kg)	14,603	10,581
Ecstasy (tablets)	1,854,487	4,118,252
Ecstasy(powder and paste)(kg)	430	664
Synthetic drug labs	19	23
Amphetamine (kg)	1,576	633
Amphetamine (tablets)	980	38,077
LSD (doses)	625,000	22,599
LSD (tablets)	2,482	
Methadone (tablets)	13,752	11,559
Cannabis resin (kg)	5,484	4,622
Marijuana/"Nederwiet" (kg)	4,237	6,641
Hemp plants	1,672,103	1,570,006
Dismantled hemp plantations	5,630	5,201

Corruption. The Dutch Government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior official of the Dutch Government engages in, encourages or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Press reports of low-level law enforcement corruption appear from time to time but the problem is not believed to be widespread or systemic. In September 2007, three Schiphol Customs officers were arrested on suspicion of having played a role in cocaine trafficking through the airport. So far this year, the KMar military police at Schiphol arrested 17 employees of businesses located at the airport for drug trafficking.

Agreements and Treaties. The Netherlands is party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 Single Convention on Narcotic Drugs as amended by the 1972 Protocol. The Netherlands is a member of the UN Commission on Narcotics Drugs and the major donors group of the UNODC. The Netherlands is a leading member of the Dublin Group of countries coordinating drug-related assistance. The Netherlands is party to the UN Convention against Corruption, and to the UN Convention on Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. The U.S. and the Netherlands have fully operational extradition and mutual legal assistance agreements (MLAT).

Cultivation and Production. Although commercial (indoor) cultivation of hemp is banned, about 80 percent of the Dutch cannabis market is Dutch-grown marijuana ("Nederwiet"). The Justice Ministry announced in November 2007 that the fight against illegal cannabis cultivation, which

began in 2006, will be stepped up over the next few years. The investigations will particularly focus on fighting the criminal organizations behind the cannabis plantations. According to a report by the National Police Force, 5,201 cannabis plantations were dismantled in 2006, about the same as in 2005.

The National Crime Squad (NR) synthetic drug unit concluded in its 2006 report that the Netherlands has long been considered the world's largest MDMA producer, followed at some distance by Belgium. However, the NR noted countries like Canada and Australia appear to be taking over at least some of the production. The Netherlands still has a leading position as a producer of amphetamine, predominantly destined for the European market. The NR seized almost no BMK and PMK chemical precursors in 2006, which is attributed to successful investigations in preceding years. The total number of Ecstasy tablets seized in the U.S. that could be linked to the Netherlands dropped significantly from 850,000 in 2005 to only 5,390 tablets in 2006. The number of registered Ecstasy tablets seized in the Netherlands totaled 4.1 million in 2006 compared to 1.85 million in 2005.

According to the 2006 NR report, 2006 MDMA seizures around the world that could be associated with the Netherlands totaled 5.7 million tablets and 72 kg of MDMA powder, as compared to over 13 million tablets and 23 kg of MDMA powder in 2005. MDMA (powder and paste) seizures in the Netherlands in 2006 rose to 664 kg from 430 kg in 2005. The NR also reported seizing 20,605 LSD paper doses, 385,205 MCPP tablets, and 5,000 methamphetamine tablets in 2006. The number of dismantled production sites in the Netherlands for synthetic drugs rose to 23 in 2006 from 18 in 2005. Of the 23 production sites dismantled, 9 were for amphetamine and 5 for Ecstasy production, and 7 were meant for Ecstasy tableting.

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 dropped from 14,603 kg in 2005 to 10,581 kg in 2006. Of the 2006 seizures, more than 4,500 kg were seized in the port of Rotterdam. Some 4,479 kg were seized at Schiphol, of which 3,238 kg from passengers and 1,241 kg 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 24,000-46,000 opiate addicts. The number of opiate addicts is low compared to other EU countries (about 3 per 1,000 inhabitants); the number has stabilized over the past few years; the average age has risen to 40; and the number of overdose deaths related to opiates has stabilized at between 30 to 50 per year. Needle supply and exchange programs have kept the incidence of HIV infection among intravenous drug users relatively low. Of the addicts known to the addiction care organizations, 75 percent regularly use methadone.

According to the 2006 National Drug Monitor, out-patient treatment centers registered some 31,510 drug users seeking treatment for addiction in 2005, compared to 30,745 in 2004. The number of cannabis addicts seeking treatment rose to 6,100 in 2005 from 5,500 in 2004, the number of opiate addicts seeking treatment rose slightly from 14,000 in 2004 to 14,200 in 2005, and the number of cocaine users seeking help dropped slightly from 10,000 in 2004 to 9,800 in 2005. About 65 percent of addicts seeking help for cocaine problems are crack cocaine users.

Below are the latest available statistics on drug use among the general population ages 15-64, 2001 and 2005 of percent reporting life-time use and last-month/current use (Source: National Drug Monitor 2006, Trimbos Institute):

	Lifetime Use		Last-Month Use	
	2001	2005	2001	2005
Cannabis	19.5	22.6	3.4	3.3
Cocaine	2.1	3.4	0.1	0.3
Heroin	0.2	0.6	0.0	0.0
Amphetamine	2.0	2.1	0.0	0.2
Ecstasy	3.2	4.3	0.3	0.4

Prevention. Drug prevention programs are organized through a network of local, regional and national institutions. Programs target schools in order to discourage drug use among students, 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. At the request of the Health Ministry, the Trimbos Institute each year carries out drug information campaigns. The 24-hour national Drug Info Line of the Trimbos Institute has become very popular. In August 2007, Trimbos warned the Dutch public against the use of cocaine mixed with atropine, which caused one death and several overdose cases throughout the country.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. and Dutch law enforcement agencies maintained excellent operational cooperation, with principal attention given to countering the Netherlands’ role as a key source country for MDMA/Ecstasy entering the U.S. The U.S. Embassy in The Hague has made the fight against the Ecstasy threat one of its highest priorities. Dutch law enforcement has dramatically improved its acceptance of controlled delivery operations with the DEA, but continues to resist use of criminal undercover agents in investigations of drug traffickers. Law enforcement officials are also reluctant to acknowledge the involvement of large, international drug organizations in the local drug trade and do not use their asset forfeiture laws in conjunction with drug related investigations as often as the U.S. does. Bilateral law enforcement cooperation continues to expand under the “Agreed Steps” commitments fight drug trafficking. DEA The Hague has also noted improved and expedited handling of drug-related 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 FOL agreement between the U.S. and the Kingdom for the establishment of Forward Operating Locations (for U.S. enforcement personnel) on Aruba and Curacao became effective in October 2001. Since 1999, the Dutch Organization for Health Research and Development (ZonMw) has been working with NIDA on joint addition research projects. The Netherlands deploys warships to the Caribbean, where they conduct counternarcotics missions under the tactical control of Joint Interagency Task Force South. A Netherlands military officer, assigned to the JIATF South staff, also assists in coordinating this counternarcotics operational support.

The Road Ahead. U.S.-Dutch bilateral law enforcement cooperation is expected to intensify in 2008, particularly through DEA’s access to the two NR drug units in The Hague (cocaine) and Helmond (Ecstasy). In addition, in November 2007, DEA was given access to the new NR International Intelligence Center in Woerden. This center will be utilized to share strategic

intelligence and to coordinate multilateral international drug trafficking investigations. During the bilateral “Agreed Steps” law enforcement consultations in The Hague in October 2007, the U.S. and the Netherlands agreed to continue operational cooperation in international drug trafficking investigations. We expect the follow-up to the Dutch government’s successful Ecstasy Action Plan, which is currently being implemented, to further improve Dutch counter narcotics efforts.

Norway

I. Summary

Norway's illicit drug production remained insignificant in 2007. Norway tightly controlled domestic sales, exports and imports of precursor chemicals, limiting the potential for synthetic drug production ever to emerge in Norway. In 2007, the number of drug seizures fell moderately, but the volume of drugs seized rose significantly, with the volume of seized amphetamines up 78 percent. Cannabis accounted for 40 percent of the total number of seizures, followed by amphetamines (some 23 percent) and benzodiazepines (17 percent). Other drugs (including methamphetamine) made up about 20 percent of the seizures. The police continued to step up efforts to track and intercept drugs in transit through Norway. Norway is a party to the 1988 UN Drug Convention.

II. Status of Country

Norwegian illicit drug production remained insignificant in 2007 mainly due to Norway's tight regulations governing domestic sales, exports and imports of precursor chemicals and the country's unfavorable climatic conditions for vegetal-drug production. However, Norway remained a significant market and transit country for drugs produced in Central/Eastern Europe and elsewhere.

III. Country Actions against Drugs in 2007

Policy Initiatives. The Norwegian Ministry of Health and Social Care continued its narcotics and alcohol abuse treatment and prevention reform program in 2007, publishing several policy documents and brochures dealing with narcotics and alcohol abuse and their treatment (e.g., *Drugs and Alcohol in Norway*). The Ministry reiterated in reports that the national government, represented by the regional health enterprises, has the ultimate responsibility for treatment and prevention of narcotics and alcohol abuse. The Ministry acknowledged that the principal aim of state centralization of drug treatment policy is to provide improved and uniform health and counseling services for drug and alcohol abusers countrywide.

In May 2007, the Ministry opened a national electronic database on drugs and alcohol prevention and treatment as a guideline for local governments. In 2007, the Ministry continued to encourage the use of drug injection control rooms (in Oslo) for drug addicts. The rationale for the injection rooms is to remove the pressure on drug addicts to feed their addictions by crime and to provide addicts with sterilized injection needles in a controlled environment. The rooms have been criticized in the local press for encouraging drug abuse. A recent Conservative Party initiative to extend the use of injection control rooms to all counties in Norway was rejected on cost grounds as too expensive. In September 2007, the Liberal Party proposed using heroin for maintenance of long-term addicts in drug treatment programs but narcotics officials in the Ministry of Health and Social Care considered the proposal irrelevant, since there are alternative maintenance programs for drug rehabilitation in place in Norway.

A joint multi-party narcotics action committee continued its review of government narcotics policy. According to the committee's mandate, it will evaluate preventative strategies and propose drug rehabilitation and treatment alternatives. The committee is also mandated to study the premises behind current narcotics policy and propose any appropriate long-range policy changes.

In 2007, the Norwegian Police Directorate (PD), a part of the Ministry of Justice and Police, continued to enforce the PD's 2003-2008 counternarcotics action plan, with narcotics police following up by carrying out an increasing number of countrywide and border drug raids. The PD has at its disposal modern equipment (e.g., one helicopter; drug scanner machinery at borders). The

2003-2008 action plan carries forward plans and initiatives to meet the objectives of the 1988 UN Drug Convention. The PD thus focuses on reducing domestic drug abuse, identifying and curbing illicit drug distribution, and curbing drug abuse among drivers of motor vehicles. The PD announced a more comprehensive drugs of abuse list in 2007.

In other developments, the PD continues to support the so-called Verdal (a small community in the county of north Trondelag) Initiative, where the local community has introduced measures to curb narcotics use locally. In addition, Norway has introduced a mapping system aimed at detecting new abuse patterns. The so called “Early Warning System” has been introduced in the big towns of Bergen, Oslo and Drammen and it is primarily aimed at youth and young adults. Indicators are compiled, and officials seek contact with affected youths and subcultures, with the objective of identifying and responding to any emerging drug abuse issues. The PD also supports various local counternarcotics rehabilitation actions that emerged in 2007.

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 with the police and the Coast guard.

Law Enforcement Efforts. According to statistics compiled by the Norwegian police crime unit (KRIPOS), the total number of drug seizures in 2007 declined by 10.8 percent to an estimated 23,170 cases from 25,963 in 2006. However, the narcotics police and customs agents noted that the volume of drugs seized rose significantly, with the amount of amphetamines seized up 78 percent. The authorities made some big drug hauls: (a) the seizure of 110 kg of amphetamines from a Norwegian-Dutch drug gang in May 2007; and (b) the seizure of more than 140 kg of amphetamines by customs agents patrolling Norway’s southern border with Sweden in two incidents in September/October 2007. The police and customs agents said they continue to focus attention on drug “wholesalers” rather than individual abusers. Of the seizures made in 2007, cannabis accounted for 40 percent, amphetamines 23 percent, benodiazepines 17 percent, and other drugs accounted for 20 percent of total seizures.

The market in Norway for methamphetamine remains limited, and is estimated at less than 500 kg per year. The methamphetamine seizures accounted for less than 5 percent of the 2007 seizures. In 2006 (the most recent year for which figures were available), the number of persons charged with narcotics offenses rose 11 percent to about 41,700—compared with 37,567 in 2005—reflecting increased police vigilance, and probably increased abuse as well. 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 for narcotics offenses. In a move to improve law enforcement, the Ministry of Justice and Police has given permission to use technical means to monitor the conversations of narcotics offenders.

Corruption. Neither the government, as a matter of policy, nor senior government officials engage in, encourage, or facilitate illicit production or distribution of drugs, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Norway is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by the 1972 Protocol. Norway is also a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms, and the UN convention against corruption. Norway has an extradition treaty and customs agreement with the U.S. Norway remains a member of Interpol, the Dublin group, and the Pompidou group. In October 2007, Norway signed a narcotics cooperation accord with Russia to help combat the flow of drugs from Russia and Afghanistan.

Cultivation/Production. Very small quantities of Norwegian-grown hashish/cannabis concealed as potted or cultivated plants in private premises were the only illicit drug cultivation detected in Norway this year. While there is concern that narcotics dealers may establish mobile synthetic drug laboratories, few significant seizures of such labs occurred in 2007.

Drug Flow/Transit. According to KRIPOS, the 2007 inflow of illicit drugs remained significant in volume terms with amphetamines, cannabis, heroin, benzodiazepines, and Ecstasy topping the list. Most illicit drugs enter Norway by road from other European countries including Lithuania and the other Baltic states (e.g., amphetamines), Russia (e.g., methamphetamine), Poland, the Netherlands, Belgium, Germany, Morocco via Spain, Central Asia, the Balkans and other countries in Eastern Europe and Afghanistan. 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 counternarcotics abuse programs. According to the Ministry of Health and Social Care, a reduced number of drug-related deaths during 2007 suggest that these programs have been successful. While the maximum penalty for a narcotics crime in Norway is 21 years imprisonment, penalties for carrying small amounts of narcotics are not severe.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA officials consult with their Norwegian counterparts, and continue to cooperate on drug related issues.

The Road Ahead. Norway and the U.S. will continue to cooperate on narcotics-related issues both bilaterally and in international forums, notably the EU.

Poland

I. Summary

Poland has historically been a transit country for drug trafficking. However, with Poland's recent entry into the Schengen zone of borderless travel and as economic conditions improve, it has become a more significant transit country, while continuing to be a producer of amphetamines. Illicit drug production and trafficking are often tied to organized crime, and, although 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. Cooperation between the USG and Polish law enforcement is good. Poland is a party to the 1988 UN Drug Convention

II. Status of Country

Poland has historically 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 transit country and a producer of amphetamines. Cooperation between USG officials and Polish law enforcement has been consistent and Poland's EU accession accelerated the process of GOP diligence on narcotics policy.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The 2006 expenditures on the National Program for Counteracting Drug Addiction totaled approximately \$103.5 million dollars (321 million PLN based on an average exchange rate for 2006). This figure includes expenditures of the National Bureau for Drug Addiction, National AIDS Center, the Institute of Psychiatry and Neurology, the Border Guards, the National Health Fund, Customs Service, Provincial and Communal Governments, various training programs, and many other associated expenses. The National Plan was enacted into law in 2005 to ensure legislative commitment to counternarcotics, and the Ministry of Health is also seeking to codify its National Plans on HIV and AIDS. Administrative control for counternarcotics programs remains somewhat decentralized. Demand reduction programs are managed jointly by the National Bureau for Drug Addiction and provincial and communal governments, with the idea that this model improves the system's ability to target local populations. Other GOP elements involved in counternarcotics efforts include the police, Border Guards, and National Health Fund.

After the Polish accession to the European Union in May 2004, Poland ceased to receive EU funding to combat narcotics. Today, some support for counternarcotics activities comes from general EU funds for equipment and communication and additional funding for implementation of the Schengen zone, which Poland joined on December 21, 2007.

Law Enforcement Efforts. In 2007, the Polish National Police (PNP) cooperated with the DEA in several narcotics investigations targeting trafficking organizations that import controlled substances into Poland. They also worked cases focused on organized crime gangs that export controlled substances to the United States. Polish law permits the use of informants, telephone taps, and controlled deliveries to fight international crime, and a witness protection program is in place. Cooperation between the Polish police and Border Guards is good, especially on controlled deliveries. Poland works with Interpol and EUROPOL to combat transnational narcotics trade. Poland also cooperates with several neighboring countries on counternarcotics programs, including Project Eagle, a program of Polish-Swedish cooperation on trafficking of amphetamines. Poland also has bilateral programs in place with Russia to improve cooperation on the expert level for the

prosecution of narcotics cases, which have been implemented in cases on P2P smuggling through Lithuania, Ukraine and Belarus.

In 2007, the Polish police closed down 12 amphetamine labs with additional successes achieved by other Polish special services agencies. Twenty percent of the labs closed were run by foreigners, including individuals from Greece and Germany. One sign of the success of local law enforcement in uncovering amphetamine labs is the relocation of labs from Warsaw to more remote, rural areas. In 2006, 28,634 suspects were detained for questioning in drug-related cases and there was evidence of over 70,000 drug-related transactions. In October 2007, 50 kg of heroin was seized during shipment from the former Soviet Union to the Netherlands. With new legislation in effect, sentences for trafficking narcotics have been raised to a maximum of 15 years. All forms of possession are now punishable. The new possession laws doubled the number of criminal cases per year from approximately 30,000 to 60,000.

Agreements and Treaties. 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. Poland is party to the UN Convention on Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons, and illegal manufacturing and the UN Convention Against Corruption. Poland is also a member of the Dublin Group of countries coordinating narcotics assistance policies.

Drug Flow/Transit. Synthetic drugs, particularly amphetamines, are manufactured in Poland in small-scale kitchen operations. The quality of amphetamines in Poland tends to be high as a result of double distillation, making Polish amphetamines competitive with the cheaper, large-scale production amphetamines from Belgium or the Netherlands. Sixty percent of Polish-produced amphetamines are exported to Scandinavia. Precursors for amphetamines are not locally available and must be imported from other countries. The profitability of amphetamine trade remains low. The majority of money and foreign participation is in the cocaine traffic. Heroin, hashish, cocaine, and Ecstasy frequently transit the country, destined for Western Europe. Ecstasy prices in Poland in 2007 ranged from 15 to 40 PLN per pill and pills can be bought wholesale for 8 PLN (\$1 = 2.46 Polish Zloty).

Opium, originating from Afghanistan, is also frequently shipped through Poland, destined for Western Europe. Sea-based shipments of narcotics have also been seized. A shipment of 1.3 tons of Colombian cocaine destined for Szczecin, Poland was seized in December 2006 in Sweden.

Domestic Programs. The National Bureau for Drug Addiction has a comprehensive plan for reducing drug addiction and programs to discourage new users. Currently, the GOP estimates the drug user population in Poland to be between 35,000 and 70,000 people. The Bureau is working with the Polish parliament to support new programs for recreational users, in addition to traditional programs such as the residential programs that target addicts. Demand reduction efforts such as government-prescribed school counternarcotics programs and programs intended to empower parents to talk with their children about drugs have proven to be successful, and preliminary figures show a decrease in the consumption of all drugs, with the exception of amphetamines in the 16 and older age group: while the number of potential users in this age group is decreasing because of demographic factors, the total number of addicts is growing. Treatment efforts, such as drug-free residential programs have continued to grow, almost doubling capacity from 1,600 beds in 1999 to 2,500 beds today. One of the residential programs in use is a Methadone program, in which an opiate derivative is used to stabilize addicts and slowly wean them off of opiates, while minimizing the risk of HIV infection. HIV first appeared in Poland in 1988 and now Poland has 20,000 cases of HIV, a low number attributable to the early implementation of needle exchange programs. Poland also has a robust harm reduction program, including the "Discotech" program which works

with club owners to provide free bottled water at “Rave-prone” dance parties to reduce drug-induced dehydration illnesses, and consequence training, which helps addicts learn how to care of themselves and provides information on treatment options available when they choose to seek treatment. For 2008, the Bureau is working on a leaflet on date-rape drugs and a campaign against driving under the influence of drugs, as preliminary data shows that approximately 150,000 drivers operate vehicles while impaired.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Bilateral cooperation between the U.S. and Polish counternarcotics players remains strong, especially since the stationing of two DEA officers in Warsaw in 2005. One of the challenges to cooperation on a policy-level remains the high turn-over of managerial-level counterparts. Additionally, the GOP finds that our efforts to collaborate on some judicial issues are less than wholly productive owing to differences in how our legal systems operate. Nonetheless, DEA and LEGATT find that there is good cooperation on a working level. Their Polish counterparts comment that these offices are a focal point of their bilateral and multilateral cooperation.

The Road Ahead. With the expansion of the Schengen zone on December 21, 2007, and Poland’s geographical location on the Afghan heroin trafficking route, it is likely that Poland’s role as a transit country will persist in the near future. Both bilateral and regional cooperation on counternarcotics issues will continue to play an important role in improving the fight against narcotics trafficking.

Portugal

I. Summary

Although Portugal saw a significant decline in drug seizures from South America from the previous year, it continues to be a key transit spot for narcotics entering Europe. For example, seizures of cocaine decreased from 30.4 metric tons in the first six months of 2006 to 5.2 metric tons during the same period in 2007. In the first half of 2007, seizures of heroin also diminished by 45 percent. Hashish seizures increased significantly from around 3.6 metric tons to 15.1 metric tons. U.S.-Portugal cooperation on drugs has included visits to Portugal by U.S. officials and experts, and consultations on the newly established Maritime Analysis Operations Center for Narcotics (MAOC-N), located in Lisbon. Portugal is party to the 1988 UN Drug Convention.

II. Status of Country

Drug smugglers use Portugal as a gateway to Europe; their task is 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. 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 2007

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 2007, the Portuguese Parliament approved a law allowing police to test drivers' saliva for driving under the influence of narcotics and/or alcohol. If the road-side sample is positive, drivers must then undergo a blood test at a health establishment to confirm the results. Drug testing prior to the new law had to be done at a health care establishment, making the process more complicated for both drivers and law enforcement officers.

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. The PM report to the Ministry of Defense and the other entities are units of the Ministry of the Interior. According to a 2007 semi-annual report prepared by the PJ, the Portuguese law enforcement forces arrested 3,331 individuals for drug-related offenses in the first six months of 2007 as "traffickers/consumers." Most were Portuguese citizens, followed by a number of nationalities, including Cape Verdeans (208), Bissau-Guineans (48), Brazilians (44), Venezuelans (38), Spaniards (27), and Angolans (21). The 2007 PJ semi-annual report indicates a significant decrease in the cocaine seized in the first half of 2007 compared to the first half of 2006. Cocaine seizures fell from 30.4 metric tons to just 5.2 metric tons in the first half of 2007. Also over the first six months of 2007, compared to the same timeframe in 2006, hashish seizures jumped four-fold to 15.1 metric tons, Ecstasy seizures decreased by 54,998 pills and heroin seizures declined by 36 kilograms. The 2007 PJ report indicates over 1 million Euros in cash, the equivalent of over 24,000 Euros in foreign currency, and more than 300 vehicles, 1,000 cell phones, and 121 weapons have been seized. On May 25, 2007 PJ officials seized a container with 2.2 tons of cocaine transiting Port of Leixoes in Northern

Portugal destined for Spain with a tip off from Spain's National Police. PJ officers arrested two suspected narco-traffickers and 16,000 individual doses of heroin in the largest narcotics seizure in Madeira's history on September 26, 2007.

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. Although the PJ did have a corruption and theft incident in 2007, the force conducted a full investigation and charged suspects with the crime. In July, a senior PJ officer in the counternarcotics unit was arrested for diverting over 100,000 Euros seized in a drug investigation for private use. In April, a PSP Lieutenant and an agent working in Amadora, a suburb of Lisbon, also were investigated for using seized drugs from one investigation as evidence against other, unrelated suspected drug dealers.

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. In September 2007 Portugal 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 from 1908. Although this treaty does not cover financial crimes or drug trafficking or organized crime, certain drug trafficking offenses are deemed extraditable in accordance with the terms of the 1988 UN Drug Convention.

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. In November 2006, Lisbon city officials approved plans for legalized assisted narcotics consumption centers or "shoot houses" to open in late 2007 but the heated internal debate has stalled plans to open. 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 27 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 is responsible for coordinating with Portuguese authorities on U.S.-nexus drug cases. The Portuguese Customs Bureau cooperates with the U.S. under the terms of the 1994 CMAA.

In late 2006, Portugal was selected to host an international counternarcotics information sharing initiative, the Maritime Analysis and Operation Center Narcotics (MAOC-N), which was officially launched on September 30, 2007. The MAOC-N coordinates law enforcement information and resources among participant nations (Portugal, United Kingdom, France, Spain, Italy, Netherlands and Ireland) by sharing intelligence on narcotics shipments and by deploying the appropriate national assets to stop the traffickers. The Center's main focus is to combat the importation of cocaine from South America to Europe, especially maritime routes in the North Atlantic and Center-West (Western Africa) areas, but also targets air transport. The MAOC-N is implementing some methods used by the U.S. Joint Interagency Task Force-South in Key West, Florida. It has assistance of two U.S. Liaison Officers observers, one each from the Joint Interagency Task Force (South and European Command), and the United States has observer status in the group. From April 1 until November 1, 2007, MAOC-N coordinated ten maritime operations, which located and seized a total of 18.9 metric tons of cocaine.

The Road Ahead. Portugal and the U.S. will use their excellent cooperative relationship to improve narcotics enforcement in both countries.

Romania

I. Summary

Romania is not a major source of illicit narcotics. However, Romania serves as a transit country for narcotics and lies along the well-established Northern Balkan route used to move opiates derivatives such as opium, morphine base and heroin from Afghanistan to Central and Western Europe. It is a developing route for the transit of synthetic drugs from Western and Northern Europe to the East. Romania recently begun to produce a small amount of amphetamines and also is used as a transit point for South American cocaine destined for Western Europe, especially through Constanta. In 2007, Romania made several major drug seizures. Romania worked to implement its 2005-2008 National Anti-Drug Strategy. Romania is a party to the 1988 UN Drug Convention.

II. Status of country

Romania lies along what is commonly referred to as the Northern Balkan Route, and is, therefore, a transit country for narcotics, mainly heroin and opium, moving from Southwest Asia, principally Afghanistan, through Turkey and Bulgaria and onward toward Central and Western Europe. Romania also lies along a developing route for the transit of synthetic drugs from Western and Northern Europe to the East, and is a source for some synthetic drugs. A large amount of precursor chemicals transit Romania from West European countries toward Turkey. Romania increasingly is 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) increased among segments of the country's youth. Officials also predict an increase in domestic heroin consumption. Much of this increase is tied to growth in disposable incomes among Romanian youth.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Romania continues building 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 next 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 semester of 2007, Romanian authorities seized 165.78 kilograms of illegal drugs, including 117.65 kilograms of heroin, 45 kilograms of cocaine, 38.02 kilograms of cannabis, 3.31 kilograms of hashish and 18,559 amphetamine and derivatives pills. During the first semester of 2007, 2674 individuals were investigated for drugs and precursor trafficking, possession and consumption. This was an increase of 136.84 percent compared with the same period in 2006. 393 individuals were indicted, 246 are being held under preventive arrest. The Romanian Courts convicted 328 individuals. Of these, 313 received prison sentences.

Corruption. 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 and 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 of ethics. Also, the anti-corruption unit within the Ministry of the Administration and Interior conducted several internal undercover operations targeting police officers. As a matter of government policy, Romania does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions as a matter of government policy. Senior Romanian officials do not engage in, encourage, or facilitate the illicit production or distribution of dangerous drugs or substances, or launder the proceeds from illegal transactions.

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 1924 extradition treaty, 1936 supplementary extradition treaty, and 2001 mutual legal assistance treaty are currently in force between Romania and the United States. The U.S. and Romania concluded a new extradition treaty and a protocol to the mutual legal assistance treaty in September 2007. These instruments form the basis for a fully modernized law enforcement relationship with Romania and implement obligations under the US-EU extradition and mutual legal assistance agreements. The President transmitted both instruments to the Senate for advice and consent to ratification in January 2008. Romania is a party to the UN Convention against Transnational Organized crime and its three protocols, and the UN Convention against Corruption.

Cultivation/Production. Romania is not a significant producer of illicit narcotics; however, there is a small amount of domestic amphetamine production.

Drug Flow/Transit. Illicit narcotics from Afghanistan enter Romania both from the north and east, and through its southern border with Bulgaria. Land transportation methods include both cargo and passenger vehicles. However, drugs, primarily heroin, are also brought into the country via the Black Sea port of Constanta on commercial maritime ships and across the border with Moldova, as well as via the country's international airports. Once in Romania, the drugs move either northwest through Hungary, or west through Serbia. Police estimate that over 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, 870 drug prevention programs were initiated during the first semester of 2007, including programs against drug consumption in families, in schools or in the community. These were conducted in cooperation with local authorities, NGO's, religious organizations and private companies. Detoxification programs are offered through some hospitals, but treatment is severely limited. These programs are hampered by a lack of resources and adequately trained staff. During October-November 2006, the Interior Ministry enacted two decisions aimed at improving treatment for drug users. One decision refers to case management and the second provides for customized care plans for recovering drug users.

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 cyber-crime and counter narcotics capabilities, reform the criminal justice system, combat emerging crimes and counter official corruption. In 2007, Romania also benefited in 2007 from approximately \$1,329,000 in U.S. assistance to the SECI Center for Combating Trans-border Crime, which more broadly supports the twelve participating states in the Balkan region and focuses on trans-border crime, including the narcotics trade. The U.S. is a permanent observer country at the SECI Center and has recently approved two permanent DEA positions. These DEA officers will assist in coordinating narcotics information sharing, maintain liaison with

participating law enforcement agencies, and coordinate with the DGCCOA on case-related issues. A Resident Legal Advisor from the U.S. Department of Justice also is assigned to the SECI Center, providing guidance on drug trafficking investigations.

The Road Ahead. The U.S. and Romania will strive to develop their cooperation and move into new areas of interest to both sides. Drug crime seems to be increasing in Romania. The United States stands ready to assist Romania and nearby countries in meeting this growing challenge.

Russia

I. Summary

Trafficking in opiates from Afghanistan and their abuse were major problems facing Russian law enforcement and public health agencies in 2007. The Ministry of Health (MOH) estimates that up to six million Russians (of a population of 143 million) or 4.2 percent take drugs on a regular basis. Russian officials estimate that about 10,000 people die annually of drug overdoses and another 70,000 deaths are considered drug-related. There are estimates that nearly 70 percent of new HIV cases can be attributed to intravenous drug use and 90 percent of injection drug users are Hepatitis C positive.

The Federal Drug Control Service (FSKN) reported that the sharp post-Soviet increases in the number of drug users has begun to stabilize. The Government of Russia (GOR) has begun to take steps to address the public health issues associated with drug use. Health education programs in schools and outreach programs for youth and other vulnerable populations are beginning to incorporate messages concerning the harmful effects of drug use and the links between injecting drugs and HIV/AIDS. However, government-supported drug addiction treatment programs are ineffective and not widely available. Russia is a party to the 1988 UN Drug Convention.

II. Status of the Country

Russia is both a transshipment point and a user market for heroin, opium, marijuana, Ecstasy and other dangerous illegal substances including a synthetic injectable opiate comprised of a mixture of heroin and tri-methylfentanyl called "White China." Opiates in Russia originate almost exclusively in Afghanistan, and are often ultimately destined for Europe. The 7000-kilometer Russian border with Kazakhstan is roughly twice the length of the U.S.-Mexican border and poorly patrolled. Retail distribution of heroin and other drugs within Russia is carried out by a variety of criminal groups which include, but are not limited to Russian Organized Crime, Central Asian, Caucasian, Russian/Slavic, and Roma groups.

III. Country Actions Against Drugs In 2007

Policy Initiatives. The FSKN, originally established in 2003 as the State Committee for the Control of Traffic in Narcotic and Psychotropic Substances (GKPN), was restructured in 2004 to become 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.

On October 19, 2007, President Vladimir Putin signed a decree establishing the State Anti-Narcotics Committee. The stated purpose of the newly-established governmental steering body is to develop proposals for the President on national anti-narcotics policy, to coordinate the activities of various government agencies, and to participate in international drug enforcement cooperation efforts. The Committee is chaired by the FSKN Director and is comprised of seven federal ministers, 14 heads of federal services, a Ministry of Foreign Affairs representative, vice speakers

from the Duma and the Federation Council, and other officials. Anti-narcotics commissions will be established at the regional level and will be headed by the heads of regional administrations.

Internationally, President Vladimir Putin has authorized the FSKN to station 50 officers in foreign states to facilitate information sharing and joint investigations. The FSKN planned to open liaison offices in ten countries in by2008: Austria, Afghanistan, Iran, Kazakhstan, Kyrgyzstan, China, the U.S., Tajikistan, Ukraine, and Uzbekistan. The GOR has also indicated that its drug liaison officer in Kazakhstan will also work with the Central Asian Regional Information and Coordination Centre (CARICC), which is being established by the UN Office on Drugs and Crime and will be based in Almaty, Kazakhstan. CARICC will serve as a regional focal point for communication, analysis and exchange of operational information in “real time” on cross-border crime, as well as a center for the organization and coordination of joint operations. CARICC includes Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan in addition to Russia.

On February 7, 2006, amendments to the Criminal Code reduced the minimum punishable amounts of illegal drugs a user can possess before he/she is subject to prosecution. This reversed legislation adopted in November 2003 that reduced the sentence for possession of drugs for “personal use” from a maximum of three years in jail to a fine. The 2006 amendments eliminated the category of “average dose” and defined the quantities of “large” and “especially large” amounts of drugs to be used in determining sentences for drug-related crimes as follows (amounts in grams): poppy straw (20/500), hashish (2/25), heroin (0.5/2.5), marijuana (6/100), opium (1/25), and methadone (0.5/2.5).

Russian legislators continue to press for harsh penalties for drug traffickers. At the end of 2007, a bill was pending before the Duma that would amend the criminal code to criminalize imports into Russia of synthetic analogs of narcotic substances, shift the authority to investigate such offenses from the Customs Service to FSKN, and stiffen the penalty from a fine to seven years in prison.

Law Enforcement Efforts. Through November 2007, the MVD registered 216,062 crimes related to illicit drug trafficking, the identification of 96,692 perpetrators, and 134,370 cases referred for prosecution. The following table reflects total drug seizures for 2006 and the first nine months of 2007 by all law enforcement agencies in Russia (all figures are in kg; Source: FSKN):

Substance	2006	Jan-Sept. 2007
Hashish	678	1,300
Marijuana	16,353	12,000+
Poppy Straw	1,671	20,000+
Opium	238	417
Heroin	1,981	1,337
Cocaine	21	155
Psychotropic substances	521	397

Precursor chemicals	1,699	10,192
Synthetic drugs	178	194

According to the FSKN, seizures have pushed up the price of almost every kind of drug across Russia. The average retail price for a gram of heroin in 2007 was \$56.00 versus \$ 51.54 in 2006. The average price in 2005 was \$40, in 2004 it was \$30 and in 2003 it was \$20. The wholesale price for a kilogram of heroin in 2007 is about \$26,000. Prices ranged from about \$11,300 to about \$75,200 per kilogram depending on quality and distance from Russia's border with Kazakhstan.

Clandestine amphetamine labs are occasionally reported in Russia. In November 2007, the FSKN reported that 100 grams of amphetamines, 300 tablets of methamphetamine and numerous rocket propelled grenades were discovered in a laboratory in the Rostov Region. The investigation resulted in the arrest of a 25-year-old post-graduate chemistry student from a local university who was alleged to be in control of the drug-production site. The FSKN also reported that, in 2007, six (6) kg of tri-methylfentanyl were seized at a clandestine laboratory in St. Petersburg. A seizure operation at a clandestine laboratory in Moscow region resulted in the discovery of tri-methylfentanyl, along with methadone and amphetamines. Further investigation by Russian authorities revealed that the chemical process for producing the seized drugs had been shortened dramatically, indicating that laboratory operators had an extensive background in chemistry and were very familiar with the chemical conversion process. The FSKN reports that a majority of tri-methylfentanyl seizures occur in small amounts (300-600 grams) in the northwest and western parts of Russia.

Although MDMA (Ecstasy) tablets produced in Russia are of poor quality, the low prices (as little as \$5 per tablet) are attractive to Russian youth compared to the \$20 typically charged for each tablet for MDMA from abroad (primarily The Netherlands and Poland). The St. Petersburg area is considered the primary gateway for foreign-produced MDMA smuggled into Russia. In 2007, Russian authorities seized 1.6 kg of MDMA from two Lithuanians in Voronezh, Russia—a city approximately 500 miles south of Moscow: an example of traffickers from the Baltic States entering the country from St. Petersburg and making drug deliveries not just to Moscow, but to some of the more remote parts of the country as well.

On November 1, 2007, FSKN and FSB agents seized ten (10) tons of acetic anhydride (AA) and arrested three subjects in Dzerzhinsk – a town approximately 250 miles east of Moscow where the only AA-producing factory in Russia is located. The seized precursors were said to be just part of a much larger delivery to drug traffickers in Afghanistan. Russian authorities believed that the AA was to be shipped by truck to Afghanistan, by way of Tajikistan and disguised as a solvent used in plastic production, as well as mosquito repellent.

Cocaine abuse is not widespread, but is increasing. 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 number of potential users. Cocaine is easily obtained in Moscow and St. Petersburg. Cocaine is frequently brought into Russia through the ports of St. Petersburg, and to a lesser extent Novorossiysk. Sailors aboard fruit carriers and other vessels operating between Russia and Latin America provide a convenient pool of potential couriers. In an example of effective international law enforcement cooperation, the U.S. Drug Enforcement Administration (DEA) and Russian law enforcement agencies conducted operations which resulted in several significant seizures, totaling more than 124 kg of cocaine and \$127,200 in U.S. currency during the first nine months of 2007. Each of these seizures involved Latvian, Ukrainian and Russian crewmembers aboard banana vessels smuggling multi-kilogram cocaine shipments from South America to St.

Petersburg. Another less common smuggling method involves couriers traveling on commercial flights bringing cocaine into Russia, often through third countries in Europe, as well as the U.S.

FSKN officials have also pointed to the use of the Internet to sell illegal drugs. According to the FSKN, Russia is home to hundreds 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.

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 wiretapping, search, seizure and the compulsory production of documents. 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. The GOR has issued implementing regulations and provided money from the federal budget for implementation of the legislation. The Presidential Administration has submitted cooperating witness legislation to the Duma, where it is expected to win passage.

In 2006, asset forfeiture laws were reinstated to Russian legislation, enabling the courts to seize the property of a convicted drug trafficker if it is demonstrated that the property was purchased with drug proceeds.

Corruption. Evidence indicates the scope and scale of official corruption in Russia have grown markedly in the past several years. There were no reported cases of high-level narcotics-related corruption. In May 2006, five FSKN officers were accused of extortion and detained in Moscow. The case remains under investigation. Over the period October 2006 to October 2007, criminal proceedings were initiated against 16 FSKN officers. This included the general in charge of the FSKN’s Department of Operative Support, who was charged with abuse of power and illegal wiretapping for profit. There is no indication that these charges were drug-related.

As a matter of government policy, however, 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 as amended by 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 UN Corruption Convention and the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling.

The GOR has signed over 30 bilateral agreements on counternarcotics cooperation including a Memorandum of Understanding with the U.S. Drug Enforcement Administration to enhance bilateral cooperation to combat illegal drugs and their precursor chemicals. In October 2007, the Russian FSKN and the European Union’s Monitoring Centre on Drugs and Drug Addiction signed a Memorandum of Understanding to promote the exchange of information and technical expertise on the use of illegal drugs.

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. There are small, illicit opium poppy fields ranging in size from one to two hectares in Siberia, in the Central Asian border region, and in the Omsk-Novosibirsk-Tomsk area. Typically the opium fields are small backyard plots or are located in the countryside concealed by other crops. 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. Primary cannabis cultivation areas are Primorye, Altay, as well as Amur Oblast and the Republic of Tuva. In 2007, FSKN officials reported stepped-up efforts to eradicate cannabis being grown on national park land around Sochi, the site of the 2014 Olympic Winter Games.

Drug Flow/Transit. Opiates (and hashish to a lesser degree) from Afghanistan are smuggled into Russia through the Central Asian states along the “Northern Route.” The FSKN estimates that 60 MT of heroin (are smuggled into Russia annually from Afghanistan. Contraband is typically carried in vehicles along the region’s highway system that connects populated areas of southwestern Russia and western Siberia. Smuggling vehicles often utilize cover loads such as onions, cabbage, watermelons and honey. Couriers sometimes use the region’s passenger trains and incidents involving internal body carriers or “swallowers” are also common.

To disrupt this trafficking, each year since 2003, law enforcement agencies of the member states of the Collective Security Treaty Organization-CSTO (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan) have participated in “Operation Canal.” Operation Canal’s operations are bi-annual, weeklong interdiction blitzes during which extra personnel are stationed at critical junctures on the Russian border and in Central Asia to conduct increased searches of suspected drug smugglers and inspections of their vehicles for drugs, drug proceeds and precursor chemicals. In 2007, Operation Canal blitzes took place from August 28 to September 3 and again from November 26 to December 3. The 2007 operations included observers from Azerbaijan, China, Latvia, Lithuania, Mongolia, Poland, the U.S. Drug Enforcement Administration (DEA), Uzbekistan, Ukraine, Finland, Estonia, as well as officers from FSFM and INTERPOL. As a result of these two week-long operations, the Russian FSKN reported that law enforcement agencies from the CSTO seized 890 kilograms of heroin, 1,348 kilograms of hashish, 35 kilograms of synthetic drugs, 1,366 weapons, 26,105 rounds of ammunition, and precursor chemicals. Russia and the other member nations of the Shanghai Cooperation Organization (SCO) have also attempted to use the SCO as a vehicle to combat narcotics trafficking in Afghanistan and Central Asia.

An example of the volume of opiates being smuggled into Russia was the May 2007 seizure of 436 kilograms of heroin in Moscow. This very significant seizure was one of the largest in recent years and followed other large seizures in Moscow, including a July 2006 seizure of 242 kg of heroin, an October 2006 seizure of 158 kg of heroin, and two seizures in August 2005 of 165 kg of heroin and 156 kg of heroin, respectively.

The Russian cities of Yekaterinburg, Samara, Omsk, and Novorossisk have also emerged as hubs of trafficking activity. A 362 kilogram heroin seizure was recorded in Orenburg in 2005.

The seizure of 20 tons of poppy straw in St. Petersburg in October 2007, which took place aboard a vessel that originated in The Netherlands, also demonstrated the importance of St. Petersburg as a major smuggling gateway not just for cocaine shipments, but for all types of drugs.

Synthetic drugs manufactured in Russia and elsewhere in Europe (The Netherlands and Poland) 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.

FSKN officials continue to allege 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 combines prevention, treatment, and law enforcement. A federal program, was launched in September 2005, aimed at reducing by 2010, the scale of drug abuse in Russia by 16-20 percent compared to the 2004 level, a reduction of the drug user population by 950-1,200 persons. FSKN is tasked with demand reduction among its other responsibilities and has recently begun a large-scale public awareness campaign. With support from the USAID “Healthy Russia 2020” project and the U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs (INL), demand reduction messages are being incorporated into a Ministry of Education-sanctioned health education curriculum for high school students and training materials for teachers.

Healthy Russia also established a peer-to-peer outreach program that targets youth approximately 15 to 18 years of age through vocational schools, youth clubs, NGO activities, summer camps and other special programs set up by regional governments to reach teenagers at greatest risk. These programs have been tested in Orenburg (one of the top ten regions most affected by HIV/AIDS in Russia) and Ivanovo (the eighth poorest oblast in Russia) and have been expanded to Irkutsk and Sakhalin, two oblasts on the key drug trafficking routes. The peer-to-peer program encourages youth to discuss the impact of substance abuse and introduces life skills to avoid drug use. 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).

According to the FSKN, in February 2007, there were 400,000 officially registered drug addicts in Russia’s treatment centers. However, a Human Rights Watch study (November 2007) concluded that the effectiveness of treatment offered at state drug treatment clinics “is so low as to be negligible” and constitutes a “violation of the right to health.” New models of cognitive therapy are being implemented in treatment centers in St. Petersburg, but substitution therapy (such as programs using methadone or buprenorphine) has not been fully explored, and remains illegal and politically sensitive. The U.S. National Institutes of Health has begun work with Russian research facilities in St. Petersburg to explore alternative drug treatment regimens acceptable to the GOR. A sign of progress is that the MOH has requested a special report on medication-assisted drug therapy. In 2007, the USAID partner, Trans Atlantic Partners Against AIDs, financed a study tour to China for a small group of leading Russian politicians, activists, governmental officials, and narcotics experts to observe the Medication Assisted Therapy (MAT) program for treating HIV-positive clients who are also chronic substance abusers, particularly injection drug users.

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. The U.S. also promotes programs to reduce demand for narcotics and advocates for more effective treatment programs for drug users.

Bilateral Accomplishments. In 2002, the U.S. through the Bureau for International Narcotics and Law Enforcement Affairs (INL) negotiated a Letter of Agreement (LOA) with the GOR allowing direct assistance to the GOR in the area of counternarcotics and law enforcement assistance. Three on-going projects include the “Southern Border Project,” an effort that will eventually lead to the establishment of drug interdiction units along the Russian-Kazakh border in the Siberian cities of Orenburg, Chelyabinsk, Omsk, Saratov and Kurgan; the “Northwest Customs Project,” which

provides technical assistance to the Federal Customs Service in St. Petersburg and Kaliningrad; and the “Southern Seaports Project,” which includes technical assistance to the Federal Customs Service at the Caspian and Black Sea seaports of Astrakhan, Novorossiyk and Sochi. As part of the NATO-Russia Council’s counternarcotics project, DEA and Russian trainers will conduct six training courses for Afghan and Central Asian counterparts at the Domodedovo training centre of the Ministry of the Interior in Moscow. These training courses will assist the Afghan and Central Asian police entities to combat major heroin organizations. The U.S. is also providing technical assistance in support of institutional change in the areas of criminal justice reform, mutual legal assistance, anticorruption, and money laundering.

The Road Ahead. The GOR places high priority on counternarcotics efforts and has indicated a desire to deepen and strengthen its cooperation with the United States and other countries. The USG will continue to encourage and assist Russia to implement its comprehensive, long-term national strategy against drug trafficking and use with multidisciplinary sustainable assistance projects that combine equipment and technical assistance.

Serbia (includes Kosovo)

(The report on Kosovo is appended at the end of this report.)

I. Summary

The Republic of Serbia is a major transit country for narcotics and other drugs along the Balkan smuggling corridor from Turkey to Central and Western Europe. In 2007, Serbia took measures to improve its capacity to combat drug trafficking through new legislation and law enforcement initiatives that tightened enforcement against narcotics, corruption, and organized crime, and included legislation authorizing asset seizure. Serbia's drug laws are adequate, but the judicial system is weak and implementation is problematic. While Serbia realized record-setting successes with drug interdiction and seizures, nonetheless, organized crime groups still exploited Serbia's inadequate border controls and law enforcement to move heroin, cocaine, marijuana, and synthetic drugs. A small amount of smuggled narcotics remains in Serbia for domestic consumption. As Yugoslavia's successor state, the Republic of Serbia is a party to the 1988 UN Drug Convention.

II. Status of Country

Serbia is a transit country for the movement of narcotics. The ability of organized crime groups to exploit the porous borders and weak judicial structures also threatens public safety and the integrity of public institutions. The Ministry of Interior's (MUP) Drug Smuggling Suppression Department notes that Serbia's southwestern Sandzak region, located between Montenegro and Kosovo and on the heroin smuggling route connecting Afghanistan to Western Europe, is the key area in the country for narcotics trafficking. The Sandzak, nicknamed Europe's "heroin stash" by narcotics experts, continues to be a storage site for large quantities of narcotics. According to the MUP, drug smugglers frequently use Serbia's highways, especially Corridor 10, which runs southeast to north from Bulgaria and Macedonia to Croatia and Hungary. The Serbian government estimates that relatively small amounts of narcotics remain in the country for domestic consumption. Heroin is by far the most prevalent narcotic, although this year the MUP has seen an increase in trafficking of cocaine, from Albania, Montenegro, and as far away as South Africa.

III. Country Actions against Drugs in 2007

Policy Initiatives. In November 2007, Serbia's State Prosecutor announced the creation of a special team to draft a law on asset seizure to increase law enforcement authorities' ability to combat narcotics smuggling, organized crime, and corruption. Articles 246 and 247 of the General Crime law regulate penalties for drug crimes, including 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 precursor chemicals used by companies operating in Serbia. The law allows the MUP to investigate possible misuse of precursor chemicals by companies or individuals. Serbia hosts counternarcotics liaison officers from Bulgaria, Romania, Croatia, Italy, and other countries; a program the MUP credits for improving regional counternarcotics coordination.

Law Enforcement Efforts. The MUP's Drugs Smuggling Suppression Department is Serbia's key coordination body for combating drug-related crime. The Department is responsible for coordinating cooperation and information exchanges with 33 police precincts located throughout Serbia, as well as with the Customs Administration, the Ministry of Justice, and Interpol. The Drug Smuggling Department is currently developing a database for crimes, arrests, and seizures related to heroin, cocaine, marijuana, synthetic drugs, and chemical precursors. Officers in the MUP

participate in workshops organized by the OSCE, the Southeast Europe Cooperative Initiative's (SECI) Center for Combating Trans-border Crime, and other international organizations.

Serbia interdicted a record amount of narcotics in 2007. In October, in a single seizure, the Serbian Customs Administration seized approximately 163 kg of heroin at a Serbia-Bulgaria border crossing. The drugs were found in a false compartment of a truck, likely originating in Afghanistan, bearing Turkish plates, with a Turkish driver. The vehicle was hauling a cargo of furniture and appliances under diplomatic cover, with destinations of Austria, France, and Netherlands. Members of Serbia's border crossing team had received training and equipment from the U.S. Export and Related Border Security (EXBS) program, which in this case clearly contributed to their success in making this narcotics seizure.

Serbia's MUP and Customs Administration both keep data on total seizures. The MUP reports that from January to November of 2007 Serbian law enforcement made 3,795 drug seizures, including 11 kg of cocaine, 377 kg of heroin, and 700 kg of marijuana. These data do not include seizures from municipal police, but do include the Customs Administration's reports of seizures at the border. Serbia's Customs Administration reports that, in the first 11 months of 2007, its border officials intercepted 42.2 kg of opium, 203 kg of heroin, 2.5 kg of cocaine, 136 kg of marijuana, and 57,460 tablets of anabolic steroids at Serbian border crossings.

Sentencing for drug law violations is generally weak. According to a Justice Ministry report, of the 8,658 persons convicted for violations of Article 246 of the Penal Code in 2007 (related to production, storage, and sale of narcotics) 6,141 (71 percent) received suspended sentences. During the same period, 2,397 arrests (28 percent) resulted in prison sentences. In the Belgrade District Court, 98 percent of drug arrests led to prison sentences. The low conviction/jail-time rate outside Belgrade, in part, results from the large number of underage offenders, many of whom claim the drugs in their possession were for personal use. There are no specific drug-crime sentencing guidelines, and courts render judgments on a case-by-case basis. Major narcotics dealers rarely appear in court in Serbia. This is primarily because enforcement agencies are only beginning to grasp the "enterprise theory" to their criminal investigations. The result is that investigations are often truncated, focusing on the "low-lying fruit": users, street dealers and border seizures instead of following the financial proceeds back to the major dealers. This is slowly changing and is best evidenced in Serbia's increasingly more comprehensive (albeit non-drug-related) organized crime cases.

Corruption. Corruption within Serbia's law enforcement agencies responsible for counternarcotics remains a serious problem. According to a June 2007 report by a Norwegian research institute (Chr. Michelsen Institute's "Serbia 2007: Overview of Problems and Status of Reforms"), corruption in Serbia's legal system including police, prosecutors and courts, "distort(s) the enforcement of the law and by implication undermine(s) trust in the law and justice system itself." The report also notes that law enforcement officials "are subject to systematic incentives to engage in corrupt behavior... [and] police officers are often poorly compensated, their actions are difficult to monitor, and police organizational culture often tends to protect corrupt officers." An official at the Customs Administration said poor pay for its border inspectors aggravates this problem.

No evidence exists that the Serbian government encourages illicit production or distribution of narcotics, or launders proceeds from illegal drug transactions.

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. The 1902 extradition treaty between the United States and the Kingdom of Serbia

remains in force between the U.S. and Serbia. Serbia is also a party to the UN Convention against Corruption.

Drug Flow/Transit. Serbia sits directly on the Balkan narcotics trafficking route. It is estimated that a high percentage of the world's heroin travels along this route. Heroin grown and processed in Afghanistan is smuggled through Turkey and Bulgaria into Serbia, and onward into Western Europe. Small amounts of heroin stay in the country, but Serbia primarily serves as a transit point. Cocaine from South America is smuggled into Serbia via Spain, Italy, and Greece, while synthetic drugs such as Ecstasy typically originate in the Netherlands and are can be used in exchanges for other narcotics, including heroin.

Domestic Programs (Demand Reduction). Experts from the Belgrade Institute on Drug Abuse have estimated that there are approximately 60,000-80,000 drug users in Serbia. A task force composed of the Ministries of Health, Education and Sport, Interior, and Justice is developing a National Strategy for the Fight against Drugs. Serbia is currently piloting a demand reduction program in prisons that offers privileges to inmates in exchange for abstinence from drugs. A failed drug test results in expulsion from the program.

IV. U.S. Policy Initiatives and Programs

Bilateral and Multilateral Cooperation. The Serbian Government works closely with the U.S. and EU countries to reform and improve its law enforcement and judicial capacity. The U.S. has provided extensive technical assistance and equipment donations to the police, customs services, and judiciary. Several USG agencies have programs that directly or indirectly support counter narcotics 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 Departments 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 Serbian Customs Administration praised the U.S.-sponsored International Railroad Interdiction Training (IRIT) that its officers received in El Paso, Texas.

The Road Ahead. The United States will continue to support the efforts of Serbian law enforcement to combat narcotics smuggling in the region. During the next year the United States will press for additional progress in Serbian justice sector reform, including tougher sentences for major narcotics dealers and coordinated efforts to combat organized crime. Serbia needs to improve its demand reduction programs. To stem the flow of narcotics through the Western Balkans, the United States will continue to assist Serbia in improving the skill set and professionalism of its law enforcement agencies. Training the USG has provided to date has paid off: In the past year, Serbian law enforcement cocaine seizures increased nearly 70 percent—from 6.5 to 11kg, and heroin interdictions hit record levels.

Kosovo

I. Summary

Kosovo is primarily a transit point for heroin originating in Turkey and Afghanistan and destined for Western European countries, and it also has a small and reportedly growing domestic narcotics market. Kosovo faces serious challenges in its battle against narcotics trafficking. Its borders are porous, there is reported corruption among its Border Police and Customs officers, and its unique

status under UNSCR 1244 as a United Nations-administered territory prevents it from entering into most bilateral, multilateral and international agreements, including the 1988 UN Drugs Convention. Kosovo's final status is currently under negotiation, and the United States and the European Union intend to continue providing rule of law technical assistance, training and equipment donations, which will help Kosovo to more effectively combat narcotics trafficking.

II. Status of Narcotics Situation in Kosovo

Kosovo is a transit point for Afghan heroin moving to Western Europe by way of Turkey. Narcotics traffickers capitalize on weak border control in Kosovo. The Kosovo Border Police is a young service, lacks basic equipment, and only has a mandate to patrol the "Green Border" (area where there are no official, manned borders or administrative boundary line gates) from two to three kilometers beyond the actual border and administrative boundary lines. NATO's Kosovo Force (KFOR) has roving teams that patrol the green border up to the actual border and administrative boundary lines, but traffickers easily take advantage of numerous passable roads leading into Kosovo that lack border or administrative boundary line gates. Moreover, narcotics interdiction is not part of KFOR's mandate; they seize narcotics they happen to encounter while performing their duties, but they do not actively investigate narcotics trafficking. Kosovo Border Police and Customs agents are susceptible to corruption. Kosovo officials are attempting to tackle the problem, but United Nations Mission in Kosovo (UNMIK) officials believe some officers allow narcotics shipments to pass through the border and administrative boundary gates.

Kosovo is not a significant narcotics producer, but Kosovo police have found cases of small-scale marijuana cultivation, mostly in the form of plants mixed in with corn crops or cultivated in back yards. They have also found some uncultivated marijuana plants growing in rural areas. There have been reports of seizures of large quantities of precursor chemicals in Kosovo. However, Provisional Institutions of Self-Government (PISG) and UNMIK officials have found no direct evidence of narcotics refining laboratories.

Information on domestic narcotics consumption is not systematically gathered, but PISG and UNMIK officials agree that there is a growing local market and that illegal drug use is on the rise. The Ministry of Health believes levels of narcotics consumption among teenagers and university-aged young adults, the primary users, are comparable to those in most Western European countries. Drugs of all types, including heroin, are reportedly available in Kosovo. Cocaine abuse cases increased in 2007, but the vast majority of addicts referred for treatment were heroin users.

III. Kosovo Actions Against Drugs in 2007

Policy Initiatives. The Government of Kosovo is just beginning to address the narcotics problem, and there is no national counternarcotics strategy. The Kosovo Police Service (KPS) and Ministry of Health, however, reported that they are advocating for creation of an inter-ministerial committee or working group, coordinated through the Office of the Prime Minister or Deputy Prime Minister, to draft such a plan. As of October 2007, no inter-ministerial body had been created to address narcotics.

With an eye toward eventual EU accession, Kosovo sent a representative from the Ministry of Health to an EU conference on "Tackling the Drug Problem in the Western Balkans" in September 2006, and determined a number of priorities for action based on the EU Drugs Strategy 2005-2012. The priorities included evaluation of the current situation, definition of a counternarcotics strategy and action plan and creation of implementation structures such as inter-ministerial working groups. Because of the Kosovo budget cycle and the fact that the priorities were identified late in 2006, officials were unable to formally address them in 2007. Individual ministries, however, pressed forward with counternarcotics initiatives in accordance with EU goals. The Ministry of Health

reported that it included in its strategic plan and budget request for 2008-2013 goals of accurately assessing the extent of the drug problem in Kosovo, developing a national strategy for preventing drug use among adolescents and youths, creating regular mechanisms for monitoring drug use levels among adolescents and youths, and increasing services to drug addicts. Similarly, the Ministry of Interior Affairs reported that it is working to increase Kosovo's narcotics investigation capacity and help it meet European Partnership Agreement Program (EPP) goals by training counternarcotics officials, procuring technical equipment and strengthening inter-agency cooperation.

Law Enforcement Efforts. The counternarcotics competency was transitioned from UNMIK to KPS in May 2006, and narcotics-related arrests have reportedly increased since the KPS took control. From January to August 2007, the KPS arrested 612 people on narcotics charges and filed 221 narcotics-related cases. According to KPS statistics 96 percent of offenders were male. In the same period, they confiscated 15.3 kg of heroin, 2.2 kg of cocaine, 21.7 kg of marijuana, 61 grams of Ecstasy, and 4 kg of other narcotic substances. Prior year UNMIK police statistics were roughly similar as to drugs and magnitudes. From January through mid-October, they reported 251 narcotics-related cases; 94 percent of those arrested were male. They also reported the seizure of 11.7 kg of heroin, 22.9 kg of marijuana, 1.9 kg of cocaine and 61 hits of Ecstasy.

KPS counternarcotics officers face many challenges. They lack basic equipment and resources, and undercover operations are complicated by technical issues. The Serb-controlled Mobtel mobile telephones and land lines are beyond their reach. Kosovo's small size also hampers undercover work because communities are tight-knit and everyone knows who is working on counternarcotics. The KPS also noted a decline in effectiveness after it decentralized the counternarcotics division in 2005. They had hoped to return to a centralized system in 2007, but still remained decentralized as of October 2007. The KPS Department of Organized Crime's director reported that coordination between the headquarters and regions improved in 2007 and that decentralization is less of a problem today.

Illicit Cultivation. Kosovo is not a significant narcotics producer, but the KPS has found some evidence of small-scale marijuana cultivation. According to UNMIK Police statistics, there were 32 cases of marijuana cultivation from January through mid-October, totaling 21,075 plants. Most cases involved marijuana planted together with corn in rural areas, but there were some cases of plants cultivated in gardens. There have been a few reports of seizures of large quantities of precursor chemicals in Kosovo, but PISG and UNMIK officials have found no direct evidence of narcotics refining labs.

Corruption. There have been no arrests for high-level narcotics-related corruption in Kosovo. There are reports of corruption among Border Police and Customs officers, but the KPS and UNMIK Customs Service say they are attempting to address it. Cases reportedly tend to involve officers turning a blind eye to narcotics trafficking or accepting bribes to allow narcotics to get through border or administrative boundary line gates. KPS officials see the potential for problems due to the officers' low salaries and lack of benefits, and they believe corruption exists in the regional counternarcotics offices. As a matter of government policy, however, Kosovo does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the proceeds from illegal drug transactions.

Agreements and Treaties. Due to its unique status as a UN-administered entity Kosovo is not a party to the 1988 UN Drug Convention or any other international conventions or protocols. The United Nation Administration in Kosovo concluded that it could neither bind Kosovo to any new agreement nor apply the treaties and agreements to which Serbia was a party. If the international legal status of Kosovo changes such change may allow Kosovo to enter into binding international

agreements. Kosovo's existing constitutional framework calls on it to respect the principles of UN conventions.

Kosovo is unable to enter into most binding bilateral or multilateral agreements, but it participated in a UN Office on Drugs and Crime (UNODC) meeting in Vienna as an observer in 2007, and it cooperates and exchanges information with countries in the region through informal bilateral and multilateral meetings. For example, KPS counternarcotics officials met with their Albanian counterparts in March and their Macedonian counterparts in August, and they plan to meet with Montenegrin counternarcotics officials as soon as practicable.

Drug Flow/Transit. Kosovo is a transit point for heroin from Afghanistan, most of which is destined for Western European countries, including Switzerland, Germany, the United Kingdom, Italy, Norway and Sweden. Kosovars regularly travel to these countries to visit relatives living in them, and UNMIK and KPS officials believe much of the drug trade is managed through family/clan networks. Most drugs illegally enter Kosovo overland from neighboring countries. Officials believe one major route is from Turkey, through Bulgaria and Macedonia, and another is also from Turkey, but through Bulgaria and Serbia. There are reports of collaborative arrangements between Kosovo Serb and Kosovo Albanian criminal groups for drug trafficking, and UNMIK Police believes there is a connection between drug trafficking and human trafficking. Anecdotal evidence suggests the drugs are broken down into smaller quantities in Kosovo before heading to Western Europe. UNMIK officials report a lot of small movements of narcotics, such as two to five kg on one person or 10 to 20 kg in a bag on a bus. The major transit points are Gjilan, Prizren and Mitrovica. As of October, the highest number of seizures was in Pristina (58) and the lowest number was in Ferizaj (17).

Domestic Programs. Kosovo lacks an overall policy for dealing with existing and potential narcotics-related problems, but the PISG is increasingly aware of the dangers of narcotics. The Ministries of Health and Education run some domestic prevention programs, and community police officers visit schools throughout Kosovo to educate students about the risks associated with drug use. Non-governmental organizations assist with some of these efforts.

There are no reliable estimates for the number of drug addicts in Kosovo. Drug treatment is provided by the Pristina University Hospital Psychiatry Department, but only one doctor and one nurse are devoted to treating drug addicts. They offer detoxification programs for motivated patients, but they report disappointing results due to the fact that many of the addicts are poor and unemployed so recidivism is high at the end of the program. There are no other structured drug treatment programs. Methadone is not prescribed because the law does not authorize its use. Some addicts receive anti-anxiety medication or anti-depressants to relieve withdrawal symptoms, while the most severe, agitated patients receive anti-psychotics. The Pristina University Hospital Psychiatry Department says that, on average, three to four people are in in-patient treatment at any given time, and the overwhelming majority of them are heroin addicts. The number of addicts receiving out-patient treatment is reportedly much higher, but the hospital declines to give a figure. Other regional medical centers' psychiatry wards reportedly do what they can to assist drug addicts, but they do not devote staff to their treatment.

The Pristina University Hospital Psychiatry Department notes that the number of patients is increasing and it sees an urgent need for a genuine drug treatment program, which has more and better trained staff, offers individual and group therapy, and is separate from the psychiatric ward. It also wants to expand its services to include a "maintenance program" based on a Swiss model. It would medically administer narcotics to addicts who do not want to undergo a detoxification program in order to reduce the legal and social costs to the state that come from the addict committing crimes to finance his or her habit. In October, the Pristina University Hospital Psychiatry Department presented a strategic plan for 2008 to 2013, including these goals, to the

Ministry of Health; it is pending approval. Hospital officials consider construction of a separate drug treatment facility a priority because they believe only the most severe cases ever reach them due to a dual stigma of patients being labeled drug addicts and erroneously viewed as mentally ill after seeking treatment in the psychiatric ward.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Kosovo cooperates with the United States on counternarcotics issues to the extent possible, but Kosovo's unique political status hampers bilateral cooperation. Kosovo cannot legally enter into most bilateral, multilateral or international agreements, including extradition treaties, until its final status is resolved.

In 2007, the U.S. Department of Justice conducted extensive training for prosecutors in the new Kosovo Special Prosecutors Office (KSPO), which handles narcotics trafficking and other sensitive crimes. Projects included translating a U.S. Drug Enforcement Administration (DEA) recognition manual on drugs and drug precursors and bringing an American drug task force prosecutor to Pristina to give the KSPO and KPS a two-hour presentation on narcotics prosecutions and informant handling. In past years, the United States Government has also provided technical assistance and equipment donations that directly or indirectly support counternarcotics work in Kosovo. The United States Government also funds and contributes the largest contingent of police officers (over 200) in the UN Mission in Kosovo, including monitors and mentors of KPS officers working on counternarcotics efforts.

The Road Ahead. Kosovo's final status is currently under negotiation, and the United States will continue to provide rule of law assistance to Kosovo for the foreseeable future. The EU is planning a rule of law mission under the auspices of the European Security and Defense Policy (ESDP). The U.S. is coordinating its rule of law assistance goals and priorities for Kosovo with the EU, and will continue to provide training, technical assistance and equipment, which directly or indirectly supports counternarcotics work, to the KPS and Kosovo's criminal justice sector. The U.S. will also continue to contribute police officers to the civilian police mission in Kosovo, including some with special counternarcotics skills.

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. Slovak Police reported no significant changes in the field of narcotics control or use in 2007. All forms of narcotics remain available in Slovakia and interest in synthetic drugs, particularly in pervitin, an Eastern European slang name for locally made methamphetamine, continues to rise. 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, as well as in the trade of precursors including ephedrine and pharmaceuticals from which ephedrine can be extracted. Slovak police attribute the rising interest in synthetic drugs to their low price, accessibility and the greater effect they provide in comparison to more traditional stimulants such as cocaine. Cannabis is the most commonly abused narcotic in Slovakia. Local cannabis production is on the increase, especially hydroponically grown cannabis with sharply increased THC content. Police believe consumer interest in hydroponically grown cannabis, attributable to increasing experience with higher-THC varieties imported from Western Europe, has driven growth in this sector. Marijuana cultivation in Slovakia remains predominantly the preserve of local criminals who serve the local market. Officials believe the market for heroin and cocaine is saturated, and prices for these drugs are decreasing. Heroin is mostly imported from Balkan countries by organized groups of ethnic-Albanian criminals, working in concert with ethnic-Turkish groups that transport the narcotics from the place of production. The same ethnic-Albanian groups largely control the trade in cocaine, which is of South American origin. Police suspect increasing imports of cocaine which transits Africa on its way to Europe are reaching the Slovak market. For all drugs, regional differentiation in consumption continues to diminish. Narcotics use is spread over the whole territory of the Slovak Republic.

III. Country Actions Against Drugs During 2007

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, the Slovak Republic Government Office issued an instruction setting out the activities of regional authorities in the field of narcotics, and unifying procedures 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 up to three doses of any narcotic substance, and up to five years for possession of 4-10 doses. Possession of more than 10 doses is considered possession for other than personal consumption and is punishable by 10-15 years imprisonment.

Law Enforcement Efforts. The National Anti-Narcotics Unit of the Police Presidium employs 30 people to cover the Bratislava (capital) region. Responsibility for anti-narcotics programs outside the capital belongs to the Office for the Fight Against Organized Crime, which includes three distinct offices for Western, Central and Eastern Slovakia. The National Anti-Narcotics Unit includes three sections: the Street-sales Section, the Section for Major Cases (including all trans-

national cases) and the Joint Police-Customs Section. In 2006, 1,952 drug-related criminal cases were brought to court in Slovakia, an increase of almost 20 percent over 2005. In 2006, the Police seized: 2.4kg of heroin, 81.63 kg of marijuana (herb), 614.48 kg of marijuana (wet), 961.83 grams of cocaine, and 8,477 tablets of pervitin.

Corruption. As Slovakia has received more investments from abroad and the post-Socialist rule of law has matured, incidences of corruption have fallen. Nevertheless, corruption remains a concern in both the public and private spheres. As a matter of policy and by all accounts in practice, 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, and the 1971 UN Convention on Psychotropic Substances. Slovakia is also a party to the UN Convention against Transnational Organized Crime and its three protocols and the UN Convention against Corruption. A 1925 Extradition Treaty, as supplemented in 1935, remains in force between Slovakia and the United States. The U.S. and Slovak representatives signed supplements to the EU-U.S. Extradition Treaty in 2006.

Cultivation/Production. Marijuana is the most commonly cultivated illicit drug in Slovakia due to strong demand and a suitable climate. Hydroponic (laboratory) cultivation of marijuana has become more popular recently in response to consumer demand for a product with a higher THC content. The majority of marijuana is grown in family homes or rented agricultural buildings. The continuing increase in marijuana use is attributed to ease of access, low prices, and the persistent belief that it is not a harmful narcotic. The number of small semi-portable drug laboratories used to produce pervitin and other synthetic drugs continues to rise. Police believe that Slovakia's domestic market for synthetic drugs is served exclusively by domestic production, which benefits from low costs of inputs and relative ease of production. The greatest challenge in pervitin production is acquiring the precursor ephedrine. Police have discovered cooperative arrangements among organized groups of criminals that import pervitin precursors when supplies are scarce and re-export ephedrine, synthesized from medicines from Slovakia when supplies are readily available.

Drug Flow/Transit. Foreign criminal groups with local contacts, especially ethnic-Albanian and Turkish groups, are thought to be responsible for most transshipments. Drugs, including heroin from Central Asia, 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 ethnic 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.

Domestic Programs (Demand Reduction). The National Program for the Fight against Drugs (NPF) 2004-2008 is primarily directed at activities to reduce 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. Since 2006, these centers have included programs that focus on preventing social pathologies related to drug use, training courses for peer activists, teacher training, and methodological assistance to school psychologists and educational counselors.

2006 saw a decrease in the number of drug users in treatment in Slovakia. 1,927 drug users including 13 foreigners were treated in 2006; this figure includes patients treated in general medical facilities. These were mostly users of heroin, pervitin, and marijuana.

A study conducted by the National Monitoring Center for Drugs estimates the number of problem drug users, defined as users of injected drugs, and long-term regular opiate and/or pervitin users, at between 18,900 and 34,500 (approximately 4.89 per 1000 inhabitants). Experience with pervitin use remains relatively limited although trends are upward in comparison with earlier surveys. The lifetime prevalence of pervitin use in Slovakia's population increased from 0.6 percent (2002) to 1.5 percent (2004) and decreased in 2006 (1.2 percent). In 2006, the most commonly sought treatment was for opiates (42 percent), followed by pervitin (22.6 percent). Among patients seeking treatment for the first-time, however, stimulants (pervitin) were the most common concern, followed by opiates.

From 2000 to 2006, lifetime prevalence of marijuana use in Slovakia's population (15-64 years) increased from 11.7 percent to 16.1 percent. Cocaine is used only rarely in Slovakia and is believed to be used recreationally by a small group of people. In 2006, 20 cocaine users were in treatment. In 2006, treatment was provided by 6 specialized treatment centers for drug dependency, 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 18 accredited social reintegration centers. The National Monitoring Centre for Drugs is concerned by insufficient coverage of needle and syringe exchange programs. In 2006, such services were provided by 7 organizations in 10 cities. The challenge is to maintain the long-term sustainability of these programs in the face of financial instability, shortage of personnel, and lack of client interest. A substitution treatment register still does not exist in Slovakia. From 1997 to 2005, methadone maintenance was available only in the capital, Bratislava. In 2006, three new substitution programs were created, two methadone maintenance programs in Bratislava and Banska Bystrica (Central Slovakia) and one buprenorphine (Subutex) program in Kosice (Eastern Slovakia).

IV. U.S. Policy Initiatives and Programs Policy Initiatives

Bilateral Cooperation. The Regional DEA Office in Vienna shares information with the Slovak Police Presidium on operational issues of mutual interest, and has offered training for Slovak counterparts in the past.

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 preparation for full Schengen membership, which it achieved on December 21, 2007, resulted in a continued intensive focus on border controls in 2007. 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. Cannabis was the leading confiscated drug in 2007, replacing heroin at the top spot. 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. Data on national programs to prevent drug use and reduce demand are unavailable due to an ongoing effort at the Ministry of Health to overhaul its statistical databases.

III. Country Actions Against Drugs in 2007

Policy Initiatives/Accomplishments. The reduction of the supply of illicit drugs is one of the national police priorities in Slovenia. In order to ensure an efficient fight against drug trafficking, Slovenia is implementing its own national program against drugs to supplement the 2005-2008 EU strategy and action plan. Slovenia is tackling illicit drugs and related criminal offenses by conducting appropriate criminal police operations that include cooperation and information exchange at the national level as well as at the regional and international levels. Slovenia takes part in all relevant international and European fora that aim to combat organized crime groups that are involved in illicit drugs.

Law Enforcement Efforts. Law enforcement agencies seized 783 tablets of Ecstasy in the first 10 months of 2007 compared with 2,523 in the first 11 months of 2006. In 2007 authorities seized slightly less than 59 kg of heroin, compared to slightly less than 134 kg of heroin seized in 2006. In addition, police netted a little more than 118 kg of marijuana in 2007, compared to just over 45 kg of marijuana in 2006. Police also seized 8,254 cannabis plants in the first ten months of 2007, compared to 1,516 cannabis plants seized in 2006. Through mid-October police seized over 4 kg of cocaine, roughly the same amount police seized in the same period in 2006. Police also seized approximately 0.75 kg of amphetamines and slightly more than 1,000 individual tablets of amphetamines in the first 10 months of 2007.

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. There is no indication that senior officials have encouraged or facilitated the production or distribution of illicit drugs. Corruption among police officials is very uncommon.

Agreements and Treaties. Slovenia 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 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. In addition, Slovenia’s preparation to become a full member of the Schengen agreement on the free movement of people, which it realized on December 21, 2007—in order to enable its citizens to travel freely to most neighboring countries and elsewhere in the European Union without border checks—resulted in a continued intensive focus on border controls in 2007.

Domestic Programs. Slovenians enjoy national health care provided by the government. These programs include drug treatment. The Ministry of Health is in the process of upgrading its databases and altering its methodology for tracking drug abuse and treatment, so no statistics for 2007 are currently available.

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 2008.

Spain

I. Summary

While Spain remains a major transshipment and consumption area for cocaine imported into Europe from South and Central America, Spanish National Police, Civil Guard, and Customs Services, along with autonomous regional police forces, maintained an intense operational tempo during 2007 and as of early November were on track to seize near-record amounts of cocaine. These services also 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 3 percent of its population consuming it on a regular basis (20 percent of all European consumers live in Spain), and over 50 percent of new patients admitted to Spanish drug treatment/rehabilitation centers during the year were cocaine addicts.

Spain is also the number one consumer of designer drugs and hashish among EU nations. 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. During a series of visits in 2007 from high-level USG officials, Spain and the U.S. discussed ways Spain could engage more robustly in Latin America, both on an operational level and on the capacity development side. In May, Spain hosted the 25th-annual International Drug Enforcement Conference (IDEC)—the first time this DEA-Sponsored event has been held outside of the Western Hemisphere—and Spanish officials highlighted during the conference our outstanding bilateral cooperation in the fight against narcotics. Spain is a party to the 1988 UN Drug Convention.

II. Status of Country

Spain remains the principal entry, transshipment, and consumption zone for the large quantities of South American cocaine and Moroccan cannabis destined for European consumer markets, and is also a major source and transit location for drug proceeds returning to South and Central America. Colombia appears to be Spain's largest supplier of cocaine from Latin America, although information available suggests an increase in shipments of illicit cocaine from Bolivia. Bolivian cocaine is transshipped through Venezuela 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. Maritime smuggling of hashish across the Mediterranean Sea is a very large-scale business. Spanish police continued to seize multi-ton loads 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 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 destroyed each year. MDMA-Ecstasy labs are rare and unnecessary in Spain as MDMA labs in the Netherlands prefer shipping the final product to Spain. However, the Ecstasy trafficking trend has been to use cities in Spain as transshipment points for small shipments to the U.S. to foil U.S. Customs inspectors who are wary of packages mailed to the U.S. from Belgium or the Netherlands.

Spain's pharmaceutical industry produces precursor chemicals; however, most precursors used in Spain to manufacture illegal drugs are imported from China. 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).

III. Country Actions Against Drugs in 2007

Policy Initiatives. Spain's policy on drugs is directed by Spain's National Drug Plan, which currently 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 2007, the Ministry of Health released a report claiming that consumption of cannabis and cocaine among Spaniards between the ages of 14 and 18 had gone down for the first time since 1994. 29.8 percent of those surveyed admit to having sampled cannabis in the last 12 months (36.6 percent in 2004) and 2.3 percent admit to regular cocaine use (3.8 percent in 2004). Overall, 3 percent of the Spanish population regularly consumes cocaine. Spain is a UNODC Major Donor and a member of the Dublin Group, a group of countries that coordinates the provision of counternarcotics assistance.

Law Enforcement Efforts. The Spanish law enforcement agencies responsible for narcotics control are the Spanish National Police and the Civil Guard, both of which fall under the domain of law enforcement and civil security matters within the Ministry of Interior. The Spanish Customs Service, under the Ministry of the Treasury, also carries a mandate to enforce counternarcotics legislation at Spain's borders and in Spanish waters. Spanish officials at the Ministry of Interior report that drug enforcement agencies had seized 22 MT of cocaine as of the end of September 2007.

Many of the more significant seizures and arrests this past year were a direct result of the excellent cooperation between the U.S. DEA Madrid Country Office and Spanish authorities. For example, in June, Spanish police seized a ship headed to Galicia that was transporting 4,000 kg of cocaine, arresting six crew members and six other individuals involved with the trafficking network in Spain. The operation was the result of an initial report by DEA offices in Mexico and Madrid. Large-scale cocaine importation in Spain is principally controlled by Colombian drug traffickers, though Galician organizations also play an important role in the trafficking of cocaine into and within the country. 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. Spanish Civil Guard 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 two large hashish seizures in August, when the Civil Guard seized 5,549 kg and arrested nine people in Gerona and Seville, and in October, authorities intercepted 4,600 kg and arrested 19 people in southwest Spain. It is believed that the hashish originated in North Africa and was transported by a large vessel.

Spanish law enforcement officials have detected a worrying rise in the amount of heroin trafficked through the country in the past couple of years, even though actual seizures were down in 2007. Heroin smuggled into Spain originates principally in Afghanistan and passes to Spain by way of Turkey; it is usually smuggled into Spain by commercial truck or private vehicle through the Balkan Route or from Germany or Holland.

Seizures:	2001	2002	2003	2004	2005	2006	2007 (Tentative)
Heroin (kg)	631	275	242	271	174	454	197
Cocaine(MT)	34	18	49	33	48	47	34
Hashish (MT)	514	564	727	794	670	451	571
Ecstasy (pills x 1000)	860	1,400	772	797	573	408	482

Corruption. Spain’s Organized Crime Intelligence Center (CICO) coordinates counternarcotics operations among various government agencies, including the Spanish Civil Guard, National Police, and Customs Service. Under their guidance, law enforcement cooperation appears to function well. Spain does not encourage nor 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. A prominent example of this occurred in mid-October when the “Jefe de Estupefacientes” (Chief of Narcotics) of the Mostoles Police Station near Madrid was arrested and accused of 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 Corruption and the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. A 1970 extradition treaty and its three supplements govern extradition between the U.S. and Spain. The U.S.-Spain Mutual Legal Assistance Treaty has been in force since 1993, and the two countries have also signed a Customs Mutual Assistance Agreement.

Cultivation/Production. Coca leaf is not cultivated in Spain. However, there has been concern in recent years that clandestine laboratories in Spain and some West African countries have been established for the conversion of cocaine base to cocaine hydrochloride. Some cannabis is grown in country, but the seizures and investigations by Spanish authorities indicate the production is minimal. Opium poppy is cultivated licitly under strictly regulated conditions for research, and the total amount is insignificant. 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 the former “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 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. While not a significant producer of MDMA/Ecstasy, minor production of the drug has been reported in Spain.

Drug Flow/Transit. Spain is the major gateway to Europe for cocaine coming from Colombia, Bolivia, Peru, and Ecuador. Traffickers exploit Spain’s close historic and linguistic ties with Latin America and its wide, unprotected coastlines to transport drugs for consumption in Spain or distribution to other parts of Europe. DEA information suggests a developing trend for Colombian cocaine to be sent first to Africa and then smuggled northward into Spain. Spanish police report that the country’s two principal international airports, Madrid’s Barajas and Barcelona’s El Prat,

play expanding roles as 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. This year has seen an increase in the amount of cocaine entering Spain via commercial flights from Venezuela. 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 Melilla 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, mainly African hash, 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, the government 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 contributes over 4 million Euros to assist private, nongovernmental 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. Through a series of visits this year from high-level USG officials, such as the Commanders of both SOUTHCOM and JIATF-S and the INL Acting A/S, Spain and the U.S have agreed to engage more robustly in Latin America, both operationally and on the capacity development side, to help stem the flow of narcotics coming to the Iberian Peninsula. In that regard, Spain has seconded a Liaison Officer to the JIATF South staff. In 2007, DEA coordinated with the Spanish government to host the annual IDEC conference in Madrid. This was the first time IDEC was held in Europe. DEA Administrator Tandy participated in the 2007 IDEC conference in Madrid and built on a successful visit she conducted to Spain in September 2006. During a joint press conference with the DEA Administrator, the Spanish Minister of Interior highlighted our close bilateral cooperation in the area of counternarcotics. DEA continues to work very closely with its Spanish law enforcement counterparts, which has resulted in numerous successful joint investigations. DEA has also conducted training courses in undercover operations and financial investigations for its Spanish counterparts, which were very well received by the Spaniards. Spanish government officials routinely tell us that Mexico is a strategic priority and we believe there are areas for joint cooperation in that country. The U.S. urges Spain to become a leader among EU member states in the fight against narcotics and the opening of the Maritime Analysis and Operations Center-Narcotics (MAOC-N) in Lisbon should bolster EU capacity to protect its southwestern flank.

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 seeks to maintain momentum from its successful hosting of the IDEC. The U.S. and Spain are natural partners in Latin America, and are intent on developing a partnership there for the benefit of Latin America as well as Spain and the U.S.

Sweden

I. Summary

Sweden is not a significant illicit drug producing, trafficking or transit country. The fight against illegal drugs is an important government priority and enjoys strong public support. There are an estimated 26,000 illegal drug addicts in Sweden, out of a total population of 9 million. The overall quantities of narcotics seized in 2007 did not change significantly from 2006. Amphetamine and cannabis remain the most popular illegal drugs. Cocaine and anabolic steroid usage, the quantity of Internet ordered narcotics, and the estimated size of the cannabis market all increased in 2007. To combat these trends, Swedish law enforcement and customs entities have been active in various domestic and international counternarcotics projects, including with the Drug Enforcement Administration (DEA) and Federal Bureau of Investigation (FBI).

The majority of narcotics in Sweden is smuggled via other EU countries, West Africa, and the Balkans. In 2007, authorities made the largest single khat seizure in Swedish history; khat use remains restricted to Somali, Ethiopian and Yemeni immigrant communities. Limited residential cultivation of cannabis is known to occur and a limited number of small kitchen labs for the production of methamphetamine and anabolic steroids exist. Sweden is not believed to have any industrial-scale narcotics laboratories and residentially produced narcotics are mainly for personal use. 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, 10 percent of the adult population (15-75 years old) has tried drugs, and the number of drug users is twice as high among men as women. Consistent with 2006 levels, Sweden has approximately 26,000 serious drug addicts (i.e. regular intravenous use and/or daily need for narcotics). Some 25 percent of the serious drug users are women, and since 2004 the number of young women abusing anabolic steroids has steadily increased.

Police and government officials state that the annual number of deaths related to drugs is difficult to estimate but place the figure at approximately 200, which represents an approximate 20 percent decrease from 2006. Authorities attribute the drop in the death rate to the increased use of subutex, a medicine used for maintenance of heroin addicts during detoxification and treatment.

The government-sponsored Organization for Information on Drugs and Alcohol (CAN) reports that the overall number of young people who have used drugs is comparable to last year's levels. The percentage of high school students (aged 15-16 years old) who claim to have been offered drugs increased from 19 percent in 2006 to 20 percent in 2007. High school-aged boys who claim to have tried drugs decreased one percentage point to six percent; the corresponding statistic for high school-aged girls remained at five 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 regional differences in drug use. The use of narcotics is predominately concentrated in urban areas, while narcotics use in rural areas is low but growing. The police have observed a countrywide increase in the use of cocaine and especially in medium-sized cities such as Orebro and Vasteras. Previously considered a "luxury" drug, and mainly used in fashionable bars and restaurants, cocaine has become more common due to a significant drop in price. A few years ago, one gram of cocaine cost \$200; today the street price is \$80. The shift from heroin to cocaine

among some addicts is attributed to this price decrease. The cocaine market in Sweden has long been dominated by South American narcotics and smugglers; however, the increased activity of other criminal groups in the cocaine trade, including Balkan networks, has led to greater competition and the overall price decrease. Law enforcement entities have noted also that West African networks once heavily involved with heroin smuggling are now cooperating with South American smugglers in the cocaine trade.

Cannabis is one of the most commonly used narcotics in Sweden. A recent investigation uncovered approximately 140 cannabis smuggling networks and police have increased their estimate of the amount of cannabis in the country at any given time to 25 tons.

National Drug Policy Coordinator, Björn Fries, has stated that the use of khat is an insufficiently acknowledged drug problem in Sweden. Khat, which is a leaf and is chewed, is often smuggled into the country embedded in fruit and vegetable packages; its use is predominantly restricted to immigrant communities from Somalia, Ethiopia and Yemen.

According to customs reports, there has been an increase in the ordering of illicit drugs over the Internet. Cannabis is the drug most commonly Internet-ordered drug. Other Internet-ordered drugs confiscated by customs include Ecstasy, heroin, steroids and illegal pharmaceuticals such as Tramadol. Most packages originate in Spain, the Netherlands, South America and the Baltic region. Combating the Internet narcotics trade is a counternarcotics priority and Swedish law enforcement is coordinating closely with Interpol and Europol to develop methods to prevent teenagers from purchasing drugs online.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In April 2006, the parliament approved a National Action Plan on Narcotic Drugs, which runs through 2010. Demand reduction and restriction of supply figure prominently in the plan, and the plan includes provisions to increase treatment for detainees with drug addictions. Four ministries share the primary responsibility for drug policy: the Ministry of Health and Social Affairs, the Ministry of Justice, the Ministry of Finance and the Ministry for Foreign Affairs. Together, officials from these ministries form an independent working group called The Government's Coordination Body in Drug Related Issues (SAMNARK), which coordinates the implementation of the Action Plan.

In September 2006, the government established an investigative commission to review current narcotics legislation and to make recommendations on how to strengthen it. The commission is also considering proposals for harsher penalties for dope-related crimes and expects to release its results in late 2008. The government has a National Drug Policy Coordinator in charge of implementing the National Action Plan and coordinating national policy. In 2007, the Mobilization Against Drugs (MOB) Task Force was granted \$5 million to combat social drug usage at restaurants, investigate Internet narcotic sales and improve rehabilitation services. However, the MOB and the position of National Drug Policy Coordinator will be terminated in 2008, and the government is currently making plans to create a new organization for counternarcotics coordination. The new organization will consist of two ministerial staff members that will coordinate government counternarcotics activity and a council consisting of researchers and relevant authorities. The National Board of Health and Welfare and the Swedish National Institute of Public Health will be responsible for implementing the organization's action plans.

In February, The National Board of Health and Welfare developed national guidelines and recommendations to standardize municipal level treatment and improve overall rehabilitation services on the local level. However, in September, the Board published a report stating that some Swedish counties do not offer heroin addicts a sufficient level of treatment and lack clear treatment and rehabilitation guidelines. In April, the government allocated \$30 million to municipal drug

preventive measures, concentrating on welfare programs for children of drug abusers and school information campaigns.

Since 2004, Sweden's National Cannabis Project has focused on combating the organized criminal aspect of the cannabis trade. The project will end in January 2008 and will be replaced by an action group based in Malmo. In 2007, the MOB financed a \$120,000, one-year project coordinating police, customs and prosecutor activity targeting cocaine smuggling from South America and West Africa. Sweden also participates in a Denmark led project targeting West African cocaine and heroin networks.

Continued cooperation with Baltic countries, where significant drug trafficking routes exist, constitutes an ongoing and important element in Sweden's counternarcotics efforts. Sweden cooperates in country specific customs and law enforcement coordination projects with Lithuania and Poland and, until December 2007, with Estonia. In 2007, Sweden participated in the Baltic Sea Task Force, combating illegal labs and chemical precursors in Estonia, Latvia, Lithuania and Poland. As part of this task force, police authorities met monthly to discuss methods of moving forward on counternarcotics projects.

Fighting drugs remains a high priority area for Sweden's official development assistance. The Swedish International Development Authority (SIDA) allocated approximately \$150,000 in 2007 for multilateral and bilateral UN normative instrument projects against drugs and tobacco.

Law Enforcement Efforts. During the year authorities did not uncover any major drug processing labs. Police reported 52,915 narcotics-related crimes from January to September 2007 period. This represents a seven percent increase compared to the corresponding period of 2006. 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.

In September, Swedish police conducted a raid called "Raw Deal" against illegal trade of steroids on the Internet. The raid was coordinated with similar police raids in Germany, Canada, Mexico and the U.S. During the raid, police seized steroids, cannabis, heroin and amphetamine. The operation is considered to be the most extensive Internet drug operation to date, and the operation is on-going.

In February, police seized a record breaking 31.1 kg shipment of khat. In response, the Prosecutors Office has begun investigating usage trends and the possibility of lowering the legal 400 kg quantity needed to constitute an aggravated drug offense.

In the last seven years, steroid use has increased 30 percent. Together with the Doping Call Center, police have started investigating the growing trend of steroid users taking other narcotics and prescription pharmaceuticals to counteract the negative side effects of steroid use. The majority of steroid users who mix with other drugs are between 18-25 years old and authorities suspect that steroids may be acting as a gateway drug. The investigation is on-going.

Narcotic seizure reporting mechanisms changed between 2006 and 2007. Law enforcement authorities believe the transition process likely resulted in incomplete reporting in 2007 but noted they believe seizures and overall drug smuggling levels were roughly on a par with 2006.

Amounts seized per substance per year in kilograms:

(January-September)	2007	2006	2005
Cannabis	848	419	774
Amphetamine	227.6	243	326

Heroin	13.5	73	13
Cocaine	15.7	25	17
Khat	5,000	4,400	4,227
Ecstasy (number of pills)	102,111	95,334	83,818

Number of drug seizures by Swedish Authorities:

(January-September)	2007	2006	2005
Cannabis	4,822	4,632	4,769
Amphetamine	4,154	4,294	4,323
Heroin	477	499	534
Cocaine	412	528	320
Ecstasy	120	160	268
Khat	146	234	210

Corruption. As a matter of policy, the Swedish government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the proceeds from illegal drug transactions. Similarly, no senior government official is alleged to have participated in such activities. The Swedish government actively discourages and combats the production and distribution of narcotics and no senior officials are known to encourage or facilitate the narcotics trade. 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 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 and the UN Convention against Corruption.

Cultivation/Production. No major illicit drug cultivation/production was detected during the year. During the first six months of 2007, the police uncovered 33 illegal cannabis cultivation sites in Stockholm, Gothenburg, Uppsala and Halmstad. The cultivators were mostly young males, 20 to 30 years old and using instructions found on the Internet. Ten small steroid labs were shut down in 2007. Sweden is not believed to have any industrial-scale narcotics laboratories and residentially-produced narcotics are mainly for personal use. 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. The effectiveness of customs at Stockholm's Arlanda airport is believed to have resulted in an upward trend of smuggling by truck and ferry. An estimated 70 percent of all seizures are made in the southern part of Sweden. Most of the seized amphetamine originates in Poland, the Netherlands, and Baltic countries. Seized Ecstasy comes mainly from the Netherlands; cannabis from Morocco and

southern Europe; and khat from the Horn of Africa via Amsterdam and London. Cocaine often comes through Spain and the Baltic region or directly from South America in freight containers. The route for heroin is more difficult to establish, but according to police information, a West African network has established a route to Sweden via Portugal and Spain. West African smugglers are also more likely to carry heroin and cocaine into Sweden in suitcases or in their personal property. Scandinavian countries have joined efforts in an attempt to combat these networks. In 2007, law enforcement did not seize 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. In April, the government allocated \$30 million to municipal drug preventive measures, concentrating on welfare programs for children of drug abusers and school information campaigns. Several NGOs are involved in drug abuse prevention and public information programs to counter drug abuse.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Swedish cooperation with U.S. law enforcement authorities continues to be excellent. In the last year, U.S.-Swedish cooperation to combat the sale of steroids over the Internet resulted in 12 arrests and the seizure of steroids, cannabis, heroin and amphetamine.

The Road Ahead. The U.S. will continue to pursue enhanced cooperation with Sweden and the EU.

Switzerland

I. Summary

Switzerland is 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 2006 (NB: Throughout this report, the latest official statistics available are for 2006) total reported drug arrests reached 47,001, down 5 percent from the 49,450 cases recorded last year. Drug arrests peaked at just over 50,000 in 2004. Cocaine seizures increased significantly 25 percent to 354 kg (2005: +44 percent; 2004: +91 percent) and Ecstasy seizures increased 7.1 percent to 216,000 pills (2005: +75 percent; 2004: +480 percent). Seizures in 2007 by cantonal police were another record, but the pace of increase in seizures of both cocaine and Ecstasy seem to be slowing down, perhaps indicating a plateau in abuse of these two stimulants. Many drug smugglers belong to Swiss-based foreign criminal networks from Africa and the Balkans. 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. A 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 105,994 signatures and formally registered its referendum at the Federal Chancellery on January 13, 2006. In December, the federal government expressed its opposition to the project but said the initiative would be put to referendum in 2009-2010. A zero tolerance law against driving while under the influence of 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 Swiss residents 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 reported arrests for Ecstasy consumption decreased by 11 percent in 2006, the use of other drugs increased compared to 2005. Cannabis, cocaine, and heroin still remain popular among drug addicts. Swiss statistics show that cocaine consumption among youngsters 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 trafficking-related arrests almost doubled from 97 to 182 cases, but deaths due to drug consumption (overdoses) decreased from 211 to 193. The Swiss Federal Police published a report on narcotics activities in 2005. It is available at: www.fedpol.admin.ch/fedpol/de/home/dokumentation/statistiken.html

III. Country Actions Against Drugs in 2007

Policy Initiatives. Since January 1, 2002, jurisdiction for all cases involving organized crime, money laundering, and international drug trafficking shifted from the cantons to the federal prosecutor's office in Bern. According to the federal prosecutor's office, the number of investigative magistrates increased to 25 in 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 into society of drug addicts. A pilot project for the distribution of cocaine under prescription is underway, but it is not being supported for the time being by the Swiss Federal Office of Public Health in Bern. However, the Swiss government is backing other pilot projects in Bern and Basel aimed at distributing Ritalin, a substitute for narcotic drugs. The City of Zurich has also offered, over the last five years, the possibility for youngsters to test their drugs outside nightclubs. In September 2006, the city decided to open an office, open daily, which should provide the same services and is sponsored by the Swiss Federal Office of Public Health and the city budget. Swiss and German authorities continue to cooperate under a bilateral police agreement signed on June 22, 2004, aimed at increasing bilateral cooperation at border checkpoints. The main goal of the agreement is to facilitate police cooperation to more effectively deal 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 per year.

Law Enforcement Efforts. According to the Swiss Federal Police, there are three types of organized criminal groups 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 (difficult) and schools (possible). 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 (NB: cantonal police are responsible for deportations, not the Federal Office of Migration). 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, to the Dominican Republic. The "mules" generally originate from Africa, Brazil, the Dominican Republic or Europe. To give a sense of drug abuse developments in Switzerland, some important drug-related enforcement operations are described below:

- In November 2006, the Vaud police dismantled a cocaine network involving twelve Nigerians, and seized SFr. 140,000 and 800 grams of cocaine. The

investigation started a few months prior to the arrest when other Nigerians were arrested in Nyon and Yverdon with 1.1 kg of cocaine and SFr. 46,000. Later, the police dismantled the entire regional network and arrested 12 dealers and wholesalers. Three other African dealers holding “B” resident permits were also arrested, with 45 grams of cocaine and SFr. 95,000. Finally, a drug smuggler from Romania was arrested in Yverdon with 700 grams of cocaine in his stomach. He was to deliver it to a Nigerian drug dealer, who was also arrested with SFr. 18,000.

- In November 2006, a ship container containing 57 kg of cocaine was discovered in Basel. The cocaine was hidden on a ship loaded with coffee that originated from Anvers, Belgium, and had reached Basel over the Rhine River. It appears that the drug was imported from Columbia and was originally destined for Holland and ended up in Basel by mistake. Its market value is estimated at SFr. 5 million.
- In November 2006, the Basel-Am-Rhein border post arrested three Serb/Bosnian women aged 33-46. They were traveling in a German car and carried stolen driving licenses. Border guards discovered 16 kg of cocaine worth SFr. 1.3 million in their car, their biggest seizure of the year.
- In December 2006, the Zurich police arrested 20 people involved in a large-scale Ecstasy trafficking network operating from Switzerland to the United States.
- In December 2006, a Vaud cantonal judge determined that the cantonal revenue service could keep SFr. 3.34 million found during a Swiss-U.S. anti-narcotic operation. The funds were discovered in a Swiss bank account in Lausanne and belonged to Columbian narco-traffickers. These revenues will be used to finance anti-narcotic operations and drug prevention training. The Vaud counternarcotics taskforce code-named STRADA increased the number of drug related arrests significantly.
- In March, the Lausanne police in canton Vaud dismantled a Brazilian cocaine ring and seized 5 kg of cocaine, worth SFr. 1.2 million. The main perpetrators purchased the drug in Brazil where it is sold at SFr. 6 per gram, and trafficked it using false-bottom suitcases. While 16 people were involved in the ring, seven remain in custody for drug smuggling and other criminal offences. In 2006, the Lausanne police seized 6.3 kg of cocaine, while Vaud police seized 4.8 kg for the entire canton.
- In March, the Geneva police seized 220 kg of Khat at the Mategnin border post, the largest quantity ever. A car with Vaud license plate was about to enter Switzerland from France, but turned back when it spotted the police. The car was later stopped at another checkpoint. The Somali driver and his accomplice had taken some of the Khat themselves to fortify them for the long drive from Holland. The defendant is a well know drug trafficker. The Khat was originally imported from Africa. Cross-border arrests are easy on the Swiss/French border since Switzerland and France signed a hot pursuit agreement which enables police of both countries to pursue and arrest across the border. The Somali driver was convicted and served a 60 day sentence.
- Last year Swiss customs intercepted 193 kg of cocaine and 59 kg of heroin at the country's borders. Also uncovered were 95 kg of cannabis and around 50,000 doses of drugs such as Ecstasy and LSD. Swiss officials believe Europe is

currently awash with trafficked cocaine, smuggled in by highly professional gangs from traditional regions such as South America and the Caribbean, but more and more from West African countries. International anti-smuggling operations have already been carried out, with large amounts of illegal substances being confiscated at Airports. Swiss police and customs often face sophisticated smugglers who conceal drugs in double suitcases or conceal the drugs presence via electronic equipment.

- In July, the Ticino police dismantled a cocaine network and arrested 25 dealers and fined 250 of their clients. One kilogram of cocaine and SFr. 160,000 were also confiscated. The drug traffickers were mostly African asylum seekers who delivered drugs to Ticino from northern parts of Switzerland.
- In August, a total of 150 kg of heroin valued over 33 million U.S. dollars was seized at the Swiss-Austrian border in the canton of St Gallen. During a routine check at the Diepoldsau border post, the Swiss police discovered 30 packs of heroin, hidden on a Turkish truck. It was the largest amount of heroin ever seized in Switzerland. The 150 kg of heroin, packed in 500 grams black plastic bags, was heading for Zurich. The two Turkish drivers on the truck were also arrested. Swiss and Austrian police conducted searches in Zurich and Vienna, while the Turkish police also started their investigations locally.
- In August, Swiss customs discovered at the Chiasso border post 270 kg of marijuana hidden in a tourist bus returning from the Balkans through Italy. The drug (220 small packages) was hidden in the fuel tank. The two drivers were arrested and handed over to the Ticino police.
- In August, Swiss customs in Chiasso arrested a young Italian woman traveling on the Amsterdam-Milan train and carrying 50,000 Ecstasy pills.
- Late October, a Zurich district court handed down severe prison sentences of 9-11 years in prison against two drug smugglers involved in the illegal import of 195 kg of heroin. The main organizer a 41 year-old Swiss-Brazilian national, used a Swiss 75-year old lady to carry the drug hidden in art objects. She was sentenced to a two years suspended sentence.
- During 2006, cocaine seizures by Swiss border police increased from 167 kg a year ago to 193 kg, and heroin from 57 kg to 59 kg. Most of the drug seizures took place at airports. The total number of drug related arrests at the border decreased from 3,192 in 2005 to 2,563 in 2006. Across Switzerland five to ten percent of police time is spent fighting drugs. In 2005, a new undercover law went into effect. Under this law, undercover operations can only be authorized at the federal prosecutor's level. Previously, this authority rested at the cantonal law enforcement level.

Geneva police authorities complain that the city's number one problem is drug trafficking. The Geneva drug scene is controlled by many nationalities depending on the type of drug. Large numbers of drug dealers or traffickers destroy their identity papers and apply for asylum to avoid repatriation to their home country. Dealers from Algeria, Guinea and Serbia Montenegro are the most problematic in this regard. Cocaine arrives, in general, to Geneva from South America, via Amsterdam and Zurich. Drug mules hide the drug in their stomach to avoid easy detection when they take the train. The Geneva market is controlled by traffickers originating in West Africa (Benin, Sierra Leone, Guinea-Bissau, and Guinea-Conakry) who come from nearby France and the apply for asylum. In March, Geneva undercover officers arrested a 27-year old cocaine dealer from

Mali. After objecting fiercely to police search, three doses of drugs were found in his mouth. Because of a lack of space in the overcrowded Geneva prison and few repatriation agreements, most African dealers are released on the street. The Geneva Drug Task Force reports that 300 young hashish drug dealers from Morocco operate on the streets of Geneva. Many of them reportedly are violent, commit theft, and have been known to stab other drug dealers. In order to evade repatriation, many of them applying for asylum destroy their identity papers and claim they are Palestinians or Iraqis. Police forces regret there are no repatriation agreements with Morocco and Algeria. A successful repatriation agreement with Nigeria helped send back many traffickers. The average monthly earnings of a drug dealer in Geneva are about SFr. 4,000. Geneva police statistics on drug-related arrests show that 98.5 percent of drug dealers were foreigners.

Corruption. As a matter of government policy, Switzerland 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 June, the Geneva police arrested a 50-year old employee of the Cantonal Population Office on the ground he stole 600-700 blank working permits and sold them to an Albanian cocaine network for SFr. 60,000. The judgment is still pending.

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, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Switzerland is also a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

Cultivation and Production. Switzerland is not a significant producer of illicit drugs, with the exception of illicit production of high THC-content cannabis/hemp. After years of abuses in Hemp shops selling a variety of cannabis products, 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. Since then, police operations in all cantons have targeted the illegal production, traffic and sale of cannabis products. Today, hemp plantations and shops no longer operate in the open but have moved underground. Illicit cultivation of high TNC content hemp has collapsed, which has led to an increase in prices and reduced availability. In 2007, Switzerland saw an increase of smuggling cases involving cannabis (both resin and herb), showing that contrary to earlier years, domestic cannabis production no longer meets the demand of the Swiss market. Surveys among pupils in 2006 suggest that cannabis consumption is slightly decreasing (corroborated findings on consumption are due in 2009). In the past few years, there have been no important cases of domestic production of Ecstasy or other synthetic drugs in Switzerland.

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 made 230 kilograms of heroin available for registered addicts through the Heroin-assisted treatment (HAT) program. Three-quarters of those enrolled in the program were male. The number of slots available in “heroin treatment centers” increased from 1389 to 1429. With 1308 patients by December 2006, the heroin distribution program is currently running at 91 percent of capacity. A total of 135 drug addicts entered the program during 2006. The average participant is 35 year old and most are male. The Medical treatment costs approximately SFr. 33 million, or SFr. 51 per day per person. 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 2.92 years. Of the 173

persons who terminated the heroin prescription program, 63 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. More information on the Heroin-assisted treatment (HAT) program is available at:

<http://www.bag.admin.ch/themen/drogen/00042/00629/00798/01191/index.html?lang=en>

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 U.S. and Switzerland will continue to build on their strong bilateral cooperation in the fight against narcotics trafficking and money laundering. In particular, the U.S. 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 U.S. also will monitor Switzerland's proposed revisions to the Swiss narcotics law.

Tajikistan

I. Summary

Tajikistan is not a producer of illicit narcotics, but it is a major transit country for heroin and opium from Afghanistan. A significant amount of opium/heroin is trafficked, primarily using land-based routes, through Tajikistan, onward via the “Northern Route”—through Central Asia to Russia and west and east Europe. Approximately 40 percent reaches Russia; 30 percent goes to Europe; and there is evidence of Afghan opiates bound for China via Murghab in eastern Tajikistan. Chinese border police and the Tajik Drug Control Agency conducted a joint study of the drug flow of Afghan opiates from Tajikistan to China in October 2007. They estimated that approximately 5 percent of Afghan opiates entering Tajikistan exit to China. There is no evidence of a significant amount of Afghan heroin transiting Tajikistan to the United States; estimates are that 3 percent of narcotics transiting Tajikistan go to the United States and 3 percent through Africa to South America. The Tajik Government is committed to fighting narcotics; however, corruption within the Tajik government continues to complicate counternarcotics efforts. Increasingly, corrupt officials at the highest levels thwart law enforcement efforts as drug investigations strive to move up the chain of organized criminal groups. So far, no anti-corruption efforts by the Government of Tajikistan (GOT) have had a significant impact on the corruption problem.

Tajikistan is ill equipped to handle the myriad social problems that stem from narcotics trade and abuse. Tajikistan’s medical infrastructure is inadequate to address the population’s growing need for addiction treatment and rehabilitation. Still, the GOT continues to implement counternarcotics activities, yielding more seizures than all other Central Asian states combined. Tajikistan coordinates its activities with all major donors and surrounding countries. Tajik law enforcement continues to make arrests and seizures for mid- to low-level cases and there has been increased cooperation between Russia and Tajikistan on such cases. There continue to be opportunities for more solid cooperation between -Kazakhstan, the Kyrgyz Republic and, most importantly, Afghanistan. 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 (Amu Darya in Afghanistan), 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 due to the lack of adequate border control. Tajikistan’s non-criminal economic opportunities are limited by a lack of domestic infrastructure and complicated by the fact that its major export routes must transit neighboring Uzbekistan. In the past, Uzbekistan closed its border to combat a “perceived instability” from Tajikistan, although borders have remained open for the last three years. Criminal networks that came to prominence during the 1992-97 Tajik civil war, continued instability in Afghanistan, rampant corruption, low salaries, a poorly trained legal cadre and dysfunctional legal system, and the government’s lack of revenue to adequately support law enforcement efforts hamper rule of law and the government’s efforts to combat illegal narcotics flows. With the average monthly income in the country at around \$40, high unemployment, poor job prospects, and massive economic migration to Russia, the temptation to become involved in narcotics-related transactions remains high.

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 in Shurabad district near Yol and Sarigor and in the east near Khorog in Gorno-Badakhshan.

There were no seizures of illegal precursors in 2007. A lack of proper screening equipment and related training, and the absence of salary incentives for seizures of precursor chemicals, mean the possible illicit transit of such chemicals goes undetected. 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 GOT 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 trucks (TIR) bound for a non-Tajikistan destination, many of which could be carrying licit and illicit precursor chemicals. There were no seizures of illegal precursors in 2007.

III. Country Actions against Drugs in 2007

Policy Initiatives. With the final withdrawal of Russian border troops from the Tajik-Afghan border in October 2005, Tajik forces are solely responsible for patrolling and maintaining the border. In January 2007, the Tajik State Committee for Border Protection (SCBP) was subsumed under the new State Committee for National Security (SCNS). This merger has had major ramifications for border management and for international security assistance programs across the board. For example, the Committee has barred the Ministry of Interior and the Drug Control Agency access to the border within 3 to 10 kilometers. A planned U.S.-funded initiative to provide salary supplements to border guards on the Tajik-Afghan border was canceled due to diminished transparency and disagreements on control of the project with the leadership of the State Committee for National Security. The SCNS also adopted a policy to minimize contact with Afghanistan, actively supported keeping the \$39 million U.S.-funded bridge at Nizhniy Pyanj closed for two months after its completion, and resisted allowing joint Tajik-Afghan border guard training. Although President Rahmon, in early 2007, announced a revision of the Criminal Procedure Code, efforts to move forward on substantive revision have been stalled. The SCNS is however interested in creating mobile interdiction-type teams within their organization and would possibly work with the Ministry of Interior (MOI) and Drug Control Agency (DCA) using these teams as long as SCNS maintained operational command and control.

President Rahmon also created a new Commission on Anti-Corruption in 2007. However, to date, the Commission has not conducted any meaningful investigations. The fear is that the anti-corruption agency will become more a tool for political reprisals than for fighting corruption. The Presidential Office's Drug Control Agency (DCA) continued to implement a number of U.S.-funded programs to strengthen drug control capacity, including: development of three mobile interdiction and investigative teams; construction of a new gym and shooting range facilities; renovation of regional facilities; training and equipment for a national law enforcement communications network; and salary supplement programs. The new DCA mobile response and deployment teams have improved DCA's ability to collect information more widely; however, the DCA's overall operational capacity significantly decreased in 2007. Much of this was due to reshuffling of DCA personnel, which has been a serious problem in the Tajik government especially since the last Presidential elections in November 2006. At present, law enforcement efforts connected to drug trafficking are limited to interdiction and arrest of low level drug "mules", with no meaningful investigation and prosecution of organized drug criminals and criminal organizations. Given the extent of corruption in Tajikistan and the lack of transparency in the legal system, investigators are reluctant to investigate organized criminals for fear of retribution by high-level officials. There is an absence of political will to investigate and prosecute organized crime.

Law Enforcement Efforts. During the first 9 months of 2007, the DCA, Border Guards and MOI reported the following seizures:

Agency	Heroin	Opium	Cannabis
MOI	1,071 kg	1,461 kg	472 kg
DCA	405 kg	926 kg	234 kg
Border Guards	117 kg	189 kg	356 kg
Totals	1,593 kg	2,576 kg	1,062 kg

In 2007, the DCA conducted 117 operations. Of those operations two were conducted in coordination with Russian and Kyrgyz counterparts. On August 12, 2007, at the initiative of Russia, jointly with the Drug Control Agency, several active members (all Tajik) of an international organized crime group were detained and 46 kg 360 grams of heroin were seized. On October 3, 2007, the Tajik Drug Control Agency and Kyrgyz Drug Control Agency detained several Tajik and Kyrgyz organized criminals in Osh City and seized a total of 54 kg 747 grams of raw opium. Total drug seizures by all Tajik law enforcement agencies in 2007 (January to October) decreased from 3,747,705 kg (4.1 short tons) in 2006 to 3,095,936 kg seized in 2007.

A recent negotiation to add one DCA team in Murgab and another MOI team in Kulob with U.S. assistance may add significantly to capacity and reduce chemical and product movement in the next year. The Border Guards Department is still hampered by considerable corruption at the lower levels and its Soviet top-down management style. Substantive information on border guard activity has been unavailable since the Department moved to the State Committee for National Security. On the whole, law enforcement and security ministries dealing with 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 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. Corruption continues to hinder law enforcement investigations, and so far no major narcotics trafficker has been apprehended and brought to trial. Such a move would require the full backing of the Presidential Administration and the possible prosecution of government officials charged with narco-related corruption. The government of Tajikistan did not provide information on any inter-agency joint operations conducted in 2007. In general obtaining statistical information on operations, seizures and arrests has become more difficult. In 2007, the United States provided upgrades to existing database software utilized by the DCA and MOI analytical centers. These upgrades were provided in part to organize statistical criminal information, but also to better track complex investigations. The United States continues to push the Tajik government to focus on investigations and prosecutions, rather than just seizures and arrests, as a true measure of improvement of law enforcement and rule of law. However, so far, information from the Prosecutor General's Office and the various law enforcement agencies is inconsistent.

Corruption. As a matter of government 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, over the last year, the level of corruption involving organized crime

and complex money laundering schemes appears to have increased significantly. Despite the lack of real growth in the productive economy, an apparent construction boom of personal mansions and commercial space, the appearance of expensive vehicles on city streets, high-end designer retail stores and other “fronts” springing up throughout Dushanbe convey a false picture of prosperity in the capital. While most of the public cannot afford these luxuries, the number of wealthy elite, many with strong ties to the government, appears to have increased. Some senior officials in the MOI, DCA, State Committee for National Security and the Ministry of Justice (MOJ) live in modest houses and apartments and drive modest vehicles, while others in the same agencies have expensive new homes, cars and other investments. Due to this apparent disparity, there is much public and private speculation about the involvement of some 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 lifestyles of low salaried government officials and the extravagant lifestyles some senior officials appear to maintain, despite their low government salaries. 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 and Ministry of Interior; however, these are low level officers, and investigations rarely proceed beyond indictment of the courier and foot soldiers involved.

In 2007, the President created the Anti-corruption Commission which reports to the President’s office. It has not conducted any investigations of high value targets and there is some evidence that current investigations target drug trafficking competitors. The United States is reluctant to work with the Commission in an assistance capacity due to its lack of independence as part of the Executive branch. Such a Commission is better placed as part of the Judiciary or Parliament. The Ministry of Justice (MOJ) and the Prosecutor General’s Office pose major obstacles for many law enforcement efforts. The USG is looking to engage the justice sector entities, especially the Prosecutor General’s office and the Supreme Court, as they continue to be a major barrier to reform efforts. As corruption continues to be the single largest obstacle to reform, the United States is seeking ways to engage law enforcement with a more grass-roots approach to promoting public action and involvement in anti-corruption and community-based rule of law initiatives.

Agreements and Treaties. Tajikistan 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 on Psychotropic Substances. Tajikistan is also 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. 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 United Nations Office on Drugs and Crime. Tajikistan ratified the United Nations Convention against Corruption in September 2006.

Cultivation/Production. Opium poppies and cannabis are cultivated in very limited amounts, mostly in the northern Aini and Panjakent districts of Tajikistan. Law enforcement efforts limited opium cultivation, but economic disincentives also limit cultivation because it has been far cheaper and safer to grow opium poppies in neighboring Afghanistan. The Government of Tajikistan suspects that drug processing may occur on the Tajik side of the Afghan border and has deepened 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 into and across Tajikistan. However,

the United States 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 Shurabad, Moskovsky, Ishkashim and Pyanj districts. The government may be seriously overestimating the percentage of Afghanistan's drug production that transits Tajikistan, but although most observers believe the largest single share of Afghan drugs passes through Iran and Pakistan, 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. 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. Increased operations by the DCA and cooperation with Chinese law enforcement have provided a better picture of the situation along Tajikistan's eastern border. The United States plans to support Tajikistan's cooperation with China and other neighboring states. Over the last few years, Tajikistan has experienced an increase in kidnappings, execution-style killings and dismemberment and other forms of coercion typical of organized crime used to control border drug transit areas. Often, cash does not appear to be the primary motivating factor for such crimes; rather the crimes appear intended to intimidate and extend influence among rival cross-border tribal and ethnic groups. Again, education and liaison efforts with local police and other grassroots initiatives are critical to success in this environment.

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), Khujand (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 continued to fund the "Decrease of Demand for Drugs in Tajikistan and Uzbekistan Program" which supports a rehabilitation center for drug users in Badakhshan, and constructed 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. However, a similar program planned for the spring was abandoned after the main U.S. counterpart, the Deputy Minister of Interior, was reassigned. The number of young addicts continues to grow, and over 60 percent of Tajikistan's drug addicts are in the 18-30 age group. Increased assistance in the drug demand reduction area is critical to bolstering civil society programs aimed at increasing trust and cooperation between the public and law enforcement and a greater respect for rule of law.

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, Senior Law Enforcement Advisor, Resident Legal Advisor, and Project Engineer to coordinate law enforcement and counternarcotics assistance. The DEA Dushanbe Country Office (DCO) currently has regional responsibility for the five Central Asian Republics. The office will be fully staffed in 2008. Cross border cooperation, in particular with the Kyrgyz Republic through the proposed Senior Law Enforcement Advisor and Millennium Challenge program should also add to an increase in interdiction, seizures, arrests, and prosecutions in the next year.

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 State/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 U.S. Embassy played a key 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, Russian border advisors, and other major donors to better meet Tajikistan's greatest security assistance needs and avoid duplication of assistance. Over the last year, U.S. cooperation with the Border Guards department has become significantly stifled. Lack of transparency and inconsistent leadership within the Border Guards department has led to the need for more hands-on oversight and direct implementation of our projects on the border. The U.S. continues to expand assistance to the Ministry of Interior in hopes of increasing its cooperation with other law enforcement agencies on narcotics related crime. As U.S. assistance to the Drug Control Agency enters its eighth year, the United States has stepped up pressure on DCA leadership to begin serious efforts to take on greater responsibility for its recurring costs and is focusing funding on operational capacity that would complement other U.S.-funded programs such as cooperation with the DEA.

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; to expand mid-level management and leadership training to these entities; and to continue to push for meaningful anti-corruption efforts throughout the government. An expanded DEA presence, more sophisticated training and mentoring of the DCA, and a greater emphasis on recruiting and developing a network of reliable sources that will enable the DCA and MOI to initiate cases against major trafficking organizations operating regionally are key goals for the future of the DCA and MOI programs.

With INL funding, DEA plans to implement drug investigation seminars in 2008, which will focus on improving the DCA's and MOI's ability to target organizations and conduct long-term investigations. The United States will also begin to engage the justice sector through the Resident Legal Advisor program. Along with a major push to involve the international community in rewriting the Tajik Criminal Procedure Code, the United States will endeavor to draw out the agencies with specific small-scale projects designed to improve their ability to record and track ongoing cases. The ultimate goal of the INL-funded rule of law program is 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. In order to achieve this goal in light of existing corruption and transparency issues within the government, the United States will increase its emphasis on anti-corruption, public outreach and education efforts.

The culture of corruption fueled by the huge amount of drugs passing through the country, poses a significant threat to Tajikistan's stability and prosperity. Patterned on the successful USAID-funded projects aimed at promoting community involvement in local governance, the Embassy will increasingly focus U.S. security assistance programs on building local capacity for law enforcement, strengthening rule of law institutions, and supporting drug demand reduction and anti-corruption campaigns in civil society. 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 moving to Europe, and serves as a staging area for major narcotics traffickers and brokers. Refining of opiates continues in several locations in Eastern Turkey, and on both sides of Turkey's border with Iran. 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 cooperates closely with European and U.S. agencies. While most of the heroin trafficked via Turkey is marketed in Western Europe, some heroin and opium is also 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 cannabis 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 transshipment point for Afghan opiates moving towards Europe and Russia. Opium and morphine base from Afghanistan are also refined in Eastern Turkey and on both sides of Turkey's eastern border with Iran. 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, and then smuggled from Iran through Turkey and ultimately to Western Europe. A small amount of opium and heroin is trafficked to the U.S. via Turkey. Turkish law enforcement agencies are strongly committed to disrupting narcotics trafficking. The Turkish National Police (TNP) remains Turkey's most proactive counternarcotics force, with the Jandarma and Customs continuing to play a significant role. Turkish authorities continue to seize large amounts of heroin and precursor chemicals. Given the scale of these seizures, it is likely that multi-ton amounts of heroin are smuggled through Turkey each month.

Turkey and India are the only two traditional licit opium-growing countries recognized by the USG and the International Narcotics Control Board (INCB). Opium for pharmaceuticals is cultivated and refined in Turkey under strict domestic controls and in accordance with all international treaty obligations, using a method of production which allows the plant to mature—the poppy is not incised, and the opium flow collected. 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 2007

Policy Initiatives. The Government of Turkey (GOT) devotes significant financial and human resources to counternarcotics activities. Turkey continues to play a key role in Operation Containment (a 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 72 training programs for 748 local and regional law enforcement officers in 2007. A total of 27 programs for 441 foreign officers were held at TADOC in 2007, 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. TADOC conducted training in several foreign countries, including Montenegro, Romania, Macedonia, Syria, and Yemen. TADOC also trained a total of 1,100 officers in computer-based training centers through Turkey in 2007.

Law Enforcement Efforts. Istanbul continues to serve as a transit point for large amounts of heroin being smuggled to Western Europe via the Balkan route. In April, the Turkish National Police seized 13 tons of acetic anhydride (AA) a precursor, which is used to make heroin. In October, the Jandarma arrested five people and seized 160 kg of AA from two vehicles. In November, TNP seized 88.5 kg from a vehicle and arrested a Bulgarian in Istanbul. January-October 2007 drug seizure statistics for Turkey are as follows:

Heroin	9,205 kg
Hashish	9,463 kg
Opium	569 kg
Cocaine	100 kg
Amphetamine (Captagon)	11,463,379 dosage units
Ecstasy	1,002,003 dosage units

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. Given the scale of drug movement in Turkey, it is likely that at least some of that movement is facilitated by corruption among enforcement personnel.

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 Corruption and 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 all 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 in ethnic Kurdish areas. In recent years, there appears to be more heroin arriving in Turkey as a finished product from Afghanistan, and to a much lesser extent from labs on both sides of the Turkish border with Iran. Turkish-based traffickers, some of whom are ethnic Kurds, control much of the heroin marketed to Western Europe. Turkish authorities reported an increase in synthetic drug seizures throughout Turkey beginning in 2005. Most of the amphetamine type stimulants (ATS) seized in Turkey is produced in Eastern Europe. Turkish law enforcement reports some synthetic drug production, primarily amphetamines such as Captagon (the brand name for fenethylline). Amphetamine production is a relatively new phenomenon in Turkey.

Demand Reduction. While drug abuse remains modest in scale in Turkey compared to other countries, the number of addicts using treatment clinics 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. Eight 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 a couple of the centers focus on drug prevention as well as treatment. The most recent clinic was opened in Izmir in 2006, at a research hospital. The clinic opened in Ankara in 2004 serves 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 was planning to conduct the European School Survey Project on Alcohol and Other Drugs (ESPAD) in 2007; however, objections from the Ministry of Education with regard to survey questions postponed this survey to 2008.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In February 2007, the U.S. Government brought DEA trainers to Turkey to conduct a course for counternarcotics commanders, with 5 Turkish and 15 Afghan law enforcement officers. The goal of this project was 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. will continue to try 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. Turkmenistan is not a major producer or source country for illegal drugs or precursor chemicals.

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. The SCCC also coordinates counternarcotics assistance received from the international community. It has responsibility for overseeing implementation of the government's "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 1,417 kg of illegal narcotics in the first six months of 2007.

On June 22, 2007, at the Cabinet of Ministers meeting, newly-elected President of Turkmenistan Gurbanguly Berdimuhamedov stated that the fight against drugs is one of the priorities of the Government of Turkmenistan. Turkmenistan continues to increase cooperation with international organizations and diplomatic missions present in Turkmenistan; however, its law enforcement agencies are hampered by a 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, and Uzbekistan. 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. The bulk of the Government of Turkmenistan'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 December 21, 2006, Turkmenistan's leader, Saparmurat Niyazov, passed away. Newly-elected President Berdimuhamedov on several occasions stressed the importance of countering the flow of narcotics. In June 2007, on the eve of International Day Against Drug Abuse and Illicit Drug Trafficking, President Berdimuhamedov stated that Turkmenistan should declare a large-scale war against drugs and counternarcotics efforts must continue until this threat is completely eradicated.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In January 2007 during his presidential campaign, President Berdimuhamedov called on all citizens of Turkmenistan to fight drug trafficking and accentuated the importance of improving border security, customs and law enforcement capacities. About drug demand reduction, he encouraged civil society and public organizations to increase their role in raising awareness among youth. In April 2006, the government adopted a national multi-year 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 SCA 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 program continued cooperation with U.S. government programs, as well as with international organizations and diplomatic missions. In August 2004, the government introduced a new draft criminal procedure code in an effort to transform the Soviet-era criminal justice process; the parliament has not yet adopted the new code. In September 2007, Turkmenistan hosted a Paris Pact Expert Round Table on the Caspian Sea and the Caucasus in which 16 countries and 13 international organizations participated. In his address to conference participants, President Berdimuhamedov stated that the decisive and uncompromising struggle against drugs is one of Turkmenistan’s priority issues.

Law Enforcement Efforts. 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 MNB’s primary responsibility is to interdict illegal drugs on the borders while the MVD deals with drug related crimes inside the country. The government continues to give priority to counternarcotics law enforcement, and President Berdimuhamedov has paid special attention to improving the technical capacity of the law enforcement agencies. For example, a military academy for MNB and SBS officers was opened, the MVD received new vehicles and equipment, and Customs started operating the mobile Vehicle and Cargo Inspection System (VACIS) that was purchased through a Chinese Government-provided grant. Law enforcement agencies with counternarcotics enforcement authority received equipment and training from the United States and international organizations. In 2007, members of diplomatic missions and international organizations were invited to witness three inter-agency drug destruction events. The government is enhancing border security efforts and plans started construction of a new border crossing station in Bekdash (on the Kazakh border) in 2007. The United States sponsored the construction of two new border crossing checkpoint facilities on the Iranian border in November 2006 and on the border with Afghanistan in August 2007. Construction of a third facility on the Turkmenistan-Uzbekistan border will commence soon. The EU is also planning on building a new checkpoint on the border with Uzbekistan. In January 2007, the European Commission and UN Central Asia Drug Action Program assisted in establishing a Drug Profiling Unit at Ashgabat’s International Airport by renovating an office and providing special equipment. The Customs Service solicited support from international and diplomatic missions to develop and improve a customs training facility. The U.S. and British governments are co-sponsoring a Customs-hosted interagency 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

1,417 kilograms of illegal narcotics were seized on Turkmenistan's borders during the first six months of 2007. 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. In an effort to oversee law enforcement activities, President Berdimuhamedov established the State Commission on Reviewing Citizens Complaints Related to Law Enforcement Agencies Activities on February 19, 2007. The Commission reports directly to the President and monitors unlawful activities by law enforcement officials. The government 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 general distrust of the police by the public, fueled by evidence of police officers soliciting bribes, indicates 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 government officials are directly linked to the drug trade. Stating that corruption is widespread in almost all units of the MVD—including in the departments working on economic crimes, organized crime and others—President Berdimuhamedov publicly accused MVD employees of corruption in October 2007. In 2007, President Berdimuhamedov fired and replaced two Ministers of Internal Affairs due to corruption.

Agreements and Treaties. Turkmenistan 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. Turkmenistan and the United States signed a letter of agreement for provision of U.S. government counternarcotics assistance in September 2001. In June 2007, the governments of Turkmenistan and Iran agreed to form a special joint committee to combat narcotics trafficking. The next month, the presidents of Turkmenistan and Afghanistan signed a joint communiqué noting the need to further develop their counternarcotics and counterterrorism cooperation. Also in July 2007, President Berdimuhamedov signed an agreement between Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan on the establishment of a UN-led Central Asian Regional Information and Coordination Center (CARICC). In September 2007, the Presidents of Turkmenistan and Kazakhstan signed a joint communiqué that acknowledged the need to further develop cooperation in counternarcotics and against psychotropic substances. In the same month, the United States signed the second Amendment to the Letter of Agreement for additional funding of U.S. counternarcotics assistance. Turkmenistan is a party to the UN Convention against Corruption, the UN Convention against Transnational Organized Crime, and its three protocols.

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 government 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, law enforcement officials conduct 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 Europe, and for the shipment of precursor chemicals to Afghanistan. There are land, air and sea routes through Turkmenistan's territory. The government's efforts during 2007 to improve border crossing stations 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. In his election campaign throughout January 2007, President Berdimuhamedov paid special attention to the problem of domestic drug addiction, calling it a “disaster for all mankind”. The President asserted that society, especially the elderly, should play a significant role in preventing youth from using drugs. Currently, the Ministry of Health operates seven drug treatment clinics: one in the capital of 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. It is still difficult to obtain any statistical information about the number of drug addicts in Turkmenistan. However, President Berdimuhamedov reported in March 2007 that the number of crimes connected to drug addiction had increased. Although not yet implemented, the government is currently considering internationally funded prevention programs. A strategy for counternarcotics efforts and assistance to drug addicts is included within the framework of the 2006-2010 National Drug Program.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. Staying engaged with all Turkmenistan’s counternarcotics enforcement agencies is necessary to encourage a successful effort against narcotics trafficking. The Department of Homeland Security, through U.S. Customs and Border Protection, has provided International Air Cargo Interdiction, International Rail Interdiction and International Border Interdiction Training to Turkmenistan law enforcement officials. Bilateral cooperation is expected to continue, and the U.S. government 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 United States will provide an appropriate, integrated and coordinated response. The U.S. government also will encourage the government of Turkmenistan 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

Combating illegal narcotics is an important national priority for Ukraine, as both use of and the transit through Ukraine of illegal narcotics continue to increase. Coordination between law enforcement agencies responsible for counternarcotics occurs, but is adversely affected by regulatory and jurisdictional constraints. Ukraine's counternarcotics legislation is well developed and the government of Ukraine (GOU) is committed to keeping it current with the evolving threats. Ukraine has more than 80 intergovernmental and interagency agreements relevant to international narcotics coordination, many of which include specific provisions on combating illegal drug traffic and crime. Ukraine is a party to the 1988 UN Drug Convention.

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, primarily heroin, originating in Afghanistan moves through Central Asia to Russia, the Caucasus and Turkey, passes through Ukraine and on to Western Europe. Seizures of heroin in Ukraine increased significantly in 2007.

Domestic drug abuse continues to be focused on drugs made from narcotic plants (hemp and poppy) which account for approximately 85 percent of the total drug market in Ukraine, but the use of synthetic drugs and psychotropic substances, especially amphetamines, has been increasing rapidly over the past few years. Drugs consumed in Ukraine are either produced in Ukraine or supplied from Russia and Moldova (poppy straw, hemp, opium) and Poland, Hungary and the Netherlands (amphetamines, methamphetamines, MDMA also known as "Ecstasy"). Domestic use of narcotics continued to grow and the number of registered drug addicts in 2007 increased by 9.5 percent over 2006 to 171,617 (official statistic of the Ministry of Interior). However, according to the estimates of international and local NGOs, the total number of unregistered drug addicts range from 350,000 to 500,000. Relative to other European countries, this is still a low number; however, the rate of increase of drug abuse is high with Ukraine's rate of increase in drug abuse ranked sixth highest in Europe.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Ukraine has well-developed counternarcotics legislation consistent with international standards. In 2006, the GOU continued to implement a comprehensive counternarcotics policy entitled "The Program Implementing the State Policy in Combating Illegal Circulation of Narcotics, Psychotropic Substances and Precursors for 2003-2010." The Program acknowledges 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 is divided into two phases, the first of which occurred in 2003-2005, and the second of which is being implemented in 2006-2010 timeframe. 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 responsible agencies. The Program also provides estimates of future funding needed to support its implementation. The total estimate is over 300 million Ukrainian hryvnia (\$55 million). However, the GOU has not been able to fully fund the Program 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 low.

The GOU has taken additional steps to update its counternarcotics laws, in particular strengthening control over the distribution of narcotic plants with the aim of preventing the “leakage” of this medical material on to 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 as a member or observer in several regional organizations, including the Organization of Black Sea Economic Cooperation (BSEC), GUAM (Georgia, Ukraine, Azerbaijan, and Moldova), and the South East Europe Cooperative Initiative (SECI). SECI allows Ukraine to coordinate, among other things, its counternarcotics 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.

In 2007, Ukraine continued to implement the BUMAD (Belarus, Ukraine, and Moldova Anti-Drug) Program sponsored by the European Union. This project is designed to decrease drug trafficking 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 in December 2006, 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. 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. In 2007, the Ukrainian Ministry of Interior seized almost 26 tons of various drugs, which is 16 tons more than in 2006. There was an increase in seizures of hemp (11.5 tons in 2007 compared to 3.5 tons in 2006) and poppy straw (13 tons in 2007 compared to 6 tons in 2006).

The Security Service focuses more on cross-border trafficking of hard drugs. In the first 8 months of 2007, the SBU seized 460 kilograms of heroin. The MOI and SBU continued to build

cooperative relationships with international counterpart agencies in Western Europe, Eurasia and America. Ukrainian law enforcement agencies paid increasing attention to the role of organized crime groups, utilizing informants, operational analysis, and controlled buys and deliveries as well as lead information supplied by their overseas counterparts to disrupt illegal narcotic activities. These changes in emphasis led to significant increases in the volume of drugs seized, for example: 174.5 kilos of heroin trafficked from Georgia by a Turkish national were seized by SBU in July 2007 in a coordinated operation with Turkish law enforcement authorities and the U.S. Drug Enforcement Administration; another 105 kilos of heroin transiting from Turkey were seized on Ukrainian territory by the SBU in November 2007.

Corruption. The GOU openly acknowledges that corruption remains a major problem in society, supported by a bribe-tolerant mentality, and the lack of law enforcement capabilities to investigate and prosecute corruption. The Ukrainian Government is considering formation of a stand-alone institution to prosecute corruption. In 2007, the press reported a number of investigations of law enforcement officers believed to be involved in or facilitating illegal narcotics transactions. Some experts warn that such practices may be much more widespread than is indicated by the few cases divulged in the press. 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 strengthen its criminal justice system as well as to improve its effort against narcotic drugs. The memo has been amended annually to add funding and establish projects as agreed by Ukraine and the U.S.

Cultivation/Production. Opium poppy is grown legally in accordance with government regulation for medical use 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. Heroin is trafficked from Afghanistan entering 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 trafficking 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. Poppy straw and hemp are produced and consumed locally with the surplus exported to Russia, Belarus and Moldova. Conversely, these drugs are also trafficked into Ukraine from Russia and Moldova. The trafficking of synthetic drugs and psychotropic substances from Poland and

diversion of medical prescription drugs from Moldova is growing. Criminal groups of mixed origin (Ukrainian, Polish, Belarusian and Russian), 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 (\$4 per gram of Ecstasy or ephedrine drugs to over \$8 per gram of amphetamines street prices) is lower than that of heroin and cocaine (\$22 and \$30 per gram respectively) and, therefore, the drugs are attractive to young addicts. 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.

Domestic Programs/Demand Reduction. The number of registered drug addicts in Ukraine has for the past few years increased approximately 10 percent annually. In 2007, the number increased to 171,617 individuals from 156,509 in 2006, suggesting 37 addicts per 10,000 citizens. Various experts however estimate that the total number of drug addicts in Ukraine actually ranges from 350,000 to 500,000. Drug abuse is concentrated in the southern and eastern regions of Ukraine. 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. The popularity of this drug is due to its low cost (\$90 and \$260 per kilo of poppy straw and hemp respectively) and simple production methods. The use of synthetic drugs is also on the rise with young people, in particular ephedrine, Ecstasy (MDMA), LSD, amphetamines and methamphetamines. The spread of synthetic drugs is exacerbated by the rapid growth in local production. Illegal drug labs shut down in 2007 were primarily producing phentanyl, trimethylphentanyl, PCP (phencyclidine), amphetamine and MDMA.

Hard drugs, such as cocaine and heroin, are still too expensive for most Ukrainian drug users. In recent years, Ukraine has seen the growing illegal use of the legal, but restricted prescription medical drug Tramadol. Legal medical needs of Ukraine for this drug are estimated to be 4 million pills per year, while the Ukrainian pharmaceutical industry produces 25 times that quantity leading many to believe that a significant percentage of the production of this legal prescription drug is being misused. The GOU's ability 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 conduct conferences and seminars to raise awareness of and reduce drug abuse in Ukraine.

There is a rapidly growing HIV/AIDS epidemic in which injecting drug use is the primary mode of transmission of HIV through behaviors such as syringe sharing. The World Health Organization, UN Office of Drugs and Crime (UNODC) and UNAIDS have recommended that drug substitution maintenance treatment programs using methadone and buprenorphine be integrated into national HIV/AIDS programs in order to support access to and adherence to antiretroviral treatment and medical follow up. Since 2004, the GOU has implemented pilot substitution maintenance treatment programs using buprenorphine. The GOU has also committed through its Global Fund Round 6 Grant to incorporate the significantly less expensive and at least as effective opiate substitute methadone into substitution maintenance treatment programs. Fully incorporating methadone into its national HIV/AIDS program is critical to curbing Ukraine's burgeoning HIV/AIDS epidemic.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. objectives include assisting 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 USG, through a variety of projects, is also assisting the Ukrainian State Border Guard Service to strengthen its capability to control Ukraine's borders, including by helping it develop Risk Assessment and Criminal Analysis capabilities that are compliant with European Union norms in order to more accurately target and suppress threats, including narcotic trafficking, along its approximate 7,000 kilometer border.

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 are 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, especially for heroin.

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 final 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. The UK is a party to the 1988 UN Drug Convention.

II. Status of Country

Home Office figures for England and Wales compiled as part of the 2006/07 British Crime Survey (BCS), indicate that there have been few changes in drug use between 2005/06 and 2006/07. 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. The BCS estimated that nearly 2.8 million adults in England and Wales had used cannabis in the previous year. Government data suggests that 25-35 tons of heroin and 35-45 tons of cocaine enter the UK each year. Overall use of any illicit drug by 16-59 year olds is at its lowest level since the BCS started measurement (10.0 percent in 2006/07) mainly due to declines in the use of cannabis (the most prevalent drug among 16-59 year olds) since 2003/04. Between 2005/06 and 2006/07 overall use of any illicit drug among 16-59 year olds has remained stable although there has been a significant decrease in the overall use of hallucinogens as a result of a decline in use of magic mushrooms.

The 2006/07 BCS shows that the use of Class A drugs among the 16-59 age range has increased since 1997 from 2.7 per cent to 3.4 per cent. (Illegal drugs in the UK are characterized by their level of harm, and sanctioned accordingly. Class A drugs include cocaine, Ecstasy, LSD, magic mushrooms, heroin and methadone and methamphetamine. Amphetamines can be either Class A or B, depending on whether they are injected or swallowed. Class C drugs include tranquillizers, anabolic steroids, cannabis and Ketamine.) The increase in overall Class A use is largely due to a significant rise in cocaine powder use between 1997 and 1999. Since 1999, there has been a further increase in cocaine powder use but the use of LSD has decreased and overall Class A drug use has been stable. In 2006/07 eight per cent of 16-24 year olds reported use of any Class A drug in the past year. However, Class A drug use, as measured by the BCS, amongst 16-24 year olds has remained stable since 1997.

Frequent use of any illicit drug in the past year by 16- 24 year olds has decreased from 11.6 per cent in 2002/03 to 8.3 per cent in 2006/07. Police recorded drug offenses increased by nine per cent in 2006/07 compared with 2005/06. Increases in recent years have been largely attributable to increases in the recording of possession of cannabis offenses. From 2005/06 to 2006/07, possession of cannabis increased by nine per cent, which followed an increase of 36 per cent over the previous year. The increases coincided with rises in the number of formal warnings for the possession of cannabis that were issued by the police. In 2006/07 the rise in formal warnings for cannabis possession was nearly double the increase in the number of offenses of cannabis possession and indicates the greater use of this method of disposal by the police. The increase in possession of other drugs was 12 per cent in 2006/07, compared with the previous year. 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 2007

Policy Initiatives/Accomplishments. UK counternarcotics policies have a strong social component, reflecting the widely held view that drug problems do not occur in isolation, but are often linked to other social problems. In 2007, 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 2002 drug strategy.

The most controversial aspect of the updated strategy was the decision to downgrade cannabis to a Class C drug. 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. Prime Minister Gordon Brown requested a review of the reclassification in 2007, although no recommendations have been made yet. 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. As of 2007, BCS statistics showed that the proportion of 16-24 year olds using cannabis decreased from 28 percent 10 years ago to 21 percent now.

In 2006, the Advisory Council on the Misuse of Drugs (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 went into effect at the beginning of 2007. Reclassification put methamphetamine into the same category as cocaine and opiates. The change has lengthened penalties to seven years in prison or an unlimited fine for possession, and up to life in prison for dealing.

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 shows drug treatment expenditures are targeted to increase £478m in 2007/08. Likewise, 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).

The Drugs Act of 2005 strengthened police powers in drug enforcement. The 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 2005. Prior to this change in the law, only prepared (such as dried or stewed) magic mushrooms were rated as Class A drugs. 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. A Drug Rehabilitation Requirement (DRR) is one of the 12 requirements which can be included in a community sentence. DRRs can be used instead of custody. They offer the Courts an intensive and effective vehicle for tackling the drug misuse and offending of many of the most serious and persistent drug misusing offenders.

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. Home Office's data indicates the total amount recouped by all agencies involved in asset recovery in England, Wales and Northern Ireland was £125million in 2006/2007. This represents a five-fold increase over five years. The Assets Recovery Agency Annual Report shows that it met or exceeded all of its key disruption and enforcement targets. The average purity of cocaine seized by the police has fallen from 55.1 percent in 2001 to 30.2 percent in 2006. Heroin was the most commonly seized Class A drug followed by cocaine. There were 105,570 drug offenses recorded in England and Wales in 2004 (the latest full year data available), a 21 percent decline from the 133,970 offenses recorded in 2003. Class A offenses 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 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. In 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. 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. In 2006, the U.S. Senate ratified a new extradition treaty with the UK; the exchange of instruments of ratification occurred in May 2007. 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 U.S.-UK Customs Mutual Assistance Agreement (CMAA) dates from 1989. 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. Between mid-2004 and January 2007, over 2000 cannabis

factories were discovered in the UK, predominantly run by Vietnamese criminals. Cannabis cultivation overseas is imported into the UK from Europe both in bulk by serious organized criminals, sometimes in mixed loads alongside Class A drugs. Crack cocaine is rarely imported, but is produced in the UK from cocaine powder. Almost all of the Ecstasy consumed in the UK is manufactured in the Netherlands or Belgium, but tableting sites have been found in the north of England. 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. 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. The UK is one of the most lucrative markets in the world for traffickers in Class A drugs and is targeted by a wide range of criminals. In terms of the scale of serious organized criminal involvement, drug trafficking, especially Class A drugs, poses the single greatest threat to the UK. London, Birmingham, and Liverpool are known to be significant centers for the distribution of all types of drugs. Steady supplies of heroin and cocaine enter the UK. Some 90 percent of heroin in the UK (amounting to 25-35 tons a year) comes from Afghanistan. Most of the supply to Europe is processed in Turkey.

The primary trafficking route to the UK is overland from Afghanistan to Europe (the ‘Southern/Western’ route), transiting Iran. It is estimated that 70 percent of the UK’s heroin supply transits Iran, either directly from Afghanistan or via Pakistani Baluchistan. From Iran the opiates are moved to Turkey. 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. Approximately 25 percent of Afghan heroin seized in the UK arrives directly from Pakistan.

It appears that traffickers with ethnic connections to Turkey continue to dominate the supply of heroin to the UK. Caribbean criminals (primarily West Indians or British nationals of West Indian descent) are involved in the supply and distribution of heroin as well as cocaine. Most heroin probably enters the UK through ports in the southeast, although some enters through major UK airports with links to Turkey, Northern Cyprus, and Pakistan. Average purity has increased since mid 2003, while average street prices have fallen consistently, from £70 per gram in 2000 to £54 in 2005. Cocaine imports are estimated at 25-40 tons a year and emanate chiefly from Colombia, although there is also cultivation in Bolivia and Peru. An estimated 65-70 percent of the cocaine in the UK market is believed to be produced in Colombia. Supplies of both cocaine and crack cocaine reach the UK market in a variety of ways.

The main method of moving cocaine from South America to Europe is in bulk maritime shipments on merchant vessels and yachts from Colombian and Venezuelan ports to the Iberian Peninsula. Importations of small quantities are becoming more frequent which may indicate a trend towards ‘little and often’ importations. 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. Britain is a charter member of the Maritime Analysis and Operations Center-Narcotics (MAOC-N) in Lisbon, which should bolster EU capacity to protect its southwestern flank

The Caribbean, chiefly Jamaica, is a major transshipment point for cocaine to the UK from Colombia. Cocaine comes in both by airfreight and by couriers, usually women, who attempt to conceal internally (i.e., through swallowing in protective bags) up to 0.5 kg at a time. Over the past five years, the purity of cocaine and crack at street level has fallen. The use of chemicals (such as phenacetin), bulking agents, and effect enhancing adulterants to cut cocaine and crack help traffickers compensate for any shortages in the cocaine supply. Further afield, there are some indications that the saturation of the U.S. cocaine market, potentially higher profits, and fear of extradition to the US, may be encouraging Mexican criminal groups to target the European market.

A synthetic drug supply originates from Western and Central Europe; amphetamines, Ecstasy, and LSD have been traced to sources in Belgium, the Netherlands, and Poland, although some originates in the UK. The makers rely heavily on precursor chemicals made in China. 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 its stimulant component, cathinone, is a Schedule I controlled substance in the U.S. Estimates for 2006, put the khat importation levels to the UK 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. Hashish comes to the UK primarily from Morocco.

Domestic Programs/Demand Reduction. The UK's 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 multimedia national drug awareness campaign called "FRANK." FRANK offers help and advice to anyone who may be affected by drugs. Over the last four years FRANK has averaged 506,288 calls to its help line and 518,246 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 regular reviews for effectiveness. A similar information and support program called "Know the Score" operates in Scotland. "Positive Futures," a sports-based program started in 2000 to specifically target socially vulnerable young people, has served over 80,000 young people since its inception with 108 projects established in regions throughout the country. In 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 181,000 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 in 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.

According to the National Treatment Agency (NTA) there are approximately 10,000 registered drug treatment workers as of 2007. The average waiting time for treatment is under 1 week for the first intervention, with a goal of 85 percent of individuals within three weeks. This is a drastic decrease from the average time of 2.4 weeks in 2002. According to the latest available figures, the number of deaths related to drug poisoning in England rose from 1415 in 2004 to 1506 in 2005.

This is an increase of nearly 8 per cent compared with 2004. This figure is still lower than in 2000—the year with the highest recorded number of deaths, at 2967.

Crime and Disorder Reduction Partnerships (CDRPs) were set up under the Crime and Disorder Act 1998 and are, in most cases, coterminous with local authority areas. They include representatives from police, health, probation and other local agencies and provide strategies for reducing crime in the area. As of 1 April 2006 (and therefore for the reporting year 2006-07) there were 373 CDRPs in England and Wales. In Wales, the 22 CDRPs have changed to Community Safety Partnerships (CSPs) to reflect their new identity subsequent to merging with Drug and Alcohol Action Teams. Recorded crime figures for seven key offenses for each CDRP are published on the Home Office website.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The United States looks forward to continued close cooperation with the UK on all counternarcotics fronts. The UK provides Royal Navy warships and auxiliary vessels to operate under the tactical control of Joint Interagency Task Force South to support efforts to stop the flow of narcotics in the Caribbean and Eastern Pacific. A Royal Navy Liaison Officer, seconded to the JIATF South staff, also assists in coordinating UK support to JIATF South counternarcotics operations. The U.S. Drug Enforcement Administration's London Country Office (LCO) continues to maintain a robust exchange of information and training initiatives with several UK law enforcement agencies regarding the threat from methamphetamine. Although not viewed to be in any significant use in the UK at this time, UK law enforcement has acknowledged the potential threat that methamphetamine and its capacity for “domestic production” pose.

The LCO has arranged for DEA “clandestine laboratories” training for the Serious Organized Crime Agency (SOCA) and the Metropolitan Police Services (MPS/New Scotland Yard). This training program instructs law enforcement officers in the safe and efficient manner of identifying and dismantling illicit methamphetamine laboratories, and prosecuting the criminals involved.

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 intravenously administered narcotics and consequently a growing problem with drug addiction and the spread of HIV/AIDS. The Government of Uzbekistan (GOU) has taken some independent steps to combat the narcotics trade but still relies heavily on multilateral and bilateral financial and technical resources. Law enforcement officers seized approximately 1,105 kilograms of illegal narcotics in the first six months of 2007. 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. In 2006, drug seizures increased approximately 47 percent from 2005. Seizures for the first half of 2007 were in turn up more than eight percent from the same time period in 2006, according to official statistics. The GOU attributes the rise in seizures to increased narcotics production in Afghanistan and more effective counternarcotics operations by Uzbek law enforcement agencies. Precursor chemicals have, in the past, traveled the same transshipment routes in reverse on their way to laboratories in Afghanistan and Pakistan. Export of precursor chemicals, including acetic anhydride, has been controlled in Uzbekistan since 2000. There have been no reported seizures of precursor chemicals in Uzbekistan since 2001. According to official statistics, as of November 2007, 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 2007

Policy Initiatives. The United States and Uzbekistan continued limited counternarcotics cooperation in 2007 under the 2001 U.S.-Uzbekistan Narcotics Control and Law Enforcement Agreement and its amendments. These agreements provide for U.S. assistance to Uzbekistan, and are typically amended in the years following their first negotiation to increase assistance levels to ongoing programs, or to agree to begin new assistance programs. The agreements have established the framework to support projects designed to enhance the capability of Uzbek law enforcement agencies in their efforts to fight narcotics trafficking and organized crime. No new amendments have been signed since 2004. However, the U.S. Embassy in Uzbekistan is exploring the possibility of resuming counternarcotics and border security cooperation through the bilateral Law Enforcement and Security Assistance Working Group, which was established in 2007. The Uzbek criminal justice system continues to suffer from a lack of modernization and reform, mainly judicial and procedural reform, and standards remain below international norms. The Uzbek criminal justice system is largely inherited from the Soviet Union. The Executive Branch and Prosecutor General's Office are powerful entities, and the judiciary is not independent. The outcomes of court cases are usually 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 2007, the annual operation has eradicated a very modest 2.5 hectares of drug production crops. However, authorities note that the aging helicopter fleet used in this operation is increasingly difficult to maintain. Efforts to achieve other convention goals are hampered by the lack of effective laws, programs, money, appropriate international agreement, and coordination among law enforcement agencies. The UN Office on Drugs and Crime (UNODC) is continuing its efforts to implement projects focusing on improvements in law enforcement, precursor chemical control, and border security. The State Department, through the Bureau of International Narcotics and Law Enforcement Affairs (INL), continues to provide financial support for several UNODC-implemented projects.

Law Enforcement Efforts. Preliminary statistics provided by the GOU show that in the first half of 2007, Uzbek law enforcement seized a total of 1,105 kgs of illicit drugs. Opium accounted for 53 percent of the total, cannabis 18 percent, heroin 14 percent, kuknara 10 percent, and hashish five percent. In 2006, there were 8,364 criminal cases pertaining to narcotics, including 242 arrests for drug smuggling. Through the first three quarters of 2007 there have been 7,328 narcotics-related criminal cases, including 225 for drug smuggling.

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 2007, training and equipment were provided to the State Customs Committee under U.S.-Uzbekistan counternarcotics-related bilateral agreements. The U.S. DEA previously supported a Sensitive Investigation Unit (SIU) within the Ministry of Internal Affairs, which became operational in 2003. However, in March of 2007, DEA was forced to suspend its operations in Uzbekistan when visas for DEA personnel were not renewed. The DEA is anxious to return and support the GOU’s counternarcotic mission.

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. Government sources indicated that drug smuggling activities along the Turkmen-Uzbek border are not significant. 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 2007 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.

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 the 1972 Protocol. Uzbekistan is also a party to the UN Convention against Transnational Organized Crime and has signed but not ratified the protocol on Migrant Smuggling. 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) to coordinate information sharing and joint counternarcotics efforts in Central Asia, although the Center is not yet operational. 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 and the Collective Security Treaty Organization. However, to date, these agreements appear to have resulted in few tangible results.

Cultivation/Production. “Operation Black Poppy” has all but eliminated illicit opium poppy cultivation in Uzbekistan. Authorities log between 600-800 hours of flying time in the course of the annual operation.

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 a new INL-funded UNODC project will focus on improving the control regime at the river port. While humanitarian aid and other cargo crossing the border from Uzbekistan to Afghanistan has dropped since 2004, Uzbek authorities report that approximately 1,000 containers cross from Uzbekistan to Afghanistan daily via railroad. The contents are generally not searched, and Uzbeks have requested scanning equipment to help ensure that contraband, including precursor chemicals, do not reach Afghanistan. Uzbek officials report one significant drug seizure along the Afghan border in 2007 when an Afghan citizen attempted to swim across the Amu Daryo River with 32 kilograms of opium concealed in a vehicle tire. 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. According to the National Drug Control Center, as of the end of 2006 there were approximately 22,000 registered drug addicts in Uzbekistan. Sixty-eight percent of these were heroin users and 16 percent were users of cannabis drugs, and approximately 1,500 new addicts have been registered in 2007. The number of registered addicts is believed to reflect only 10-15 percent of the actual drug addicts in Uzbekistan. A new UNODC study estimates that there are more than 130,000 opiate drug users in Uzbekistan. Over the last few years, there has been an alarming growth in the number of persons who are HIV positive, and Uzbek officials say the problem is getting worse. Over 2,200 new HIV cases were registered in 2006, of which 59 percent were injecting drug addicts, 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 for detox and treatment. 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 in cooperation with NGOs, schools, women and youth groups, religious organizations, national radio, and the mahalla (neighborhood) support system. In 2007 UNODC completed an INL-funded drug demand reduction project that demonstrated increased drug abuse awareness among school children.

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 2007. Department of State-funded assistance programs provided additional specialized inspection equipment, along with associated training, at Customs posts throughout Uzbekistan, including the strategic Civil River Port in Termez and a key railroad station in Sarasiya on the Tajik border. 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 offer 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.

The Department of Defense hopes to resume counternarcotics activities with the GOU within the next fiscal year. Central Command withdrew counternarcotics funding for FY 2007 due to the overall problems in the military-to-military and political relationships. Recently, there has been a reengagement between Central Command, the Ministry of Defense, and the State Committee for Border Security. Both sides want to resume counternarcotics cooperation in the near future. GOU officials have stated that they will seriously consider DOD-sponsored counternarcotics events in FY 2008, to include Marshall Center counternarcotics events and other military-to-military events concerning counternarcotics.

The Road Ahead. The U.S. remains committed to supporting appropriate Uzbek agencies to improve narcotics detection and drug interdiction capabilities. However, 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 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 2007. Increased intelligence sharing with the U.S. and the scanning of incoming containers improved the effectiveness of drug interdiction.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The National and Border Police's drug seizure efforts have continued, but reliable seizure statistics are not available. Angola cooperates with South Africa, Brazil, and Portugal in fighting the flow of cocaine through Angola to various destinations. South Africa has provided intelligence, training, and equipment to the Angolan police. Angola also cooperates on a regional basis via the South Africa Development Community (SADC).

Corruption. As a matter of government policy, Angola does not encourage illicit production or distribution of drugs or associated money laundering. 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.

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. The U.S. does not have an extradition or mutual legal assistance treaty with Angola. Angola has a constitutional bar against extraditing or expelling its nationals. Its constitution also prohibits extradition for death penalty cases.

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 resources limit what the government can offer in modern drug treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2007, 35 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 remains a low volume producer of cannabis, and continues to be a transit point for other illegal narcotics. During 2007, no new counternarcotics laws or initiatives were introduced in Benin. Benin's drug enforcement police unit, the Office Centrale de Repression du Traffic Illicit de la Drogue, OCERTID (Central Office for Repression of Illicit Drug Trafficking has limited resources. The rate of illegal drug seizures in Benin was low during 2007, as were quantities seized. Benin is a party to the 1988 UN Drug Convention (UNDC).

II. Status of Country

Benin is a small-scale producer of illegal narcotics. Marijuana is the only significant drug produced, and there is virtually no production of chemical drugs such as methamphetamines. Marijuana is sparsely cultivated in the in the central area and regions of Benin, along its western and eastern borders with Nigeria and Togo. The primary market for this cultivation is within Benin. During 2007, there were no new efforts by the Government of Benin (GOB) to eradicate the drug production 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.

III. Country Action Against Drugs in 2007

In 2007, there have been few efforts toward combating the trafficking of illegal narcotics as laid out by the 1988 Drug Convention, by the current Benin administration. 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 with limited implementation. Benin has no legal mechanism in place to seize assets on behalf of counternarcotic efforts and there is no U.S. extradition agreement with Benin. However, the U.S. and Benin entered into several bilateral counternarcotics agreements in 1995 and 2001, which provided for U.S. assistance to Benin's efforts. In 2006, Benin signed a bilateral agreement with Nigeria under which the two countries implemented joint border control teams and procedures for trans-border crimes including narcotics trafficking. To date, no known senior Beninese Government official or entity engages in, encourages, or facilitates the illicit production or distribution of narcotic or psychotropic drugs. Benin did not participate in any major regional anti-narcotic efforts during 2007.

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. The U.S.-administered Millennium Challenge Compact Grant will help address these weaknesses over the next four 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.

There is no legislation or legal framework in Benin to prevent or punish narcotics-related corruption. In 2007, Benin has made attempts to punish officials involved in illegal activity. The current administration takes a particularly tough stance against corruption. The Benin judiciary initiated proceedings against a high ranking police official in February 2007 and put him in pre-

trial detention at the prison of Cotonou on narcotic-related charges. When a capsized boat with drugs washed up on a beach near Cotonou in August 2007, five other high-ranking police officials were also put in pre-trial detention at the prison of Ouidah, on allegations of withholding seized cocaine and trafficking cocaine. This seizure turned out to be the largest cocaine seizure in Benin's history.

The total reported drug seizures in Benin, to date, during 2007 were: cannabis: 56.4 kg, cocaine: 420.4 grams, and heroin: 1.3 kg. There were a total of 100 people arrested and prosecuted. The breakdown of nationality is: 74 Beninese, 17 Nigerians, 3 Togolese, 3 Ghanaians, 2 Nigerians, and 1 Dutch. Law enforcement resources continue to target small-scale couriers, users, and criminals involved in other forms of crime who are generally captured with various quantities of illegal drugs in their possession.

Benin's Drug Enforcement Coordination Office, the Interdepartmental Committee to Fight Against Drugs and Narcotics Abuse (CILAS), includes 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. The most recent chair of CILAS was the former National Director of Police, and was recently relieved of his CILAS duties due to a drug corruption scandal. CILAS is now without a chairperson.

Agreements and Treaties. Benin is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Benin is a party to the UN Convention against Corruption, and to the UN Convention against Transnational Crime and its protocols against trafficking in persons, migrant smuggling and illegal manufacturing and trafficking in firearms.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. With the strong anti-corruption stance by the Beninese presidential administration, hopefully the aggressive implementation of prior counternarcotics initiatives and new counternarcotics initiatives will be brought back to the foreground. Efforts by the U.S. Government towards improving port and border security, such as the Millennium Challenge Grant should greatly assist these efforts.

The Road Ahead. The lack of training and resources for counternarcotics units remain a problem for Benin, which will limit results until a sustained effort is made to remedy this problem.

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 identified more than two million dollars of drug related proceeds. In 2006, the DEA Country Office initiated several long term investigations working with ANGA; these continued into 2007. The DEA Country Office has had numerous other bi-lateral drug investigation successes in Egypt in 2007. Egypt is a 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 derivatives, which are commonly 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 Afghan 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. Trafficking 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 Action Against Drugs in 2007

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 2006 was lower than that of the previous year.

According to the GOE, drug seizures in 2006 (Latest available figures.) included cannabis (101.0 metric tons), hashish (3.2 metric tons), and smaller amounts of heroin, opium, psychotropic drugs, and cocaine. Significant amounts of prescription and "designer" drugs such as Ecstasy, amphetamines, and codeine were also seized. During the course of 2006, Egyptian law enforcement officials eradicated 520 hectares of cannabis and 98 hectares of opium poppy plants.

The above hashish seizures have significantly increased in 2007 due in large part to three separate hashish seizures in the northern Egyptian Desert. These seizures were the result of intelligence sharing by the DEA Country Office on hashish being smuggled from Morocco.

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 increased significantly over the past several years.

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. A limited number of local low-level police officials who were involved in narcotics-related activity or corruption have been identified and arrested.

Agreements and Treaties. 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 and the UN Corruption Convention. Egypt and the United States cooperate in law enforcement matters under an 1998 MLAT and an 1874 extradition treaty. The 1988 UN Drug Convention, coupled with the 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 15 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 Ecstasy laboratory in Egypt and eliminated it before it reached significant production.

Domestic Programs (Demand Reduction). In 2006, 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 years have included a range of activities, for example, a media advertising campaign with participation from First Lady Suzanne Mubarak in 2005, 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 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. In 2007 the U.S. Coast Guard hosted two Egyptian students for maritime law enforcement and seaport counterterrorism training. The Department of Homeland Security, through U.S. Customs and Border Protection, has engaged the GOE in customs capacity building efforts with training focused on airport and land border enforcement techniques.

The Road Ahead. In fiscal year 2008, the U.S. 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. However, Ethiopia is strategically located along a major narcotics transit route between the UAE and West African heroin markets, and the amount of drugs transiting via Ethiopia is increasing. 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 and Ghanaian traffickers use Ethiopia as a transit point on an increasing but limited basis. Although cannabis is grown throughout Ethiopia, it is mostly consumed in rural areas of the country. 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. The Illicit Drug Control Service (IDCS), formerly the Ethiopian Counter-narcotics 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 a significant producer, trafficker or consumer of narcotic drugs or diverted precursor chemicals. It is however becoming a more significant site for heroin and cannabis transiting. Cannabis is produced in rural areas throughout Ethiopia. Only a small portion of cannabis is being produced for export, primarily to neighboring countries. The majority of locally produced cannabis 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. The highest volume has been grown in and outside of the town of Shashemene, approximately 250 kilometers south of Addis Ababa. Information from late-2007 suggests that traffickers in and around Shashamene have begun using machines to process raw cannabis into a paste to smuggle abroad. IDCS also believes that cannabis is often sold concurrently 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 Action Against Drugs in 2007

The use of heroin and other hard drugs remains low, due primarily to the limited availability of such drugs, their high street prices, and low incomes of most Ethiopians. To the extent that such hard drugs are available 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 fairly 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. Since the March 2007 arrest of a Ghanaian national who had ingested nearly one kilogram of heroin after traveling from Iran, Ethiopian federal authorities have arrested 4 other Africans transiting Addis Ababa from Dubai with ingested heroin. The suspected smugglers claimed to have purchased the heroin pellets

in Iran and Dubai. Authorities now randomly search West Africans flying from “high risk” points of origin.

Law Enforcement Efforts. The IDCS has a small staff and inadequate budget, limiting its capabilities. There is currently no training offered for officers in IDCS, and IDCS has 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 four drug sniffer German shepherd dogs to examine, with a degree of randomness, cargo and luggage. Sniffer dogs are primarily trained and used to detect cocaine, cannabis, and heroin. 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 Ghanaian/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.

The Counter Narcotics Division (CND) was formed in 1993 and it coordinates drug enforcement in all regions of the country. There are about 150 officers in the CND that has provided training to regional police by translating DEA training manuals into Amharic. The CND also conducts drug awareness initiatives among the public and undertakes drug (cannabis) eradication. There are currently ten people working in Criminal Intelligence, and twenty people working on Airport Interdiction. The CND needs to increase its airport surveillance capabilities and adopt a more effective risk assessment and passenger profiling system.

The CND provided statistics from 1993-2002 on the number of arrests and seizures for heroin and cannabis. For heroin, 1993 was the peak year when thirty-six people were arrested and twenty-four kilograms of the drug were seized. For cannabis, 1997 was the peak year for seizures when 1,367 kilograms were seized, and 1998 was the peak year for arrests, when 771 people were arrested.

The Federal Police Counter narcotics Unit Acting Head Deputy Commander provided the following updated details on the amount of drugs seized by the Federal Police Counter narcotics Unit in 2006: 482 kilograms of cannabis, and 2.7 kilograms of heroin. Traffickers apprehended were Ghanaian, Tanzanian, Gabonese, British and mostly male. The total number of local users arrested in 2006 were: 118 Ethiopians (116 male, 2 female); 2 British nationals (both male); 1 French national (male); and 1 Sudanese national (male). Ethiopian Federal Police report having confiscated nearly 12 kilograms of heroin in 2005, and roughly 16 kilograms of heroin in 2004. On December 29, 2007, Ethiopian police arrested five Ethiopian nationals attempting to sell 73 kilograms of marijuana in one of the country’s largest drug busts in recent history.

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 on 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 use of machines to process raw cannabis into a paste to smuggle abroad is a relatively new development. The majority of cannabis is consumed at home, with quantities in both cases being moderate. Khat is grown widely in Ethiopia and is increasingly exported. While khat is legally produced in Ethiopia, it is considered to be an illicit and illegal drug in the United States.

Drug Flow/Transit. The amount of drugs transiting Ethiopia remains small to moderate. 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. Ghanaian and Nigerian traffickers are increasingly using Ethiopia as a transit point. Drug trafficking within Ethiopia is a growing problem as lax cargo inspections at airports in the country have made the transshipment of heroin from Pakistan and Afghanistan an increasingly significant problem.

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 counternarcotics clubs in high schools. Further, the education unit trains 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.

The Road Ahead. Ethiopia is likely to remain a moderate trafficking center for Africa because of its airport, transiting and the flight arrangements described above. The GOE's goal is to partner with the international community to improve its detection capabilities. While Ethiopia is not a significant producer, trafficker, or consumer of narcotic drugs, its location among the major narcotics routes—linking Southeast/Southwest Asian heroin production, European markets, and West African trafficking networks—make it a prime candidate for continued drug trafficking and transiting.

Ghana

I. Summary

Ghana has taken steps to combat illicit trafficking of narcotic drugs and psychotropic substances and has mounted efforts against drug abuse. It has active enforcement, treatment, and rehabilitation programs; however, corruption and a lack of resources seriously impedes interdiction efforts. 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 made limited efforts to combat the increasing drug flow in 2007, and arrests and seizures were down from 2006, although they were higher than 2005. Ghana-U.S. law enforcement coordination was strong in 2007, particularly at the policy level, but operational cooperation remained strained by the narcotics scandal, where seized narcotics in police custody went missing. Interagency coordination among Ghana's law enforcement entities also remained a challenge. Ghana is a party to the 1988 UN Drug Convention.

II. Status of Country

Ghana has become a significant transshipment point for illegal drugs, particularly cocaine from South America, as well as heroin from Southeast and Southwest Asia. Europe is 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) have seen 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.

In 2006, a series of cocaine scandals, including allegations of police complicity in cocaine trafficking, complicated efforts at interdiction. In May 2006, 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. The trial in this case is ongoing. The ruling party and the opposition political parties used the scandals to accuse each other of allowing the country to become a transshipment point for cocaine and heroin bound for other countries. The Government of Ghana (GOG) created a special commission after this case which identified several policy recommendations to lessen the chances of similar scandals in the future but, to date; the government has acted on only a handful of the recommendations. 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. The Narcotics Control Board (NCB) welcomed a new Director, in June 2007.

Trafficking has also fueled increasing domestic drug consumption. Cannabis use continues to increase as does its cultivation locally. Law enforcement officials have repeatedly raised concerns that narcotics rings are growing in size, strength, organization and capacity for violence. The government has mounted public education programs, as well as cannabis crop substitution programs. Diversion of precursor chemicals is not a major problem.

III. Country Action Against Drugs in 2007

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 until June 2007. In 2007, the NCB launched an intensive awareness campaign on radio and television to combat trafficking and created a new position which deals with demand reduction. In 2007, the NCB implemented a three year plan which focuses on strengthening operational capacity, promoting awareness and decentralizing NCB's operations. With the decentralization plan, the NCB plans to station officers in all major cities and border posts. NCB officers will be assigned to Kumasi and Tamale and the border posts at Aflao (Togo) and Elubo (Cote d'Ivoire) by year's end. As part of its rebuilding in 2007, the NCB hired 40 new officers during the year and plans to hire an additional 60 by the end of the year. The Ministry of Interior set up a fact-finding committee in 2006, to investigate the cocaine scandals and 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 are ongoing. Ghana and the UNODC signed a compact in February, which will create a joint port control team to inspect cargo arriving at Ghana's ports. The compact includes the donation of scanners and training for Ministry of Interior officials.

Each year since 1999, the NCB has proposed amending 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) in response to NCB complaints 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. In 2007, this amendment has worked well, as defendants are not released as easily as before. 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 Minister of Interior said in October that the government plans to amend the law soon. 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 2007. The government plans to present the money laundering bill to parliament as soon as it is finished.

Law Enforcement Efforts. In 2007, 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 presentation at trial. The NCB continued to work with DHL, UPS, and Federal Express to intercept packages containing narcotics. The NCB reported that it seized 286 kg total drug seizures of cocaine, heroin, and

cannabis from January to October 2007. The NCB said narcotics rings find trafficking cocaine to Europe easier and more profitable than obtaining heroin from the Far East and trafficking it to the U.S.

The NCB reported that from January 2006 to October 2007, 71 convictions were made against traffickers. In 2007, 41 individuals were arrested, but only 10 were convicted and sentenced, a decrease from 2006. The Ghana Police reported that, from January to September, it had 452 cases in various stages of investigation and prosecution. This represents a 26 percent increase in narcotics cases over the same period in 2006; while marijuana cases increased nearly 50 percent, suggesting that narcotics consumption among Ghanaians is increasing. Cases involving cocaine and heroin decreased by one-third. In addition to a number of Ghanaians, courts prosecuted citizens of other countries in cases involving cocaine and heroin trafficking, including a Nigerian who was on Ghana's most wanted list. At year's end, the courts had 31 cases pending. The NCB reported that the price of cannabis increased sharply in 2007, possibly as a result of eradication efforts. The price of a small parcel of cannabis (the size of a loaf of bread) in 2007 was approximately 10-15 cedis (\$10.86-\$16.29), while a wrapper or joint sold for 20 Ghana Pesewas (\$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, however, in 2007, Ghana expelled two Afghan nationals it arrested on suspicion of narcotics trafficking and placed them in U.S. custody. The two are now awaiting trial in the U.S. In 2007, Ghana also provisionally arrested a Ghanaian national wanted in the United States on charges of conspiracy to distribute and import heroin. The extradition hearing is pending.

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, taking advantage of his access to an airplane. This official was sentenced in March to a 15-year prison term. Also in March, three employees of KIA were arrested when 70 kilograms of cocaine were found in a Duty Free shop near the business class lounge.

Corruption among law enforcement officials remained a serious problem in 2007. In April, eight police officers were arrested for taking parcels of cocaine from a trafficker to sell them personally. A district court released the officers in June, but the Attorney General ordered them rearrested immediately. They are currently awaiting trial. In a separate case in June, nine police officers were arrested attempting to retrieve parcels of cocaine along Ghana's coast near Takoradi. Two other police officers were arrested in October for attempting to escort narcotics couriers through Police checkpoints. During the month of May, 50 police officers were arrested for misconduct during an operation aimed at ridding the Police Service of corrupt officers. In October, 19 more Ghana Police officers were dismissed for misconduct. In 2006, two officers from the Bureau of National Investigations were suspended for having inappropriate contact with Nigerian drug traffickers and 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 disappear from a police evidence locker.

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.

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. NCB, together with the Ghana Police investigated several cases of cannabis production and distribution, and destroyed cannabis farms and plants in 2007. 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 further in 2006 or 2007. 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 2007 revealed a variety of creative concealment methods, including cocaine hidden inside women's specially designed underwear, cans of palm oil and containers of yoghurt, and bricks of marijuana hidden in false-bottom crates which contained 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 is scheduled to last one or two years, and involves training Ghanaian customs officers on how to use the equipment, profiling, targeting, intelligence-gathering and other security techniques. From the

program's inception in November 2006 to September 2007, it has seized nearly 350 kg of cocaine, 2,200 kg of cannabis and 1 kg of heroin. 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 October 2007, two Afghan nationals were arrested by the Ghana Police, expelled by the government, and flown to the U.S. for conspiring to distribute heroin in the U.S.

In the past, direct flights from Accra played an important role in the transshipment of heroin to the U.S. by West African trafficking organizations. In July 2004, the Federal Aviation Administration banned Ghana's only direct flights to the United States for safety reasons. However, this did not appear to reduce the trafficking of drugs between the two countries. Instead, drug traffickers rerouted the flow through Europe, according to the NCB. In addition to multiple carriers providing connecting flights to the United States via Europe, 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. Two teenage British citizens were caught in July attempting to smuggle six kilograms of cocaine to London. The two remain in custody in Accra awaiting their trial date. 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 generally lagged behind preventative education and enforcement due to lack of funding, in 2007, the NCB announced that it has established treatment centers to assist addicts, adding to the. Three government psychiatric hospitals which receive drug patients and three private facilities in Accra run by local NGOs. The NCB's national drug education efforts continued in schools and churches, heightening citizens' awareness of the fight against narcotics and traffickers. In 2007, the NCB continued broadcasting TV programs to explain narcotics' effects on the human body, individual users and society. These programs are 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. In 2006, the Regional Minister for the Central Region (where many

fishing ports are located) met with local fishermen to discuss the problems of drug trafficking. The Government of Ghana, with UK assistance, launched Operation Hibiscus in October to spread awareness about the dangers of transporting narcotics. This program, featuring a cartoon character, will be carried in print and on television.

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 continues to benefit from training courses offered in FY 2002, 2004, and 2007. These interagency counternarcotics courses focused respectively on suppressing corruption, drug interdiction at Ghana's air and seaports, and narcotics investigations skills. 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. In 2007, following a DEA training course, the USG also donated drug-testing kits. The USG is also working with the Customs, Excise and Preventive Service (CEPS), and held a Customs training course in September. The USG is urging CEPS to establish an internal affairs unit that would strengthen internal anticorruption efforts along Ghana's borders. In August 2007, U.S. Customs and Border Protection and DEA presented a joint seaport border enforcement training, focusing on narcotics enforcement techniques to Customs, Excise and Preventative Service officials (CEPS). CBP and other USG's are also working with CEPS to establish an internal affairs unit that would strengthen internal anticorruption efforts along Ghana's borders.

The Road Ahead. Ghana made limited progress in 2007 in addressing its legislative and enforcement deficiencies, brought into the public eye by the 2006 narcotics scandals, and a long road lies ahead. The NCB's plan to hire sixty additional agents by year's end is a positive step forward. 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 a sustained political commitment, and it remains to be seen whether Ghanaian officials have the political will to see them through.

Guinea

I. Summary

Guinea is being used as a drug trafficking transit point to Europe. International narcotic traffickers take advantage of loose border controls and limited coastal patrolling capacity of many West African nations, Guinea included, using these countries as a launch point to lucrative drug markets in Europe and the U.S. Guinea's National Police and specifically their Office Central Anti-Drogue (OCAD) lack the staffing, training, and equipment to effectively enforce anti-narcotic laws. Guinea is a party to the 1988 UN Drug Convention.

II. Status of the Country

Guinea has over the past five years become a regular transit/storage point for narcotics trafficking heading into Europe and to a lesser extent the United States, according to the Director of OCAD. Heroin, cocaine and amphetamines are imported into Guinea, stored for some time, and then moved through Guinea to markets largely in Europe. The dominant traffickers in the Guinean drug trade come from Nigeria, Colombia and Ghana. Marijuana is cultivated locally and abused traditionally in Guinea.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The deterrent effect of recent arrests and seizure of a large amount of cocaine that was transiting Guinea were undermined when part of the seized drugs and cash drug proceeds were stolen by several OCAD police. Following this event, the Director General of Police appointed a new Director and Deputy for OCAD.

Law Enforcement Affairs. OCAD attempts to aggressively pursue the largely foreign drug traffickers operating through Guinea. However, OCAD lacks almost everything—training, equipment, investigating skills, and organizational motivation—to accomplish its mission. No reliable statistics exist for drug seizures in Guinea.

Corruption. Extensive corruption throughout the government and law enforcement agencies contributes to the difficulty of effective counternarcotics law enforcement. It is not government policy to encourage or facilitate illicit production or distribution of controlled substances, or to launder the proceeds of any transactions involving these illicit products. However, there have been unconfirmed reports that relatives of senior government officials engage in and facilitate illicit distribution of drugs and the laundering of the proceeds from illegal drug transactions. No officials or their family members have been accused of, or prosecuted for these crimes.

Agreements and Treaties. Guinea 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. Guinea is a party to the UN Convention against Transnational Organized crime and its protocols against migrant smuggling and trafficking in persons, and has signed but has not yet ratified the UN Convention against Corruption.

Cultivation/Production. Marijuana is cultivated locally and abused traditionally in Guinea. There is no significant export of marijuana or hashish to countries beyond Guinea's immediate neighbors in West Africa.

Drug Flow/Transit. Guinean Authorities are unable to prevent Guinean territory from being used as a storage depot, and transshipment point by international narcotics gangs moving cocaine, amphetamines and heroin to markets predominantly in Europe. In the past Conakry's port has been the primary point for trafficking. Drugs were simply secreted in cargo heading for Europe. Recent reports indicate that human "mules" moving swallowed drugs to Europe are increasing in frequency, both through the seaport and the airport.

Domestic Programs/Demand Reduction. Authorities report that drug use is growing despite their best efforts to stop it, although most Guineans are extremely poor and have no money for drugs. Currently the only drug education programs run by the GOG are counternarcotics campaigns in the standard curriculum of secondary schools.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. There have been no State department-funded drug programs in Guinea, although funds for assistance might become available beginning in 2009. In 2007, the U.S. Coast Guard provided seamanship and maritime law enforcement training to Guinea.

The Road Ahead. Guinea is simply too poor to reduce the onslaught of drug traffickers. It will need training and equipment assistance from the international community and support over years before it will be in a position to effectively enforce its anti-narcotics laws. The USG will work to support needed training and equipment assistance from the international community and to develop Guinea's capacity to effectively enforce its anti-narcotics laws.

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 at least 3 million opiate abusers in Iran, and probably more, with 60 percent reported as addicted to various opiates and 40 percent reported as casual users. With record levels of opium production in nearby Afghanistan, the latest opiate seizure statistics from Iran indicate 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 3,500 Iranian law enforcement personnel have died in clashes with heavily armed drug traffickers over the last two decades, and Iran reports that 46 more died in the first seven months of 2007. Iran undoubtedly does lose many security forces during engagements with drug traffickers. But there is also a long simmering Baluch ethnic insurgency and general lawlessness in the same geographical region; it is not clear what proportion of Iran's reported personnel losses in this region come solely from narcotics-related engagements.

Iran spends a significant amount on counter drug-related activities, including interdiction efforts and treatment/prevention education. Estimates range from \$250 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 and Iran itself 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, and some small share finds its way to Iraq. Although China is estimated to have the largest number of opiate abusers, 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 high share of unrefined opium in total opiate seizures made by Iranian enforcement (ca. 60 percent) through the first seven months of 2007 suggests that drug traffickers in Afghanistan have consciously decided to serve a growing opium market in Iran. Continuing large seizures of heroin and morphine base demonstrate no loss of interest among Afghan traffickers in meeting growing demand for heroin in Iran itself, and in Russia and Western Europe. These choices 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 2007

Policy Initiatives. Iran might have swung back to emphasizing interdiction, as opposed to prevention/treatment as a response to its domestic narcotics abuse problems. Among the signs of increased emphasis on interdiction is a sharp increase in the number of enforcement personnel said to be engaged in drug interdiction (from 30,000 to 50,000), changes in leadership of interdiction forces, and reports that certain enforcement units are now equipped with more high tech equipment to counter drug traffickers. Among the types of gear claimed to be in use now are: unmanned surveillance vehicles, real-time commercial satellite imagery, and night vision equipment. Some of the equipment was supplied to Iran under western-backed assistance programs. Iran's number-one-in-the-world seizure results can be pointed to as the "payoff" from this heavy investment in interdiction. But, even with exceptionally good results for opiate seizures projected for 2007, Iran might only be seizing 7.6 percent of Afghanistan's 2006/07 opium harvest (615 MT out of a total 8000 MT produced), and perhaps only a slightly higher share (12.8 percent-615 MT of an estimated 4800 MT) of the Afghan opium said to have entered Iran. So as Iran's own reports on narcotics issues suggest, the only real solution for Iran is success in limiting opium production in Afghanistan.

Law Enforcement Efforts. UNODC Executive Director, Antonio Maria Costa visited Iran's Drug Control Headquarters 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. While this elaborate system of fortifications no doubt plays an important role in narcotics control, 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. (Basij units also play a broader political role and are associated with suppression of internal dissent; the Basij fall under the authority of Iran's Revolutionary Guard Corps, an Iranian government entity designated under U.S. law for its support of terrorism). 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. Finally, there are numerous Afghan displaced persons and refugees on both sides of Iran's eastern border; some share of them also participate in drug trafficking. As a result, all three elements of lawlessness-narcotics trafficking, ethnic insurgency and smuggling occur simultaneously complicating the situation along Iran's eastern border.

Iran claims that 50,000 law enforcement personnel are regularly deployed along its border with Afghanistan and Pakistan. Interdiction efforts by the police and the Revolutionary Guards have resulted in numerous drug seizures. Iranian officials seized almost 360 metric tons (MT) of opiates (opium equivalent) during just the first seven months of 2007. Opiate seizures projected out for all of 2007—on track to be about 92 MT more than 2006—would set a new record for Iran's seizures of opiates (615 MT). 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 seven months of 2007 demonstrated the following interesting trends:

Unrefined (raw) opium seizures continued to increase sharply; projected out for the year, they were on track to increase by 18.7 percent to 369.6 MT, a new record for Iranian raw opium seizures. Seizures of refined opiates (morphine base and heroin) projected out for the whole of 2007 are also on track to rise, but by a more modest 15.5 percent above their 2006 level;

The share of raw opium in total opiate seizures was 60.1 percent, a relatively high level in line with recent years' results. Given the weight and bulk advantage of shipping opiates as either heroin or morphine base (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 25.6 percent of all opiates seized (opium equivalent), sharply up from last year's roughly 20.3 percent share; not since 1992 has the share of heroin seized been this high;

Morphine base seizures projected for the whole of 2007 were on track to decline by 16.6 percent and the share of seized morphine base in total opiates seized fell to just 14.3 percent of the total. Refineries in Afghanistan seem to be turning out more heroin, as opposed to morphine base. 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 (morphine base), and then on to markets in Europe.

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.

Hashish seizures in Iran in 2006 were 59.5 MT. This represents a decline in seizures of 11.6 percent from seizures of 67.3 MT during all of 2005. Hashish seizures during the first seven months of 2007 were 55.6 MT. If this rate of hashish seizures could be sustained for the whole of 2007, total seizures for the year would increase by 70 percent over 2006's results and set a new record at 95.3 MT. Even under the assumption that Iranian enforcement has increased the efficiency with which they are seizing all drugs, these high seizure results for hashish together with the equally high results for opiates suggest an across-the-board explosion in demand for all drugs in Iran.

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 and cannabis in place, has risen dramatically in the last several years. In 2003, "other" seizures were reported at 1,647 kg. Then in 2004 and 2005, seizures jumped to 12.4 MT and 13.5 MT, respectively. Seizures in this "other" category in the first seven months of 2007 were running at a 17.8 MT annual rate. If this rate of seizures/crop destruction could be maintained, it would represent a new high for this category. It is indicative of the overall drug problem in Iran that large quantities of synthetic drugs like Ecstasy and methamphetamine are seized there in addition to opiates. The considerable weight of drugs seized/burned also suggests that drug cultivation (poppy and cannabis) in Iran might be larger than previously thought. There have also been reports of the seizure/destruction of small synthetic drug laboratories in Tehran during 2007.

Drug offenses are under the jurisdiction of the Revolutionary Courts. Punishment for narcotics offenses is severe, with death sentences possible for possession of more than 30 grams of heroin or five kilograms of opium. Those convicted of lesser offenses may be punished with imprisonment, fines, or lashings, although it is believed that lashings have been used less frequently in recent years. Offenders 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. As in other countries with serious drug abuse problems, many other crimes are associated with drug abuse; among these are armed robberies and assaults, home break-ins, and kidnappings for ransom.

Corruption. Corruption plays an important role in narcotics trafficking in Iran. Some corruption cases reached the courts in Iran, and were also featured in media reports, though few involving narcotics-related corruption. 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 the seriousness of this campaign since some at the top levels of government administration appear to escape punishment, and live luxurious life styles beyond what their official incomes could explain. (Although it is widely agreed inside Iran that official corruption is widespread, much of this corruption is related not to drugs but rather to senior officials' control of the huge industrial and trading conglomerates that control a majority of Iran's legal economic activity). 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 Iran hosted an expert round table and review of its counternarcotics efforts by this group in 2005.

Cultivation/Production. In 1998, and again in 1999, a 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 production, although the survey could not rule out the possibility of some cultivation in remote areas. 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 also been more indications in Iran's press of opium poppy cultivation in remote areas. The Iranian press reported in the spring and summer of 2006 about government interdiction force operations targeting opium poppy cultivation in isolated, mountainous regions of western Iran, northwest of Shiraz. They quote Iranian government officials who link the small-scale cultivation to the poverty of communities living in these isolated regions. But this indication that at least poppy production remains marginal contrasts with large reported seizures/destruction of drugs in the Iranian seizure category labeled "other". There is insufficient information to resolve this apparent contradiction, but the majority of observers view drug crop cultivation in Iran itself as marginal. 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. The Iranian government has tried to counter this problem by assigning a drug enforcement unit headquarters in Zahedan. Foreign embassy observers report that Iranian interdiction efforts have disrupted smuggling convoys sufficiently to force smugglers to change tactics and emphasize concealment more than they have in the past. The use of human "mules" is on the rise. Individuals and small groups also attempt to cross the border with two to ten kilograms of drugs, in many cases either ingested for concealment or hidden in backpacks or hand luggage. Trafficking through Iran's airports also appears to be on the rise, with numerous reports that couriers transit Iranian airports, bound for foreign destinations. There are even foreign trafficking rings operating in Iran, as was revealed recently when a large international trafficking group led by Africans and shipping drugs worldwide was apprehended. Still, many local traffickers in Iran move

drugs in large armed convoys on Iran's eastern border, and are ready for a fight if challenged. Interestingly, expatriate Iranian nationals play a prominent role in narcotics trafficking in Japan, though the drug of choice there is methamphetamine not opiates.

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 an important transit point for these opiates, most of which are bound for consumption in Russia and Europe. Some refining of opiates takes place in the Kurdish areas of Turkey, and in other parts of Eastern Turkey. A large share of the morphine base, which represented almost 14.4 percent of all opiates seized in the first seven months of 2007, in Iran, is moving west for additional refining. Important quantities of the approximately 25 percent of opiates moving as heroin also transit Turkey on their way to Europe, while some heads to Russia. Significant quantities of raw opium are consumed in Iran itself, but some raw opium also moves on to the west as opium, while the largest share of opium, not consumed in Iran, is 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, and residents appear complicit.

The southern route also passes through sparsely settled desert terrain, then passes through Tehran on its way 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. Such movement is facilitated by the fact that the goods are "in transit" and never officially clear customs and enter Iran. Iran actively participates in the international systems for pre-notification of exports for precursor chemicals, and maintains a licensing and inspection regime for domestic firms authorized to use dual-use precursor chemicals. Iran has also made a number of important seizures, mostly at Bandar Abbas, of acetic anhydride, used in the refining of heroin. All precursor chemicals seized were consigned to Afghanistan. Trafficking through Iran is facilitated by wide-spread smuggling traditionally used to provide necessities and small luxuries like TV satellite dishes, and to escape high taxation. There are also reports that enforcement authorities accept bribes to pass shipments, and fail to enforce laws that prohibit street sales of narcotics and other contraband 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. The UAE is a prominent transshipment destination and small loads of opiates are smuggled across the Persian Gulf to be placed in containerized cargo shipments. 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 3 million plus 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 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 the share of heroin in Iran's total opiate seizures has been rising since the mid-eighties and reached more than 25 percent (opium

equivalent) in the first seven months of 2007. Afghan traffickers are also apparently shipping proportionally less morphine base.

Continuing large seizures of opium by Iranian enforcement suggest that opium is 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 of synthetic drugs are also regularly reported, and this year there were reports that synthetics were being produced in Iran itself. Since synthetic drugs are favored by young people, this suggests that they 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 report, quoting the head of Tehran’s Specialist Treatment Addiction Center saying that “crack heroin” use in Tehran had doubled in 2006. 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 as 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 and costly interdiction of drugs moving into and through its territory. 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.

Should broader bilateral policy events in the future provide an occasion for any U.S.-Iranian information exchange or cooperation on any official policy area, drug education or enforcement may be an early area for examination. 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.

Iraq

I. Summary

Senior Iraqi Government officials acknowledge that illicit drugs enter Iraq from Iran, some to be used by Iraqis, but most transshipped south out of Basra or north through Iraqi Kurdistan. However, officials deny that illicit narcotics are a major problem in Iraq. Indeed, faced with an active insurgency and intense sectarian violence, the Government of Iraq (GOI) maintains no drug-abuse-specific statistics. The Iraqi Ministry of the Interior (MOI) has reported no known production of illicit drugs in Iraq. The MOI, which also supervises the Border Security Police, does not track narcotics-related arrests or seizures.

According to the Ministry of Health (MOH), the health system is under-resourced and overwhelmed by trauma cases. Given the relatively modest drug abuse problems in Iraq, the MOH has not organized special treatment options for drug abuse. There are no controls over prescription drugs and no GOI focus on illegal drug use. Smuggling or theft of chemicals of any sort is usually related to bomb-making activities, not drug manufacture or abuse. Money laundering is widely employed to support sectarian militias and/or terrorist groups, but is less apt to be used to launder the proceeds of narcotics sales. The availability of both chemical precursors and money laundering networks illustrate Iraq's vulnerability to narcotics trafficking should the security environment improve. The three GOI anti-corruption agencies reported no corruption cases involving narcotics. Iraq is a party to the 1988 UN Drug Convention.

II. Status of Country

Iraq is not a significant producer of illicit drugs or precursor chemicals. U.S.D.A. (Department of Agriculture) advisors in Iraq opined that most of Iraq is too arid to grow plants that could be used for illicit drugs. In the south, where sufficient water is available, efforts to farm marijuana instead of rice have not succeeded. Due to its geographical location near drug-producing countries (Afghanistan) and drug-consuming or transshipping countries (Iran), Iraq is a transit country for illicit drugs. Iraq's vast desert borders and tenuous security situation make it vulnerable to illicit drug smuggling operations. However, due to numerous military checkpoints and subversive activity outside of military-controlled areas, the amount of narcotics being smuggled in and through Iraq is estimated to be low. Iraq is not a major drug-consuming country: most Iraqis (80 percent of whom currently receive food rations from the government) would seem hard-pressed to find the cash to support a drug habit.

III. Country Actions Against Drugs

Policy Initiatives. The U.S. Department of Defense (DoD), in conjunction with the Department of State (DoS) Bureau of International Narcotics and Law Enforcement (INL), has begun an extensive training program for Iraqi Border Security Agents. This basic skills training program for Iraqi Border Security Forces includes a module on narcotics.

Law Enforcement Efforts. While Iraq lacks a coordinated national anti-narcotics effort, several Iraqi police commanders have requested training from the U.S. in identifying and prosecuting narcotics traffickers. The U.S. DEA has sent test kits for narcotics to several police units. Training in how to use these kits is done by U.S. contractors. Several provinces have anti-narcotics units and

have requested funding, training and equipment for forensics laboratories to assist them in enforcing the strict anti-narcotics laws. To date, the GOI does not have official statistics on arrests and convictions for narcotics-related crime. The Iraqi Ministry of Justice (MOJ) reports that the vast majority of inmates confined in Iraq's prisons are there on terrorism-related charges. U.S. Customs and Border Protection (CBP) provides advisory and training assistance to Iraqi Department of Border Enforcement officials at high threat locations along Iraq's borders. CBP also provides assistance to Iraqi Customs, Immigration, and Border Guards to help ensure their policies, procedures, and capabilities enhance Iraqi border control efforts.

Corruption. While corruption is a serious problem in Iraq, Iraqi officials do not seem to be involved with narcotics-related corruption. Before 2003, the GOI enforced strict prohibitions on narcotics abuse; current Iraqi cultural norms discourage recreational drug use. Consequently, current GOI officials are not viewed as encouraging or facilitating illicit production or otherwise supporting drug-trafficking. INL has provided \$21 million in assistance from the FY-07 supplemental budget to train Iraqi anti-corruption agencies. Thus far, none of the corruption investigations undertaken have involved narcotics.

Agreements and Treaties. Iraq 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 on Psychotropic Substances.

Drug Flow/Transit. Iraq is primarily a narcotics transit country. This presents many challenges for its new government. The border area, where most of the smuggling occurs, continues to experience violence and instability. The Commander of the Iraqi Drug Squad in the northern Kurdish province of Sulaymaniyah reported 117 arrests for drug smuggling over the past two years. His squad sees opium, heroin, and cannabis coming over the border in mule trains, cars and trucks operated by Iranian gangs. He reports that the drugs are moved on to Turkey, where the opium is refined into heroin. From there, the drugs move on to Western Europe.

Domestic Programs. With its current focus on anti-insurgency operations, the GOI has no domestic programs to respond to the relatively few instances of narcotics-related problems. There are no prescription drug controls in Iraq. Health officials believe that Valium, a drug found in Iraqi correctional facilities and health institutions, is the drug most commonly abused by the Iraqi population.

IV. U.S. Policy Initiatives and Programs

Road Ahead. The USG will continue to support the training of the Iraqi Defense Forces, the Iraqi Police, the anti-corruption agencies, the Border Security Forces, and economic policy-makers in terms of agriculture and banking. The U.S. will encourage Iraq to direct more resources towards narcotics-related crime and abuse, and will assist Iraqi ministries to improve their capacity in preparation for a period when improved security permits a more typical enforcement effort.

Israel

I. Summary

Israel is not a significant producer or trafficking point for drugs. The Israeli National Police (INP), however, report that in 2007 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 there was an increase in the transit of heroin through Israel from Jordan to Egypt. Israeli citizens have also been part of international drug trafficking networks in source, transit and distribution countries. In 2007, Ecstasy drug seizures remained generally consistent with those of previous years, with the exception of a one-time seizure of 777,000 Ecstasy tablets. 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 2007 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 80-100 metric tons of marijuana, 25 metric tons of hashish, 20 million tablets of Ecstasy, three 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. There is widespread concern about the abuse by minors of household items as inhalants, and the availability of chemical analogs of banned substances not explicitly prohibited under the law.

III. Country Actions Against Drugs in 2007

Policy Initiatives. In 2007, 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. Israel established a new Pharmaceutical Crime Unit (PCU) in the Ministry of Health, with a mandate to monitor prescription drug diversion, anabolic steroids, and designer drugs. The PCU is currently investigating the black market in Subutex (A licit, prescription opiate used in drug treatment) and illegal trafficking in prescription drugs such as Ritalin. The PCU will be attaching a "roving pharmacist" to the Customs Authority at points of entry.

Law Enforcement Efforts. Some seizure statistics have been revised from last year's report. In 2007, the INP recorded seizures of marijuana totaling 1,465 kg, down from 5,957 kg in 2006. To some extent, this reflects a market substitution of hashish for marijuana, although hashish seizures also declined to 734 kg, down from 964 in 2006. Heroin and cocaine seizures remained fairly constant at 94 kg and 35 kg respectively, as did LSD at 1,932 blotters. The INP opened 22,830 total drug offense files in 2007, a small decrease of 0.7 percent from the previous year. Of these, 14,750 were for use of dangerous drugs, 3,016 for trafficking in dangerous drugs, and 4,771 for possession of drugs in quantities indicating they could not solely be for personal use.

Drug Seizures*

Cocaine (kg)	
2007	35
2006	42
2005	169
2004	32.4
Heroin (kg)	
2007	94
2006	70.3
2005	140
2004	68.5
Marijuana (kg)	
2007	1,465
2006	5,032
2005	10,000
2004	16,020
Hashish (kg)	
2007	734
2006	898
2005	1,022
2004	913
LSD (blotters)	
2007	1,932
2006	11,476
2005	2,880
2004	75,741
MDMA (Ecstasy tablets)	
2007**	891,300
2006	112,985
2005	266,996
2004	313,802

Opium (kg)	
2007	0.0
2006	0.1
2005	8.4
2004	0.05
Cathinone (kg)	
2007***	0.0
2006	8.7
2005	7.2
2004	N/A

*2007 data represents seizures from January through November.

Source of data: Israel National Police, Research Department.

**Of the 891,300 Ecstasy tablets seized in 2007, 777,000 were seized from one container in the port of Haifa arriving from Europe.

***Availability of Cathinone diminished after it was banned under Israeli law, but authorities continue to pursue analogs of the drugs.

The Government of Israel has taken steps to clarify a legal grey area concerning chemical analogs of illegal drugs, termed “dangerous substances.” Through slight alterations in the chemical components of drugs such as cathinone, GHB, and amphetamines, vendors have avoided conviction under existing legislation. As a result, many of the dangerous substances are readily available in city kiosks and are popular among youth. Municipal police, in cooperation with the Ministry of Health and the Israel Anti-Drug Authority, stage regular raids on kiosks that sell the analogs and are authorized to shut them down for one month. The inter-ministerial Committee on Psychoactive Drugs studies new drug trends, and makes recommendations for amendments to existing legislation. In 2007, the law was amended to include several new synthetic drugs now prevalent in Israel. Bans on 12 other substances are set to take effect on January 1, 2008.

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 2007, 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 is 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, and the 1961 UN Single Convention on Narcotic Drugs as amended by the 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 has been a member of the

Commission on Narcotic Drugs in the UN Office on Drugs and Crime (UNODC) since 2003, and was elected to a new term on January 1. Israel has signed but not yet ratified the UN Convention against Corruption. Israeli companies participate in UN operations Topaz and Purple to restrict the abuse of precursor chemical substances. Israel is one of 36 parties to the COE European Treaty on Extradition and has separate extradition treaties with several other countries, including the U.S. Under the umbrella of the UNODC, Israel has restarted bilateral cooperation with the Palestinian Authority on reducing demand and supply of narcotics. Israel also cooperates on a regular basis with the Anti-Narcotics Department in Jordan. This has resulted in increasingly effective control of the Israel-Jordan border area, as reflected in interdiction figures.

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 domestic extradition law, the Protocol also provides a much-improved framework for dealing with fugitives who claim Israeli citizenship and residency and allows inclusion of hearsay evidence in U.S. extradition documents. Israeli domestic law regarding lapse of time in certain circumstances, however, may prohibit extradition of fugitives whose cases are more than 10 years old. This issue is being litigated in a pending U.S. extradition request for an alleged pedophile, who has been wanted for prosecution since 1985.

Cultivation/Production. The vast majority of drugs consumed in Israel are produced in other countries. The INP reported a continuing trend in the development of domestic marijuana hydroponics cultivating stations, with four grow operations raided in 2007 and ten in 2006. The 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 fulltime marijuana cultivation. The INP is currently researching whether such operations have succeeded in significantly increasing the THC content in marijuana. Domestically produced analogs of Ecstasy, dimethyl cathinone, and amphetamines were manufactured and available in many urban kiosks under a wide variety of ever-changing names. Cathinone is extracted from the “khat” plant, which is legal in Israel and widely cultivated within Israel’s Yemenite and Ethiopian immigrant communities. The INP seized 27 kg of paracetamol and other chemical substances in the Negev region, used by Bedouin smugglers to cut heroin.

Drug Flow/Transit. The intense security presence and surveillance along Israel’s borders generally makes 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. As a result of the 2006 Second Lebanese War, security was tightened in the north, more drugs smugglers increased activity across the relatively peaceful borders with Jordan and Egypt, where Israel has fewer security resources deployed.

In 2007, 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 Egypt. 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 INP reports that in 2007, 9.3 kg of heroin was seized on the Egyptian border, 23 kg on the Jordanian border, and 9.98 kg on the Lebanese boarder. The Israeli Bedouin trade the heroin in Egypt for cash, Moroccan hashish and marijuana, for which there is a large Israeli market. 36 percent of the

hashish and 87 percent of the marijuana seized by INP in 2007 was interdicted at the Egyptian border. This year, Moroccan and Afghan hashish traded across the Egyptian boarder largely displaced the previous source countries of Lebanon and Jordan.

The Customs division of the Israel Tax Authority (ITA) plays a key role in interdicting the transit of drugs through Israel's ports. In cooperation with the INP, 25 kg of heroin was discovered by the ITA in four operations along the Jordanian border; 13 kg of hashish was found in the Tel Aviv mail; 600g of cocaine was found in CD packages at Ben Gurion airport; ITA also detected the shipment of hundreds of thousands of Ecstasy tablets through the port of Haifa, along with 30kg of MDMA.

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 2007, the IADA implemented treatment programs targeted to women, youth, new immigrants, and other specific segments of the population. Israel pursues a harm-reduction approach in conjunction with aggressive enforcement, offering counseling, sanitary services, food, and needle exchange at clinics distributed throughout the country. If addicts are willing, they are taken directly to treatment facilities, where they cease taking drugs and have access to professional training and family therapy.

In 2007, the Ministry of Education and the IADA agreed to integrate drug prevention as a mandatory part of the school curriculum for all ages. The IADA is now providing instruction to K-12 teachers on how to conduct drug education. The Israel Defense Forces also agreed in 2007 to allow the IADA to provide drug prevention education to soldiers entering and exiting the military. In 2007, the IADA spearheaded the introduction of a prototype mobile drug detection unit that will be used to prevent the operation of motor vehicles by drivers under the influence. In an amendment to existing legislation, the GOI determined in 2007 that anyone refusing a drug or alcohol test will be considered under the influence. In 2007, alcohol abuse was added to the Authority's mandate.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA Country Office In Nicosia, Cyprus and Israeli officials characterize cooperation between the DEA and INP as outstanding. The ITA also maintains direct cooperation with Immigration and Customs Enforcement offices in Rome, and has conducted joint anti-smuggling operations. There is a monthly bilateral exchange on major drug seizures in both countries. The Pharmaceutical Crime Unit works directly with the DEA on anabolic steroid efforts, and will be receiving a course on dual-use drug precursor diversion in 2008.

Road Ahead. The DEA Country 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 works through the Office of International Relations within the IADA to pursue this objective. Scientists at the IADA would like to establish a relationship with the National Institute on Drug Abuse and the Office of National Drug Control Policy, to facilitate exchanges between the two agencies.

Jordan

I. Summary

Jordan's geographical location between drug producing countries to the north and east and drug consuming countries to the south and west continues to make it primarily a transit point for illicit drugs. This being the case, the Public Security Directorate (PSD) perceives that the amount of drugs transiting through Jordan continues to grow. Historically, Jordanians do not consume significant quantities of illegal drugs, and according to the PSD there are no known production operations in the country. Statistics for the first 11 months of 2007 show total drug cases for the year will be on par with the numbers from 2006. The number of persons involved and the number of abusers are also consistent with those from 2006. The PSD attributes the lack of any substantial increases 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. The age range for people arrested for drug related crimes is predominantly between 18 and 35 years old. The PSD continues to see an increase in drug trafficking through its border regions, especially with Iraq, and drugs transiting Queen Alia International Airport (QAIA). 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-AND (Public Security Directorate-Anti-Narcotics Agency) 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 important; they believe most drugs entering Jordan are moving to markets elsewhere.

III: Country Actions Against Drugs in 2007

Policy Initiatives. Jordan continues its drug awareness campaign focused on educating people of the dangers of drug use. This includes providing educational presentations in schools and universities throughout the country. The PSD-AND has created a program it calls "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 implemented an outreach program for the country's religious institutions whereby some Imams are trained and given literature on drug prevention topics for inclusion in religious services. Jordan publishes a number of brochures and other materials aimed at educating Jordan's youth on the dangers of drug abuse. Jordan is in its third year of producing cartoons aimed at younger children designed to dissuade youngsters from trying drugs. Jordan will be taking this program to the next level when it will make counternarcotics abuse movies directed at Jordanian youths in the near future. PSD publishes an anti-narcotics magazine, and maintains a website in English and Arabic for drug abuse awareness and prevention (<http://www.anti-narcotics.psd.gov.jo/English>).

Jordan has also worked with the UNODC in providing drug prevention training. In early 2006, Jordan provided the first of a series of drug interdiction training to Palestinian anti-narcotics officers. In mid 2007, Jordan was included in a regional program to increase access to prevention services for drug use and HIV/AIDS in prison settings. In late 2007, Jordan implemented a

program to strengthen community resources in providing drug abuse treatment and rehabilitation for vulnerable groups in the country.

Law Enforcement Efforts. Jordan's PSD maintains an active anti-narcotics bureau, and established excellent relations with the U.S. Drug Enforcement Administration (DEA), Nicosia Country Office based in Cyprus. PSD-AND has seen an increase in cocaine and other drug trafficking through QAIA (Queen Alia International Airport) and has increased interdiction efforts there. GOJ authorities continue utilizing x-ray equipment on larger vehicles at its major border crossings between Syria and Iraq. This practice netted numerous drug seizures in past years and continues to do so in 2007. Seizures of captagon tablets are about the same as last year. However, recent Jordanian media coverage has highlighted captagon seizures giving the perception of increased trafficking of this drug. PSD claims not to have observed any widespread use of the drug in Jordan.

Drug Seizures

Calendar Year	2004	2005	2006	2007 (11 Months)
Cannabis kg	1,931.017	1,485.477	793.715	340.793
Heroin kg	186.12	117.842	131.300	42.833
Cocaine kg	32.97	0.485	5.260	7.474
Hashish Oil Lit.	—	35.5	14.5	—
Captagon (Tablets)	9,774,002	11,158,083	10,944,870	10,079,616
Opium kg	21.9	3.5	19.928	—
Total Drug Cases	1,691	2,041	1,973	1,896
Number of Arrests	2,514	4,792	3,158	3,252
Number of Abusers	2,158	4,027	2,577	2,526

The PSD reports that 85 percent of all seized illicit drugs coming into Jordan are bound for export to other countries in the region. Drugs moving through Jordan 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 the last two years. For the last four years, the PSD has continued to observe an increase in trafficking of hashish and opium from Afghanistan through Iraq into Jordan.

Corruption. Jordanian officials report no narcotics-related corruption investigations during 2007. 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.

Agreements and Treaties. Jordan is party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention as amended by the 1972 Protocol. Jordan is a party the UN Convention against Corruption and has signed but not 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. Jordan signed a Customs Mutual Assistance Agreement in 2004.

Cultivation and Production. Existing laws prohibit the cultivation and production of narcotics in Jordan. These laws have been effectively enforced. The majority of Jordan's territory is also not suitable for the cultivation of narcotic drug plants such as marijuana and opium poppy.

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. PSD-AND reports, however, that drug flow through QAIA is on the rise. While law enforcement contacts confirm continued excellent 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. Jordan is bordered by Israel and the West Bank on the west, Syria on the north, and Iraq and Saudi Arabia to the east. Most of Jordan's borders are difficult to effectively patrol. The stationary posts along these areas lack the equipment and infrastructure to effectively patrol and monitor border traffic.

Domestic Programs/Demand Reduction. Jordan increased the scope of its programs on drug abuse awareness, education, and rehabilitation in 2007. Education programs target high schools, colleges, prison inmates, and religious institutions. Authorities continue to provide educational presentations in schools and universities throughout the country. As noted above, Jordan created the "Friends of the AND" Program to increase access to at risk youth. Jordan also publishes a number of brochures and other materials aimed at educating the country's youth. Jordan's anti-narcotics cartoon program aimed at younger children and designed to dissuade youngsters from trying drugs has continued to flourish. Cultural and religious norms also help to control drug use. In conjunction with the UNODC, 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. A new, larger rehabilitation facility that will accommodate more patients is in the planning phase and PSD hopes to begin construction in the near future. PSD reports that it has treated over 165 patients at its drug rehabilitation center to date in 2007. 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 anti-narcotics efforts.

The Jordanian Drug Information Network (JorDIN) was officially established in 2005 with help from the UNODC. Jordan continues to develop the network which will serve as an information sharing institution for all of Jordan's treatment providers and anti-narcotics authorities. PSD plans

to fully implement JorDIN in early 2008. The network will reportedly provide accurate statistics of Jordan's drug abusers and levels of treatment success.

IV. Policy Initiatives and Programs

Policy Initiatives. The DEA Nicosia Country Office, RSO Amman, and the PSD have an excellent working relationship. The DEA and the interagency Export Control and Related Border Security (EXBS) Program are in the process of providing Jordan with 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. To date, licensing and export agreements have not been approved for some of these technologies. The equipment would also be extremely beneficial to Jordan's anti-narcotics programs. In October 2007, EXBS provided PSD with a portable x-ray van for use in screening containers and vehicles at the Port of Aqaba. This equipment primarily screens for weapons, but can detect density anomalies that may indicate the presence of drugs and/or other contraband. 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. U.S. Customs and Border Protection (CBP) has supported USG efforts to strengthen Jordan's border security capabilities through the EXBS program and customs capacity building. Though both the EXBS program and capacity building support the implementation of international standards to secure and facilitate global trade, they also include training and technical assistance focused on border enforcement techniques and methods. In 2007, CBP conducted four related training missions, which trained 183 Jordanian Customs officials.

The Road Ahead. The USG expects continued strong cooperation with the Jordanian government in counternarcotics efforts and related issues.

Lebanon

I. Summary

Lebanon is not a major illicit drug producing or drug-transit country, but an apparent resurgence in the cultivation of hashish bears close monitoring. The Lebanese government reported increased but still not significant quantities of hashish and opium cultivation in 2007, and continues to act to prevent illicit drug cultivation and to eradicate illicit crops before harvest. In 2007, crop destruction operations were extremely hampered by the ongoing political crisis in Beirut and overstretched security commitments of the armed forces, which provide the security for drug enforcement police in the field. Also, illicit crop cultivation remains an attractive option for some farmers due to a difficult economic climate and a lack of economically viable alternate crops. There is practically no illicit drug refining in Lebanon, and minimal production, trading or transit of precursor chemicals. Drug trafficking across the Lebanese-Syrian border saw a slight increase in 2007, in part due to the security situation in the north where the Lebanese Army fought a three-month battle against Islamic militants and was not available for counternarcotics work during the summer hashish growing season. Also, there were isolated press reports of smuggling across the Lebanese-Israeli border. The Government of Lebanon (GOL) continued its ongoing drug demand reduction efforts through public service messages and awareness campaigns. Lebanon is a party to the 1988 UN Drug Convention.

II. Status of Country

At least five types of drugs are available in Lebanon: hashish, heroin, cocaine, methamphetamine, and other synthetics, such as MDMA (Ecstasy). The use of hashish and heroin are reported to be on the rise. Small quantities of cocaine arrive in Lebanon to meet local demand, and the government reported increased abuse of synthetic drugs. Lebanon is not a major transit country for illicit drugs, and most trafficking is done by small-time dealers rather than major drug networks. Cannabis and opium derivatives are trafficked to a modest extent in the region, but there is no evidence that the illicit narcotics that transit Lebanon reach the U.S. in significant amounts. South American cocaine is smuggled into Lebanon primarily via air and sea routes from Europe, Jordan, and Syria, or directly to Lebanon. Lebanese nationals living in South America, in concert with resident Lebanese traffickers, often finance these operations. Synthetic drugs are smuggled into Lebanon primarily from Eastern Europe for sale to high-income recreational users.

The stagnating economic situation in rural Lebanon and the lack of effective investment in alternative crops continues to make illicit crop cultivation appealing to local farmers in the Bqaa Valley in eastern Lebanon, though in ever-lesser quantities due to efforts by the government to eradicate illicit crops. The government also continued a counternarcotics campaign to discourage new planting. There is no significant illicit drug refining in Lebanon. However, small amounts of precursor chemicals, shipped from Lebanon to Turkey via Syria, were thought to be diverted for illicit use in Lebanon. Legislation passed in 1998 authorized seizure of assets if a drug trafficking nexus is established in court proceedings.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The Ministry of Interior considers counter narcotics a priority. The government has continued vigorous campaign to discourage drug use by expanding public awareness on university campuses, through media campaigns and advertisements.

Law Enforcement Efforts. In 2007, the Government of Lebanon faced major hurdles in implementing its illicit crop eradication program. Statistics from the Judicial Police this year show that only 8,000 square meters of hashish were eradicated in 2007, fewer than in previous years, because the armed forces—which provide protection for the eradication program—were overstretched with other security commitments. Furthermore, some hashish farmers started to fight with the police and have threatened local tractor owners who are hired each year by the government to plow up the illegal crops. The police decided to halt the eradication program for fear it could provoke a popular uprising among the farmers against the government.

Lebanese law enforcement officers cooperated with foreign officials bilaterally and through Interpol in 2007. Several European and Persian Gulf countries have drug enforcement liaison offices in Beirut with which local law enforcement authorities cooperate. The UNODC and the UNDP gave the Government of Lebanon a \$362,000 grant for the years 2004 to 2006 to enable “the development and implementation of a national action plan on drug demand reduction.” The Internal Security Forces (ISF, Lebanon’s national police) stated that from January to October 2007 they arrested 1,251 people for drug use and 445 for dealing, distribution, and smuggling.

Corruption. Corruption remains endemic in Lebanon in all levels of government, but the U.S. is unaware that government corruption is systematically connected with drug production or trafficking or the protection of persons who deal in illicit drugs. The Government of Lebanon does not encourage or facilitate illicit production or distribution of controlled substances. While low-level corruption in the counter narcotics forces is possible, there is no evidence of wide-scale corruption within the Judiciary Police or the ISF, which appear to be genuinely dedicated to combating drugs. The parliament has yet to ratify 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. Lebanon is no longer a significant drug producing country, but there has been an increase in hashish cultivation as many farmers appear to be resuming to plant illicit crops because they believe the crops will not be destroyed. In remote areas in the north where few other viable options exist, illicit crop production remains an attractive option. Lebanese police estimated that some 16,000 acres (6,500 hectares) of hashish and opium were planted this year in the fertile Bika’ valley. Due to the halt in the annual eradication program, only two percent of this hashish crop was destroyed, but early spring 2007 operations by counternarcotics police did result in 95 percent of the much smaller opium poppy crop being destroyed.

Drug Flow/Transit. Illicit drug trafficking via traditional smuggling routes was curtailed by joint Syrian-Lebanese operations through 2004, and the two sides have continued independent anti-trafficking operations since the Syrian withdrawal from Lebanese territory in 2005. Drug trafficking along the Israel-Lebanon frontier has been negligible since the Israeli withdrawal from Lebanon in May 2000 and the subsequent near-sealing of the UN-demarcated Blue Line. However, press reports indicate trafficking may have increased after the July-August 2006 war between Israel

and Lebanon. The primary route for smuggling hashish from Lebanon during 2007 was overland through Syria to Arab countries such as Saudi Arabia, Egypt, Kuwait, the United Arab Emirates, and via sea routes to Europe. According to the ISF, large exports of hashish from Lebanon to Europe are more and more difficult for smugglers due to increased seashore patrols and airport control.

Domestic Programs (Demand Reduction). Lebanese leaders understand that they need to address the problem of illicit drug use, but there is inadequate coordination between concerned ministries and NGOs. Since 2002 the government has sponsored public awareness campaigns to discourage drug use. Textbooks approved for public schools contain a chapter on narcotics awareness. The current law on drugs dictates that a National Council on Drugs (NCD) be established to provide substance abuse treatment, prevention, awareness, and a national action plan, but the NCD has not yet been formed.

There are several detoxification programs, but the only comprehensive rehabilitation program is Oum al-Nour (ON), a Beirut-based NGO funded in part by the Ministries of Social Affairs and Public Health. ON operates two drug treatment centers with a maximum capacity of 120 patients and offers a year-long residential program. In 2003, ON received a \$27,000 award from Bureau for International Narcotics and Law Enforcement Affairs, Department of State to furnish and equip a men's drugs rehabilitation center in Keserwan, Mount Lebanon. ON offers no outpatient programs but engages in prevention programs such as advertisements and education programs. There are several other organizations that provide prevention and treatment services. A drug rehabilitation center opened in Zahleh in 2005 run by the Saint Charles Hospital and the Ministry of Health, and can accommodate up to 16 men. An outpatient facility called Skoun that offers prevention, awareness, and counseling to drug users and their families opened in 2004 in downtown Beirut. From January through October 2006, Skoun enrolled 90 patients for treatment. The average age of the patients at Skoun in the past two years has been 29, with 36 percent between 20 and 25 years of age. Skoun is the first treatment center in the Middle East to prescribe buprenorphine maintenance for opiate addicts; after intense lobbying the Ministry of Health has started the legalization process for buprenorphine. Jeunesse Anti-Drogue (JAD) provides educational programs, medical treatment, and outpatient counseling. Jeunesse Contre la Drogue (JCD) raises awareness of substance abuse and AIDS. Association Justice et Misericorde (AJEM) was established to assist incarcerated drug abusers.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. In meetings with Lebanese officials, U.S. officials continued to stress the need for diligence in preventing any return to the production and transportation of narcotics in Lebanon, and the need for a comprehensive development program for the Biqa' Valley that would provide impoverished residents with alternate sources of income. The USG also stressed the importance of anticorruption efforts.

Bilateral Cooperation. USAID continued its program to empower Lebanese government, media, and civil society to fight corruption and assisted U.S. and local NGOs to promote the substitution of illicit crops with legitimate, economically viable ones. The Sustainable Forage Development Program, ongoing since 2002, has proven the feasibility of forage cultivation as an alternative to illicit cropping, producing an average net income of \$950 per hectare. In FY 2007, 1,008 farmers in North Lebanon, Biqa' Valley, and South Lebanon cultivated forage crops on a total of 2,400

hectares. In 2007, the USCG provided engineering and maintenance, damage control, and leadership training to Lebanon.

The Road Ahead. The success of measures to halt cultivation and trafficking depends on the will of the Lebanese government. Since the withdrawal of Syrian forces in 2005, the Government of Lebanon has new access to areas of cultivation but it has not successfully developed a strategy of crop substitution. The USG will continue to press Lebanon to combat drug production and transit and implement anticorruption policies.

Morocco

I. Summary

The Government of Morocco (GOM) has achieved significant reductions in its cannabis and cannabis resin production in recent years, although it remains Morocco's primary drug problem. Advances in Morocco's counternarcotics efforts appear to be a function of the GOM's comprehensive counternarcotics strategy, which places emphasis on combining conventional law enforcement, crop eradication, and demand reduction efforts with economic development to erode the "cannabis growing culture" that exists in northern Morocco. The vast majority of cannabis produced in Morocco is consumed in Europe and has little, if any, impact on the U.S. market for illegal drugs. Morocco remains open to international assistance not only to combat cannabis smuggling, but also to confront the relatively nascent problem of trafficking and consumption of harder drugs, primarily cocaine, in Morocco. Morocco is a party to the 1988 UN Drug Convention.

II. Status of Country

Although decreasing in recent years, the single greatest drug problem in Morocco is the large scale and endemic nature of cannabis cultivation and cannabis resin production. Morocco is the world's biggest producer of cannabis resin (hashish) and is consistently ranked among the world's largest producers of cannabis. Nonetheless, cannabis production in Morocco is falling. Cannabis production in Morocco, in 2005, was estimated at 53,400 metric tons (MT), down from 98,574 MT in 2004 due in part to aggressive GOM eradication efforts. Commensurately, gross cannabis resin production was down from 2,760 MT in 2004 to 1,067 MT in 2005, according to the GOM. Although overall statistics are not yet available for 2006, the GOM claims that production numbers for cannabis and cannabis resin are both projected to drop further below 2005 levels, testament to continuing GOM counter drug efforts. Cannabis remains primarily an export for Moroccan growers, with the vast majority of the product typically processed into cannabis resin or oil and exported predominately to Europe, and in relatively small quantities to Algeria, and Tunisia. Approximately 95 percent of cannabis and cannabis resin is consumed outside of Morocco, according to the GOM; and Morocco is the source of approximately 70 percent of all the hashish consumed in Europe, according to the UNODC's 2007 World Drug Report. Only very small amounts of cannabis and narcotics being produced in or transiting through Morocco reach the United States.

Although Morocco has made gains in reducing cannabis and cannabis resin production in recent years, long term efforts are stymied by the fact that the cannabis drug industry serves as means of livelihood for large segments of Morocco's population situated in the northern tip of the country between the Rif Mountains and the Mediterranean Sea, where cultivation is centered. Approximately 804,000 Moroccans (96,600 families and 75 percent of villages in that area) are involved in cannabis cultivation, according to the GOM. Still, Moroccan farmers benefit the least within the economic cycle of the drug trade. According to a 2005 UNODC report, while the illicit trade in Moroccan cannabis resin generates approximately \$13 billion a year in total revenues, only \$325 million goes to Moroccan farmers; the lion's share goes to traffickers. The center of cannabis production in Morocco continues to be the province of Chefchaouen, responsible for over 50 percent of cultivation with the four other surrounding provinces of Taunate, al-Hoceima, Tetouan, and Larache largely making up the rest of production; although smaller scale production also exists

in the Souss valley in southern Morocco. Although comparatively a much smaller problem, and virtually non-existent just a few years ago, Morocco is also combating the growth in trafficking and consumption of “harder drugs,” particularly cocaine. Although overall volumes of cocaine are difficult to estimate, increasing annual seizures serves as a useful proxy of the trend. Moroccan law enforcement authorities seized over 140 kilograms (kg) of cocaine in the first six months of 2007, up sharply from just over 45 kg in 2006 and 1.8 kg in 2005. Although cocaine remains cost prohibitive for most middle class Moroccans, falling prices are interesting increasing numbers of Moroccan buyers. A gram of cocaine that costs approximately \$130 in 2004 now sells for approximately \$70, according to press reports. The fall in prices corresponds with the increased amount of the drug being smuggled through the territory and the arrival of increasing numbers of South American drug smugglers in Morocco, according to the GOM. Police anecdotally report the arrest since 2005 of several South American pilots, making smuggling flights between Morocco to Spain.

Heroin and psychotropic drugs (methamphetamine, Ecstasy, etc.) are also making inroads into the country but to a lesser extent than cocaine. To date, Morocco has no known enterprises that use dual-use precursor chemicals and neither serves as a known source nor transit point for them.

III. Country Actions Against Drugs in 2007

Policy Initiatives. According to the GOM, long term amelioration of the drug problem is only feasible if traditional interdiction, eradication, and demand reduction methods (the last of which being considered mainly a European issue) are augmented by an emphasis on a broader economic development approach, given the historical economic dependence on cannabis in the north. In order to break the vicious cycle of the “cannabis-growing culture” in Morocco’s Northern provinces, the GOM has emphasized crop substitution, anti-corruption efforts and economic development.

Law Enforcement Efforts. According to government statistics in 2005, Morocco seized 116 MT of cannabis, down from the previous year’s total of 318 MT. Cannabis resin seizures were also down, but both reductions can be directly tied to successful crop eradication efforts in Morocco, according to the UNODC 2007 World Drug Report. 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 counternarcotics 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. In 2007, Morocco reports it arrested 18,734 Moroccans and 255 foreigners in connection with drug-related offenses. Arrests of departing traffickers at the ports, and at Casablanca airport of arriving cocaine “mules” from Sub-Saharan Africa, are frequently in the news. Morocco law provides a maximum allowable prison sentence for drug offenses of 30 years, as well as fines for illegal drug 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, Morocco and France agreed 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.

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. These actions are illegal and the government tries to enforce these laws to the best of its ability. In September 2006, a GOM investigation into the network of a major drug baron resulted in the arrest of more than a dozen high-ranking governmental, 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 legal process continues, there has not been the same level of significant arrests/actions against senior corrupt officials this year, although some mid-level officials were arrested.

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 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. Morocco is a party to the UN Convention against Corruption.

Cultivation/Production/Eradiation Efforts. Morocco succeeded in decreasing the land dedicated to cannabis cultivation from 134,000 hectares in 2003 to 76,400 hectares in 2005, due in part to an aggressive eradication campaign, carried out mainly by Gendarmerie and local authorities, according to 2007 UNODC report. GOM eradication efforts in 2005 destroyed more than 7,000 hectares of cannabis, primarily in Larache and Taounate Provinces. Although the final results for 2006 eradication efforts are not in, the GOM claims that the figure for total land under cannabis cultivation will be lower for 2006 than it was for 2005. There is no indication of renewed cultivation in areas from which it was eradicated.

In 2003, the GOM began partnering with UNODC in conducting cannabis surveys in order to compile accurate data on illegal drug production to better define and address the problem. 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. Some of these projects have included encouraging cannabis farmers to cultivate alternative agricultural products and switching to such commercial alternatives as dairy farming, apple growing, and bee-keeping. Moroccan drug officials, however, readily admit that crop substitution programs are often a "hard sell" to farmers, who can earn eighteen times the earnings of a substitute crop such as barley by continuing to grow cannabis, according to the GOM's 2006 counter drug strategy report.

In 2004, Morocco launched an awareness campaign for cannabis growers alerting them to the environmental dangers of cannabis cultivation to include soil exhaustion, excessive fertilizer concentrations, and deforestation and informing them of alternatives to use the land more productively. The GOM selected the northern province of Taounate last year as the site for the construction of the National Institute of Medicinal and Aromatic Plants to study the viability of medicinal crop substitution.

Since the 1990's, the GOM continued to emphasize economic development in Morocco's northern provinces through the work of Agence pour la development des Provinces du nord (APDN) and the Tangier Mediterranean Special Agency (TMSA), which have made infrastructure improvement efforts such as improving roads, modernizing irrigation networks, and establishing health and veterinary clinics. 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.

Drug Flow/Transit. 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 be transshipped to most other Western European destinations much easier than in the past. The contraband is transported mainly via maritime and overland routes from northern Morocco, according to the GOM. 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 speedboats, which can make the roundtrip to Spain in one hour or less, although fishing boats, yachts, and other vessels are also used. Drug shipments of up to two metric tons have been seized on speed boats.

Smugglers also continue to transport cannabis via truck and car through the Spanish enclaves of Ceuta and Melilla, known to have lower inspection standards than the rest of the European Union, and the Moroccan port of Tangiers, crossing the Straits of Gibraltar by ferry. According to the UNODC, Spain consistently accounts for the world's largest portion of cannabis resin seizures (52 percent of global seizures in 2005). The Moroccan press reported that some 800 MT of cannabis resin smuggled from Morocco was seized in Spain in 2004. Spain's deployment of a network of fixed and modular radar, infrared, and video sensors around the Straits of Gibraltar, starting in 1999 and known as the Integrated System of External Vigilance (SIVE), has forced Moroccan smugglers to take longer and more vulnerable routes.

Latin American drug organizations have begun in recent years to exploit Morocco's well-established cannabis routes to smuggle cannabis and, increasingly, cocaine into Europe. Although the main African redistribution centers for cocaine from Latin America remain sub-Saharan—including Ghana and Nigeria—Morocco is increasingly being used as a transit country from Latin America to Europe in a trend that can be expected to continue.

Domestic Programs/Demand Reduction. The GOM is concerned about signs of an increase in domestic cocaine and heroin use, but does not aggressively promote reduction in domestic demand for these drugs or for cannabis. Some press estimates suggest that as many as ten percent of adults have regularly used cannabis in the past year. Morocco has established a program to train the staffs of psychiatric hospitals in the treatment of drug addiction. In partnership with UNODC, the Ministry of Health is exploring the relationship between drug use and HIV/AIDS infection in Morocco. Moroccan civil society and some schools are active in promoting counternarcotics use campaigns.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG is working 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 narcotics control agreements. U.S.-supported efforts to strengthen anti-money laundering laws and efforts against terrorist financing may also contribute to the GOM's ability to monitor the flow of money from the cannabis trade. 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. The Department of Homeland Security through U.S. Customs and Border Protection has provided Targeting and Risk Management and International Air Cargo Interdiction Training. 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 counternarcotics 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. More recently, in 2007, the U.S. Coast Guard dispatched two Mobile Training Teams to conduct Maritime Safety & Environmental Protection, and Advanced Boarding Officer courses.

Road Ahead. The endemic nature of the cannabis culture in Morocco will only be ameliorated through incremental application of Morocco's comprehensive counternarcotics strategy, which along with traditional eradication, law enforcement, and demand reduction efforts, places emphasis on economic development, which will require a time to take hold, and bring about change. The U.S. will continue to monitor the illegal drug situation in Morocco, cooperate with the GOM in its counternarcotics efforts, and together with the EU, provide law enforcement training, intelligence, and other support for the foreseeable future.

Mozambique

I. Summary

Mozambique is a transit country for illegal drugs such as hashish, herbal cannabis, cocaine, and heroin consumed primarily in Europe, and 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 small but growing number of mandrax laboratories. Evidence suggests considerable use of herbal cannabis and limited consumption of “club drugs” (Ecstasy/MDMA), prescription medicines, and heroin primarily by the country’s urban population. Porous borders, a poorly policed seacoast, inadequately trained and equipped law enforcement agencies, and corruption in the police and judiciary hampered Mozambique’s enforcement and interdiction efforts. 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. Mozambique is a party to the 1988 UN Drug Convention.

II. Status of Country

Mozambique is not a significant producer of illegal drugs and not a producer of precursor chemicals. Herbal cannabis remains the most produced and most consumed drug in the country. While herbal cannabis for local consumption is produced throughout the country, seizure quantities and statistics from 2006 indicate higher levels in Maputo City, Manica, Sofala, and Cabo Delgado provinces. Limited amounts are trafficked to neighboring countries, primarily South Africa. Mozambique’s role as a transit country for illicit drugs and precursors and a favored point of disembarkation in Africa for trafficking to Europe continues to grow, mostly because of its proximity to South Africa (the major market for illicit drugs) as well as weak law enforcement capacity at borders, major seaports, and airports. Southwest Asian producers ship cannabis resin (hashish) and synthetic drugs through Mozambique to Europe and South Africa. Limited quantities of these shipments also may 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. In 2007, there were fewer reports of cocaine entering the country via couriers on international flights from Colombia and Brazil. Government authorities attribute the decrease to a change in tactics by traffickers and, to a lesser extent, more stringent police efforts at airports. However, they also acknowledge that fewer reports may not represent a decrease in the overall amount of cocaine entering the country.

Government authorities have noted an increase in the use of heroin and Ecstasy among the urban population. 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 also enter South Africa from India and China, sometimes after transiting Mozambique. As of 2007, the country has dropped visa requirements for citizens of all six neighboring countries, further complicating interdiction and enforcement efforts.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Mozambique's accomplishments in meeting its goals under the 1988 UN Drug Convention remain limited. Government resources devoted to the counternarcotics effort are meager, and little or no donor funds have been available in recent years. 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 counternarcotics brigade operates in Maputo and reports to the Chief of the Criminal Investigation Police in the Ministry of Interior. The brigade suffers from a general lack of resources and is operating at reduced levels compared with previous years. The brigade has not received training for several years. Since 2005, a small, specialized police unit designed to strengthen efforts to fight organized crime, including narcotics trafficking, has operated at airports in provincial capitals. In 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. From January to June 2007, Mozambican authorities seized 900 kg of cannabis, 12 tons of hashish, 1958 mandrax pills, and 3000 kg of cocaine. As interdiction efforts improve at the Maputo airport, traffickers have used alternate airports, including those of Beira, Nampula, Quelimane and Vilankulos. Police reported that in 2006 50 Mozambican and foreign nationals were arrested, of which 20 were tried, and 7 convicted of drug trafficking. On several occasions during the year, Mozambican authorities highlighted a severe lack of resources for destroying seized drugs, particularly hashish, cannabis, and cocaine.

Corruption. The government does not as a matter of policy encourage or facilitate the illicit production or distribution of narcotics, psychotropic drugs, other controlled substances, or the laundering of proceeds from illegal drug transactions, nor were there reports in 2007 that any senior government official was engaged in such practices. While corruption is pervasive in Mozambique, the government has continued efforts to prosecute police and customs officials charged with drug trafficking offenses.

Agreements and Treaties. Mozambique is a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, the 1988 UN Drug Convention, and 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 Maputo City, Manica, 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 2007 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 Mozambique officials and UNODC officials. Mozambique increasingly serves as a transit country for hashish, cannabis resin, heroin, and mandrax originating in Southwest Asia, owing to its porous borders, long and un-patrolled coastline, lack of resources for interdiction efforts, and improving transportation links with neighboring countries. Drugs destined for the South African and European markets arrive in Mozambique by small ship, mostly in the coastal provinces of Cabo Delgado, Nampula, Sofala, and Inhambane, before being repackaged and sent by land to neighboring countries.

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 2007 that the use of heroin, cocaine, and psychotropic “club drugs,” such as Ecstasy and mandrax, was increasing in Mozambique’s urban population. GCPCD maintains an office in each provincial capital and 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 received no treatment assistance from bilateral donors in 2007. Despite an increase in the number of drug users, government funding and resources are scarce (the GCPCD operated on a budget of approximately \$45,000 in 2007), limiting abuse and treatment options. The Ministry of Health does not have a specific program to assist drug abusers; those seeking assistance are referred to the Psychiatric Hospital.

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 including fingerprint identification, forensic photography, and the identification of fraudulent documents. The assistance included construction of a forensic laboratory and the supply of related forensic analysis equipment. Additionally, technical assistance programs at the police academy also focus on methods to foster better relations between the community and the police. USAID provides training support to the Attorney General’s Central Office for the Combat of Corruption (GCCC), formerly the anticorruption unit. In October 2007, an assessment team from the State Department’s Office of Anti-Terrorism Assistance conducted an assessment to consider appropriate assistance levels for improving the capabilities of Mozambican security forces to combat terrorism. Part of this assessment included an evaluation of security capabilities at the land border station at Ressano Garcia, the Maputo seaport, and Maputo’s international airport. Also, the USG provided training to guards and senior officers of the Mozambican Border Guards in techniques of securing borders, managing border crossing (document checking, inspections) at two different locations within Mozambique. Advanced training is scheduled to take place in December.

The Road Ahead. U.S. assistance in support of the GCCC will continue in 2007. In October a short-term regional legal advisor arrived to work with the unit and other judicial offices for a period of several months through the Department of Justice Overseas Prosecutorial Development Assistance and Training program. Additionally, efforts to improve Mozambique’s border security capabilities continue. Building on the success of the initial training, the USG will sponsor additional basic and advanced border security courses for Mozambican border guards. Inspection

materials, vehicles and alternate transportation options, equipment for distant posts, and computer equipment will also be supplied to border guards to assist in putting into practice the techniques taught in the training courses. The U.S. military has also provided shallow draft vessels for limited coastal security work in conjunction with USCG training on ship/vessel boarding and search and seizure techniques. The GRM would benefit from increased funding for counternarcotics and drug treatment efforts and should continue its focus on reducing corruption to ensure that progress with its narcotics control efforts continues.

Namibia

I. Summary

While occasionally used as a drug transit point, Namibia is not a major drug producer or exporter. Nevertheless, statistics for 2007 showed a marked increase in illegal drug seizures compared to previous years, with approximately \$370,000 worth of drugs (870 kilograms of marijuana, plus extremely small quantities of Mandrax (methaqualone), cocaine, and Ecstasy) seized between April 2006 and March 2007. Drug abuse remains an issue of concern, especially among economically disadvantaged groups. Narcotics enforcement is the responsibility of the Namibian Police's Drug Law Enforcement Unit (DLEU), which lacks the manpower, resources and equipment required to fully address the domestic drug trade and transshipment issues. Namibia is not a party to the 1988 UN Drug Convention.

II. Status of Country

Namibia is not a significant producer of drugs or precursor chemicals. No drug production facilities were discovered in Namibia in 2007.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Namibia has requested United Nations (UNODC) assistance in completing a National Drug Master Plan. 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 criminalizes cultivation, production, distribution, sale, transport and financing of illicit narcotics. Namibia's Parliament passed the Prevention of Organized Crime Act (POCA), designed to combat organized crime and money laundering, in 2004, and the Government intends to issue regulations and place POCA into effect in early 2008. In July 2007, Parliament passed the Financial Intelligence Act (FIA) and the Government intends to issue regulations and place FIA into effect also in early 2008. The Combating of the Abuse of Drugs Bill was tabled in Parliament in 2006. If passed, it would 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. The Namibian Anti-Terrorism Activities Bill and Drugs Control Bill are still under consideration. Once fully implemented and harmonized, 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 to discuss efforts to combat cross border contraband shipments (including narcotics trafficking). In November 2007, Namibian Police seized 544 kilograms of cannabis, the largest single seizure in Namibian history.

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 against migrant smuggling and trafficking in persons, and to the UN Convention against Corruption. The United States and Namibia do not have a bi-lateral extradition or mutual legal assistance treaty. In 2006, however, Namibia designated the United States as a country to which Namibia could extradite persons, and there is a pending extradition case. In addition, there has been excellent cooperation regarding legal assistance between both countries.

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. Inadequate staffing and training, inadequate screening equipment, 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 assists the police and customs officials with better patrolling of Namibia's Exclusive Economic Zones (EEZs) and expects to have a mission capable fleet by 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 support Namibian participation in law enforcement training programs at the International Law Enforcement Academy (ILEA) in Gaborone, Botswana. Most of these training programs include counternarcotics modules. Representatives of several Namibian law enforcement agencies (Customs and Border Protection, Immigration and Customs Enforcement, Prison Service, the Namibian Police, and the Anti-Corruption Commission) and prosecutors have participated in ILEA training. The police have repeatedly stated their willingness to cooperate with the USG on any future narcotics-related investigations. The U.S. Department of the Treasury is assisting Namibia with the establishment and development of the Financial Intelligence Center to fully implement the Financial Intelligence Act.

The Road Ahead. The USG will continue to coordinate with relevant law enforcement bodies 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

Nigeria remains a hub of narcotics trafficking and money laundering activity and Nigeria is still ranked as one of the world's most corrupt countries. Nigerian criminal organizations dominate the African drug trade and transport narcotics to markets in the United States, Europe, Asia, and other parts of Africa. Some of these organizations are also engaged in advance-fee fraud, commonly referred to in Nigeria as "419 Fraud" after a formerly relevant section of the Criminal Code of Nigeria, and other forms of fraud against U.S. citizens and businesses as well as citizens and businesses of other countries. Serious under/unemployment has been a major problem for Nigeria in civilian governments and military governments alike. Abysmal economic conditions for the vast majority of Nigerians contribute significantly to the continuation and expansion of drug trafficking, widespread corruption and other criminal acts in Nigeria. These factors, combined with Nigeria's central location along the major trafficking routes and access to global narcotics markets have provided both an incentive and mechanism for criminal groups to flourish.

Heroin from Southeast and Southwest Asia, smuggled via Nigeria, accounts for a significant portion of the heroin reaching the United States. Nigerian criminal elements, operating in South America, transship cocaine through Nigeria to Europe, Asia, and Africa. South Africa is a major destination for Nigerian-trafficked cocaine within Africa. Nigerian-grown marijuana is exported to neighboring West African countries and to Europe, but not in significant quantities to the United States. Aside from marijuana, Nigeria does not produce any of the drugs that its nationals traffic. Nigeria is a party to the 1988 UN Drug Convention.

II. Status of Country

Nigeria does not produce precursor chemicals or drugs that have a significant effect on the United States, but Nigeria is fully entrenched as a major drug-transit country. In addition, Nigerian criminal elements operate global trafficking/criminal networks, moving cocaine and heroin to major developed country markets.

Nigerian drug organizations are heavily involved in corollary criminal activities to their prime illicit "business" of drugs. These include document fabrication, illegal immigration, and financial fraud. Their ties to criminals in the United States, Europe, South America, Asia, and South Africa are well documented. Nigerian poly-crime organizations exact significant financial and societal costs, especially among West African states with limited resources for countering these organizations.

The National Drug Law Enforcement Agency (NDLEA) is the law enforcement agency with sole responsibility for combating narcotics trafficking and drug abuse in Nigeria. In 2007, the NDLEA enjoyed successes in securing more resources from the Nigerian national budget, but is still underfunded. The Agency received a total sum of N26.824M (ca. \$220,000 for administrative expenses and N357M (ca. \$3 million) for salaries and benefits (\$1 U.S. dollar = 118.60 Nigerian Naira). No funds were released for capital projects.

All law enforcement agencies suffered a loss of focus while the country concentrated on local, state and national elections in April 2007. Cooperation among Nigeria's law enforcement agencies still leaves much to be desired. Although all law enforcement elements are represented at Nigeria's

international airports and at its seaports, joint operations between them are virtually non-existent. A missing ingredient partially explaining the dearth of apprehensions of major traffickers or the absence of consistent interdiction of major shipments of contraband is interagency cooperation. No single law enforcement agency in Nigeria has adequate resources to combat the increasingly sophisticated international criminal networks that operate in and through the country itself; inter-agency cooperation is necessary for success.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Nigeria's counternarcotics policy is based on the National Drug Control Master Plan (NDCMP), which has been in place since 1998. This plan assigns responsibilities to various government ministries and agencies as well as NGOs and other interest groups. In addition, the Master Plan outlines basic resource requirements and timeframes for the completion of objectives. Many of these goals are still unfulfilled.

NDLEA has 46 field operational commands, seven (7) established Directorates and nine (9) autonomous Units and offices that work together to carry out the drug control mandate of the Agency. Additionally, the recent computerization of the Agency's administrative and accounting statistics ensures greater efficiency and transparency than in the past.

Law Enforcement Efforts. Established in 1989, the NDLEA works alongside Nigerian Customs, the State Security Service, the National Agency for Food and Drug Administration and Control (NAFDAC), the Nigerian Police Force (NPF), and the Nigerian Immigration Service at various ports of entry and throughout the country. The NDLEA's most successful interdictions have taken place at Nigeria's international airports, with the majority of hard drug seizures (e.g., cocaine and heroin) at Lagos Murtala Mohammed International Airport. Increasing numbers of drug couriers are being apprehended at Abuja International Airport. The agency has successfully apprehended individual drug couriers transiting these airports, but only a few of the major drug traffickers sponsoring these couriers. Efforts similar to the vigorous inspections conducted at Lagos and Abuja international airports are also needed at Nigeria's five major seaports as smugglers change their tactics to avoid detection. NDLEA also emphasizes a public campaign focused on destroying the annual marijuana crop throughout the country.

Between January and September 2007, Nigerian law enforcement apprehended 3440 narcotics law violator suspects and seized a total of 46,487 kg of various types of illicit drugs summarized thus: Cannabis—45,937 kg; Cocaine—259.2 kg; Heroin—85.9 kg; and Psychotropic substances—204.5 kg. Indeed, a single seizure of 62.4 kg of heroin at Kano Airport sent from Pakistan in April 2007 is a strong indication that heroin still remains a serious threat to the country. More vigilance is required not only to prevent the importation of cocaine through the borders but also to prevent the importation of heroin through the airports.

Attempts by the NDLEA to arrest and prosecute major traffickers and their associates often fail in Nigeria's courts, which are subject to intimidation and corruption. Asset seizures from narcotics traffickers and money launderers, while permitted under Nigerian law, have never been systematically utilized as an enforcement tool, but some convicted traffickers have had their assets forfeited over the years. The number of major traffickers penalized remains small. NDLEA has requested that the National Assembly amend the narcotics law to provide a more strict and effective punishment for major traffickers with the minimum sentence being a 5-year jail term and no option of a fine, plus provision for the seizure of a foreign offender's passport.

Drug-related prosecutions have continued at a steady pace. Special drug courts and a more energetic approach by the NDLEA to prosecute drug traffickers efficiently and successfully have been put in place.

The NDLEA has assumed a leadership role in drug enforcement in the region. With DEA assistance, the NDLEA created the West African Joint Operation (WAJO) initiative, bringing together drug enforcement personnel from 15 countries in the region to improve regional cooperation. DEA-assisted WAJO planning conferences have continued to be held successfully. The NDLEA continues expanded counternarcotics cooperation with the police in South Africa, where Nigerian criminal organizations are believed to be responsible for the bulk of drug trafficking.

Corruption. Corruption has for many years, permeated Nigerian society and continues to be a systemic problem in Nigeria's government. Unemployment is very high and civil servants' salaries are low. In addition, actual payment of salaries is frequently months in arrears, compounding the corruption problem. 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. Recent high profile investigations and arrests have resulted in cabinet level officials being charged, dismissed from their post and incarcerated while awaiting hearings on corruption charges. None of these actions were for drug-related offenses. USG technical assistance funded through State/INL and implemented by the U.S. Department of Justice has continued providing the ICPC with additional training and technical assistance, including a Resident Legal Advisor (RLA) to improve enforcement against corruption. Neither Nigerian policy nor any senior government officials are known to encourage or facilitate the illicit production or distribution of illegal substances or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Nigeria is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Nigeria has signed the UN Convention against Transnational Organized Crime, the Protocol against Trafficking in Persons, the Protocol against Smuggling of Migrants, and the Protocol Against Trafficking in Illegal Firearms. The 1931 U.S.-UK Extradition Treaty, which was made applicable to Nigeria in 1935, is the legal basis for U.S. extradition requests. The United States and Nigeria also have a Mutual Legal Assistance Treaty (MLAT), which entered into force on January 14, 2003.

The Government of Nigeria continues to work on a mechanism to process U.S. extradition requests expeditiously while observing due process under Nigerian law. Currently, a dedicated prosecutorial team handles all U.S. extradition cases before a specifically designated High Court judge. Nigerian law still affords the defendant many options to delay/confuse proceedings, especially interlocutory objection proceedings, which allow defendants to raise objections that are litigated first before the main case can proceed. There is one case pending extradition since 2004.

Cultivation/Production. Cannabis is the only illicit drug produced in any large quantities in Nigeria, and it is cultivated in all 36 states. Major cultivation takes place in central and northern Nigeria and in Delta and Ondo states in the south. Marijuana, or "Indian Hemp" as it is known locally, is sold in Nigeria and exported throughout West Africa and into Europe. To date, there is no evidence of significant marijuana imports from Nigeria into the United States. The NDLEA has continued to pursue an aggressive eradication campaign.

Drug Flow/Transit. Nigeria is a major staging point for Southeast and Southwest Asian heroin smuggled to Europe and the United States and for South American cocaine trafficked to Europe. While Nigeria remains Africa's drug transit hub, there are indications that the preferred methods of trans-shipment have changed. The NDLEA unit at Lagos' Murtala Mohammed International Airport conducts select searches of passengers and carry-on baggage. But they do not conduct 100 percent searches. This is extremely significant given the addition of DELTA Airlines direct flights to the U.S. from Lagos that started in December 2007. Nevertheless, the enhanced security posture at this airport has prompted some drug traffickers to use Nigerian seaports, concealing large quantities of contraband in shipping containers. They also seemed to have moved to other West African airports and seaports with even less stringent security controls.

Domestic Programs/Demand Reduction. Local production and use of marijuana have been a problem in Nigeria for some time; however, according to the NDLEA and NGOs, the abuse of harder drugs (e.g., cocaine, heroin) seems to be on the rise. Heroin and cocaine are readily available in many of Nigeria's larger cities. (Note: Since there is no formal tracking system or statistical evidence available, the actual extent of domestic drug abuse in Nigeria is unclear.) The NDLEA continues to expand its counternarcotics clubs at Nigerian universities and distribute counternarcotics literature. The NDLEA also has instituted a teacher's manual for primary and secondary schools, which offers guidance on teaching students about drug abuse. NDLEA sponsored a nationwide contest between primary and secondary schools with public presentations held at the "UN Day Against Drugs" ceremony in 2007. Sophisticated drug treatment is only available from a few private clinics in Nigeria's major cities.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S.-Nigerian counternarcotics cooperation focuses on interdiction efforts at major international entry points and on enhancing the professionalism of the NDLEA and other law enforcement agencies. The DEA country office in Nigeria works with the NDLEA Joint Task Force and other operations personnel to help train, coordinate, plan and implement internal and regional interdiction operations. At all levels, USG representatives enjoy excellent access to their counterparts and there is an evident desire on both sides to strengthen these relationships. One option for a high-level law enforcement dialogue, which is being explored is a renewal of the U.S.-Nigeria Law Enforcement Working Group which used to meet annually, with each nation alternating as host in its capital. The last meeting of the Group was in 2004.

The Road Ahead. Federal funding for Nigerian law enforcement agencies and key anticrime agencies remains insufficient and erratic in disbursement. This affects the planning and consistency of actions on the part of these agencies, giving the impression of lack of commitment and ineffectiveness. Unless the Nigerian Government remedies this situation, very little progress will be made and none sustained. It will require strong and sustained political will and continued international assistance for any Nigerian government to confront these difficult issues and bring about meaningful change.

The U.S. government has expanded aid to Nigeria's counternarcotics efforts; counternarcotics assistance provided since February 2001 now totals over \$3 million. Although Nigeria does not produce reliable crime statistics, opinions vary on whether public security deteriorated throughout the country in 2007. The police remain grossly mistrusted by the Nigerian population and organized crime groups continue to exploit that mistrust by preying on citizens throughout the country.

Nigerian police are poorly trained. NDLEA has mandated that all its officers and operatives undergo re-training at the basic level and mid-level before qualifying for promotion under the new promotion scheme.

The U.S. government will continue to engage Nigeria on the issues of counternarcotics, money laundering and other international crimes. The underlying institutional and societal factors that contribute to narcotics-trafficking, money-laundering and other criminal activities in Nigeria are deep-seated and require a comprehensive and collaborative effort at all levels of law enforcement and government. Progress can only be made through Nigeria's own sustained effort and political will, and the continued support of the international community.

Saudi Arabia

I. Summary

The Kingdom of Saudi Arabia has no appreciable drug production and is not a significant transit country for drugs. Saudi Arabia's conservative cultural and religious norms discourage drug abuse. The Saudi Arabian Government (SAG) places a high priority on combating narcotics abuse and trafficking. Since 1988, the SAG has imposed the death penalty for drug smuggling. Drug abuse and trafficking are on the rise and are considered social and law enforcement problems. This rise has caused increased arrests and SAG policy responses, including a new education curriculum and the ongoing expansion of drug treatment facilities. Saudi Arabia is a party to the 1988 UN Drug Convention. SAG officials actively seek and participate in USG-sponsored training programs and are receptive to enhanced official contacts with the Drug Enforcement Administration.

II. Status of Country

The Kingdom of Saudi Arabia has no significant drug production. Considering its conservative religious values and 1988 UN Drug Convention obligations, the Saudi Arabian Government (SAG) places a high priority on fighting narcotics abuse and trafficking. Narcotics-related crimes are punished harshly; narcotics' trafficking is a capital offense enforced against Saudis and foreigners alike. According to SAG officials, there were approximately 9 executions for narcotics-related offenses in 2007, as of October 2007. The SAG maintains a network of overseas drug enforcement liaison offices and state-of-the-art detection and training programs to combat trafficking.

While SAG officials are determined in their counternarcotics efforts, drug abuse and trafficking has nevertheless increased significantly. Since the SAG provides no public statistics on drug consumption, interdiction, or trafficking, it is difficult to substantiate this assessment with hard data. According to a December 30 Khaleej Times article, the late King Fahd bin Abdul Aziz commissioned King Saud University in 2002 to conduct a study on drug addiction in the Kingdom. This study claimed that the number of drug addicts rose from 109,000 in 2002 to 150,000 in 2005. According to a June 26 Khaleej Times article, the Saudi Interior Ministry released statistics that drug abuse increased by 17 percent in 2007. Anecdotal evidence suggests that Saudi Arabia's affluent population, porous borders, large numbers of idle youth, and high profit margins on smuggled narcotics attract significant numbers of drug traffickers and dealers.

SAG efforts to treat drug abuse are aimed solely at Saudi nationals, while expatriate substance abusers are jailed and summarily deported. There are three Al-Amal Mental Health and Narcotics Hospitals in Riyadh, Jeddah, and Dammam and one Al-Amal health clinic in Qassim Province offering free detox, rehabilitation, and aftercare. Each hospital has 200 beds and the Qassim clinic has 50 beds for male inpatients. Al-Amal Hospital in Riyadh has a 6-bed ward for female inpatients. The hospitals in Jeddah and Dammam treat women as outpatients. Health officials describe a noticeable increase in inpatients and outpatients throughout the country in 2007. Hospitals officials claim that 13 new mental health and addiction hospitals will be built throughout the country.

Saudi patients come from all classes and regions; however, the majority of upper class addicts reportedly rely on private clinics in and outside of Saudi Arabia. Patients vary in age from lower teens to septuagenarians, but Ministry of Health (MOH) officials claim that the overwhelming

majority are young men in their twenties and thirties. Most female patients have a male relative who is also addicted to drugs. There is reportedly a 50 percent patient recidivism rate. Most patients participate in detox and rehabilitation treatment for 3-5 weeks. A new 2007 program for select, motivated patients provides 2-3 months of treatment and counseling. Hospital officials claim that 70-80 percent of patients are addicted to amphetamines or marijuana and the remaining patients are addicted to heroin, cocaine, and sedatives. MOH and hospital officials note that newer patients have the dual diagnosis of addiction and psychiatric issues, possibly due to consumption of contaminated drugs—particularly Captagon.

Captagon, hashish, khat, and heroin are the most heavily consumed substances in order of prevalence. The wealthiest segments of society tend to consume the purest, highest potency drugs, while the majority of drug abusers consume more diluted forms. Captagon and other amphetamines are reportedly consumed mainly by students, drivers, and employees seeking prolonged energy. Khat is reportedly mainly consumed by Yemeni and Somali expatriates. Saudi officials say that heroin and cocaine are in greater demand in the two large Saudi cities of Jeddah and Dammam. Paint and glue inhalation and prescription drug abuse are also reported.

III. Country Actions Against Drugs In 2007

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. There are reports that more offices will open in 2008. According to a June 25 Arab News article, Interior Minister Prince Naif bin Abdul Aziz announced that the SAG is setting up a fund to help people recovering from drug addiction to become productive citizens. In addition, the SAG continues to play a leading role in efforts to enhance counternarcotics intelligence sharing among the six nations of the Gulf Cooperation Council. The government also continues to block internet sites deemed to promote drug abuse.

The General Directorate for Combating Narcotics (General Directorate) coordinates SAG efforts across Ministries. The women's branch was established in 1988 and has approximately 40 female employees. The General Directorate launched an awareness campaign on June 24, 2007 targeting schools and families. According to a June 25 Arab News article, the campaign will develop a new school and college syllabi by 2008 on the dangers of drug use. Interior Minister Prince Naif bin Abdul Aziz has endorsed a plan for the General Directorate to work with the Education Ministry to implement this campaign. Efforts are underway to establish offices at schools to counsel students about the dangers of drug addiction.

According to a December 21, 2007 Arab News article, the National Anti-Drug Committee directs a 12-step rehabilitation program for Saudi addicts in each of the Kingdom's 13 provinces. The program, which began 8 years ago, runs between 3 months to 2 years depending on the case. 1,250 former addicts have participated in the program, which includes performing the annual *hajj* or pilgrimage to Mecca. According to Abdelilah al-Sharif, advisor to the Committee, only 20 of the 1,250 who performed the *hajj* have relapsed to addiction. The Committee chose 200 former drug addicts and dealers to take part in the 2007 *hajj*.

Law Enforcement Efforts. Drug seizures, arrests, prosecutions, and consumption trends are more frequently reported in local media. According to the November 13 Saudi Channel 1 "Sixty Minutes" program, Brigadier General Ahmad al-Zahrani, head of the General Directorate's drug combating section, claimed that his department has seized over 22,752,000 Captagon pills, over 5 tons of hashish, over 16.8 kilograms of heroin, and 4.3 kilograms of cocaine between May 2007

and November 2007. According to a November 6 Arab News article, the Saudi Directorate of Public Security was awarded a prize by the Council of Arab Interior Ministers for launching a new awareness campaign against drug addiction. Major General Othman ibn Nasser al-Mahraj, Chief of the General Directorate, lauded the help and cooperation of anti-narcotics departments in Syria, Turkey, Lebanon, and Gulf countries to foil smuggling attempts. He also argued that the new system regulating truck movement across borders was successfully minimizing drug smuggling.

Corruption. As a matter of government policy, the SAG 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 SAG officials' involvement in the production, processing, or shipment of narcotic and psychotropic drugs and other controlled substances. 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 a party to the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling.

Cultivation/Production. Cultivation and production of narcotics in Saudi Arabia is minimal. According to academics and MOH officials, Khat production appears to be localized to the rural areas of the southern Jizan Province; most Khat is imported from Yemen.

Drug Flow/Transit. Saudi Arabia is not a major drug transshipment point. SAG officials say that stricter control measures practiced by the country have led to more seizures by Saudi Customs and Border officials. Drugs are smuggled in various manners, including via couriers who come to the Kingdom to participate in the annual *umra* and *hajj* ceremonies and via the land borders. Captagon and heroin are reportedly smuggled into the country from Eastern Europe and Turkey via the northern border with Jordan. Hashish is mainly smuggled via the southeastern border with the United Arab Emirates. Khat is mainly smuggled via the southern border with Yemen.

Domestic Programs/Demand Reduction. In addition to widespread media campaigns against substance abuse, the SAG sponsors drug eradication programs directed at school-age children, health care providers, and mothers. The Ministry of Civil Service began requiring applicants for certain civil service positions to take a drug test beginning in January 2007. Executions of convicted traffickers by well-publicized beheadings are believed by SAG officials to deter narcotics trafficking and abuse. The country's influential religious establishment actively preaches against the use of narcotics and SAG treatment facilities provide free services to Saudi addicts. The Director General of Prisons told the press that 13,000 prisoners (or 45 percent) are in Saudi jails due to drug convictions. He estimated that most addicted prisoners range in age between 19 and 29 years. He added that the Prison Directorate is building a "half-way" house for incarcerated addicts undergoing treatment after their sentences have been completed.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. SAG officials actively seek and participate in USG-sponsored training programs and are receptive to enhanced official contacts with the Drug Enforcement Agency (DEA). Saudi Arabia is part of the International Counter-narcotics Office in Cairo that works closely with U.S. counternarcotics agencies. DEA invited Saudi officials to attend with observer

status the May 2007 International Drug Enforcement Conference, sponsored by DEA and State INL, in Madrid. Saudi Arabia and the United Arab Emirates were the first Arab countries to attend the conference. Over 80 other countries were in attendance, and Saudi Arabia has asked to be a member in 2008. In addition, two Saudi agents were invited to participate in Drug Unit Commander training at the DEA Academy in 2007.

DEA Cairo provided SAG officials several leads on potential trafficking. Most leads were developed in Pakistan and passed by DEA Islamabad to DEA Cairo. This information led to the arrest of 14 people and the interdiction of over 6 tons of hashish.

The Road Ahead. The U.S. will continue to explore opportunities for additional bilateral training and cooperation with Saudi counternarcotics and demand reduction officials.

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 Central and East Asia) 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 (primarily the UK). It also may be the world's largest consumer of mandrax, a variant of methaqualone, an amphetamine-type stimulant. Mandrax is a preferred drug of abuse in South Africa; it is smuggled, primarily from India but also from China and other sources. South Africa has also become a significant transit country for precursor chemicals. According to the Organized Crime Threat Analysis prepared by the South African Police Service (SAPS) for the period March 2006 to March 2007, 273 organized crime groups operate in South Africa. 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 smuggling embargoed items, drugs and other illicit items are now smuggled into and out of South Africa. South Africa is both an importer and an exporter of drugs (marijuana produced on its own territory) and precursor chemicals.

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 and, more recently, in Pretoria. 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. Most exports go to Europe and the UK but some shipments destined for Canada and possibly the United States have been detected. 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 widely abused 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 January 2007 to September 2007, SAPS reported 52 labs detected and dismantled. Police reported that because of this crackdown, labs were increasingly established on farms, making it more difficult for the police to find and destroy them. 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 ("Tik" in South Africa) abuse are emerging as a major concern, especially in Cape Town and Pretoria 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 and in Pretoria. In Cape Town, two-thirds of drug abusers are reported to be using Tik as a primary or secondary substance of abuse. 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 of particular concern is the large number of adolescent users. Police officials recently reported that the use of Tik in the Western Cape is growing at the rate of 300 percent year-on-year. This increased use of methamphetamine is "strongly linked to gang culture on the Cape Flats."

III. Country Actions Against Drugs in 2007

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 train 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 said 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. SAPS concluded that drugs such as mandrax, cocaine, heroin, Ecstasy and Tik pose major threats to South Africa since they lead to violent crime such as murder, attempted murder, rape and assaults.

Law Enforcement Efforts. SAPS reported that between March 2006 and March 2007 the following quantities of drugs were seized:

- Cannabis (excluding plants): 213,114.987kg (street value in Rand: 277 million), as against 290,117.108 kg during 2005/2006; in addition, 3,407,515 plants were eradicated during this reporting period (one U.S. dollar equals approximately seven South African Rand);
- Methaqualone: 212,580 dosage units or: 129.6 kg;
- Cocaine: 1.24 MT;
- Heroin: 7.7 kg;
- LSD: 225 dosage units;
- Amphetamine-type stimulants (ATS): 42,082 dosage units or: 75.1 kg.

The number of detected drug-related crimes, according to the annual SAPS Report, grew during this reporting period from 95,690 in 2006 to 104,689 in 2007, a 9.4 percent increase. Ninety-five percent of these crimes were referred to court. The number of arrests at the border for this period was 231, compared with 383 in 2005/2006. The value of drugs seized at the country's borders also increased from Rand 37,921, 326 in 2005/2006 to Rand 39,106,816.

Additional enforcement successes were reported in the press. For instance: In May 2007, SAPS seized cocaine worth Rand 60 million at the OR Tambo International Airport in Johannesburg bringing the total value of cocaine seized at that airport over the last two years to between Rand 200 million and Rand 300 million. SAPS conducted 10 international controlled deliveries this reporting period – one from Pakistan, two from India, three from the UK, one from France, one to Lesotho, one to Brazil and one to the UK. SAPS' Airport Interdiction Unit makes weekly seizures of cocaine from South America and heroin from Pakistan at the Johannesburg and Cape Town Airports.

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. As a matter of policy, however, the South African government 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. Likewise, no senior official of the federal government is known to engage in, encourage or facilitate such illicit production, or to launder proceeds of illegal drug transactions, to post's knowledge.

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 Counter-narcotics Assistance. The Letter of Agreement provides for U.S. training and commodity assistance to several South African law enforcement agencies. In 2000, the U.S. and South Africa signed a Customs Mutual Assistance Agreement.

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 raise – 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 readily 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. 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. 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 the fact that South Africa, in addition to “weak enforcement,” has excellent financial, transportation, and communications facilities. SAPS reports that between January and September 2007, the chemical monitoring program to prevent the diversion of chemicals for the manufacture of illicit drugs checked 295 import notifications of precursors to South Africa.

A total of 1,468 export notifications of precursors were forwarded to relevant foreign authorities, which is a 64 percent increase over the past year. This 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 established 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.

South Africa is the third-largest non-U.S. importer of pseudo ephedrine and the fourth-largest non-U.S. importer of ephedrine. The latest Global Trade Atlas (<http://www.gtis.com/gta/>) statistics indicate South Africa's imports of ephedrine in 2003 were 5,703 kilograms and increased in 2005 to 14,374 kilograms; there was a sharp decline to 7,175 Kg in 2006. Even more significant, imports of pseudo ephedrine in 2003 to South Africa were 3,840 kilograms in 2003 and increased to 91,400 kilograms in 2005. In 2006, pseudoephedrine imports fell precipitously to 10,733 Kg. The imports are reportedly for use by the domestic pharmaceutical industry, which markets both locally and regionally. While the South African Police Service's Chemical Control Program is by far the most progressive in Africa, the potential for diversion of this ephedrine and pseudo ephedrine is an area of concern. South Africa participates in the UN sponsored program Project Prism and is a member of the Project Prism Task Force, serving as the focal point for Africa. South Africa is actively involved in the law enforcement initiatives being developed pursuant to Project Prism to halt the diversion of precursors to illicit chemical trafficking and drug manufacturing organizations around the world. During the course of the past year, DEA's office in Pretoria has participated with South African authorities on a number of investigations involving methamphetamine precursors with the potential to impact the United States.

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. SAG treatment facilities and non-government drug rehabilitation agencies have seen their budgets for treatment cut the last few 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 general public 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 Drugs 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 incarcerated defendants 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.

IV. U.S. Policy Initiatives and Programs

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

The Road Ahead. Bilateral links between the United States and South African law enforcement communities are in the interest of both countries and even closer cooperation is needed. Assistance from the U.S. and other donors is essential to help develop the law enforcement system in South Africa.

Syria

I. Summary

In 2007, the Government of the Syrian Arab Republic (SARG) continued to publicize its efforts to interdict and punish drug smugglers, while downplaying domestic narcotics consumption. Syria remains primarily a transit country for narcotics en route to more affluent markets in Europe and the Persian Gulf. Continuing political conflicts in Lebanon and Iraq, porous borders, and endemic police corruption make Syria an attractive overland smuggling route between Europe/Turkey and the Persian Gulf. Domestic Syrian consumption of illicit drugs is not widespread, largely due to harsh penalties and cultural norms stigmatizing substance abuse. However, recent reports indicate an increasing prevalence of local prescription drug abuse, particularly in Aleppo. Syria continues to have a working anti-narcotics relationship with Saudi Arabia and Jordan, but counternarcotics cooperation with Lebanon has diminished since Syrian forces withdrew from Lebanon in 2005. Syria is a party to the 1988 UN Drug Convention.

II. Status of Country

Syria is not a major producer of narcotics or precursor chemicals. Due to political conflicts in neighboring Lebanon and Iraq, however, Syria is an increasingly important transit country for narcotics between Europe and the Persian Gulf. Hashish, heroin and cocaine are, respectively, the most prevalent narcotics transiting Syria destined for Lebanon and Europe. Syria is also along the trafficking route for Captagon (fenethylamine), a synthetic amphetamine-type stimulant. Captagon is increasingly trafficked through Syria from Turkey and Lebanon to the Gulf States. A newer phenomenon, however, is the smuggling of Captagon through Syria to Iraq for use by foreign fighters and insurgents.

III. Country Actions Against Drugs in 2007

Policy Initiatives. Syrian drug policy is based on Law No. 2 of 1993, which authorizes harsh punishment – including capital punishment – for those convicted of narcotics manufacturing, trafficking, or sales. However, the same law prescribes treatment at state-operated rehabilitation facilities for drug addicts who surrender to the police. Provided addicts have no other serious criminal offenses, and make a good faith effort during treatment programs, Law No. 2 exempts them from punishment. Authorities admit that some drug dealers have exploited this aspect of the law to avoid incarceration and locate additional customers.

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 = 50 SP) to anyone providing information about drug trafficking and/or illicit drug crop cultivation in Syria.

Law Enforcement Efforts. According to recently-published statistics for 2006, the Syrian government confiscated 172 kg of hashish, 65 kg of heroin, 19 kg of cocaine, 8.9 million Captagon tablets, 200,000 other assorted narcotics tablets and 6.8 MT of precursor materials. Currently, Lebanese hashish sells for \$1 per gram on the street in Syria, while one gram of clean heroin brings \$30, and one gram of cocaine costs about \$120. Thus, the 2006 seizures represent a street value of over \$4.6 million.

In 2007, 48 percent of all drug crimes in Syria were committed in greater Aleppo, likely due to its proximity to the Turkish border. Consequently, Syria's law enforcement efforts to combat narcotics smuggling concentrated primarily on Aleppo and at border-crossing points. In early August, Aleppan authorities arrested an infamous Syrian smuggler in possession of 1000 kg of narcotics and Captagon tablets, 600,000 Euros, \$500,000 in U.S. Dollars, and 4.5 million Syrian Pounds. In another Aleppo-based operation in October, Syrian police arrested nearly 700 smaller-scale drug dealers and seized several residential labs for manufacturing sedatives. At the Al Tanf checkpoint on the Iraqi border in September, an Iraqi refugee was caught attempting to smuggle 92 kg of hashish in his car. And in perhaps the most high-profile drug-related sentencing of the year, the Criminal Court of Lattakia gave the death penalty to a Syrian dealer who was apprehended with 11kg of heroin originating from Turkey.

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. Turkey continues to provide 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.

Corruption. Generally speaking, corruption is a daily fact of life in Syria. Cultural acceptance of corruption, in addition to below-average compensation for police and customs officials, creates an environment ripe for smuggling. The Syrian government did not provide information whether it had conducted any investigations into corruption, and the SARG has been reluctant to discuss this issue further. 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. 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 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Syria has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Syria and the United States do not have a counternarcotics agreement, nor is there an extradition treaty between the two countries. In 2007, the Syrian Interior Ministry signed an Agreement of Cooperation with the Russian Anti-Drug Trafficking Authority. The Agreement provides for a bilateral exchange of information and expertise, law enforcement training joint scientific chemical research and regularly occurring workshops. Also, the Iranian National Police offered to share their experience in counternarcotics with a delegation of Syrian police in the near future, although no date for the exchange was confirmed.

Cultivation/Production. Traditional drug cultivation and production remain at negligible levels in Syria. However, Syria does have a sizable, legitimate pharmaceutical industry that produces inexpensive prescription pain medication, among other drugs. Currently, the trafficking of prescription pain medicine is not legally categorized as the equivalent offense of trafficking in illicit drugs, despite the addictive nature of most prescription painkillers. Additionally, Syrian law currently supports the common practice of “leasing” a licensed pharmacist’s credentials. In this practice, investors may “lease” a pharmacist’s credentials in order to open and operate a licensed pharmacy in Syria. A pharmacist will receive payment for allowing his/her name to appear on the business registration, but the pharmacist may have nothing further to do with the operation of the pharmacy.

In 2007, multiple media reports highlighted significant abuse of prescription drugs in Aleppo, specifically Valium, Baltan and Proxamol. Several pharmacists were threatened with violence by addicts and dealers attempting to obtain painkillers without a prescription. After accounts of taxi drivers being beaten and robbed, many Aleppan taxis refused to enter certain neighborhoods known for prescription drug trafficking activity. An Aleppan social worker also reported seeing an increasing number of cases of children as young as 10 addicted to prescription pills. Responding to these reports, Syrian police closed 50 pharmacies in the greater Aleppo area in late October for selling prescription painkillers to customers without a doctor’s prescription. As each of the offending pharmacies was operated by a businessman leasing a pharmacist’s credentials, the Aleppan Pharmacists Union requested the government’s intervention to close this legal loophole.

Drug flow/transit. Syrian officials estimate that in 2007, the overall flow of illegal narcotics transiting Syria and destined for other countries had increased. As mentioned above, one likely reason for this increased traffic is that the continuing political conflicts in Lebanon and Iraq have made Syria a more attractive overland smuggling route between Europe/Turkey and the Gulf. Also due to political instability in Lebanon, Damascus has replaced Beirut as the favored summer vacation destination for many wealthy Gulf Arabs and Iranian tourists, which has increased local demand for illicit substances.

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 and Iraq.

Domestic Programs. The Syrian government’s counternarcotics strategy, which is coordinated by the Ministry of the Interior, uses the media to educate the public on the dangers of drug use and drug awareness is also part of the national curriculum for schoolchildren. The Ministry also conducts awareness campaigns through university student unions and trade unions. The SARG also regularly publishes accounts of successful law enforcement efforts to combat narcotics in the various government-owned media outlets.

Due to the social stigma attached to drug use and to stiff penalties under Syria’s strict anti-trafficking law, domestic consumption of illicit drugs remains low. In 2007, the head of Syria’s Counternarcotics Directorate claimed that there were no more than 150 drug users per one million citizens, or roughly 3000 nation-wide. Although there are no independent statistics available to

verify the accuracy of this claim, anecdotal evidence suggests the SARG is significantly underestimating the prevalence of illicit drug use in Syria. Furthermore, the government's estimate likely does not include prescription drug abusers, as mentioned above. Unless the government enacts legislation to close the loophole allowing businessmen to "lease" pharmacists' credentials, increases the penalties for trading prescription medication, and raises public awareness of this problem, it will likely grow.

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, Cyprus 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.

Togo

I. Summary

Togo is not a significant producer of drugs. Its role in the transport of drugs is primarily regional. During 2007 the drug trade (particularly in hard drugs) continued to increase. 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, extreme poverty, a lack of resources and training and long, porous borders. Togo is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug abuse by Togo's 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, but in small quantities for individual consumption. Approximately two metric tons of cannabis is 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 and ultimately to Europe. Togolese are not significant consumers. According to police, most smugglers are long-term Lebanese residents or Nigerians, but the gendarmerie is also targeting the Togolese players. Togolese small-time traffickers typically purchase small amounts of drugs and then resell them to expatriates living in Lome for local consumption. 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 most common means of trafficking is through shipping, but the Lome airport also serves as a transit point. The prevalence of widespread official corruption facilitates drug trafficking.

III. Country Actions Against Drugs in 2007

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 Security. The National Anti-Drug Committee, which consists of representatives from various offices, including security, defense, commerce and finance, meets periodically to coordinate. A data bank, created among Togo, Benin, and Ghana, and including the best ideas on narcotics control contributed by experts from each country to facilitate counternarcotics operations in the sub-region, has proved quite useful. While Ghana and Togo regularly contribute to the bank, Benin has yet to play an active role.

Law Enforcement Efforts. The number of drug-related arrests decreased in 2007. Only occasional spot checks are made of passengers at the airport. The Port of Lome's cargo screening ability should, in the future, aid the interdiction of drugs arriving by sea. Arrests have been mainly at the land border crossings and in Lome; the vast majority of trafficked drugs cross land borders. 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 former chief narcotics officer, who was held under house arrest for several months in 2006 under suspicion that he had diverted a quantity of captured drugs being held as evidence for resale, was released in September 2006 and is now the commander of a gendarme company in Dapaong, in Northern Togo. 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 on 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 any significant quantity in Togo is cannabis, but even production of that is small. Cultivation is primarily for local demand, although some cross border distribution by small-scale dealers is suspected. Domestic use of cannabis is increasing.

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, mostly in Europe.

Domestic Programs (Demand Reduction). The National Anti-Drug Committee (CNAD) opened a youth counseling center that shows counternarcotics films and sponsors counternarcotics discussion groups. The programs have been well attended by NGOs, 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 traffickers.

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 U.S. 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.

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, Pakistan, and Iran. 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 transit point, including its proximity to major drug cultivation regions in Afghanistan, 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 vessel and move to the UAE, among other destinations, in the Gulf. In September 2005, the U.S. DEA established a country office in the UAE to enhance cooperation with UAE law enforcement authorities. In 2007, the UAE was re-elected as the Asian regional representative to the Commission on Narcotic Drugs (CND). 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 Afghanistan, 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—including possibly from South America. Western Europe is the principal market for transiting drugs, and Africa is becoming an increasingly prominent 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, an easily accessible commercial banking system, and the fact that a number of ports in the UAE have free trade zones where transshipped cargo is not usually subjected to the same inspection as goods that enter the country.

III. Country Actions Against Drugs in 2007

Policy Initiatives. The UAE continued to advance its national drug strategy focusing 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. On March 29, 2007, Dubai Police and the United Nations Office on Drug and Crime (UNODC) signed a \$1.2 million project, fully funded by the Dubai Police, to combat drug abuse and drug trafficking in the UAE and in the region. The project will last for two and a half years (starting from April 2007). The project agreement has four elements. Dubai Police will play a leading role in reversing increased drug trafficking and drug abuse among young people in the UAE and other states of the region. UNODC will help upgrade the Dubai Police Training Centre into a centre of excellence for the region-wide transfer of knowledge and the training of law enforcement staff to ensure they have the skills needed to cope with an increased influx of narcotic drugs. UNODC will assist Dubai and the UAE as a whole to develop a coordinated national action plan on drug demand reduction. UNODC will help develop and implement national drug abuse and HIV/AIDS prevention modules for schools and universities to address young people in a way that suits the culture of the Gulf region.

In September of 2005, the UN established a sub-office on Drugs and Crime in Dubai. The UAE government funded the estimated \$3 million cost of the office and contributed an additional \$50,000 to the UN counternarcotics program.

Law Enforcement Efforts. According to published remarks of the Director of Drugs Department of the Ministry of Interior, speaking at the Arab Symposium for Planning and Strategic Cooperation in Combating Drugs, the UAE arrested 3,869 people in drug cases from 2006 to August 2007. During that timeframe, the total amount of seized hashish was 1,286 kg, heroin 240 kg, opium 13 kg, and approximately three million “drug tablets.” Abu Dhabi Police reported 162 arrests in the first half of 2007. Most of the arrestees were Iranians, Pakistanis, Africans and some UAE nationals. By way of example, in August 2007, Dubai customs inspectors stopped 33 smuggling attempts of hashish, opium, marijuana and other narcotic drugs.

A 1995 law stipulates capital punishment as the penalty for drug trafficking. Sentences usually are commuted to long-term imprisonment. In March 2007, the Sharjah Islamic Sharia Court handed down a death sentence to an Iranian drug trafficker who smuggled 267kg of hashish into the UAE. In April 2007, Ajman Court sentenced a drug trafficker to life imprisonment. UAE authorities continue to take seriously their responsibility to interdict drug smuggling and distribution. UAE authorities continue to cooperate with other countries to stop trafficking. In June 2007, UAE Ambassador to Pakistan, Ali Al Shamsi announced to the Associated Press of Pakistan (APP) that the UAE already had a drug liaison office in Islamabad and was in process of establishing another one in Karachi.

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 ratified the UN Convention against Transnational Organized Crime on May 7, 2007. 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-Khaimah 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, 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, Pakistanis, Afghans and Africans made up the largest number of non-UAE nationals arrested in drug cases in 2007. 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 inspecting containers destined for the U.S. Customs officials randomly search containers and follow-up leads on suspicious cargo.

Domestic Programs/Demand Reduction. In 2003, the UAE's Federal Supreme Court ruled 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. 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 and several awareness programs. It has been issuing postage stamps to highlight the hazards of drugs as part of its awareness campaigns. Every year, the Ministry of Interior holds a high-profile "Drug Awareness Week" with exhibits prominently set up in all of the local shopping malls to coincide with International Anti-Narcotics Day on June 26 every year. The theme of the 2007 commemorations in Abu Dhabi was "Drugs, The Way To Peril, So Choose Your Way."

The UAE has trained volunteers to educate people about the risks of drug use. During 2007, Dubai police trained both Emirati volunteers in UAE and 30 volunteers from Kuwait.

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. DEA officials work with UAE authorities to combat both drug smuggling and drug related money laundering.

The Road Ahead. The U.S. and the UAE will continue to work together to discourage narcotics trafficking and to protect citizens from the scourge of drug abuse.



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

International Narcotics Control Strategy Report

Volume II
Money Laundering
and Financial Crimes

March 2008

***Embargoed until
February 29, 2008
12:00 p.m.***

Table of Contents

Volume II

Legislative Basis for the INCSR	3
Introduction	4
Mobile Payments—A Growing Threat	11
Bilateral Activities	14
<i>Training and Technical Assistance</i>	14
<i>Department of State</i>	14
International Law Enforcement Academies (ILEAs)	16
<i>Board of Governors of the Federal Reserve System (FRB)</i>	18
<i>Drug Enforcement Administration (DEA), Department of Justice</i>	19
<i>Federal Bureau of Investigation (FBI), Department of Justice</i>	20
<i>Federal Deposit Insurance Corporation (FDIC)</i>	20
<i>Financial Crimes Enforcement Network (FinCEN), Department of Treasury</i>	21
<i>Immigration and Customs Enforcement, Department of Homeland Security (DHS)</i>	22
Trade Transparency Units (TTUs)	23
Other ICE Programs.....	23
<i>Internal Revenue Service (IRS), Criminal Investigative Division (CID) Department of Treasury</i>	24
<i>Office of the Comptroller of the Currency (OCC), Department of Treasury</i>	26
<i>Office of Overseas Prosecutorial Development, Assistance and Training, the Asset Forfeiture and Money Laundering Section, & Counterterrorism Section (OPDAT, AFMLS, and CTS), Department of Justice</i>	27
Training and Technical Assistance	27
Money Laundering/Asset Forfeiture	27
Resident Legal Advisors	29
Terrorism/Terrorist Financing.....	29
Organized Crime	32
Fraud/Anticorruption.....	33
Justice Sector Reform.....	35
<i>Office of Technical Assistance (OTA), Treasury Department</i>	36
Assessing Training and Technical Assistance Needs	36
Anti-Money Laundering and Counter-Terrorist Financing Training.....	37
Support for Financial Intelligence Units	38
Casino Gaming	38
Money Services Businesses	38
Insurance.....	39
Regional and Resident Advisors	39
Treaties and Agreements	40
<i>Treaties</i>	40
<i>Agreements</i>	41
Multi-Lateral Organizations & Programs	42
<i>The Financial Action Task Force (FATF) and FATF-Style Regional Bodies (FSRBs)</i>	42
<i>The Egmont Group of Financial Intelligence Units</i>	43

<i>The Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Group of Experts to Control Money Laundering</i>	45
Training and Technical Assistance	45
<i>Pacific Anti-Money Laundering Program (PALP)</i>	46
Mentoring	46
Legislative Drafting	47
Capacity Building Initiatives	48
Case support	49
Mutual evaluations	50
<i>United Nations Global Programme Against Money Laundering</i>	50
The Mentoring Program	51
Mentoring & Financial Intelligence Units	52
Computer-Based Training	52
Other GPML Initiatives	53
Law Enforcement Cases	54
Operation TNT—Contract Fraud	54
Drug Trafficking Organization—Laundering via Bulk Cash Smuggling and the Purchase of Real Estate and Automobiles	54
Trade-based Money Laundering/Black Market Exchange	55
Bulk Cash Smuggling, Casas de Cambio, and the Black Market Peso Exchange	55
Recent Terrorist Financing Prosecutions	55
Holy Land Foundation	56
Chiquita Brands Pays Terrorist Group AUC	56
Money Laundering to Support Terrorism	56
Material Support to Hamas	57
Rendering Assistance to a Khalistan Commando Force	57
Major Money Laundering Countries	58
<i>Vulnerability Factors</i>	59
<i>Changes in INCSR Priorities for 2007</i>	60
<i>Country/Jurisdiction Table</i>	62
<i>Introduction to Comparative Table</i>	63
<i>Comparative Table</i>	65
Country Reports	74
Afghanistan	74
Albania	78
Algeria	81
Angola	83
Antigua and Barbuda	84
Argentina	87
Aruba	91
Australia	93
Austria	98
Bahamas	102
Bahrain	105
Bangladesh	108
Barbados	110
Belarus	113
Belgium	117
Belize	122
Bolivia	125
Bosnia and Herzegovina	129
Brazil	132

Table of Contents

British Virgin Islands.....	136
Bulgaria.....	139
Burma.....	143
Cambodia.....	146
Canada.....	149
Cayman Islands.....	152
Chile.....	154
China, People's Republic of.....	159
Colombia.....	163
Comoros.....	168
Cook Islands.....	171
Costa Rica.....	174
Côte d'Ivoire.....	177
Cyprus.....	181
Czech Republic.....	187
Dominica.....	192
Dominican Republic.....	195
Ecuador.....	197
Egypt, The Arab Republic of.....	200
El Salvador.....	203
France.....	206
Germany.....	208
Ghana.....	211
Gibraltar.....	214
Greece.....	216
Grenada.....	221
Guatemala.....	223
Guernsey.....	227
Guinea-Bissau.....	229
Guyana.....	232
Haiti.....	233
Honduras.....	236
Hong Kong.....	240
Hungary.....	244
India.....	248
Indonesia.....	253
Iran.....	257
Iraq.....	260
Ireland.....	264
Isle of Man.....	267
Israel.....	270
Italy.....	274
Jamaica.....	277
Japan.....	280
Jersey.....	284
Jordan.....	287
Kenya.....	290
Korea, Democratic Peoples Republic of.....	293
Korea, Republic of.....	294
Kuwait.....	298
Laos.....	301
Latvia.....	303
Lebanon.....	308
Liechtenstein.....	312
Luxembourg.....	314
Macau.....	318

Malaysia	323
Mexico	327
Moldova	331
Monaco	335
Morocco	338
The Netherlands	339
Netherlands Antilles	345
Nicaragua	347
Nigeria	351
Pakistan	355
Palau	358
Panama	361
Paraguay	365
Peru	369
Philippines	373
Poland	377
Portugal	380
Qatar	383
Romania	386
Russia	390
Samoa	394
Saudi Arabia	396
Senegal	398
Serbia	401
Seychelles	404
Sierra Leone	407
Singapore	409
Slovak Republic	413
South Africa	417
Spain	419
St. Kitts and Nevis	425
St. Lucia	427
St. Vincent and the Grenadines	429
Suriname	431
Switzerland	434
Syria	438
Taiwan	442
Tanzania	447
Thailand	448
Turkey	453
Turks and Caicos	457
Ukraine	459
United Arab Emirates	463
United Kingdom	470
Uruguay	474
Uzbekistan	476
Vanuatu	481
Venezuela	484
Vietnam	487
Yemen	490
Zimbabwe	492

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 on Money Laundering in South America
GIABA	Inter-Governmental Action Group against Money Laundering
IBC	International Business Company
ICE	U.S. Immigration and Customs Enforcement
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 East and North Africa 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 2008 INCSR is the 25th annual report prepared pursuant to the FAA.¹

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, 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 2008 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 the section of the INCSR that reports on money laundering and financial crimes.

A major money laundering country is defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking" (FAA § 481(e)(7)). However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. This

¹ The 2008 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 2008 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.

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 2008

Afghanistan, Antigua and Barbuda, Australia, Austria, Bahamas, Belize, 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, 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

This year's Volume II of the INCSR on Money Laundering highlights continuing threats and vulnerabilities posed by money laundering and terrorist financing to U.S. national security and to the stability of the global financial system. The 2008 Volume II also reflects the current and latest trends used by criminals and terrorists to launder, move, and store the fruits of their illicit activities. Some of these methodologies include: the continuing use of banks and money service businesses as gateways to the global financial system; bulk cash smuggling; trade-based money laundering and value transfer; legal entities such off-shore financial centers and international business centers; casinos and "virtual" casinos; and new payment methods sometimes also identified as "e-money."

Twenty-five years ago, the Department of State was mandated by Congress to examine the challenges and threats from narcotics-related money laundering. Although it is sometimes difficult to obtain data on money laundering systems and trends, via reporting reflected in this edition from our worldwide diplomatic posts and the domestic law enforcement and regulatory communities, we are able to glean increasingly greater insights. We can say with certainty that the use of offshore financial centers, casinos, and the Internet is demonstrably growing at alarming rates. Virtual money laundering is a reality and at this time is immune to traditional money laundering countermeasures. If ignored, 'virtual' money laundering will pose a threat to our financial sector. In the following section, we expand on one facet of the virtual threat: "mobile payments." Similarly, in years past, Volume II has taken a leading role in early-on highlighting other typologies of concern such as the Black Market Peso Exchange (BMPE), bulk cash smuggling, and trade-based money laundering. These laundering systems are now widely recognized by many governments around the world, the Financial Action Task Force (FATF), and other international organizations.

In 2007, we continue to see that increasingly sophisticated criminal organizations, terrorists, kleptocrats and other illicit actors seek out the weak links in global anti-money laundering and counter-terrorist finance countermeasures. This report also gives numerous examples of the determination of law enforcement to dismantle these illicit activities. As of year-end 2007, nine more jurisdictions have criminalized money laundering beyond drugs, bringing the total to 180 jurisdictions that have done so. Similarly, 19 more jurisdictions have criminalized terrorist financing, bringing the total to 137.

Money Laundering and Financial Crimes

In assessing progress in both domestic and global anti-money laundering/counter-terrorist finance efforts, historical perspective is sometimes useful. We can measure incremental steps of progress, highlight continuing areas of concern, and learn how to better focus scarce training and assistance resources. A review also reinforces the importance of these efforts. For example, the International Monetary Fund (IMF) estimates the magnitude of money laundering is about 3-5 percent of the world's Gross Domestic Product (GDP). Using 2007 World Bank data, global GDP is approximately \$72.3 trillion. In other words, international money laundering can be estimated at between approximately \$2.17 and \$3.61 trillion a year, which is larger than the current U.S. budget. Ten years ago, the generally accepted estimate of international money laundering was in the range of \$300-\$500 billion. Although international economic growth accounts for a large percentage of the increase in international money laundering, there is also a greater understanding of new threats, methodologies, and diverse laundering systems. Throughout the 25 successive editions of this report, we have continued to see how, outside of crimes of passion, criminals are still primarily motivated by greed.

Volume II of the INCSR is a valuable tool to assist in our "look back." For example, a number of worrisome laundering "trends and typologies" were included in the 1997 and 1998 editions of the Money Laundering and Financial Crimes Section. The entries make familiar reading today, particularly if compared to threats articulated in the U.S. interagency 2007 National Money Laundering Strategy.

Ten years ago, one of the primary money laundering concerns was the Black Market Peso Exchange (BMPE). Earlier editions of this report have described how the Colombian cartels sell U.S. currency derived from drug trafficking to black market peso brokers in Colombia, who, with their U.S.-based agents, place the currency into U.S. bank accounts while trying to circumvent Bank Secrecy Act reporting requirements. The exchangers then sell monetary instruments drawn on their bank accounts in the United States to Colombian importers who use these instruments to purchase foreign trade goods. The 1998 report stated that the BMPE "is the single most efficient and extensive money laundering scheme in the Western Hemisphere." A review of this year's country reports shows that the BMPE is alive and well. In fact, there is increasing realization that similar black market exchange systems are found in diverse locales such as the Tri-Border region of Argentina, Brazil, and Paraguay; trade goods in Dubai and elsewhere are being purchased with Afghan drug proceeds; and Chinese and European manufactured trade items are being purchased through narcotics-driven systems similar to the BMPE.

The 1998 edition of this report stated that bulk cash smuggling is "one of the most utilized" money laundering techniques in the United States and around the world. Almost ten years later, this assessment still holds true. In 2007, the National Money Laundering Strategy stated that,

"The smuggling of bulk currency out of the United States is the largest and most significant drug-money laundering threat facing law enforcement. Deterring direct access to U.S. financial institutions by criminals does not prevent money laundering if illicit proceeds can still reach U.S. accounts through indirect means."

As if to illustrate these observations, in January 2007, a Colombian National Police Money-Laundering Unit, trained by U.S. law enforcement authorities, seized a record \$80 million worth of drug proceeds in cash and gold in one law enforcement operation in Cali, Colombia. At the time, this was the largest cash seizure in the Western Hemisphere. The record was short lived. Two months later, Mexican law enforcement authorities, working with U.S. law enforcement, raided a Mexico City residence and discovered over two tons of currency, mostly in \$100 banknotes, totaling \$205 million, as well an additional \$2 million equivalent in other currencies. These high-profile seizures give added impetus to efforts taking place around the world to implement the FATF's Special Recommendation IX on bulk cash smuggling. The dollars, euros, pesos, various other currencies, and gold seized in the two raids constitute the face of modern day crime transactions. The seizures also highlight the global

nature of the international narcotics industry, the enormous sums of money involved, and the complexity of the money laundering challenge.

The 1998 edition of the Money Laundering and Financial Crimes section discussed how the international gold trade is being used to launder significant amounts of criminally derived funds. The report stated, “There is an obvious need for countries to have better tools to combat this problem and to monitor the international movement of gold.” Ten years after this statement, it has become increasingly apparent that precious metals and stones are used to launder money, transfer value, and finance terror. (Both al Qaeda and the Taliban have publicly announced various “rewards” offered in gold for acts of terror carried out by jihadists.) Gold is both a commodity and, depending on the form, a *de facto* bearer instrument. A review of this year’s edition shows that Vietnam, Saudi Arabia, Taiwan, Japan and other countries all have various forms of reporting requirements on the international transportation of gold. For example, in May 2007, the Saudi Ministry of Finance announced that people coming into and going out of the Kingdom of Saudi Arabia are required to declare to customs officials at exit and entry points the amount of cash, precious stones, jewelry, and metals such as gold that they carry with them exceeding 60,000 Saudi riyals (approximately \$16,000).

More than a decade ago, U.S. criminal investigators first became concerned about trade-based money laundering by examining glaring anomalies in the international gold trade. It took the intelligence and law enforcement communities far too long to understand that historically and culturally trade is used in various forms of value transfer and to provide counter valuation in alternative remittance systems such as hawala. Shortly after September 11, the Department of State, in collaboration with the Departments of Homeland Security (DHS) and Treasury, made the combating of trade-based money laundering a key part of our anti-money laundering efforts. Since then, others have recognized this urgency, including the FATF.

Trade fraud is found around the world. It is particularly damaging in those developing countries hard-pressed for revenue. For example, according to this year’s submission on Bangladesh, customs duties account for approximately 40-50 percent of annual government income. To help address these vulnerabilities, the State Department’s Bureau of International Narcotics and Law Enforcement Affairs (INL) provided funding to DHS to establish prototype Trade Transparency Units (TTUs) in the South American Tri-Border countries of Argentina, Brazil, and Paraguay. TTUs examine import and export data to identify anomalies that could be indicative of customs fraud, trade-based money laundering, and/or underground finance. The concept is simple, efficient, and expanding. It was specifically endorsed in the 2007 National Money Laundering Strategy where it was noted that, “Often the most complex money laundering methods involve the use of international trade to disguise funds transfers.”

Ten years ago, this report also noted that,

“Nonbank financial institutions (NBFIs) continue to be used as sites for money laundering in the United States despite a number of efforts at both federal and state levels, with over 200,000 NBFIs in the United States, monitoring of these businesses for money laundering is a complicated matter.”

The 2007 National Money Laundering Strategy acknowledged the continuing problem and called for the enhancement of financial transparency in what is now generally called money services businesses (MSBs). MSBs include money transmitters, check cashers, currency exchangers, hawaladars, as well as issuers, sellers, and redeemers of money orders, traveler’s checks, and stored value. According to the report, less than 20 percent of MSBs are registered with Treasury’s Financial Crimes Enforcement Network (FinCEN), as is required. A review of FATF mutual evaluations and current country reports in this year’s edition reveal that most jurisdictions are similarly struggling with issues of registration, transparency, and reporting in the MSB industry. This should come as no surprise. The 1997 INCSR discussed the challenges of regulating exchange houses and remittance systems such as “hawala in the

Money Laundering and Financial Crimes

Middle East, cambios in Latin America, and NBFIs of all types in the Western financial community.” The report prophetically added, “Systems for regulating them to discourage their use to launder the proceeds of crime are essential, but will fail unless they take into account the very informality that makes them effective and desirable.”

Ten years ago, new payment technologies were in their infancy. The 1998 INCSR predicted that,

“Electronic money (e-money) has the potential to make it easier for criminals to hide the source of their proceeds and move those proceeds without detection. While the application of new technologies to electronic or cyber-payments is still in its infancy, it is prudent to recognize their potentially broader impact. The technology exists which could permit these systems to combine the speed of the present bank-based wire transfer systems with the anonymity of currency.”

The envisioned era is here. The rapid growth of global mobile payments (m-payments) demands particular attention. There are less than one billion bank accounts worldwide but approximately three billion cell phones. In some areas of the world, sending and receiving money or credit by phone is now commonplace. While m-payments have enormous potential for good, the risk that criminal and terrorist organizations will co-opt m-payment services is real. Financial transparency is problematic. Regulators and law enforcement are finding themselves hard-pressed to respond to rapid development in e-payment methodologies.

The 2007 National Money Laundering Strategy report discusses the promotion of transparency in the ownership of legal entities, particularly corporations, limited liability companies (LLCs), and trusts. This issue was elaborated on nearly a decade ago in earlier editions of the INCSR, which highlighted the growing threat posed to global financial stability by the 60 offshore financial centers (OFCs), whose defining characteristic is to a lesser or greater degree, the lack of transparency. An OFC is a jurisdiction where an intentional effort has been made to attract foreign business by deliberate government policies such as the enactment of tax and other fiscal incentives: “business friendly,” lax or nonexistent supervisory regimes; freedom from common regulatory constraints, such as exchange controls and disclosure requirements; and secrecy enforced by law. OFCs also enable the formation of international business companies (IBCs), banks, trusts (some with “flee clauses”), and other vehicles formed by management and trust companies, or by intermediaries such as lawyers or accountants. Particularly troublesome are “off-the shelf” IBCs, purchased via the Internet, with nominee directors from a different country that effectively provide anonymity to the true beneficial owners.

Although 13 of the 15 jurisdictions listed by the Financial Action Task Force on its initial 2000 list of Non-Cooperative Countries and Territories (NCCTs) had OFCs or were themselves offshore financial jurisdictions, a ten-year review shows that the FATF exercise has done little to stop the growth of the offshore financial sector. In fact, the opposite appears to be true. For example, in 1998, the British Virgin Islands licensed 300,000 IBCs; today more than 800,000 are registered. Similarly, after the U.S. and the international community forced the closing of Nauru’s nearly 400 shell banks, 300 banks, nearly all thought to be “shell banks,” were found to be registered in the Comoros. The government of Moldova, in spite of being advised of the risk of doing so, recently considered developing its own OFC. Likewise, Jamaica is considering opening an OFC in 2009. Recently, the Government of Ghana has established an offshore financial sector, mandating that the Bank of Ghana authorize offshore banks.

The 2007 National Money Laundering Strategy stated that casinos are cash-intensive businesses that often provide financial services and money laundering opportunities. In fact, the concern that the exchange of cash for casino chips and related money transfer and account services make casinos vulnerable to money laundering has been with us for many years. Today, the number of gaming establishments in the U.S. is growing, driven by Native American tribes. Casinos on Native American

reservations bring in more money than Las Vegas and Atlantic City combined. Money laundering schemes using casinos have been reported by both domestic and foreign law enforcement.

In most parts of the world there is extensive casino development. Countries hope that gaming will provide added revenue and employment. However, particularly in the developing world, there are few anti-money laundering regulations and little oversight or control. For example, in Latin America, there is rapid casino development, but only Panama and Chile have viable AML programs in the gaming industry. Peru recently passed a new gaming law, aimed at identifying the owners of hundreds of currently unregulated gambling establishments. In the Caribbean, the industry is largely unregulated, except for in the Bahamas and the Grenadines. Casinos exist in most of sub-Saharan Africa, but only South Africa has a regulatory structure that deals with casinos. Most countries in Asia have gaming industries and observers have expressed concerns about money laundering vulnerabilities. According to the Macau country report, gaming revenue in the first nine months of 2007 exceeded the 2006 total and accounts for well over 50 percent of Macau's gross domestic product (GDP). Macau is fast approaching Las Vegas as an international gambling destination. Eastern European and Central Asian countries also face AML challenges with the industry. Diverse jurisdictions need to take their "first steps" in addressing the very real anti-money laundering threats related to casinos. It is only developed countries such as Australia, the United States, and those in Western Europe that regularly incorporate money laundering countermeasures that meet international standards in their gaming industry. However, even those countries with relatively strong oversight, the money laundering threat posed by casinos continues to grow.

So, too does the threat of "virtual casinos"—gambling via the Internet. A decade ago, 15 of the 60 offshore jurisdictions were known to have registered "virtual casinos" in their jurisdiction. Although a few such sites were located in the OFCs in the Pacific, the vast majority were located in the Caribbean Basin, with Costa Rica and Antigua and Barbuda, each reportedly having licensed hundreds of virtual casinos, with typical fees a decade ago reportedly ranging from \$75,000 (for a sports betting shop) to \$100,000 (for a virtual casino license.) As reported in the 1999 INCSR, the Pacific island jurisdictions were thought to generate nearly \$1.2 million a month from these license fees. Internet gambling executed via the use of credit cards, Internet payment service providers, and offshore banks represents yet another powerful vehicle for criminals to launder funds from their illicit sources and to evade taxes. These Internet gaming sites are a particularly difficult problem for law enforcement, as the beneficial owner may live in one country, with the anonymous corporation registered in another country, and the server located in yet a third country. Although illegal for use by U.S. citizens, thousands of U.S. individuals have Internet gaming accounts with Internet gaming providers in foreign jurisdictions. Current estimates are that these gaming sites earn between \$6 to \$8 billion dollars annually from U.S. citizens alone. As such, Internet gaming has the potential of becoming a greater money laundering threat than actual physical casinos.

In spite of the continued threats by money launderers and terrorist financiers, a brief historical review of countries' AML/CTF efforts does demonstrate success stories. For example, the following is a small sampling from the country reports of miscellaneous "steps" towards progress in 2007:

- Argentina and Mexico criminalized terrorist financing.
- Italy had over 600 money laundering convictions.
- Ghana has a new anti-money laundering law.
- There has been a decline in offshore banks and trusts in the Bahamas.
- Brazil had 190 money laundering convictions.

Money Laundering and Financial Crimes

- Israel, formerly labeled “noncooperative” under FATF’s NCCT guidelines, has systematically established an AML/CTF regime that adheres to world standards, and has several on-going money laundering cases.
- Chile had four money laundering convictions, the first under its new penal system.
- Currently, Antigua and Barbuda does a very good job of regulating the Internet casinos and is probably the world leader in dealing with AML issues with the Internet gaming industry. In fact, their regulations in this area have been copied by other highly regulated Internet gaming jurisdictions such as the Isle of Man.
- The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the West African Groupe Inter-gouvernemental d’Action Contre le Blanchiment d’Argent et Le Financement du Terrorisme en Afrique de l’Ouest (GIABA) conducted their first mutual evaluations.
- Colombia had 47 money laundering convictions.
- The Republic of Korea Financial Intelligence Unit has analyzed 79,325 suspicious transaction reports and referred 7,184 cases to law enforcement, resulting in 3,661 investigations, with 1,402 cases resulting in indictments and prosecutions for money laundering.
- Armenia, Bangladesh, Bahamas, Cambodia, Canada, Costa Rica, Cuba, Gabon, Ghana, Guinea-Bissau, Kuwait, Luxembourg, Maldives, Moldova, Morocco, Pakistan, Papua New Guinea, Portugal, Qatar, Sweden, Macedonia, Uruguay, Zambia, Zimbabwe all became parties to the United Nations Convention against Corruption.
- Bosnia-Herzegovina obtained seven convictions for money laundering in the first seven months of 2007.
- China became a member of the FATF.
- The Egmont Group established a formal Secretariat and the FIUs of Armenia, Belarus, India, Nigeria, Niue and Syria became Egmont members.

Unfortunately, the review also highlights countries that are regressing, such as Uzbekistan, which suspended its AML law for the next six years, as well as continuing global AML/CTF pariahs: particularly North Korea and Iran. U.S. Treasury press releases and a 2007 entry in the U.S. Federal Register 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.” In October 2007, the FATF released a statement of concern noting that:

“Iran’s lack of a comprehensive AML/CTF regime represents a significant vulnerability within the international financial system. FATF calls upon Iran to address on an urgent basis its AML/CTF deficiencies. FATF members are advising their financial institutions to take the risk arising from the deficiencies in Iran’s AML/CTF regime into account for enhanced due diligence.”

Iran is currently the only country for which FATF has publicly identified such a significant AML/CTF vulnerability. Both North Korea and Iran are still designated by the U.S. State Department as state sponsors of terrorism.

The “year in review” summary of the 1997 edition asked a question in bold type face that is just as pertinent today: “**Are the laws being implemented?**” A review of the 2008 country reports prompts the following question: “**Are the laws being enforced?**” Unfortunately, the ten-year time frame

shows that far too many countries that boast solid AML/CTF standards and infrastructures are still simply not enforcing their laws. This is true in all corners of the world and for both developed and developing countries alike.

A review of recent data demonstrates that some jurisdictions are having trouble converting their anti-money laundering policies and programs into investigations, prosecutions, and convictions. In some cases, the lack of enforcement is due to lack of capacity, but in far too many others it is due to a lack of political will. In addition, too many jurisdictions are getting caught up in the AML/CTF process and losing sight of the objective.

Over the last ten years, we have made substantial progress collecting financial intelligence. In the United States alone, approximately 18 million pieces of financial intelligence are collected every year. Countless million more financial intelligence reports are produced overseas. We have nearly succeeded in creating global financial transparency in traditional financial institutions. During the past decade, the Egmont Group of financial intelligence Units has grown almost exponentially and now has 106 members. However, success should not be measured by the number of suspicious transaction reports received, analyzed, and disseminated—although undoubtedly the reporting of financial intelligence has a deterrent effect. Financial intelligence is simply the process; the means to an end. Rather, the objective continues to be anti-money laundering and counter-terrorism finance convictions. Convictions, combined with asset seizure and forfeiture are the true deterrents, the most meaningful “measurable,” and the bottom line. Far too many jurisdictions continue to fall short in this regard.

Almost twenty years ago, in an early experiment in international anti-money laundering cooperation, the U.S. Customs Service and the Italian Guardia di Finanza (fiscal police) jointly combated Italian/American organized crime—the mafia—by examining illicit money flows between Italy and the United States. Appropriately enough, the task force was called Operation Primo Passo or “first step.” At the time, Italy’s anti-money laundering infrastructure was in its infancy and prosecutions and convictions were problematic. Today, a review of the 2008 Money Laundering and Financial Crimes section of the INCSR shows that Italy’s anti-money laundering/ counter-terrorist financing system is now called “comprehensive” by the International Monetary Fund. With approximately 600 money laundering convictions a year, Italy has one of the highest rates of successful prosecutions in the world. Countries that are currently taking their “first steps” in constructing viable AML/CTF regimes together with countries that continue to struggle to implement policies, procedures and norms should be heartened by the 20 year Italian example, and of more recent successes in Chile, Colombia, Poland, Slovenia, Serbia, and South Korea. With skill, dedication, courage, training, equipment, and political will, much can be accomplished, although a review of continuing money laundering threats demonstrates that much remains to be done. Most importantly, a renewed focus on money laundering enforcement measured by successful investigations and prosecutions is required.

The USG training and technical assistance program has been very effective in helping countries take the necessary steps to combat money laundering and the financing of terrorism. Primarily coordinated and funded by the State Department’s Bureau of International Narcotics and Law Enforcement Affairs (INL) and the Office of the Coordinator of Counterterrorism (S/CT), our continuing goal is to simultaneously strengthen regional anti-money laundering organizations, and build comprehensive AML/CTF regimes in individual countries. Working with the USG interagency legal, law enforcement, and financial regulatory communities, as well as with multi-lateral organizations and partner countries, we seek to maximize the institution-building benefits of our assistance by delivering it in both sequential and parallel steps. The steps are tailored to each country’s unique needs as determined by threat assessments and concentrate on the following core areas: legal, regulatory, financial intelligence, and enforcement.

The experience of nearly two decades has demonstrated that generally, regional training, while more expensive than bilateral training, is ultimately more effective. Regional training greatly enhances the

probability of neighboring countries cooperating and sharing information with one another. Likewise, long-term training, whether regional or bilateral, is considerably more expensive but infinitely more effective than the usual one-week seminars and short-term training courses that characterize USG efforts. Long-term training and resident advisors enable trainees to take “ownership” of the process, which enhances implementation and sustainability. Unfortunately, primarily due to demands of daily work requirements, the number of USG expert long-term trainers is insufficient to meet global demand. During the past decade, a significant portion of INL’s anti-money laundering budget has been used to fund long-term mentors from the UNODC Global Program against Money Laundering as well as through large regional programs with residential mentors in the Caribbean and Pacific. The overriding challenge in our global efforts to provide continued expert effective training and technical assistance is the continued dilemma of there not being enough resources to meet increasing demand for our programs particularly to fund a sufficient number of long-term resident mentors where they are desperately needed. To partially offset our inadequate budget, we have also co-funded mentors in the Mekong Delta and Central Asia regions with the World Bank.

A periodic review of our training and assistance efforts sometimes highlights disappointments and frustrations, but also demonstrates hard-won success. We believe such review is essential to sustain and strengthen gains. Moreover, we are focusing increasingly scarce financial resources and quality trainers in areas that demonstrate the greatest need and the political commitment necessary to develop viable, sustainable anti-money laundering/terrorist financing regimes.

Our review also underscores the truisms that money is the lifeblood of terrorism and that focusing adequate resources on the money trail is still one of the most valuable tools law enforcement has to combat international crime. Similarly, international criminals have tremendous financial resources and spare no expense to corrupt government and law enforcement officials. They also have extensive worldwide networks to support their operations and are inherently nimble, adapting quickly to change. To effectively address this serious threat, we know that we must use our best efforts to apply and coordinate all of the available resources of the federal government and work closely with our foreign counterparts. Sustained global cooperation and support is the surest path to success as we drain the money supply that the criminal networks need to stay in business. To accomplish this, we must continue to support the international community with the tools, capabilities, and resources needed to reduce the growing threats posed by transnational crime, money laundering, and illicit activities.

Mobile Payments—A Growing Threat

In the United States and around the world, law enforcement continues to struggle with the many low-tech but highly effective ways criminals launder money and finance terrorism. Over the last several years, the INCSR Volume II has brought attention to some of these methods and has chronicled progress in developing countermeasures. Two prominent examples are bulk cash smuggling and trade-based money laundering. Unfortunately, while fighting the twin threats of money laundering and terrorist financing, we are also witnessing a plethora of new, high-tech value transfer systems that can be abused. Some of the most innovative are electronic payment products. FATF calls them “new payment methods” or NPMs. They are also sometimes called “e-money” or “digital cash.” Examples include Internet payment services, prepaid calling and credit cards, digital precious metals, electronic purses, and mobile payments or “m-payments.” Driven by a remarkable convergence of the financial and telecommunications sectors, the rapid global growth of m-payments demands particular attention. M-payments can take many forms but are commonly point of sale payments made through a mobile device such as a cellular phone, a smart phone, or a personal digital assistant (PDA).

Worldwide, there are fewer than one billion bank accounts, but approximately three billion cell phones. In developing countries and often cash based societies in South Asia, Latin America, and

Africa, mobile communications proliferate, leapfrogging old landline technology. At the same time, there is a growing worldwide trend away from paper and towards electronic payments. It is only logical that the startling advances in communications are followed by innovations in m-payments. There are already indications that money launderers and those that finance terrorism will avail themselves of the new m-payment systems. Responsible jurisdictions must find a balance between the expediency of m-payments, particularly in the developing world, and the need to guard against abuse.

According to the International Monetary Fund, Africa is enjoying its best period of economic expansion since the era of independence. In efforts to sustain growth, many donor governments and nongovernmental organizations agree that promoting financial services in Africa, where only an estimated 20 percent of families have bank accounts, should be encouraged. Ethiopia, Uganda, and Tanzania have less than one bank branch per 100,000 people. As a result, millions of Africans, primarily in rural areas, store money at home or keep savings in the form of cattle or gold. High inflation, currency devaluations, and scarce resources mean many turn to purchases of high value goods to retain the value of their money. As a result of these and other conditions, many Africans use informal savings clubs or underground financial systems. The rapid spread of cell phones may be a major contributor to developing much-needed access to financial services. South Africa, Congo, and Kenya, are examples of countries where financial services are now being offered via cell phones. Subscribers can pay bills, transfer money, receive credits, open accounts, and check balances. Workers can be paid by phone. Before leaving on a trip, a subscriber can deposit money and then withdraw funds at the other end, which has many advantages over carrying a significant amount of cash. Cell phone money and credit transfers allow communities to bypass both brick-and-mortar banks and ATMs. The new mobile technology potentially provides a “virtual ATM” to every bearer of a mobile phone.

The World Bank estimates that global remittances exceed one quarter of a trillion dollars annually. Increasingly, in many areas, m-payments provide a new option to expatriates and “guest workers” that wish to send part of their wages home to support their families. M-payment transfers are replacing the use of traditional banks and money service businesses that historically have charged high fees for small transfers. M-payments also provide fast, safe, efficient value transfer service, which will encourage some users to bypass the use of underground remittance systems such as hawala.

The following is an example of how money can be moved via cell phones:

- The sender gives cash for transfer to a remittance center, plus a fee of approximately 3-5 percent (fees generally depend on the amount transferred, and there are generally limits on the amount that can be transferred at one time).
- The remittance center transfers the amount electronically through the phone company to the receiver’s cell phone account.
- The recipient receives a text message with notice of the transfer of credit to his or her “electronic wallet.”
- The recipient goes to a licensed outlet, retail store, or even a fast-food restaurant to pick up the cash or use the credit. For example, in a restaurant the patron connects to the cash register with his or her cell phone, enters a personal identification number (PIN), and authorizes payment. The entire transaction takes just a few seconds. The entity that provides the goods, services or disburses the cash may also charge a small fee.

Unfortunately, these same promising m-payment developments in Africa, Asia, and elsewhere will assuredly bring abuse of the m-payments systems as well. There are numerous money laundering and terrorist financing implications and many potential scenarios, but “digital value smurfing”—a term coined by the Asian Development Bank—represents a very clear threat. In traditional money laundering, “smurfs” or “runners” deposit or place small amounts of illicit or “dirty” money into

financial institutions in ways that do not trigger financial transparency reporting requirements. Today, digital smurfs are able to bypass regulated banks and their financial reporting requirements and exchange dirty money for digital value in the form of stored value cards or mobile payment credits. Proceeds of crime or contributions to terrorist organizations can now be transferred via cell phones. With such transfers, criminals avoid the risk of physical cash movement, bypass financial transparency reporting requirements, and rapidly send digital value across a country or around the world. Further advantages for money launderers employing digital value smurfing instead of traditional money brokers include the quick conversion of cash to digital value, and the potential to integrate different digital value pools such as SMART cards, on-line accounts, and Internet payment clearing services.

Unfortunately, there is little financial intelligence on most forms of NPMs, including m-payments. Many law enforcement and intelligence agencies currently have little expertise in m-payment methodologies and technology. This gap in expertise is often coupled with a lack of codified authority to examine abuses in the communications systems. Moreover, most m-payment networks have security features that hinder law enforcement and intelligence services in their efforts to detect suspect transactions.

A lack of physical evidence further handicaps law enforcement investigations, as there may not be any cash or cash equivalents to monitor or seize. If value is transferred electronically and the conveyor or recipient phone is destroyed, it may be impossible to reconstruct or determine the information that was on the phone. If both a mobile phone service and the funds used to facilitate m-payments are prepaid, the service provider may not fully identify its customers due to the absence of credit risk. The problems could be compounded by the use of false identification to obtain subscriber status or to purchase or rent m-payment services. Using prepaid cellular phones could allow criminals to buy handsets incognito and use their minutes without leaving a trace of their calling records.

Some countries, such as the Philippines, embrace m-payment innovations. According to the Asian Development Bank, 35 percent of the people in the Philippines have cell phones, while 95 percent of the rest have access to cell phones via friends or family. Even traditionally inaccessible areas increasingly have cell phone coverage. As a result, m-payments are rapidly growing in popularity and are commonly used to pay bills, buy goods, and transfer cash. In addition, Philippine workers in approximately 18 countries, including the United States, can use their cell phones to send money home.

The Philippines is one of the few countries proactively taking steps to monitor and regulate m-payments. Service providers have worked closely with the Central Bank and the financial intelligence unit to comply with anti-money laundering laws and regulations. Carriers are regulated as money service businesses. Following “know-your-customer” policies, the authorized subscriber must register in person with the service provider and present a valid photo identification document to either put cash in or take cash out of the system. There are also limits on the size of the customer’s “electronic wallet.” For example, the maximum a subscriber can transfer at one time is 10,000 pesos (approximately \$247), or a maximum of 40,000 pesos (approximately \$990) a day and 100,000 pesos (approximately \$2,475) per month. However, the regulations and limits do not eliminate the vulnerabilities that false identification and networks of “digital smurfs” pose.

The United States currently has few safeguards against abuse of m-payments. M-payment service providers in the United States are classified as money service businesses and, in theory, must register with the United States FIU, the Financial Crimes Enforcement Network (FinCEN). However, most money service businesses do not comply with registration requirements and there is little enforcement of the regulations.

The NPM issue is briefly mentioned in the 2007 National Money Laundering Strategy:

“FinCEN, in coordination with the federal banking regulators and the industry, will issue guidance and develop regulatory definitions and requirements under the BSA for stored value products and payment systems.” Unfortunately, there has been little progress in formulating and disseminating guidance and our traditional money laundering countermeasures are not adequate to address the looming threat posed by abuse of m-payments to today’s e-banking and cashless system.

In the digital age, it is increasingly difficult to “follow the money.” The FATF and numerous organizations and governments worldwide recognize the use of NPMs, including m-payments, as a growing threat. Much work and creative thinking will be required to maintain the advantages NPMs, including m-payments offer, while at the same time preventing exploitation and misuse by money launderers and terrorist financiers and simultaneously protecting user privacy and the integrity of the global financial systems.

Bilateral Activities

Training and Technical Assistance

During 2007, 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 of International Narcotics and Law Enforcement Affairs (INL) Crime Programs Division teams help to strengthen criminal justice systems and the abilities of law enforcement agencies around the world to combat transnational criminal threats before they extend beyond their borders and impact our homeland. Through its international programs, as well as in coordination with other INL offices and U.S. government agencies, the INL Crime Programs Division addresses a broad cross-section of law enforcement and criminal justice sector areas including: counternarcotics; demand reduction; money laundering, financial crime, and terrorist financing; corruption, smuggling of goods; illegal migration; trafficking in persons; domestic violence; border controls; document security; cybercrime; intellectual property rights; law enforcement; police academy development; and assistance to judiciaries and prosecutors. While this report is limited to training and assistance to combat money laundering and the financing of terrorism, anticorruption training is closely related to USG anti-money laundering/counter-terrorist financing training, and frequently mirrors it: For example, INL’s anticorruption initiatives help to 1) establish shared global anticorruption standards such as the United Nations Convention against Corruption, subscribed to by 107 countries; 2) strengthen global political will to fight corruption and to implement multilateral anti-corruption commitments; 3) increase international cooperation to prosecute corruption, identify and prevent access by kleptocrats to financial systems, deny safe haven to corrupt officials, and identify, recover, and return proceeds of corruption; and 4) provide anticorruption assistance that strengthens legal frameworks and builds capacity of critical law enforcement and rule of law institutions, such as police, investigators, prosecutors, judges, ethics offices, auditors, inspectors general, and other oversight, regulatory and law enforcement officials.

INL and the Department’s Office of the Coordinator for Counterterrorism (S/CT) co-chair the interagency Terrorist Finance Working Group (TFWG) and together implement a multimillion dollar

Money Laundering and Financial Crimes

training and technical assistance program designed to develop or enhance the capacity of a selected group of more than two dozen countries that 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 2007, 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 Department of State, the Department of Justice, Department of Homeland Security, Department of Treasury, the Federal Deposit Insurance Corporation, and various nongovernmental organizations, the TFWG member agencies offer 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, and 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. Courses have been provided in the United States as well as in the jurisdictions to which the programs are targeted.

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 mentors 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 newer TTUs of Argentina and Paraguay. The Argentine TTU has uncovered a major trade-based anomaly that law enforcement is currently investigating. In 2006, INL obligated funds to the Department of Homeland Security to establish a TTU in Southeast Asia and, in 2007, to develop a TTU in Mexico. 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 will 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 Caribbean Anti-Money Laundering Program (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 14 non-FATF member states for the purpose of developing viable regimes that comport with international standards. The PALP is now in its second year. INL will contribute a total of \$6 million to the Pacific Islands Forum for the four-year PALP project.

In FY07, INL obligated \$1.7 million for the United Nations Global Program against Money Laundering (GPML). In addition to sponsoring money laundering conferences and providing short-term training courses, the GPML instituted a unique longer-term technical assistance initiative through its mentoring program. The mentoring program provides advisors on a year-long basis to specific countries or regions. 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 Philippines' FIU, and asset forfeiture assistance to Namibia, Botswana, and Zambia. The mentor provided legal inputs to amend relevant legislation in each country, and initiated and monitored the Prosecutor Placement Program, an initiative aimed at placing prosecutors from the region for a certain period of time within the Asset Forfeiture Unit of the National Prosecuting Authority (NPA) in South Africa. The GPML mentors in Central Asia and the Mekong Delta are assisting the countries in those regions to develop viable anti-money laundering/counterterrorist financing regimes. The GPML continues to develop interactive computer-based programs that are translated into several languages and distributed globally.

INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2007, INL supported the Financial Action Task Force (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 (GAFISUD). INL also financially supported the Organization of American States (OAS) Inter-American Drug Abuse Control Commission (CICAD) Experts Group to Control Money Laundering and the OAS Inter-American Counter-Terrorism Committee.

As in previous years, INL training programs continue to focus on an interagency and multilateral approach and on bringing together, where possible, foreign law enforcement, judicial and financial supervisory and regulatory authorities. This approach encourages an extensive dialogue and exchange of information. This approach has been used successfully in Asia, Central and South America, Central Asia, and Central and Eastern Europe. INL also provides funding for many of the regional training and technical assistance programs offered by the various law enforcement agencies, including assistance to the International Law Enforcement Academies.

International Law Enforcement Academies (ILEAs)

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

The ILEA concept and philosophy is the result of a united effort by all participants—government agencies and ministries, trainers, managers, and students—to achieve the common foreign policy goal of international law enforcement. The goal is to train professionals who will craft the future of 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, there are regional seminars with different topical foci; these have included transnational crimes, financial crimes, and counterterrorism.

The ILEAs help to develop an extensive network of alumni who exchange information with their U.S. counterparts and assist in transnational investigations. These graduates are also expected to become

Money Laundering and Financial Crimes

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 20,000 officials from over 75 countries in Africa, Asia, Europe and Latin America. The ILEA budget averages approximately \$16 to 18 million annually.

Africa. ILEA Gaborone (Botswana) opened in 2001. The main feature of this 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 42 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, 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. Burundi, Rwanda, Sierra Leone, Ghana, Guinea and Senegal are projected to join the program during the latter part of 2008.

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 & Financial Forensic Program (presented by DHS and the Federal Law Enforcement Training Center), and International Money Laundering Scheme (presented by ICE). ILEA Gaborone trains approximately 500 students annually.

Asia. ILEA Bangkok (Thailand) opened in March 1999. This 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—each 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 its 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) and Complex Financial Investigations (presented by IRS, FBI and DEA). Total annual student participation is approximately 800.

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, 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, 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 800 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 middle to senior level law enforcement and criminal justice officials from Eastern Europe; Russia, the states of the former Soviet Union; 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 350 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 2008, ILEA San Salvador will deliver four LEMDP sessions and approximately 16 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 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 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. ILEA San Salvador trains approximately 800 students per year.

The ILEA Regional Training Center located in Peru opened 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. The RTC is projected to train approximately 240 students per year.

Board of Governors of the Federal Reserve System (FRB)

An important component in the United States' efforts to combat and deter money laundering and terrorist financing is to verify that supervised organizations comply with the Bank Secrecy Act (BSA) and have programs in place to comply with the Office of Foreign Assets Control (OFAC) sanctions. Under the auspices of the Federal Financial Institutions Examination Council's (FFIEC) BSA/Anti-Money Laundering (AML) Working Group, the federal bank regulatory agencies, Financial Crimes

Enforcement Network (FinCEN), OFAC, and the Conference of State Banking Supervisors collaborated in the development of the FFIEC's BSA/AML Examination Manual, released in 2005 and updated in 2006. In 2007, the manual was updated again to further clarify supervisory expectations, incorporate new regulatory issuances, and respond to industry requests for additional guidance.

Internationally, the FRB conducted training and provided technical assistance to bank supervisors and law enforcement officials in AML and counterterrorist financing (CTF) tactics in partnership with regional supervisory groups or multilateral institutions, including the South East Asian Central Banks, and the Caribbean Association of Indigenous Bankers. In 2007, the FRB provided training and/or technical assistance to regulators and bankers in Russia and Mexico. In addition, the FRB sponsored an AML examination seminar in Chicago for bank supervisors from 25 different countries.

Due to the importance that the FRB places on international standards, the FRB's AML experts participate regularly in the U.S. delegation to the Financial Action Task Force (FATF) and the Basel Committee's AML/CTF expert group. The FRB is also an active participant in the U.S. Treasury Department's ongoing Private Sector Dialogue conferences, attending the Latin American session in Bogotá and the Middle East and North Africa meeting in Dubai this year. Staff also meets frequently with industry groups and foreign supervisors to support industry best practices in this area.

The FRB presented training courses on 'International Money Movement' to domestic law enforcement agencies, including the Department of Homeland Security's Bureau for Immigration and Customs Enforcement (DHS/ICE), as well as at the Federal Law Enforcement Training Center (FLETC) during 2007.

Drug Enforcement Administration (DEA), Department of Justice

The Office of Financial Operations provided anti-money laundering and/or asset forfeiture training in 2007 to officials from Thailand, Australia, Belgium, Aruba, Peru, Canada, Indonesia, and Mexico.

The DEA Office of International Training facilitated three Department of Justice (DOJ)/Asset Forfeiture Money Laundering Seminars to foreign audiences: (1) International Asset Forfeiture Seminar, (2) Advanced International Asset Forfeiture Seminar, and (3) Money Laundering Seminar. During fiscal year 2007, a total of 214 participants were trained at Basic and Advanced Asset Forfeiture/Money Laundering Seminars from the following countries: Cyprus, Indonesia, Mexico, Israel, and New Zealand. The core topics in the International Asset Forfeiture Seminar include: financial investigations; case study; tracing hidden assets; DEA asset forfeiture procedures and U.S. forfeiture law; international asset forfeiture sharing and cooperation; debriefing of financial sources of information. Elective topics include: the business of asset forfeiture (processing and managing seized assets); document exploitation; operational management of an asset forfeiture unit; operation and utilization of FinCEN resources; ethical considerations in the use of asset forfeiture funds; analysis of net worth income and practical application and use of undercover bank accounts. The Advanced Course includes core topics of: international case studies; the use of the Internet in money laundering; international banking; international issues in money laundering and forfeiture; DEA asset forfeiture procedures and practical applications. Elective topics include: reverse undercover sting operations; use of undercover bank accounts; ethical considerations in the use of asset forfeiture funds; tracing the origins of financial assets; document exploitation; use of suspicious activity reports to initiate and pursue investigations; and terrorist financing. Course topics are determined by the investigative capacity and experience level of the participants and the money laundering laws of the host nation. The International Asset Forfeiture and Money Laundering program is coordinated by the International Training Section of DEA in a joint effort with the Department of Justice.

Federal Bureau of Investigation (FBI), Department of Justice

During 2007, with the assistance of State Department funding, Special Agents and other subject matter experts of the Federal Bureau of Investigation (FBI) continued their extensive international training in terrorist financing, money laundering, financial fraud, racketeering enterprise investigations, and complex financial crimes. The FBI's 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 the International Law Enforcement Academies (ILEA) in Bangkok, Thailand; Budapest, Hungary; Gaborone, Botswana; and San Salvador, El Salvador. In 2007, the FBI delivered training in white collar crime investigations to 240 students from ten countries at ILEA Budapest. At the ILEA Bangkok, the FBI provided training to 50 students from Thailand in the Supervisory Criminal Investigators course and 50 students from Thailand in a Complex Financial Investigations course. Similarly, at the ILEA Gaborone, the FBI provided terrorist financing training to 161 students from 23 African countries and at the ILEA San Salvador, training was provided to 151 students from El Salvador, Guatemala, Nicaragua, and Honduras.

The FBI also provided training to officials in Jordan, Pakistan, Qatar, Bosnia-Herzegovina, South Africa, Latvia, Bangladesh, and Kuwait. This training includes FBI participation in a Combating Money Laundering & Terrorism Financing Seminar that the Department of Justice's Office of Overseas Prosecutorial Development delivered to 45 students in Jordan. It also includes the one-week Terrorism Financing and Money Laundering initiatives that the FBI regularly conducts jointly with the Internal Revenue Service, Criminal Investigative Division, and which included 136 international students in 2007. In its other training programs, held at the FBI Academy, the FBI included blocks or instruction on terrorist financing and/or money laundering for 39 students from 16 Latin American countries participating in the Latin American Law Enforcement Executive Development Seminar, and for 28 students from 11 Middle Eastern and Northern African countries participating in the second Arabic Language Law Enforcement Executive Development Seminar, and 40 students from Mexico for a special Mexican Law Enforcement Executive Development Seminar. Terrorist financing instruction was also included in the FBI's Pacific Training Initiative, which served 55 participants from ten countries: Australia, Cambodia, China, Hong Kong, India, Japan, Korea, Malaysia, Philippines, and Thailand. The FBI provided training to 50 students from Malaysia in a Forensic Accounting course.

Federal Deposit Insurance Corporation (FDIC)

In 2007, the FDIC continued to work in partnership with several federal agencies to combat money laundering and the global flow of terrorist funds. Additionally, the FDIC planned and participated in missions to assess vulnerabilities to terrorist financing activity worldwide, including developing and implementing plans to assist foreign governments in their efforts. To accomplish this objective, the FDIC has 32 individuals available to participate in foreign anti-money laundering and counter-terrorist financing (AML/CTF) missions. Periodically, FDIC management and staff meet with supervisory and law enforcement representatives from various countries to discuss AML issues, including examination policies and procedures, the USA PATRIOT Act requirements, suspicious activity reporting

requirements, and interagency information sharing mechanisms. In 2007, the FDIC gave such presentations to representatives from Japan, Korea, Lebanon, Morocco and Uruguay.

In 2007, in partnership with the Department of State, the FDIC hosted three sessions on AML/CTF to 57 individuals from Algeria, Bosnia and Herzegovina, Egypt, Indonesia, Jordan, Kuwait, Morocco, Pakistan, Paraguay, Philippines, Tanzania, and Turkey. The sessions included the AML examination process, customer due diligence, and foreign correspondent banking. In February and November 2007, the FDIC participated in interagency Financial Systems Assessment Teams (FSAT) to Yemen and Senegal, respectively. The FSAT reviewed the countries' AML laws and provided information in the areas of customer identification programs, financial intelligence units and the monitoring of nonbank financial institutions.

In December 2007, the FDIC participated in the third annual U.S.-Middle East/North Africa Private Sector Dialogue in Dubai, United Arab Emirates. The focus of the conference was to raise awareness of terrorist financing and money laundering risks, facilitate a better understanding of effective practices and programs to combat such risks, and strengthen implementation of effective AML/CTF controls.

Financial Crimes Enforcement Network (FinCEN), Department of Treasury

FinCEN, a bureau of the U.S. Department of the Treasury and the U.S. financial intelligence unit (FIU), 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. A specific focus of FinCEN is the creation and strengthening of FIUs, a valuable component of a country's anti-money laundering/counter-terrorist 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 on FinCEN's mission and operation; and (2) individualized 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/from foreign FIUs, and coordinating regional workshops are just a few examples of FinCEN activities designed to assist and support FIUs.

In 2007, FinCEN hosted representatives from approximately 29 countries. These visits, typically lasting one to three 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.

FinCEN gives assistance to new or developing FIUs that are not yet members of the Egmont Group of FIUs. Comprised of FIUs that cooperatively agree to share financial intelligence, Egmont has become the standard-setting body for FIUs. FinCEN hosts FIU orientation visits and provides training and mentoring on FIU development. In 2007, FinCEN hosted a representative from Namibia's nascent FIU for an orientation visit that included an overview on various aspects of developing a newly formed FIU. Also, at the invitation of FinCEN's Director, a delegation from Saudi Arabia's FIU was hosted by FinCEN for a weeklong seminar that included an overview of FinCEN's operations and programs,

as well as briefings from other U.S. agencies selected by FinCEN (OCC, IRS, ICE, FBI and DOJ) to discuss their part in the U.S. AML/CTF 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, FinCEN works closely with other member FIUs to provide training and technical assistance to countries and jurisdictions interested in establishing their own FIUs and obtaining candidacy for membership in the Egmont Group. Additionally, FinCEN works multilaterally through its representative on the Egmont Training Working Group to design, implement, and co-teach Egmont-sponsored regional training programs to both Egmont member and Egmont candidate FIUs.

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 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 terrorist financing. In 2007, FinCEN collaborated with the Canadian FIU (FINTRAC) and the World Bank to conduct a training workshop for 12 Caribbean FIUs. The workshop focused on enhancing the capacity and cooperation of Caribbean FIUs to combat money laundering and the financing of terrorism. Over a five day training course, participants engaged in discussions and practical exercises relating to various topics such as terrorist financing, nonprofit organizations, protection of information, alternative remittance systems, international and domestic cooperation, and strengthening the analysis of financial reports.

FinCEN conducts core analytical training to counterpart FIUs both at FinCEN 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. In 2007, FinCEN provided training on basic analytical skills to FIUs and other agencies from the intelligence, regulatory and enforcement communities in Bangladesh, Saudi Arabia, Afghanistan, Egypt and Bosnia. Over the last twelve months, in an effort to reinforce the sharing of information among established Egmont-member FIUs, FinCEN conducted personnel exchanges with Egmont Group members Chile, Canada, Mexico and Japan. 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 2007, U.S. Immigration and Customs Enforcement (ICE), Financial, Narcotics and Public Safety Division, in conjunction with the Office of International Affairs, delivered money laundering/terrorist financing, bulk cash smuggling, and financial investigations training to law enforcement, regulatory, banking and trade officials from more than 50 foreign countries. The training was conducted in both bilateral and multilateral engagements. ICE money laundering and financial

investigations training is based on the broad experience and expertise achieved by leading U.S. efforts in investigating international money laundering and financial crimes as part of the former U.S. Customs Service.

Using primarily State Department/INL funding, ICE provided bilateral and multilateral training and technical assistance on the interdiction and investigation of bulk cash smuggling for 340 officials representing a total of 36 countries. ICE conducted basic bulk cash smuggling training in the Philippines, South Africa, Malaysia, Indonesia, Morocco, Bosnia, and Algeria. ICE also provided an operational training seminar on advanced bulk cash smuggling in the Philippines. Bulk cash smuggling training was also delivered to two regional Financial Action Task Force-style regional bodies (FATF/FSRBs): the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) and the Inter-Government Action Group Against Money Laundering and Terrorist Financing (GIABA.) All ICE training was conducted in furtherance of the FATF Special Recommendation IX on Cash Couriers.

ICE also conducted financial investigation/money laundering training programs for more than 600 participants at the State Department sponsored International Law Enforcement Academy (ILEA) locations in El Salvador, Thailand, Hungary and Botswana. A specialized advanced financial training program was given three times at the ILEA in Thailand.

Trade Transparency Units (TTUs)

Trade Transparency Units (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, thus assisting in the investigation of international money laundering organizations

With funding from the Department of State's Bureau of International Narcotics and Law Enforcement (INL), ICE worked to expand the network of operational foreign Trade Transparency Units (TTU's) beyond Colombia, Brazil, and Argentina by providing IT equipment and training to the newly established TTU in Paraguay. ICE also initiated the process of establishing a TTU in Mexico City, Mexico and is conducting suitability surveys in preparation of establishing a TTU in Southeast Asia.

In 2007, ICE updated the technical capabilities of existing TTUs and trained new TTU personnel in Colombia, Argentina, and Paraguay as well as members of their financial intelligence units. Additionally, ICE strengthened its relationship with its TTUs by deploying temporary personnel overseas to work onsite and provide hands on training to all four TTUs in the hemisphere. This action resulted in immediate information sharing between the U.S. and the foreign TTUs in furtherance of ongoing joint criminal investigations.

Other ICE Programs

Additionally, in 2007, ICE expanded Operation Firewall, a joint strategic bulk cash smuggling initiative with U.S. Customs and Border Protection (CBP) to provide hands on training and capacity building to Mexican law enforcement officials. Operation Firewall was initiated to address the threat of bulk cash smuggling via commercial and private passenger vehicles, commercial airline shipments, commercial airline passengers, and pedestrians transiting into Mexico and Canada, as well as other foreign locations. In 2007, Operation Firewall had 845 seizures totaling more than \$4.3 million in U.S. currency and negotiable instruments.

Under the ICE Cornerstone initiative, training was developed and designed to provide the financial and trade sectors with the necessary skills to identify and develop methodologies to detect suspicious transactions indicative of money laundering and criminal activity. In furtherance of Cornerstone, ICE has appointed field and headquarters agents who are dedicated to providing training to the financial and trade communities on identifying and preventing exploitation by criminal and terrorist organizations. In 2007, ICE Cornerstone liaisons conducted 1,390 outreach meetings with more than 23,000 industry professionals in the U.S. and abroad.

Internal Revenue Service (IRS), Criminal Investigative Division (CID) Department of Treasury

In calendar year 2007, the IRS Criminal Investigative Division (IRS-CID) continued their involvement in international training and technical assistance efforts designed to assist international law enforcement officers in detecting tax, money laundering and terrorist financing crimes. 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 both basic and advanced financial investigative techniques. IRS-CID provided instructor and course delivery support to the four 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 #24 (SCIC) and was the coordinating agency of the Complex Financial Investigations #9 (CFI) course. These courses are 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, East Timor, and Vietnam.

At ILEA Budapest, IRS-CID participated in five sessions, ILEA 59-63, delivering financial investigative techniques training. The countries that participated in these classes are Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Hungary, Kazakhstan, Macedonia, Moldova, Romania, Russia, Serbia, and Ukraine.

At ILEA Gaborone, IRS-CID participated in four Law Enforcement Executive Development programs (LEED 22-25), delivering financial investigative techniques training. IRS-CID also provided a class coordinator for LEED 22, covering a six-week period, with the responsibilities of coordinating and supervising the participant's daily duties and activities. 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, Gabon, and Madagascar.

At ILEA-San Salvador, IRS-CID participated in four of the America's Law Enforcement Development programs (LEM DP 004-LEM DP 007), delivering financial investigative techniques training. Countries that participated in these classes are Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Chile, El Salvador, Grenada, Guatemala, Jamaica, Mexico, Paraguay, Peru, St. Kitts and Nevis, and Suriname. LEM DP stresses the importance of conducting a financial investigation to further develop a large scale, criminal investigation.

IRS-CID participated in a conference to raise public awareness of asset forfeiture as an effective law enforcement tool in Belgrade, Serbia. The conference was co-sponsored by the OPDAT and the Organization for Security and Co-Operation in Europe (OSCE). The conference was attended by English, Serbian, and Italian speaking participants.

Money Laundering and Financial Crimes

IRS-CID delivered a Forensic Accounting course for Investigators of the Bank of Negara held in Kuala Lumpur, Malaysia. The Internal Revenue Service Tax Advisory Administrative Services (TAAS) funded the program.

IRS-CID participated in delivering a Terrorism Financing/Money Laundering course hosted by the Federal Bureau of Investigation (FBI) in Doha, Qatar.

IRS-CID delivered an International Financial Fraud Training (IFFT) at FLETC, Glynco, Georgia. The class, sponsored by Tax Advisory Administrative Services (TAAS), was attended by 25 foreign dignitaries from Albania, Bangladesh, Bosnia, China, Guatemala, Republic of Korea, Romania, Taiwan, and Trinidad and Tobago.

IRS-CID participated in a conference hosted by The Department of Justice Office of Overseas Prosecutorial Development Assistance and Training (OPDAT) in Kuala Lumpur, Malaysia. The conference focused on Terrorism Financing through Charities.

IRS-CID participated in delivering the Bulgarian Prosecutor Training course focusing on Following the Money and Dismantling the Criminal Organization in Velinko Tarnovo, Bulgaria, and Plovdiv, Bulgaria. The Department of Justice Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) hosted the program.

IRS-CID participated in delivering an Anti-Money Laundering and Anti-Terrorism Financing Training course in Sarajevo, Bosnia and Herzegovina, for 30 law enforcement agents and prosecuting attorneys. The program was sponsored by The Department of State.

IRS-CID, with the FBI, delivered a Financial Investigative Techniques along with a Terrorism Financing Training course in Cebu, Philippines.

IRS-CID delivered two Financial Investigative Techniques courses, hosted by Overseas Prosecutorial Development Training and Assistance (OPDAT), in Dhaka, Bangladesh.

IRS-CID delivered two Advanced Tax Fraud Investigative Techniques courses, hosted by the U.S. Agency of International Development (USAID), in Manila, Philippines.

IRS-CID delivered a Financial Investigative Techniques Training program in Managua, Nicaragua, with 26 participants. The Department of Justice, Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) hosted the program.

IRS-CID participated in delivering a Financial Fraud Training course in Lagos, Nigeria, with 55 participants from the Economic and Financial Crimes Commission. The Department of State and the FBI hosted the course.

IRS-CID delivered a Financial Investigative Techniques Training in Seoul, South Korea. Thirty participants from several Regional Tax Offices attended. Tax Administration Advisory Services and the National Tax Service of Korea hosted the training.

IRS-CID assisted the FBI in delivering a Terrorism Financing and Money Laundering course in Johannesburg, South Africa. The course was attended by 31 participants; 25 from the Johannesburg Metropolitan Police Department (JMPD) and 6 from the South African National Police.

IRS-CID participated with the FBI in delivering an Investigative Techniques and Anti-Terrorism course in Riga, Latvia. Law enforcement agents and prosecuting attorneys attended the program. The Department of State and the Embassy of the United States Riga, Latvia hosted the training.

IRS-CID assisted delivering a Parallel Financial Investigations Training course with 23 participants from the Ministry of Interior, the Kyrgyz Republic Prosecutor's office, and Kyrgyz Republic State Border Guard Service, in Kyrgyzstan, Russia. The training was hosted by the FLETC International Programs Division.

During FY 2007, the IRS-CI Attache for the Caribbean assisted with the coordination and served as a liaison between the Treasury, Office of Technical Assistance (OTA), and OPDAT, along with the State Department and the Attorney Generals' Financial Investigations Units of Antigua and Grenada to provide a workshop to both countries on financial investigations. The workshops were to assist those countries in formulating methodologies of how to work criminal financial investigations, as well as setting up a handbook for each FIU on policies and procedures when working financial investigations. In both countries, the workshops were a success and in Grenada, the workshop was attended by police officers, as well as prosecutors.

In 2007, IRS-CI Attache for Bogota conducted four classes in Colombia and one class in Costa Rica of advanced money laundering training. In total over 300 host nation law enforcement officers and government attorneys were trained with the financial assistance of OPDAT and ICITAP of U.S. Embassy Bogota.

Office of the Comptroller of the Currency (OCC), Department of Treasury

The Office of the Comptroller of the Currency (OCC) provides Bank Secrecy Act (BSA) and anti-money laundering (AML) guidance to national banks and federal branches of foreign banking organizations and performs on-site examinations of compliance with BSA/AML laws and regulations. The OCC also develops and provides, in conjunction with other federal banking regulators, BSA/AML guidance and training to examiners and foreign banking supervisors. The on-site examinations include reviewing compliance with BSA/AML laws and regulations at some of the largest financial institutions in the world. Working with the other federal banking regulators through the Federal Financial Institution Examination Council (FFIEC), the OCC assisted in revising the FFIEC BSA/AML Examination Manual and provided instructors for the FFIEC Advanced BSA/AML Compliance Conference.

The OCC supported U.S. efforts on Financial Action Task Force (FATF) initiatives and provided AML assistance on projects to regional supervisory bodies, U.S. interagency programs, and projects initiated by the International Monetary Fund (IMF) and World Bank. In February and December, the OCC participated on interagency Financial Systems Assessment Teams (FSAT) to Algeria and Northern Iraq.

Various OCC officials participated in international conferences on combating money laundering. In February and March of 2007, 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. The OCC's senior compliance official was a guest speaker at the Inaugural United States/Latin American Private Sector Dialogue Money Laundering and Counter Terrorist Financing held in Bogotá, Columbia. This official was also a roundtable panelist at the third United States / Middle East North Africa Private Sector Dialogue on Implementing Effective Anti-Money Laundering/Counterterrorist Financing Controls held in Dubai, United Arab Emirates.

The OCC conducted and sponsored a number of anti-money laundering initiatives for foreign banking supervisors during 2007. In May, the OCC sponsored its Anti-Money Laundering/Countering the Financing of Terrorism 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 how these acts are perpetrated. The course provided a basic overview of AML examination techniques, tools, and case studies. Twenty-nine banking supervisors from 17 countries attended. The OCC also provided AML technical assistance to banking supervisors from South Korea, Lebanon, and Russia.

During March, the OCC provided an instructor to the IMF-sponsored Anti-Money Laundering/Combating Terrorist Financing Workshop in the United Arab Emirates. The workshop was tailored for banking supervisors from the Middle East and Northern Africa to provide a basic overview of AML examination techniques, tools and case studies. Thirty-four banking supervisors from the Middle East North Africa region attended the workshop at the Arab Monetary Fund in Abu Dhabi, United Arab Emirates.

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 U.S. Department of Justice (DOJ) that assesses, designs and implements training and technical assistance programs for our criminal justice sector counterparts overseas. OPDAT draws upon the subject matter expertise components within the Department, such as the Asset Forfeiture and Money Laundering Section (AFMLS), the Counterterrorism Section (CTS), and the United States Attorney's Offices across the country to provide expert training and advice to enhance the capacities of our foreign partners. Much of the assistance provided by OPDAT and AFMLS is provided with funding from the Department of State.

In addition to training programs that are targeted to each country's needs, OPDAT also provides long term, in-country assistance through Resident Legal Advisors (RLAs). RLAs are federal prosecutors who provide in-country technical assistance to improve capacity, efficiency and professionalism within foreign criminal justice systems. RLAs are posted to the U.S. Embassy in a country for a period of one or two years to work directly with counterparts in legal and law enforcement agencies, such as the ministry of justice, prosecutor's office and the judiciary. To promote reforms within the criminal justice sector, RLAs provide assistance in legislative drafting, modernizing institutional structures, policies and practices, and training law enforcement personnel including prosecutors, judges, police and other investigative or court officials. For all of its programs, OPDAT draws upon the expertise of the Department of Justice's Criminal Division, the National Security Division, and other DOJ components as needed. OPDAT works closely with AFMLS, the lead DOJ unit in providing countries with technical assistance in the drafting of money laundering and asset forfeiture statutes compliant with international standards.

Money Laundering/Asset Forfeiture

During 2007, DOJ/OPDAT and AFMLS continued to provide training to foreign judges, prosecutors and other law enforcement officials, and assistance in the drafting of anti-money laundering statutes compliant with international standards. The assistance furnished 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 programs varies depending on the specific needs of the participants, but topics addressed in 2007 included developing money laundering legislation and conducting investigations, complying with international standards in the anti-money laundering/counterterrorist financing (AML/CTF) area: techniques and methods used for effective investigations and prosecution of money laundering, including the role of prosecutors; criminal and civil forfeiture systems; and the importance of both

international and inter-agency cooperation and communication. AFMLS provides direct technical assistance in connection with legislative drafting on all matters involving money laundering, asset forfeiture and the financing of terrorism. During 2007, AFMLS provided such assistance to 11 countries and continued to participate in meetings of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group on Money Laundering to develop and promote best practices in money laundering and asset forfeiture. AFMLS continued to participate in the Group of Eight (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 issues in Algeria, Azerbaijan, China, Indonesia, Jordan, Kyrgyzstan, Lithuania, Qatar, Saudi Arabia, Turkey and Turkey. Additionally, in 2007, AFMLS provided technical assistance to Algeria, Azerbaijan, the Cayman Islands, Indonesia, Jordan, Kenya, Mexico, Moldova, Pakistan, Vietnam and Yemen.

In an effort to improve international cooperation, AFMLS, in conjunction with the Swiss Federal Office of Justice and the Liechtenstein Ministry of Justice, hosted a conference in Davos, Switzerland, from April 17-20, 2007, on International Forfeiture Cooperation for prosecutors and investigators to discuss nonconviction based forfeiture. This conference brought practitioners, investigators, and international experts together to discuss experiences and provide practical tools to further global cooperation concerning nonconviction based forfeitures. Officials from Austria, Bulgaria, Denmark, Guernsey, Hong Kong, Israel, Jersey, Latvia, Liechtenstein, Luxembourg, the Philippines, South Africa, Switzerland, Turkey, the United Kingdom and the United States participated.

With the assistance of Department of State funding, in 2007 OPDAT provided training to government officials on money laundering and financial crime-related issues to officials from more than 23 countries, including Algeria, Antigua, Azerbaijan, Bangladesh, Bulgaria, Brunei, East Timor, Estonia, Grenada, Indonesia, Jordan, Kyrgyzstan, Latvia, Lithuania, Malaysia, Nicaragua, Pakistan, Paraguay, Philippines, Singapore, South Africa, Turkey, and the United Arab Emirates.

OPDAT conducted the second phase of a mentoring program for financial investigators, intelligence analysts, and attorneys in St. George, Antigua. The program was designed to enhance the ability of Antiguan law enforcement officials to investigate and prosecute financial crimes. During the first phase, held in October 2006, the participants developed a draft of a best-practices handbook for financial investigations and prosecutions. The second phase focused on practical exercises.

OPDAT conducted workshops for prosecutors, investigators, and police in four of the five appellate regions of Bulgaria on financial profiling and financial investigations in dismantling trafficking enterprises. These were part of a series of regional workshops encouraging law enforcement to focus on dismantling human trafficking rings by targeting money and assets.

In June, OPDAT, in conjunction with OTA, conducted two financial crimes seminars for Bulgarian prosecutors, in Veliko Tarnovo, and Plovdiv, Bulgaria. The purpose of the programs was to share experiences and lessons learned when investigating and prosecuting financial crime and money laundering cases.

OPDAT conducted a program on money laundering and organized crime in Johannesburg, South Africa, for approximately 115 participants from the South African Police Service and National Prosecuting Authority. Topics included coordination between police and prosecutors; witness protection; crime participants as witnesses; international cooperation; and a review of the South African money laundering statute in terms of subpoena authority, bank reporting requirements, and roles of estate agents and transferring attorneys.

In St. George's, Grenada, OPDAT conducted the first phase of a program designed to enhance the ability of Grenada's law enforcement to investigate and prosecute financial crimes. During the

workshop, 25 participants, including financial investigators and prosecutors, developed a draft of a best practices handbook for financial investigations and prosecutions.

Resident Legal Advisors

The OPDAT RLA to Azerbaijan, with participation from AFMLS, organized a seminar on “Investigating and Prosecuting Money Laundering and Financial Crimes” in Baku, Azerbaijan. The program was geared toward providing technical assistance on Azerbaijan’s draft anti-money laundering/counterterrorist financing legislation.

In late November and early December, the OPDAT RLA to Bulgaria, in conjunction with the Bulgarian Association of Prosecutors, conducted three two-day regional workshops on financial crimes for Bulgarian prosecutors. Topics included the legislative framework in Bulgaria and the European Union for combating financial crimes, evidentiary standards for financial crime cases, procedure in financial crimes cases, and the enterprise theory.

Terrorism/Terrorist Financing

Since 2001 OPDAT, 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 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 Immigration and Customs Enforcement (ICE), and several other DOJ components.

TFWG, co-chaired by State INL and the Coordinator for Counterterrorism (S/CT) currently supports seven RLAs assigned overseas. The RLAs are located in Bangladesh, Indonesia, Kenya, Pakistan, Paraguay, Turkey, and the United Arab Emirates (UAE). Working in countries where governments are vulnerable to terrorist financing, RLAs focus on money laundering and financial crimes and developing counterterrorism legislation that criminalizes terrorist acts, terrorist financing, and the provision of material support or resources to terrorist organizations. The RLAs also develop technical assistance programs for prosecutors, judges and, in collaboration with DOJ’s International Criminal Investigative Training Assistance Program (ICITAP), police investigators to assist in the implementation of new money laundering and terrorist financing procedures.

In 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 2007, despite an often unpredictable political climate, the RLA continued to provide assistance to Bangladeshi officials in their efforts to establish an effective anti-money laundering and terrorist financing regime.

In January 2007, the RLA conducted programs designed to support the development of procedures for Bangladesh Bank (BB) and police investigators (CID) to follow when reviewing suspicious transaction reports (STRs) for possible investigation.

At the request of the Bangladeshi government, the RLA organized two courses on Financial Investigations. Three instructors from the Internal Revenue Service (IRS) Criminal Investigation Division (CID) presented two week-long courses on Financial Document Analysis to a total of 60 participants from the police, Attorney General’s Office, Central Bank’s Anti-Money Laundering Unit, the National Board of Revenue (Bangladesh IRS), and the Anti-Corruption Commission. OPDAT has

provided drafting assistance to the Government of Bangladesh (GOB) on the Anti-Money Laundering Law, most recently in August 2007.

OPDAT and the U.K. Charity Commission jointly sponsored a three-day workshop entitled “Protecting Charities from Financial Abuse” in Dhaka, Bangladesh. The focus on the workshop was to ensure that nongovernmental organizations (NGOs) and charities are not abused by terrorist groups. Participants learned about technical analysis for preparing investigations, assessing threats to NGOs including why they are uniquely vulnerable to abuse due to the areas in which they work and the methods of working, ways of gathering information about NGOs, and analyzing data and suspicious transaction reports.

OPDAT provides regular assistance to the Government of Bangladesh to enable it to become the first South Asian nation admitted to the Egmont Group.

The OPDAT RLA program in Indonesia began in June 2005. In 2007, the RLA continued to engage the Attorney General’s Terrorism and Transnational Crime Task Force (SATGAS), which OPDAT helped establish as an operational unit in 2006. The task force is responsible for prosecuting significant pro-active cases involving four key areas: terrorism, money laundering, trafficking in persons and cyber crime. The SATGAS unit has nationwide jurisdiction for such prosecutions, but also works with the local offices to promote such prosecutions. Over the course of 2007, the RLA conducted a number of regional training programs for SATGAS. All the programs focused on providing substantive knowledge to local prosecutors concerning the task force’s four priorities while building relationships between the members of the task force and the prosecutors in the field. The RLA engaged the experienced members of the SATGAS as fellow presenters in the trainings. The use of experienced Indonesian SATGAS prosecutors as instructors elicited a high level of engagement on the part of the local prosecutors. Due to the size of Indonesia and SATGAS’ national mandate, regional training and outreach is a key element in USG support for SATGAS.

The RLA brought each of the members of SATGAS to the U.S. in two groups for ten-day study programs in April and November 2007. The RLA designed the program to give the SATGAS prosecutors a detailed look at how terrorism and transnational crimes are investigated and prosecuted in the U.S. The visit involved a combination of substantive presentations by DOJ experts, informal discussions with prosecutors, judges, and defense attorneys, courtroom observations, and law enforcement visits. Major themes included specialization of functions within the DOJ, police/prosecutor coordination, terrorist financing, and witness/victim security.

The OPDAT RLA program in Kenya began in 2004. In 2007, the RLA, on detail from the DOJ’s Counterterrorism section, continued to engage Government of Kenya (GOK) partners, such as the Department of Public Prosecutions (DPP), Kenya Anti-Corruption Commission (KACC), Law Society of Kenya (LSK), and others in a program that focuses on counter-terrorist financing, anti-corruption, and procedural reform. The RLA participated as one of the chief speakers in the first joint OPDAT-United Nations Office on Drug Control (UNODC) counterterrorism program in Nairobi in November 2007. The RLA made presentations on the handling of counterterrorism cases, and dealing with legal and evidentiary issues peculiar to these cases to an audience that included the Kenya National Counterterrorism Center (prosecutors, analysts, and investigators) and select members of the Anti-Terrorism police.

Despite the difficult political climate in Pakistan, OPDAT launched its RLA program at Embassy Islamabad in September 2006. The RLA, to the extent possible, has concentrated on assisting Pakistan in combating terrorist financing and money laundering, judicial reform, judicial security and intellectual property rights violations.

On August 8, 2007, Pakistan adopted a criminal money laundering law in the form of a presidential ordinance. The ordinance adopted the draft legislation that had been pending before the National

Money Laundering and Financial Crimes

Assembly since 2005, and was in response to increasing international pressure on Pakistan to pass an effective AML Bill. The RLA will continue to monitor and report on efforts to implement the legislation.

The OPDAT RLA program in Paraguay began in 2003, when OPDAT dispatched the first counterterrorism RLA to Asuncion. This position now carries regional responsibilities in the Tri-Border Area (TBA), which encompasses Paraguay, Argentina, and Brazil.

In August 2007, the RLA organized a Penal Code Retreat, during which the Senate Committee charged with amending the Penal Code worked on final revisions. Subsequently later in August, the Paraguayan Senate passed the amendments, which contain a revised money laundering statute. The statute will bring Paraguay into general compliance with international standards relevant to prosecuting money laundering cases. This statute will greatly assist Paraguay in its fight against money laundering in all types of cases including narcotics and public corruption.

Also in August, OPDAT organized a Tri-Border Terror Financing/Money Laundering conference in Asuncion, Paraguay, featuring participants from Paraguay, Argentina, and Brazil. The speakers consisted primarily of U.S. Counter Terrorism Prosecutors and representatives from law enforcement and intelligence agencies. The focus of the conference was money laundering and terrorist financing in the Tri-Border Area.

The OPDAT program in Ankara, Turkey, began in September 2006 and includes three prongs: anti-money laundering, terrorist financing and PKK issues, but the latter colors every substantive issue in which the RLA has been involved. In January 2007, the RLA hosted a legislative roundtable on methods to investigate and prosecute terrorist organizations, particularly the PKK. In this meeting, terrorism prosecutors from Turkey met with their counterparts from several European countries to discuss strategic applications of their respective laws in fighting terrorism. Significantly, the European participants described their laws and expressed their desire to work with the Turkish prosecutors to build better international cases. The two-day workshop was filled with candid discussions on expediting flows of information and the possibilities and caveats in using classified information in prosecutions and specific cases.

In September 2007, the RLA, a trial attorney on detail from AFMLS, conducted a program on anti-money laundering in Algiers, Algeria, for approximately 40 prosecutors, police and judges from the Algerian government. The seminar provided the first opportunity for Algerian and French prosecutors to discuss matters of common interest. Topics covered an overview of international anti-money-laundering standards and best practices, Algerian anti-money laundering laws, financial institutions as defendants, maximizing the financial intelligence unit, taking the profit out of crime through asset forfeiture and international sharing, and money laundering and terrorist financing case studies from the U.S., Algeria, and France. It was a successful first step and OPDAT plans to conduct a follow up workshop.

From October 31-November 1, 2007, OPDAT held an anti-money laundering course, with participation by AFMLS, for Turkish prosecutors, judges, and police in Istanbul, Turkey. The course focused on financial crimes involving banks and other financial institutions and the need to involve such institutions if a country's anti-money laundering regime is to succeed.

OPDAT initiated the United Arab Emirates (UAE) RLA program in 2005. In 2006, OPDAT expanded the UAE RLA portfolio to include assistance to other states in the Gulf Region in combating money laundering and terrorist financing. Throughout 2007, the RLA continued to work on financial crimes, terrorist financing, and money laundering issues. The RLA traveled to Jordan, Kuwait, and Qatar to meet with the key players in the Anti-Money Laundering/Counterterrorist Financing (AML/CTF) field in the host governments. The RLA carried out AML/CTF training in Amman, Jordan, in February-March 2007, in collaboration with Treasury's Office of Technical Assistance (OTA) and in

conjunction with AFMLS. The seminar was designed to bring together key personnel from all government agencies that would participate in Jordan's financial intelligence unit (FIU), once AML legislation was passed. The week-long course included practical exercises and familiarized analysts, investigators and prosecutors with AML/CTF strategies and best practices. The Jordanian Parliament was later reconvened for the specific purpose of considering AML legislation, which was passed and went into effect in June 2007. The RLA is currently in the process of planning an assistance program in Kuwait, set to take place in the spring of 2008.

On December 10-11, 2007, OPDAT organized a "Prosecuting Financial Crimes Seminar," held in Dubai, UAE. The seminar is the first of its kind to be sponsored by both the UAE Institute of Training and Judicial Studies and the Dubai Institute of Advanced Legal and Judicial Studies. The seminar featured case studies designed to promote AML/CTF best practices, and included an overview of anti-money laundering enforcement initiatives to combat bulk cash smuggling.

In addition to the programs organized by the seven counterterrorism RLAs, in 2007, OPDAT conducted several bilateral and regional counterterrorism training programs. In May 2007, OPDAT organized a regional program on money laundering and terrorist financing through charities and new technology that took place in Kuala Lumpur, Malaysia. Representatives from Bangladesh, Pakistan, Singapore, Malaysia, Indonesia, Philippines, Brunei, and East Timor participated in this four-day program of lectures, table top exercises, and panel discussions. The program covered the use and abuse of charities and use of new technology in financing terrorism, the investigation and prosecution of such crimes, and the seizure, freezing, forfeiture and management of assets. Representatives from the eight participating countries had opportunities to work on practical problems and share best practices. The participants from Pakistan have asked for a similar training to be conducted in Pakistan for a broader range of Pakistani participants.

On December 4-6, 2007, OPDAT and the DOJ Office of International Affairs (OIA) conducted a workshop in Manila, Philippines, on investigations and prosecutions in cases involving terrorism and terrorist financing, including the use of electronic surveillance. The need for such a program arose due to the fact that earlier in the year, the Philippines adopted the Human Security Act (HSA) of 2007 (Republic Act No. 9372). This law for the first time allows the use of electronic surveillance in court in cases involving terrorism. The workshop was geared toward policy level officials with the Philippines Department of Justice who are working on guidelines for implementation of the HSA and upper level officials from the agencies that make up the "Anti-Terrorism Council," which is charged to implement the HSA.

During the course of 2007, OPDAT and CTS met with and provided presentations to international visitors from more than 25 countries on counterterrorism topics. The presentations covered the way the United States addresses terrorism in the post 9-11 world. Topics covered include legislation passed and pending at the time of the presentations, and issues raised in implementing new legislative tools and the changing relationship of criminal and intelligence investigations. The USA PATRIOT Act, PATRIOT Improvement and Reauthorization Act, Intelligence Reform and Terrorism Prevention Act, Foreign Intelligence Surveillance Act, terrorist financing and material support statutes, and the Classified Information Procedures Act are among the significant pieces of legislation addressed. Of great interest to visitors is the balancing of civil liberties and national security issues, which is also addressed. When possible, CTS and U.S. Attorney Offices have Trial Attorneys or Assistant United States Attorneys who have case or investigation experience with the visitors' countries, participate in the programs.

Organized Crime

During 2007, OPDAT organized a number of programs for foreign officials on 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, and Serbia and Montenegro, through mentoring and training programs on investigating and developing organized crime case strategies.

OPDAT conducted a regional program on combating transnational organized crime in Eurasia at the International Law Enforcement Academy (ILEA) in Budapest, Hungary, for prosecutors and investigators from Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, and Ukraine. The program addressed the increasing capacity of criminal organizations to operate in multiple jurisdictions and across national borders, and the legal challenges this presents for law enforcement. Particular attention was given to the increasing use of "shell" corporations by organized crime groups and the need to provide law enforcement with adequate tools to track such information across borders.

OPDAT hosted a U.S. study for six Macedonian prosecutors, four Macedonian judges, and one Macedonian police officer on combating organized crime. The objectives of the study tour were for the Macedonian prosecutors to improve their skills in working with the police to develop organized crime cases, and the ability to present the cases effectively in court. The study tour provided for both the Macedonian prosecutors and judges to become more familiar with methods, techniques, and resources that can be utilized when adjudicating organized crime cases involving narcotics, money laundering, and corruption, and the connection of such cases to trafficking in persons (TIP) cases.

Then in August 2007, OPDAT conducted an anti-organized crime program for 25 judges in George, South Africa. It focused on the application of South Africa's anti-racketeering law, which has been a key ingredient of the DOJ assistance program in South Africa for the past four years. With the use of the anti-racketeering law (similar to the U.S. Racketeer Influenced and Corrupt Organizations Act or "RICO" statute) on the rise among South African prosecutors, South African judges now appreciate the need to understand the nuances of this important prosecutorial tool.

From October 7-20, 2007, the OPDAT Resident Legal Advisor to Kosovo escorted five organized crime prosecutors from the Kosovo Special Prosecutors' Office (KSPO) and three of their legal officers on a study tour of U.S. Attorneys' Offices in Detroit and Cleveland during October 2007. The tour included discussions of border security, counterterrorism, public corruption, computer evidence, physical evidence, financial crime and human trafficking and organized crime from Eastern Europe. The members of the KPSO observed the opening statements and initial witnesses in a complex financial crime and corruption case and discussed how to incorporate questioning and evidentiary techniques under the Kosovo criminal procedures code.

During November 2007, OPDAT and the Public Affairs Office at the U.S. Embassy in Sofia, Bulgaria, conducted programs in three cities in Bulgaria—Veliko Tarnovo, Blagoevgrad, and Sofia—to raise awareness of the importance of combating organized crime. The programs were designed to build political and public will against organized crime in Bulgaria through a series of discussions with widely varying audiences, including but not limited to prosecutors and judges, on how the U.S. and Bulgaria have fought organized crime.

Fraud/Anticorruption

In 2007, OPDAT continued to provide global technical assistance for prosecutors and investigators to improve their prosecutorial and investigative abilities to combat public corruption.

In March 2007, the OPDAT RLA to Nicaragua organized a workshop for Nicaraguan law enforcement officials responsible for investigating and prosecuting corruption-related crimes. The goal of the

workshop was to help the participants draft a handbook of best practices for investigating and prosecuting corruption and related crimes and thereby enhance the participants' willingness and ability to work together on investigations and prosecutions. A select group of 22 members of Nicaragua's law enforcement community participated in the workshop, including members of the Attorney General's Office investigators from the Nicaraguan National Police (NNP) Financial Crimes Division, attorneys for the Superintendence of Banks, and one legislative assistant to the National Assembly working in the area of justice sector reforms.

From February 27-March 1, 2007, OPDAT organized a seminar on election fraud and related corruption in Yerevan, Armenia, for Armenian police, prosecutors, and election officials. Subsequently, on March 10-17, OPDAT conducted a U.S.-based study tour in Washington, DC, and Charleston, WV, for an Armenian delegation of six prosecutors and two Central Election Committee officials. The program focused on demonstrating the U.S. approach to preventing, detecting, investigating and prosecuting election fraud and related corruption via a series of case studies. Then, in April in Yerevan, the Armenian Prosecutor General's office hosted a roundtable discussion of potential amendments to the CPC and electoral code, as well as a training conducted by the participants of the study tour to other police, investigators and prosecutors.

In June 2007, OPDAT, in close collaboration with AFMLS, conducted a program on anti-corruption, financial crimes, and organized crime for 25 Lithuanian prosecutors and representatives from the Ministry of Justice in Vilnius, Lithuania. This was last of three programs presented in the Baltics focusing on lessons learned and best practices when investigating and prosecuting corruption, organized crime and financial crime cases.

On May 22, 2007, the Government of Albania announced the establishment of a Joint Investigative Unit (JIU) to Fight Economic Crime and Corruption. The JIU, which was established in September 2007, brings together prosecutors, police officers, tax and customs officials to investigate and prosecute financial crime and corruption in the district of Tirana. The establishment of the JIU is due in large part to the efforts of the OPDAT RLA to Albania, who continues to provide technical assistance to the investigative unit through training, support, and mentoring. In December 2007, the RLA organized a one-day training session for JIU staff on investigation and prosecution of corruption cases. The training focused on discussion of actual case studies, shared by both U.S. and Albanian prosecutors.

OPDAT conducted an anti-corruption program for Azeri prosecutors, investigators and judges in Baku, Azerbaijan. The conference focused on Azerbaijan's draft National Anti-Corruption Strategy and its compliance with UN and GRECO obligations. The program also had a capacity building component to enhance the attendees' skills in detecting, investigating, prosecuting and adjudicating corruption cases.

In June 2007, OPDAT organized an Anti-Corruption Technical Workshop in Baku, Azerbaijan. This workshop brought together about 30 participants, including a dozen key members of the Anti-Corruption working group, a media representative, members of civil society and nongovernmental organizations (NGOs), U.S. Agency for International Development (USAID), COE and DOJ where they engaged in a working dialogue and produced many specific recommendations for the new Anti-Corruption National Strategy.

In September, OPDAT organized another anti-corruption workshop in Baku, Azerbaijan, titled "Prosecuting Corruption Crimes: Gathering Evidence and Detecting, Freezing and Confiscating Criminal Proceeds." This was the first in a series of workshops on prosecuting corruption crimes in Azerbaijan held at the Prosecutor General's Training Center in Baku for an audience of investigators and prosecutors. The workshop focused on how to gather evidence of corruption crimes and how to detect, freeze and confiscate criminal proceeds.

Also in September 2007, OPDAT organized an anti-corruption training in Bishkek, Kyrgyzstan. The training focused on the investigation and prosecution of anti-corruption cases, and coincided with the OPDAT RLA's effort to assist the Kyrgyz in implementing pending changes and reforms to their criminal law system. Specifically, the Kyrgyz Parliament has enacted new laws that shift warrant power from prosecutors to judges; the Kyrgyz are also in the process of drafting a new jury trial law. The OPDAT training program provided Kyrgyz investigators, prosecutors, and judges with the knowledge, skills, and abilities to better investigate and prosecute corruption cases, while ensuring the investigation will be successful when tried before a trial by jury.

The RLA to Serbia conducted an anti-corruption program for approximately 50 Montenegrin prosecutors and investigators (police, tax and customs) in Pržno, Montenegro. Because of the lack of corruption cases actually investigated or prosecuted in Montenegro, the training focused on some of the initial steps in developing corruption cases, including developing informants, developing cases through financial investigations, and conducting simple special investigative techniques (primarily recorded conversations) to obtain evidence in these cases.

Following the program in Montenegro, in December the RLA to Serbia conducted a regional conference on anti-corruption for prosecutors and investigators from western and central Serbia, in Zlatibor, Serbia. Entitled "Challenges and Successes in Combating Corruption in Serbia," the program covered theories, best practices, and highlighted a successful prosecution of a Supreme Court Judge for bribery by the Organized Crime Prosecutor's Office in Belgrade. The conference also served to initiate a series of regularly scheduled, one day round tables for prosecutors and police to discuss problems and solutions relating to corruption cases.

Also in December, the RLA to Georgia organized a series of practical seminars on preventing and prosecuting election fraud and misconduct in anticipation of Georgia's January 5th Presidential election. The focus of the seminar were best practices in investigating and prosecuting a variety of election crimes, the ethical obligations of prosecutors during election time, and appropriate intake procedures for complaints regarding alleged irregularities and illegalities during the campaign.

Justice Sector Reform

In 2007, DOJ's Justice Sector Reform Program in Colombia focused on four specific areas: (1) continued assistance in the implementation of the accusatory system, (2) assistance in specialized areas of criminal law, (3) implementation of justice and peace law, and (4) security and protection programs. In 2007, DOJ trained over 1,000 prosecutors, 13,000 police, 300 judges, and 200 forensic scientists in the accusatory system and implementation of the new Colombian Criminal Procedure Code—all of whom will be implementing the new Code in their respective judicial districts in 2008 as implementation of the new law takes effect in every region of the country. 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, anti-kidnapping, sex crimes, anti-corruption, forensic anthropology, intellectual property, and human rights. 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 2007. With the placement of a USMS official in the Embassy in Bogota, DOJ is effectively assisting the Colombian Prosecutor General's Office develops a viable witness protection program.

OPDAT currently has seven Resident Legal Advisors (RLAs) in Iraq assisting the Iraqi justice sector in enhancing sustainable institutions built on the rule of law, with plans to expand the program in 2008. Presently, two RLAs are stationed in Baghdad, four RLAs are deployed to Provincial Reconstruction Teams (PRTs) in Iraqi provinces, (Ninewa, Salah ad Din, Kirkuk and Baghdad), and one RLA is stationed at the Law and Order Task Force (LAOTF) in the Rusafa section of Baghdad. As members of an interdisciplinary reconstruction effort, OPDAT RLAs work with local police and judges to identify and overcome obstacles to effective, fair prosecutions. The RLAs stationed in Baghdad advise the U.S. Embassy, the Iraqi Higher Juridical Council, the Central Criminal Court of Iraq, and other Baghdad-area courts on criminal justice, judicial independence, and the rule of law in coordination with the Rule of Law Coordinator's Office in the Embassy. In the PRTs, RLAs actively pursue projects to establish lasting mechanisms for handling serious crimes, including terrorism, kidnapping, and murder. In 2007, under the leadership of OPDAT RLAs, major crimes prosecutions began in provinces outside of Baghdad for the first time since the fall of the former regime in 2003. RLAs also develop and implement training programs for Iraqi Police and investigators with input and direction from local judges. They also work with NGOs, law schools and other USG and international agencies to advance the rule of law in Iraq.

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 related to money laundering, terrorist financing, and other financial crimes.

Fifty-six highly experienced intermittent and resident advisors comprise the Financial Enforcement Team. These advisors provide diverse expertise in the development of anti-money laundering/counter-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 advisor.

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 (MCC) 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 2007, such assessments were carried out in Ecuador, Honduras, Argentina, Sao Tome and Principe, Tunisia, Kosovo, Pakistan, and Vietnam.

Anti-Money Laundering and Counter-Terrorist Financing Training

OTA specialists delivered anti-money laundering and counter-terrorist financing courses to government and private sector stakeholders in a number of countries. Course topics included money laundering and financial crimes investigations; identification and development of local and international sources of information; operations and regulation of banks and nonbank financial institutions, including record keeping; investigative techniques, including electronic surveillance and undercover operations; forensic evidence; 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.

In Africa and the Middle East, OTA delivered the Financial Investigative Techniques (FIT) course in Botswana, Ethiopia, Jordan, Lesotho, Malawi, Mauritius, Namibia, Seychelles, and South Africa. OTA collaborated with the Department of Homeland Security (DHS), Immigration and Customs Enforcement, and Customs Border Protection to deliver bulk cash smuggling training to the 14 member countries of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) in Livingstone, Zambia and the 15 member countries of the Interagency Action Group Against Money Laundering and Terrorist Financing in West Africa (GIABA) in Dakar, Senegal. Separately, OTA funded DHS presenters in delivering bulk cash smuggling training to law enforcement and regulatory officials following the training in Livingstone.

OTA sponsored officials from several African countries to attend the Office of the Comptroller of the Currency (OCC) annual anti-money laundering and counterterrorist financing training in Washington, D.C. Officials from Namibia, Ethiopia, Zambia, and Malawi were sponsored to attend this advanced training. In addition, OTA funded officials from the FIUs of Seychelles and Malawi for a study and orientation tour of the Mauritius FIU. OTA also funded the Director of the Mauritius FIU to participate in an AML workshop in Malawi, sponsored by the Bank of Malawi, and for a round table discussion with the FIU Director and staff members of the FIU.

In Asia, OTA conducted financial investigative techniques training in Sri Lanka and Vietnam. OTA also conducted several training sessions for Philippine border control agencies on bulk cash smuggling. In Central Asia, OTA provided training and mentoring assistance to law enforcement agencies and banking institutions in Kyrgyzstan and Kazakhstan.

In Europe, OTA teams delivered a variety of technical assistance products, including financial investigation training programs in Croatia, Serbia, Montenegro and Poland; anti-money laundering and antifraud training for the insurance industry in Slovenia; a "train-the-trainer" program on auditing techniques for concerned officials in Armenia; courses in criminal intelligence analysis in Bulgaria; investigative training for the financial police in Georgia; and counterfeiting and anti-money laundering/counterterrorist financing seminars for investigative agencies in Serbia and Montenegro. The seminars in Serbia and Montenegro covered bulk cash smuggling, alternative remittance systems, trade-based money laundering, corruption, using local crime to fund terrorist activities, and investigative techniques. Additionally, OTA funded a study tour for personnel from the Montenegro prosecutor's office, police, and FIU to FinCEN and various interagency investigative task forces.

In the Americas, financial investigative techniques training was provided in the Dominican Republic, El Salvador, Peru, and Chile. In the Dominican Republic, advisors conducted an AML/CTF training seminar for the Superintendent of Banking. In El Salvador, a two-week FIT course was delivered to

tax and customs investigators. In Chile, OTA and OPDAT delivered a combined FIT/Mock Trial course to prosecutors within the Attorney General's Office, the Ministerio Publico, the Consejo de Defensa del Estado, and elements of Chile's investigative police, and to participants from Peru and Bolivia. In Peru, OTA provided Regional FIT training for Argentina, Brazil, Chile, Colombia, Ecuador, Peru and Uruguay. In Montserrat, OTA assisted the Financial Services Commission with the development and delivery of an AML/CTF seminar.

Support for Financial Intelligence Units

In Afghanistan, OTA continued to assist in the development of an 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, and intermittent advisors in Armenia and Georgia, continued to deliver technical assistance to streamline and enhance host governments' FIUs. In Georgia, this assistance included information technology (IT) development.

In Namibia, Ethiopia, Seychelles and Jordan, advisors were engaged with the respective Central Banks. In Malawi, OTA continued its project under the Millennium Challenge Corporation Threshold Program, following the unexpected accidental death of the resident Enforcement advisor, by assigning an FIU development expert and other advisors to continue working with the Malawi FIU that had recently been established, and to work on improving the capacity of the government to combat financial crimes.

In Paraguay, OTA Advisors made an assessment trip to determine the analytical and IT operational capacity within the FIU (SEPRELAD), as a basis for providing technical assistance in these areas.

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 Financial Action Task Force (FATF) 40 Recommendations as they relate to casinos. In 2007, the OTA Casino Gaming Group conducted technical assistance and training, as described above, in Bulgaria, Bosnia-Herzegovina, Philippines (training sessions for the Philippine Gaming Commission), and Chile. Several South American countries participated in the training programs in Chile. Also during 2007, the Casino Gaming Group conducted an assessment of the gaming regulatory system and anti-money laundering programs for casinos in Latvia. The Group participated in a conference in Trinidad to highlight the importance of strong gaming regulatory oversight and the money laundering vulnerabilities within the casino gaming industry.

Money Services Businesses

Money services businesses (MSBs) offer several types of services, including check cashing, money transmissions, currency exchange, and more. 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), MSBs are vulnerable to abuse for the purpose of money laundering and

terrorist financing. For this reason, the FATF Recommendations call upon governments to regulate MSBs.

In April and May 2007, OTA collaborated with the Financial Action Task Force on Money Laundering in South America (GAFISUD) in the organization and presentation of two regional workshops on the oversight, regulation, and examination of MSBs. Thirty-seven regulators, analysts, and financial investigators from seven of its member countries gathered in Lima, Peru for this training. OTA advisors also participated in conferences in the Dominican Republic, and in Trinidad and Tobago, to highlight the vulnerabilities of MSBs relative to money laundering and terrorist financing, and the need for strong regulatory/supervisory regimes.

Insurance

OTA continued its program to provide technical assistance relating to insurance enforcement, begun in 2006. 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 2007, insurance assistance was provided in a number of countries and included two long-term projects in Paraguay and Jordan. A study of the insurance system in Argentina was also completed as part of a comprehensive study of the financial services for possible OTA assistance in 2008, relating to money laundering.

The assistance in Paraguay centered on insurance company compliance with AML requirements. Information was provided for a new insurance AML compliance regulation; new inspection procedures were completed for regulators that included on-site testing; and training was provided to the inspectors. In Jordan, assistance was provided to establish an insurance anti-fraud effort, including a regulatory framework, AML compliance by the insurance industry, and an antifraud investigation unit with electronic reporting and case management systems. Training in Jordan included participation in a Middle East regional conference, workshop training for regulatory inspectors to detect insider criminal activity, and training for the newly established FIU.

Two AML conferences in Bulgaria provided insurance training for the financial services sector, with one directed toward regional regulators and the other focusing on the industries. OTA also participated in conferences held in Slovenia, with regional attendance, and in Jamaica.

Regional and Resident Advisors

OTA resident advisors continued international support in the areas of money laundering and terrorist financing. In February 2008, OTA will move its Africa and Middle East Regional Advisor, previously based in Pretoria, to Cairo, Egypt to gain a more favorable logistical position to develop and support programs in the Middle East and North Africa. In September 2007, OTA posted an advisor to the Africa Development Bank in Tunis, Tunisia, replacing the incumbent advisor, to provide assistance in the development and implementation of an anticorruption strategy for the Bank and its member countries. In September 2007, a full time resident advisor was posted in Namibia to continue efforts there to establish an FIU. OTA was selected as the MCC implementing agency for the reform of tax and customs agencies in Sao Tome and Principe, and initiated this two-year project in November 2007 with the deployment of long-term TDY advisors. OTA continued its assistance in Jordan by extending the presence of a resident advisor to work with Jordan law enforcement, regulatory, and customs authorities, and with the Central Bank of Jordan in establishing its FIU. The resident advisor in Jordan will also provide assistance to other countries in the region as needed. In Zambia, a resident advisor continued to support national efforts against financial crimes.

OTA's regional advisor for Europe and Asia participated in observer status as part of a nascent European Commission effort to provide AML technical assistance to the northern part of Cyprus. As previously noted, the resident advisors in Albania and Bulgaria continued efforts to streamline and enhance host governments' FIUs. OTA continued its support to the Secretariat of the Eurasian Group to Combat Money Laundering and Terrorist Financing (EAG) through its resident advisor in Moscow. Supporting national efforts against financial crimes was the focus of the resident advisors in Albania, Montenegro, Serbia, and Zambia. The OTA resident advisor in Armenia provided technical assistance on internal audit. OTA placed a new resident advisor in Kabul, Afghanistan, in February 2007, and continued to assist in the development of an operational FIU within the Da Afghanistan Bank (Central Bank). OTA was also instrumental in helping to establish a licensing regime for hawala dealers in Afghanistan. OTA's resident advisor in Colombo, Sri Lanka has been assisting in the development of an effective anti-money laundering and counter-terrorist financing regime, to include the establishment of an FIU that meets international standards.

In Argentina, OTA's resident advisor worked closely with the GAFISUD secretariat to coordinate AML/CTF Technical Assistance Needs Assessments for GAFISUD member countries; to support GAFISUD Working Group regional programs for the development of policies, procedures and the use of technology by FIUs; and to complete a calendar of regional training initiatives, including Financial Investigative Techniques courses, Casino and Gaming workshops, and Money Services Businesses courses. In Chile, OTA continued to provide technical assistance and training to the Superintendent of Casinos, and investigative training to police and prosecutors.

Under the auspices of the Millennium Challenge Corporation Threshold Program established for Paraguay, OTA's resident advisor there continued to provide technical assistance to develop the internal affairs unit within the Ministry of Finance, and criminal investigation units in the Customs and Tax Administrations. OTA continued to work with counterparts in the Ministry of Finance towards the development 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.

In Central America and the Caribbean, OTA provided assistance and mentoring to the tax and customs investigation units recently established in Guatemala and Honduras, and to the tax investigation unit in El Salvador. This assistance focused on developing policy, procedures, and administrative and operational manuals; on developing capacity within each unit to conduct investigations; and on implementing case management systems. In Haiti, technical assistance was initiated to develop a financial crimes unit and train its personnel, in addition to training prosecutors and judges. In Montserrat, assistance was provided to the Financial Services Commission to develop and deliver a one-day training seminar on AML/CTF.

In Mexico, technical assistance was initiated to build AML capacity, including enhancing exchanges of information with Mexico's Financial Intelligence Unit, and training in data analysis and forensic accounting for the Unit's analysts.

Treaties and Agreements

Treaties

Mutual Legal Assistance Treaties (MLATs) allow generally for the exchange of evidence and information in criminal and ancillary matters. In money laundering cases, they can be extremely useful as a means of obtaining banking and other financial records from our treaty partners. MLATs, which are negotiated by the Department of State in cooperation with the Department of Justice to facilitate

cooperation in criminal matters, including money laundering and asset forfeiture, are in force with the following countries: Antigua and Barbuda, Argentina, Australia, Austria, the Bahamas, Barbados, Belgium, Belize, Brazil, Canada, Cyprus, Czech Republic, Dominica, Egypt, Estonia, France, Grenada, Greece, Hong Kong (SAR), Hungary, India, Israel, Italy, Jamaica, Latvia, Liechtenstein, Lithuania, Luxembourg, Mexico, Morocco, the Netherlands, the Netherlands with respect to its Caribbean overseas territories (Aruba and the Netherlands Antilles), Nigeria, Panama, the Philippines, Poland, Romania, Russia, South Africa, South Korea, Spain, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Switzerland, Thailand, Trinidad and Tobago, Turkey, Ukraine, the United Kingdom, the United Kingdom with respect to its Caribbean overseas territories (Anguilla, the British Virgin Islands, the Cayman Islands, Montserrat, and the Turks and Caicos Islands), and Uruguay. MLATs have been signed by the United States, but not yet brought into force, with the European Union and the following countries: Colombia, 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 and the United Nations Convention against Corruption. 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).

Agreements

In addition to MLATs, the United States has entered into executive agreements on forfeiture cooperation, including: (1) an agreement with the United Kingdom providing for forfeiture assistance and asset sharing in narcotics cases; (2) a forfeiture cooperation and asset sharing agreement with the Kingdom of the Netherlands; and (3) a drug forfeiture agreement with Singapore. The United States has asset sharing agreements with Canada, the Cayman Islands (which was extended to Anguilla, British Virgin Islands, Montserrat, and the Turks and Caicos Islands), Colombia, Ecuador, Jamaica, and Mexico.

Treasury's Financial Crimes Enforcement Network (FinCEN) has a Memorandum of Understanding (MOU) or an exchange of letters in place with other financial intelligence units (FIUs) to facilitate the exchange of information between FinCEN and the respective country's FIU. FinCEN has an MOU or an exchange of letters with the FIUs in Argentina, Aruba, Australia, Belgium, Canada, Cayman Islands, Chile, Cyprus, France, Guatemala, Italy, Japan, Macedonia, Malaysia, Mexico, the Netherlands, Netherlands Antilles, Panama, Paraguay, Philippines, Poland, Romania, 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 2007, the international asset sharing program, administered by the Department of Justice, shared \$229,080,004.79 with foreign governments that cooperated and assisted

in the investigations. In 2007, the Department of Justice transferred \$595,539.76 in forfeited proceeds to Canada (\$34,513.42), the Cayman Islands (\$49,690.09), Germany (\$11,336.25) and Honduras (\$500,000.00). 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 2007, the international asset-sharing program administered by the Department of Treasury shared \$27,807,012.00 with foreign governments that cooperated and assisted in successful forfeiture investigations. In FY 2007, the Department of Treasury transferred \$313,085.00 in forfeited proceeds to Canada (\$99,872), China (\$10,200), Guernsey (\$9,865), and the Isle of Man (\$193,148). 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, St. Vincent & the Grenadines, 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 34 members, comprised of 32 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, the Netherlands, New Zealand, Norway, the Peoples Republic of China, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, the United States, the European Commission, and the Gulf Cooperation Council. The FATF admitted the People's Republic of China in June 2007.

There are also a number of FATF-style regional bodies that, 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 36 APG members are as follows: Afghanistan, Australia, Bangladesh, Brunei Darussalam, Burma, Cambodia, Canada Chinese Taipei, Cook Islands, Fiji, Hong Kong, India, Indonesia, Japan, Laos, Macau Malaysia, Marshall Islands, Mongolia, Nauru, Nepal, New Zealand, Niue, Pakistan, Republic of Korea, Palau, Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Thailand, Tonga, United States, Vietnam, and Vanuatu. Laos became a member at the APG July 2007 plenary in Perth, Australia.

The Caribbean Financial Action Task Force (CFATF) was established in 1992. CFATF has thirty members: Anguilla, Antigua & Barbuda, Aruba, The Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama,

St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago, Turks & Caicos Islands, and Venezuela.

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) was established in 1997 under the acronym PC-R-EV. MONEYVAL is comprised of twenty-eight permanent members; two temporary, rotating members; and one active observer. The permanent members are Albania, Andorra, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Moldova, Malta, Monaco, Montenegro, Poland, Romania, Russian Federation, San Marino, Serbia, Slovakia, Slovenia, the Former Yugoslav Republic of Macedonia, and Ukraine. The active observer is Israel. Temporary members, designated by the FATF for a two-year membership, are France and the Netherlands.

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 December 8, 2000. GAFISUD has ten member states: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay.

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 106 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/CTF 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 on typologies, analytical tools and technological developments. FinCEN, on behalf of the Egmont Group, maintains the Egmont Secure Web (ESW). Currently, there are 104 Egmont 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 106 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 has established a Secretariat office. 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, and will help to ensure that Egmont preserves its reputation in both the public and private sectors by emphasizing the importance of meeting and maintaining uniform standards of quality by all FIUs. The new Egmont Secretariat is now established in Toronto, Canada, with an initial staff of four.

As of June 2007, the 106 members of the Egmont Group are Albania, Andorra, Anguilla, Antigua and Barbuda, Argentina, Armenia, Aruba, Australia, Austria, Bahamas, Bahrain, Barbados, Belarus, 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, India, 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, Nigeria, Niue, 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, Syria, 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 2007, CICAD continued to successfully carry out its anti-money laundering and counter-terrorist financing activities throughout Latin America. CICAD's training programs on combating money laundering and terrorist financing have improved and enhanced the knowledge and capabilities of judges, prosecutors, public defenders, law enforcement agents, and financial intelligence unit (FIU) analysts. 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 2007.

CICAD's Group of Experts to Control Money Laundering met twice this year, in Washington, DC, in April, and Santiago, Chile, in November. The first meeting was held only for the Forfeiture and International Cooperation sub-groups to discuss specific themes in these areas. The second meeting focused on the new project in asset forfeiture, which was initiated in October. This project aims at offering technical assistance to OAS member states that are interested in developing and improving their abilities to administer forfeited assets.

In 2007, CICAD also introduced several new programs. CICAD is developing a database, which will catalogue and update information on money laundering and terrorist financing typologies to assist member countries in detecting money laundering, gathering intelligence, conducting investigations, and prosecuting such cases. The database developed through this project will allow authorized users to search for cases similar to those they are currently investigating, to look for patterns, and to have-with the use of the database-the necessary tools to investigate these cases. This Internet-based database will be the first of its kind in this field. In addition, the coherent use of the database in member states' investigations will help facilitate the exchange and sharing of information amongst the specialists who deal with money laundering and terrorist financing.

Training and Technical Assistance

Mock trials were held in 2007 in Bolivia, Honduras, Mexico, and Peru. These trials were conducted with the participation of the United Nations Office on Drugs and Crime (UNODC), and provided training based on money laundering cases to specialists in these specific countries. This program focuses on the resolution of a real money laundering case, during which judges, prosecutors, public defenders, FIU analysts, and the police work together by preparing the given case for trial. In addition to the trials, workshops for judges and prosecutors were carried out in Peru and Mexico, as introductory events for the mock trials.

In a joint initiative with the Inter-American Committee against Terrorism (CICTE), CICAD's Anti-Money Laundering Unit organized two workshops on terrorist financing. The first event was conducted in Bogota, Colombia, and the participating countries' FIUs, police, and prosecutors' office each provided three participants. The beneficiaries of this workshop included Central American countries, Mexico, and the Dominican Republic. Due to the outstanding results obtained with the first event, a second workshop on terrorist financing was held in August in Lima, Peru. The second program's objective was to train specialists from South America.

The events that were held in Peru (the mock trials, the workshop for judges and prosecutors, and the workshop on terrorist financing) took place thanks to a joint initiative with the U.S. Embassy's Narcotics Affairs Section. The NAS helped organize and coordinate these programs. As an outcome of

the success of the three events, the Banking Superintendent of Peru offered the Anti-Money Laundering Unit the use of a building, at no cost, for CICAD's regional training center.

A mock investigation was also held in 2007 with the assistance of the Government of Spain and the participation of UNODC. The event focused on the investigation of a money laundering case and took place in Antigua, Guatemala. The objective of the project was strengthening the cooperation between law enforcement agents, prosecutors, and FIU analysts during case investigations. Participating countries included Bolivia, Costa Rica, El Salvador, Guatemala, Honduras, Panama, Mexico, and Venezuela.

In cooperation with Spain's University of Salamanca, CICAD will offer an online degree in money laundering to law enforcement agents, prosecutors, judges, FIU analysts, and bankers. The signature of the agreement held between CICAD and the University of Salamanca occurred in October in Washington, DC. This project will be conducted by prestigious Spanish experts on money laundering, and will be taught in three modules, at the basic, intermediary, and advanced levels.

CICAD acquired computer hardware and projectors as a follow-up to the train-the-trainers program. CICAD purchased three laptops and three projectors for El Salvador, Costa Rica, and Honduras this year to advance the program in each of these countries.

CICAD also facilitated bilateral cooperation between prosecutors in Peru and Colombia in 2007. As a result of the expertise Colombia has in extinción de dominio (extinction of dominion over assets), two Colombian prosecutors with ample experience in this area participated in an anti-money laundering workshop in Peru in September and shared their experiences and views in this field with the local specialists.

Pacific Anti-Money Laundering Program (PALP)

The Pacific Anti-Money Laundering Program (PALP) was launched in September 2006 under the Pacific Islands Forum Secretariat (PIFS) in Fiji. PALP is a joint initiative between the PIFS, the United Nations Office on Drugs and Crime (UNODC), and the United States Department of State, which designed and funds the PALP. The PALP is a four-year regional technical assistance and training program designed to assist the 14 members of the Pacific Islands Forum that are not also members of the Financial Action Task Force (FATF) in establishing, enhancing, and implementing their anti-money laundering and counter-terrorist financing (AML/CTF) regimes. The 14 members of the Pacific Islands Forum that receive PALP assistance are the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

The goal of PALP training and technical assistance is to assist participating jurisdictions in complying with international standards of the FATF and relevant United Nations Conventions and Security Council Resolutions. The PALP is essentially an outreach program, utilizing mentors based in host countries to assist with legal, law enforcement, regulatory, and financial intelligence unit (FIU) development throughout the region. In 2007, the PALP provided assistance on a wide range of AML/CTF issues, including legislative drafting, capacity building, case support, and preparation for and follow-up to mutual evaluations.

Mentoring

The PALP uses resident and intermittent mentors to deliver regional and bilateral training in all elements required to establish viable AML/CTF regimes. The PALP currently has mentors in the legal and law enforcement fields based in Tonga and Vanuatu respectively, as well as an intermittent mentor for FIUs. In 2008, a second law enforcement mentor will be based in Palau and a regulatory mentor is

expected to be based in Samoa. Although the PALP mentors are based in their host countries, they are able to respond to requests for assistance from any of 14 participating countries and travel to those jurisdictions for periods of up to one month at a time.

The PALP mentoring program involves a number of different elements. Due to their experience, PALP mentors are able to adapt international standards to local situations. PALP mentors provide on-the-job training and work alongside local officials to ensure that they have sufficient capacity to implement the member country's AML/CTF regime. Unlike consultants, the PALP mentors will stay in-country for as long as four to six weeks at any given time. The amount of time spent in-country also offers a useful opportunity for the mentors to assess the situation on the ground with regard to AML/CTF issues, and compliance with international standards, as well as to determine areas where further work is needed. The ability of PALP mentors to respond quickly to urgent requests from jurisdictions in the region has made PALP's assistance highly sought after.

Throughout 2007, PALP engaged intermittent FIU mentors to conduct reviews in the Marshall Islands, Palau, Tonga, and Vanuatu. These reviews were conducted in preparation for upcoming mutual evaluations, and/or to gauge compliance with international standards. Follow-up action plans are being developed to implement the recommendations derived from these reviews. Because many of these countries do not have sufficient resources to implement the recommendations on their own, a more vigorous follow-up approach has been adopted by the PALP that includes the identification of resources to ensure effective follow-up and implementation of the recommendations derived from the FIU reviews.

Part of the PALP strategy aimed at building national capacity in AML/CTF matters entails efforts to strengthen the role of national AML/CTF committees at the policy level. In 2007, the PALP mentors played vital roles in providing support and advice to the national AML/CTF committees of several jurisdictions in the region, including Fiji, Palau, and Vanuatu.

Legislative Drafting

Through the work of the PALP legal mentor, the PALP has assisted the Cook Islands, Palau, the Republic of the Marshall Islands, Tonga, and Vanuatu in assessing and enhancing their AML/CTF regimes, and drafting the necessary legislation to bring these regimes into greater compliance with international standards.

In 2007, the PALP provided a range of legislative assistance to the Cook Islands to improve the effectiveness of its AML/CTF laws. The PALP legal mentor reviewed the Cook Islands current AML legislation, the Proceeds of Crime Act (POCA) and the Financial Transaction Reporting Act (FTRA), in October 2007. As a result of the review, the PALP assisted the Cook Islands in developing draft legislation regarding the FIU, civil forfeiture, and cross-border currency declarations. Although the FIU of the Cook Islands has been operating since 2001, its authority was limited. The draft Financial Intelligence Unit Act will provide it with broader powers, including the ability to conduct investigations and supervision of financial institutions. The draft civil forfeiture legislation will provide additional options for Cook Islands authorities to confiscate assets beyond the provisions of the POCA. The draft currency declaration bill will assist the Cook Islands in combating currency smuggling, which is a growing problem. The PALP mentor also assisted in drafting amendments to the POCA, FTRA, and the Terrorism Act.

Following a review of Palau's AML/CTF regime, the PALP legal mentor drafted amendments to the Money Laundering and Proceeds of Crime Act. The amendments are aimed at enhancing the effectiveness of AML/CTF prosecutions. The PALP mentor also developed a draft civil forfeiture law, which, when passed, will also allow the Government of Palau to confiscate or forfeit assets independent of criminal proceedings. In addition, the PALP mentor developed regulations aimed at

tightening the regulation of banks to prevent money laundering and fraud. The lack of such measures was highlighted following the collapse of a local bank in December 2006, resulting in the loss of approximately \$40 million in stolen funds (equivalent to 40 percent of all bank deposits in Palau).

In December 2007, the President of Palau signed into law some of the amendments to the Money Laundering and Proceeds of Crime Act. It is expected that the other pieces of legislation developed by PALP will be approved in 2008. The PALP legal mentor has had several sessions with members of the Palau Senate and the House of Representatives in 2007 on the importance of enacting the AML/CTF legislation.

PALP legislative assistance to the Marshall Islands in 2007 consisted of drafting regulations for financial institutions and a currency declaration bill, as well as amendments to the Terrorism Act, Banking Act, and Proceeds of Crime Act. The amendments to the Terrorism Act helped avert the threat of membership sanctions by the Egmont Group. As is the case in other Pacific jurisdictions, cash smuggling has become an increasing problem and the draft Border Currency Reporting Act is designed to deal with this. The Oceania Customs Organization (OCO) is considering using the draft Border Currency Reporting Act as model legislation for the region.

In Tonga, the PALP legal mentor provided legislative assistance by drafting amendments to the Money Laundering and Proceeds of Crime Act 2000 (MLPCA), a currency declaration bill, and an FIU bill. The amendments to the MLPCA will include serious offenses designated by the FATF 40 Recommendations as predicate offenses for money laundering. The currency declaration bill, when passed, will assist in detecting bulk cash smuggling. The FIU bill will provide the Tongan FIU with more extensive powers to investigate suspicious transaction reports received from financial institutions.

Following a review of Vanuatu's AML/CTF regime, the PALP mentor developed draft regulations for financial institutions, as well as amendments to Proceeds of Crime Act on cross-border currency reporting. The draft regulations will provide a legal framework for Vanuatu's FIU to develop guidelines for financial institutions. The draft provisions on cross-border reporting will enhance the capacity of Vanuatu authorities to respond more effectively to currency smuggling.

Capacity Building Initiatives

The PALP provides technical assistance and training workshops at the regional, sub-regional, and national levels for law enforcement and customs officials, prosecutors, judges, and regulatory authorities. In 2007, the PALP conducted several capacity building training initiatives at both the regional and national levels. Approximately 310 individuals from all 14 jurisdictions received capacity building assistance from the PALP.

On May 9-12, 2007, the PALP hosted a judicial workshop on money laundering, and terrorist financing in Palau. Eleven judges from the Marshall Islands, Micronesia, Palau, Papua New Guinea, Solomon Islands, and Tuvalu participated in this training. The workshop was jointly funded by PALP and Australia's Anti-Money Laundering Assistance Team (AMLAT), although the training itself was conducted by PALP. The Chief Justice of Tuvalu, acting as the President of the Fiji Court of Appeals in August, 2007, later praised this training program for helping with his judgment in upholding the Fiji High Court's conviction of an Australian national who was running an advanced fee scheme. This was Fiji's first money laundering conviction.

The PALP hosted a regional workshop for AML/CTF investigators in Samoa on July 9-13, 2007. Thirty-five law enforcement officials from Cook Islands, Fiji, Kiribati, Micronesia, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu attended the training. The workshop was jointly funded and conducted by the PALP and AMLAT.

On September 27-28, 2007, the PALP hosted a national workshop on civil forfeiture for 19 prosecutors and law enforcement officials from Fiji. The objective of the workshop was to assist prosecutors and law enforcement in the use and application of the new civil forfeiture provisions. The workshop was funded by PALP and conducted jointly by the PALP and judges from the Fiji High Court.

The PALP hosted a regional workshop for supervisors and regulators of nonbank financial institutions in Vanuatu, December 3-7, 2007. A total of 26 supervisors and regulators from nine countries attended the workshop, including the Cook Islands, Fiji, Micronesia, Marshall Islands, Niue, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu. The workshop examined the challenges faced by supervisors and regulators in ensuring compliance with AML/CTF regulations by nonbank entities, such as lawyers, accountants, insurance companies, real estate agents, trust companies, and service providers. This workshop was the first of its kind undertaken by the PALP and highlighted the need for follow-up work in 2008. The workshop was jointly funded by PALP and the Commonwealth Secretariat, and the training was conducted by the PALP, the International Monetary Fund, Australia's FIU, and private sector experts from the Cook Islands.

In December 2007, the PALP conducted training on cross-border currency reporting in Fiji. Six countries attended this training, including Fiji, Kiribati, Nauru, Solomon Islands, Tuvalu, and Vanuatu. Approximately 210 staff from Fiji Customs and Airport Authority, Police, and the Immigration and Quarantine agency, as well as officials from the other participating countries, attended the training. A key outcome of this training was the development of a tool kit, which establishes procedures and policies for customs and other border officials regarding the detection and seizure of unreported cross-border cash movements. The tool kit was developed by the three agencies for Fiji, and is now being considered for use by other jurisdictions. The training was conducted jointly by PALP, AMLAT, and the OCO, with funding from AMLAT.

Case support

One of the key areas of the PALP's work is case support for jurisdictions in the region on high-profile money laundering and terrorist financing cases. In 2007, the PALP provided case support to the Cook Islands, Palau, and Tonga.

The Government of Palau requested PALP assistance in the investigation of money laundering and fraud offences emanating from the collapse of a local bank, which affected 40 percent of all depositors in Palau. The case highlighted the lack of effective internal controls, regulations, or legislation, as well as a lack of investigative capacity to deal with such a large case. The key contribution made by the PALP was the instigation of criminal charges, which had not been considered by the Palau authorities at the start of the investigation. In addition, the PALP developed an investigative strategy for the criminal investigation, which was accepted by the Special Prosecutor in charge of the case and now forms the basis of the investigation. The PALP law enforcement mentor continues to provide advice and investigative support to the Special Prosecutor, and the legal mentor has also provided advice to the Special Prosecutor. The PALP also assisted the United States Internal Revenue Service in its own criminal investigation into the bank by providing information about the defendants and assisting with mutual legal assistance requests to New Zealand. In early 2008, PALP's second law enforcement mentor will be based in Palau.

Since June 2007, the PALP has provided legal and investigative advice to the Cook Islands FIU, the Financial Supervisory Commission, and the Cook Islands Police on a money laundering and terrorist financing case involving an international bank. As in Palau, the PALP assisted the FIU and the Police in developing an investigative strategy. The case potentially involves seven other jurisdictions, and several mutual legal assistance requests have been presented to India, New Zealand, and Pakistan with the assistance and advice of the PALP. The PALP law enforcement contacts in some of these countries

have also provided useful information and assistance to law enforcement officials in the Cook Islands. The information obtained from these mutual legal assistance requests has helped the Cook Islands Police and FIU to make headway in their investigations. The authorities now believe that they have sufficient information to shut down an international bank that is registered in the Cook Islands and believed to be involved in money laundering and providing financial support for terrorism. This is the first time the Cook Islands Police and FIU have dealt with a high profile case

In 2007, the PALP legal mentor responded to a request from Tongan authorities regarding the theft of precursor chemicals that were believed to be used for the manufacture of methamphetamine. The advice provided by the legal mentor included opinions on the use of the Tongan legislation and the appropriate charges to be filed.

Mutual evaluations

The PALP has also extended its assistance to jurisdictions when preparing for mutual evaluations or when implementing reforms suggested by the mutual evaluation team. The goal of the assistance provided by the PALP is to ensure that the jurisdiction is prepared for the mutual evaluation process and that, to the greatest extent possible, their AML/CTF regimes comport with international standards. The review of their AML/CTF regimes by the PALP helps these countries to take stock of where they are in terms of compliance with international standards, and to identify areas where technical assistance may be required. Furthermore, the reviews undertaken by the PALP are an important preparatory step as the jurisdictions prepare themselves for mutual evaluations by the Asia Pacific Group (APG), World Bank, or International Monetary Fund (IMF). In 2007, the PALP provided assistance to Palau and Tonga in preparation for their upcoming mutual evaluations. The PALP also assisted Fiji in implementing recommendations made by the evaluation team as a result of their mutual evaluation in 2006.

In Palau, the PALP reviewed its Money Laundering and Proceeds of Crime Act, assisted officials with the completion of the mutual evaluation questionnaire, and carried out a review of Palau's FIU in November 2007. Palau will undergo a mutual evaluation by the IMF in February 2008.

PALP's legal mentor provided assistance to the government of Tonga's review of its Money Laundering and Proceeds of Crime Act 2001. A review of Tonga's FIU was conducted in March 2007 by a PALP intermittent mentor. The mutual evaluation of Tonga will occur in 2008.

In the Cook Islands, the PALP reviewed their existing AML/CTF legislation and developed several draft laws, including FIU, civil forfeiture and currency declaration bills. The passage of this legislation would place the Cook Islands in a greater level of compliance with international standards. The Cook Islands will be evaluated in the third quarter of 2008.

Following its mutual evaluation, the PALP assisted Fiji in implementing the recommendations made in the 2006 World Bank mutual evaluation report. The PALP provided legal advice to the Fiji's FIU as to how the FIU-related recommendations could best be implemented. A national workshop will be held for Fiji officials in March 2008 on developing a risk-based approach to combating money laundering and terrorist financing.

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, counter-terrorist financing (CTF) training and technical assistance. The United Nations Global Program 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 Traffic in Narcotic Drugs and Psychotropic Substances (the 1988 Vienna Convention), the United Nations International Convention for the Suppression of the Financing of Terrorism (the 1999 Convention), the United Nations Convention against Transnational Organized Crime (the 2000 Palermo Convention), and the United Nations Convention against Corruption (the 2003 Merida Convention).

In September 2006, the UN General Assembly adopted the United Nations Global Counter-Terrorism Strategy. The Plan of Action contained in the Strategy encourages UNODC to help countries comply with international norms and standards, and to enhance international cooperation in these areas. GPML is the focal point for anti-money laundering policy and activities within the UN System and a key player in strengthening efforts to counter the financing of terrorism. GPML 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 also received priority. As part of the implementation of the UN Global Counter-Terrorism Strategy, GPML is one of the lead entities of the working group of the UN Counter-Terrorism Implementation Task Force (CTITF), an information-sharing and coordinating body aimed at developing policy recommendations in tackling the financing of terrorism. GPML now incorporates a focus on counterterrorist financing in all its technical assistance work.

In 2007, GPML provided training and long-term assistance in the development of viable AML/CTF regimes to more than fifty countries. In September 2007, UNODC and the World Bank launched the Stolen Asset Recovery (StAR) Initiative aimed at assisting developing countries to recover stolen assets that have been sent abroad by corrupt leaders. Given the close links between money laundering and corruption, and the fact that building an anti-money laundering system forms an integral part of good governance policy and asset recovery strategy, GPML is actively involved in this initiative and in the implementation of the UN Convention against Corruption, in force since December 2005.

The Mentoring Program

GPML's Mentor Program 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. GPML's Mentor Program 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 Program 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. 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 a country's financial intelligence unit (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 many countries, GPML mentors are the only locally placed AML/CTF experts, hence they are heavily relied upon by local offices of donor countries and organizations for advice in the process of creation and delivery of other donor AML/CTF projects. The GPML prosecutorial mentor based in the Prosecutor General's Office of Namibia provides 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 Financial Intelligence Act of Namibia, which was passed in June 2007, and initiated and monitored the Prosecutor Placement Program, an initiative aimed at placing prosecutors from the region for a certain period of time within the Asset Forfeiture Unit of the National Prosecuting Authority (NPA) in South Africa.

The UN mentor based in Tanzania with the Secretariat of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) delivered training to 14 member countries and assisted the ESAAMLG Secretariat in conducting its two mutual evaluations in 2007 and one on-site visit. The mentor completed his term at the end of December 2007. Under the monitoring of the UN mentor, GPML developed in 2007 a "train the trainers" course, which is an ongoing certification program on financial investigation in Namibia. In collaboration with the U.S. Department of State and the World Bank, GPML extended the appointment of the regional mentor for Central Asia in Almaty, Kazakhstan, focusing on legislative assistance and FIU development, as well as an AML/CTF mentor in Hanoi, Vietnam, to provide assistance to Vietnam, Lao PDR, and Cambodia to establish comprehensive AML/CTF regimes, including the establishment and enhancement of FIUs. In addition, GPML assisted in legislative drafting for many other countries, including Yemen, Djibouti, and member countries of the West African Economic and Monetary Union, and implemented a comprehensive "train the trainers" program for FIU, law enforcement agencies and prosecutors in Armenia, as well as an FIU development project in Kyrgyzstan. Both initiatives are ongoing.

Mentoring & Financial Intelligence Units

GPML was among the first technical assistance providers to recognize the importance of countries' creating a financial intelligence capacity, and GPML mentors worked extensively on the development and the implementation phases of FIUs in several countries in the Eastern Caribbean, the Pacific, and most recently in South East Asia. The development of FIUs in the Eastern Caribbean played a key role in the removal of many of the jurisdictions from the FATF Non-Cooperative Countries and Territories (NCCT) list.

A major initiative that could have global implications for many FIUs is the development by the UNODC Information Technology Service (ITS), with substantive inputs from GPML, of an analytical and integrated database and intelligence analysis system for operational deployment in FIUs, called goAML (<http://goaml.unodc.org>). It is an IT solution for FIUs to manage their activities, particularly data collection, analysis, and dissemination. The goAML program is now operational in Nigeria and several countries have contacted UNODC to explore the feasibility of future IT partnerships with goAML. The system provides a uniform and standard AML platform to fight money laundering and the financing of terrorism and was introduced and praised at the Egmont Group Plenary meeting in June 2007.

Computer-Based Training

Other highlights of GPML's work in 2007 included the ongoing development of its global computer-based training (CBT) initiative. The program provides 12 hours of interactive basic AML training consisting of thirteen modules for global delivery. Delivery continued in the Pacific, Central

American, and Western Africa regions. CBT training classrooms were established in Niamey, Niger, at the financial intelligence unit (CENTIF), two training centers in Morocco (Central Bank and the Royal Institute of Police), one at the Egyptian Banking Institute in Cairo, and one at the Colombian National Police in Bogotá. GPML also installed its mobile CBT training centre throughout West Africa to train key officials of National AML Inter-Ministerial Committees. In 2007, GPML initiated the development of new CBT modules on asset forfeiture.

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, translated into several languages, lends itself well to GPML's global technical assistance operations.

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. Five mock trials were organized and delivered in 2007 in Bolivia, Honduras, Mexico, Peru, and Venezuela.

GPML assisted West African countries in the development of their AML/CTF national strategies, and developed financial investigations courses in South Asia, Ethiopia, and West Africa in partnership with the Commonwealth Secretariat and the Office of Technical Assistance of the U.S. Department of Treasury (OTA). In 2007, GPML, in a collaborative effort with the International Monetary Fund (IMF), initiated the revision of a model law on AML/CTF and proceeds of crime for common law countries, encompassing worldwide AML/CTF standards and taking into account best legal practices. GPML continued to work closely with partners, including among others the U.S. Department of Justice, OTA, the Organization for Security and Cooperation in Europe (OSCE), the Commonwealth Secretariat, the IMF, and the World Bank to deliver CTF training, particularly in the regions of Central Asia, Southern Europe, and Africa.

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/CTF legislation that is available only to public officials. GPML also maintains an online AML/CTF legal library and issues a Central Asia Newsletter monthly in English and quarterly in Russian. IMoLIN (www.imolin.org) is a practical tool in daily use by government officials, law enforcement, and lawyers. GPML manages and constantly updates this database on behalf of the UN and 11 major international partners in the field of AML/CTF: 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), the Financial Action Task Force of South America (GAFISUD), the Inter-Governmental Action Group against Money Laundering and Terrorist Financing in West Africa (GIABA), Interpol, and the Organization of American States (OAS). In July 2007, GPML launched the French language version of IMoLIN. GPML continued its second round of legal analysis using the revised AMLID questionnaire. In this regard, the database currently contains fifty-seven revised questionnaires under the second round of legal analysis. The updated AMLID questionnaire reflects new money laundering trends and standards, and takes provisions related to terrorist financing and other new developments into account, including the revised FATF recommendations.

Law Enforcement Cases

Operation TNT—Contract Fraud

In November 2004, U.S. Immigration and Customs Enforcement (ICE) initiated an investigation based on a Bank Secrecy Act report filed by a financial institution. The investigation identified South Florida companies whose corporate officers and directors were part of an international conspiracy to perpetrate a bid-rigging scheme against the government of Trinidad and Tobago. The scheme involved the awarding of a contract involving the construction of the Piarco International Airport in Trinidad. In one instance, the conspirators used a related company to intentionally submit a higher competitive bid to help them win a multi-million dollar contract to equip the airport in Trinidad with items such as x-ray machines, passenger boarding bridges, and elevators. This was done to give the appearance that the conspirators' bid of \$30 million was reasonable by comparison to the \$35 million bid that they prepared and submitted on behalf of their supposed competition.

Upon award of the contract, the conspirators laundered the proceeds and paid kickbacks to co-conspirators through an elaborate series of financial transactions executed utilizing offshore shell companies and bank accounts established in the Bahamas and elsewhere. Ultimately, millions of dollars of fraud proceeds were repatriated to the United States and used to purchase items such as artwork, vacations, and jewelry. Additionally, the investigation revealed that some of the conspirators also engaged in a bank fraud scheme that resulted in a loss of approximately \$23 million to South Florida financial institutions through default on unsecured loans.

The owner of one of the South Florida companies was recently sentenced to 72 months imprisonment for conspiracy to commit wire and bank fraud. The defendant also agreed to a \$22 million restitution order. The Chief Financial Officer of this company was sentenced to four years probation for bank fraud, and was ordered to pay over \$400,000 in restitution. Additionally, four co-conspirators were convicted of charges related to bank and/or wire fraud. Sentences ranged from probation to 37 months in prison.

Drug Trafficking Organization—Laundering via Bulk Cash Smuggling and the Purchase of Real Estate and Automobiles

The investigation into the George MARTINEZ Drug Trafficking Organization (DTO) began with a routine traffic stop on November 1, 2000, in West Memphis, Arkansas. A vehicle driven by Marco Gonzalez, a resident of Cudahy, California, was stopped by an officer of the West Memphis Police Department. Following a consent search of the vehicle, officers discovered approximately \$854,000 in cash hidden in two false compartments beneath the vehicle. Subsequently, ICE's SAC/Los Angeles office opened an investigation on the seizure based upon Gonzalez's residency in the Los Angeles area and the fact he was driving the cash westbound towards California.

The multi-year wiretap investigation revealed an extensive DTO that laundered its proceeds through the purchase of real estate properties and luxury and vintage vehicles. The MARTINEZ DTO smuggled cocaine and marijuana from Mexico through various ports of entry in California in vehicles purchased from Los Angeles-area automobile auctions. Vehicles were selected for their ability to hold large false compartments beneath the floorboards. The automobiles were outfitted by MARTINEZ DTO drug associates once the vehicles were purchased. The drugs were distributed throughout California, Seattle, Baltimore, New York, Miami, and Canada.

Proceeds from the sale of the narcotics were sent directly to MARTINEZ at his base of operations in Downey, California. Cash was laundered predominantly by MARTINEZ through the purchase of real estate in California; however, MARTINEZ also personally bought numerous luxury and vintage

vehicles in cash. The remainder of the cash was used to improve MARTINEZ' properties and "flip" them for profit in a booming Southern California real estate market. The bulk cash that MARTINEZ did not launder in southern California was driven south into Mexico and laundered through various casas de cambios.

The head of the DTO, along with eight other associates, were arrested; one target is still a fugitive-at-large. The defendants pled to conspiracy to import and distribute controlled substances and received varied sentences. MARTINEZ was the only person who pled to a money laundering charge.

Trade-based Money Laundering/Black Market Exchange

An ICE investigation of an unlicensed money services business (MSB) in Atlanta resulted in the seizure of approximately \$714,000 from six bank accounts. The investigation revealed that a black market currency exchanger in Brazil, called a "doleiro," was transferring payments to U.S. bank accounts. The owner of the bank accounts in the U.S. would then facilitate third-party wire transfers to U.S. and Asian exporters for commercial goods that were shipped to the South American Tri-Border area of Argentina, Brazil, and Paraguay. In Brazil, this trade-based money laundering scheme, known as the "paralelo," is designed to avoid high fees and taxes associated with legitimate international wire transactions conducted via the National Bank of Brazil. Criminal organizations utilize trade-based money laundering to transfer value across borders through trade-based transactions (e.g., imports and exports of commercial merchandise) and to disguise the illicit origins of criminal proceeds. ICE analysis and investigation documented the illegal transfer of more than \$100 million from the Tri-Border area to the United States that resulted in the subsequent seizure.

Bulk Cash Smuggling, Casas de Cambio, and the Black Market Peso Exchange

In March 2006, in a joint action between the Colombian National Police and the U.S. Drug Enforcement Agency, Ricardo Mauricio Bernal-Palacios, his brother Juan Bernal-Palacios, and Camillo Ortiz-Echeverri were arrested in Bogotá, Colombia. The investigation of the Bernal organization documented amounts in excess of \$300 million laundered through the U.S.-based correspondent accounts of Casa de Cambio Ribadeo and another Mexican-based casa de cambio. The international investigation also included the related seizure by the Spanish Guardia Civil of approximately 17 million euros (approximately \$20 million), and the seizure of 2,000 kilograms of cocaine.

The investigation specifically targeted Mauricio Bernal's concealed ownership interest in Casa de Cambio Ribadeo in Mexico City, which he used to receive and launder "bulk currency" narcotics proceeds generated in the United States and Europe. Bernal used U.S.-based bank accounts maintained in the name of Casa de Cambio Ribadeo to transfer these proceeds to Colombia or to free trade zones for the purchase of commodities destined for Colombia using the Black Market Peso Exchange.

Recent Terrorist Financing Prosecutions

Terrorist financing prosecutions continue to be a particular focus of the Department of Justice National Security Division's (NSD) Counterterrorism Section. Terrorists cannot carry out their acts without money to buy weapons, explosives and equipment. The NSD's Counterterrorism Section has taken steps to identify and eliminate terrorist financing disguised as charitable giving. Such activity is not protected by the First Amendment; rather, it seeks to pervert and undermine it.

What is at issue here is not anything close to pure speech. It is, rather, material support to foreign organizations that the United States has deemed, through a process defined by federal statute and including judicial review by the D.C. Circuit, a threat to our national security. The fact that the support takes the form of money does not make the support the equivalent of speech. In this context, the

donation of money could properly be viewed by the government as more like the donation of bombs and ammunition than speech.

Terrorists exploit the charitable efforts of others to divert money meant for the poor and disenfranchised. NSD utilizes the traditional investigative tools and techniques used in white collar crime cases to further terrorist financing investigations. These are often difficult cases with unique issues, which frequently involve classified Foreign Intelligence Surveillance Act (FISA) electronic surveillance which extended over a period of years, providing additional challenges in presenting the evidence to the jury.

Holy Land Foundation

Holy Land Foundation. On October 22, 2007, in the Northern District of Texas a mistrial was declared after the jury was unable to reach a verdict in the trial of the leaders of the Holy Land Foundation for Relief & Development (HLF) for providing material support to Hamas, a foreign terrorist organization, and related charges. One of the defendants, Mohammed El-Mezain, was found not guilty on all counts with which he was charged except Count 1, the material support conspiracy count. All other defendants at trial—Shukri Abu Baker, Ghassan Elashi, Mufid Abdulqader, and Abdulrahman Odeh—and all counts resulted in a mistrial. The case has been re-assigned for retrial in 2008. HLF received start-up assistance from Mousa Abu Marzook, a leader of Hamas. It was the largest Muslim charity in the United States until it was declared a Specially Designated Terrorist Organization in 2001 and shut down. HLF raised millions of dollars for Hamas over a 13-year period.

Chiquita Brands Pays Terrorist Group AUC

Chiquita Brands International. On March 19, 2007, Chiquita Brands International Inc., a multinational corporation incorporated in New Jersey and headquartered in Cincinnati, Ohio, pled guilty in the District of Columbia to one count of engaging in transactions with a Specially Designated Global Terrorist. Under the terms of the plea agreement, Chiquita was sentenced to a \$25 million criminal fine, required to implement and maintain an effective compliance and ethics program, and five years of probation. The plea agreement arose from significant payments that Chiquita made for years to the violent, right-wing terrorist organization United Self-Defense Forces of Colombia (AUC). From 1997 through February 4, 2004, Chiquita paid money to the AUC in two regions of Colombia where Chiquita had fruit operations: Urabá and Santa Marta. Chiquita made these payments through its wholly-owned Colombian subsidiary known as “Banadex.” By 2003, Banadex was Chiquita’s most profitable operation. Chiquita, through Banadex, paid the AUC nearly every month. In total, Chiquita made over 100 payments to the AUC amounting to over \$1.7 million. The U.S. government designated the AUC as a Foreign Terrorist Organization (FTO) on Sept. 10, 2001, and that designation was well-publicized in the American public media. The AUC’s designation was even more widely reported in the public media in Colombia, where Chiquita had its substantial banana-producing operations. Chiquita also had specific information about the AUC’s designation as an FTO through an Internet-based, password-protected subscription service that Chiquita paid money to receive. Nevertheless, from Sept. 10, 2001, through Feb. 4, 2004, Chiquita made 50 payments to the AUC totaling over \$825,000.

Money Laundering to Support Terrorism

Yassin Aref. On October 10, 2006, a jury in the Northern District of New York found Yassin Aref guilty of conspiracy to commit money laundering, conspiracy to provide material support to terrorists, and conspiracy to provide material support to a designated foreign terrorist organization, as well as two counts of money laundering. He was also found guilty of one count of making false statements.

His co-defendant, Mohammed Hossain, was also found guilty, and both defendants were sentenced to 15 years in prison. Aref was initially identified when his name and telephone number were discovered in documents found in 2003 at three separate Ansar-al-Islam locations in Iraq. In addition, investigation disclosed that numerous telephone calls were placed from his home telephone to a telephone number in Damascus, Syria, connected to al Qaeda. The case involved a sting operation in which an FBI informant represented to the defendants that the informant needed to conceal the proceeds of the importation of a surface-to-air missile (SAM). The informant further represented that the SAM was to be used by terrorists in New York City in an operation targeting a Pakistani government official. Hossain agreed to launder the money through his business, and Aref, the imam of a local mosque, agreed to witness and guarantee the transactions to ensure that they were conducted according to the laws of Allah.

Material Support to Hamas

Mohamed Shorbagi. On August 28, 2006, Mohamed Shorbagi pled guilty in the Northern District of Georgia to providing material support to Hamas, a designated foreign terrorist organization. Shorbagi provided financial support to Hamas through donations to the Holy Land Foundation for Relief and Development, and conspired with others to provide such material support, knowing that Hamas had been designated as a foreign terrorist organization and that Hamas engaged in terrorist activity. Shorbagi also hosted high-level Hamas officials at a Georgia mosque, where he served as the imam. He was sentenced to 92 months in prison. Shorbagi also testified in the trial of Abdelhaleem Ashqar and Muhammad Salah in the Northern District of Illinois, who were charged along with others with participation in a 15-year racketeering conspiracy in the U.S. and abroad, using bank accounts in the United States to launder millions of dollars to illegally finance Hamas' terrorist activities in Israel, the West Bank, and Gaza Strip. On February 1, 2007, Salah and Ashqar were convicted on obstruction and contempt charges but acquitted of racketeering conspiracy charges. Salah was sentenced on July 11, 2007, to 21 months imprisonment. Ashqar was sentenced on November 21, 2007, to 135 months imprisonment.

Rendering Assistance to a Khalistan Commando Force

Khalistan Commando Force. On December 20, 2006, a jury in the Eastern District of New York returned a verdict convicting Khalid Awan of providing money and financial services to the Khalistan Commando Force (KCF), a terrorist organization (although not on a UN Security Council Resolution or U.S. Government list) responsible for thousands of deaths in India since its founding in 1986. Awan was sentenced to 14 years in prison on September 12, 2007. KCF was formed in 1986 and is comprised of Sikh militants who seek to establish a separate Sikh state in the Punjab region of India. The organization has engaged in numerous assassinations of prominent Indian government officials—including the murder of Chief Minister Beant Singh of Punjab in 1995—and hundreds of bombings, acts of sabotage and kidnappings. The government's evidence at trial included recordings of Awan's prison telephone calls to Panjwar in Pakistan, in which Awan introduced the inmate as a potential recruit for the KCF; statements by Awan admitting that he sent hundreds of thousands of dollars to KCF; testimony by two New York-area fund raisers for the KCF who stated that they delivered money to Awan's residence in Garden City; and testimony by the Assistant Inspector General of the Punjab Police Intelligence Division that the KCF was responsible for the deaths of thousands of innocent victims in India.

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 2008 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 or 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 2007

Jurisdictions moving from the Primary Concern column to the Concern column: Bosnia and Herzegovina and St. Kitts & Nevis.

Jurisdictions moving from the Other/Monitored column to the Concern column: Ghana, Guinea-Bissau, and Suriname.

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 Bosnia and Herzegovina from the Primary Concern Column to the Concern Column was based on the absence of significant money laundering, not on its continued vulnerability to terrorist financing.

Money Laundering and Financial Crimes

Note: Country reports are provided for only those countries listed in Primary Concern column and the Concern column.

Country/Jurisdiction Table

Countries/Jurisdictions of Primary Concern		Countries/Jurisdictions of Concern		Other Countries/Jurisdictions Monitored	
Afghanistan	Philippines	Albania	Nicaragua	Andorra	Marshall Islands
Antigua and Barbuda	Russia	Algeria	Palau	Anguilla	Mauritania
Australia	Singapore	Angola	Peru	Armenia	Mauritius
Austria	Spain	Argentina	Poland	Azerbaijan	Micronesia FS
Bahamas	Switzerland	Aruba	Portugal	Benin	Mongolia
Belize	Taiwan	Bahrain	Qatar	Bermuda	Montserrat
Brazil	Thailand	Bangladesh	Romania	Botswana	Mozambique
Burma	Turkey	Barbados	Samoa	Brunei	Namibia
Cambodia	Ukraine	Belarus	Saudi Arabia	Burkina Faso	Nauru
Canada	United Arab Emirates	Belgium	Senegal	Burundi	Nepal
Cayman Islands	United Kingdom	Bolivia	Serbia	Cameroon	New Zealand
China, People Rep	United States	Bosnia and Herzegovina	Seychelles	Cape Verde	Niger
Colombia	Uruguay	British Virgin Islands	Sierra Leone	Central African Republic	Niue
Costa Rica	Venezuela	Bulgaria	Slovakia	Chad	Norway
Cyprus		Chile	South Africa	Congo, Dem Rep of	Oman
Dominican Republic		Comoros	St. Kitts & Nevis	Congo, Rep of	Papua New Guinea
France		Cook Islands	St. Lucia	Croatia	Rwanda
Germany		Cote d'Ivoire	St. Vincent	Cuba	San Marino
Greece		Czech Rep	Suriname	Denmark	Sao Tome & Principe
Guatemala		Dominica	Syria	Djibouti	Slovenia
Guernsey		Ecuador	Tanzania	East Timor	Solomon Islands
Haiti		Egypt	Turks and Caicos	Equatorial Guinea	Sri Lanka
Hong Kong		El Salvador	Uzbekistan	Eritrea	Swaziland
India		Ghana	Vanuatu	Estonia	Sweden
Indonesia		Gibraltar	Vietnam	Ethiopia	Tajikistan
Iran		Grenada	Yemen	Fiji	Togo
Isle of Man		Guinea-Bissau	Zimbabwe	Finland	Tonga
Israel		Guyana		Gabon	Trinidad and Tobago
Italy		Honduras		Gambia	Tunisia
Japan		Hungary		Georgia	Turkmenistan
Jersey		Iraq		Guinea	Uganda
Kenya		Ireland		Iceland	Zambia
Latvia		Jamaica		Kazakhstan	
Lebanon		Jordan		Kyrgyz Republic	
Liechtenstein		Korea, North		Lesotho	
Luxembourg		Korea, South		Liberia	
Macau		Kuwait		Lithuania	
Mexico		Laos		Macedonia	
Netherlands		Malaysia		Madagascar	
Nigeria		Moldova		Malawi	
Pakistan		Monaco		Maldives	
Panama		Morocco		Mali	
Paraguay		Netherlands Antilles		Malta	

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, 2007 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, 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. “Nonbank 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. “Criminalized the Financing of Terrorism.” The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.
15. “States Parties to 1988 UN Drug Convention”: As of December 31, 2007, 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
16. “States Party to the UN International Convention for the Suppression of the Financing of Terrorism.” As of December 31, 2007, 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)	Egmont Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	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	Y	Y	Y	Y	Y	Y
Andorra	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	N	Y	N
Angola	Y	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y	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	Y	Y
Armenia	Y	Y	N	Y	M	Y	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	Y
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	N	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	N	Y	Y
Barbados	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Belarus	Y	Y	Y	Y	M	Y	Y	N	Y	Y	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	Y	N	Y	M	N	Y	N	Y	Y	N	N	Y	N	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.

Actions by Governments	Actions by Governments															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Egmont Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Internat'l Terrorism Financing Convention
Bermuda ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Bolivia ²	Y	Y	N	Y	M	N	Y	N	N	N	Y	N	Y	N	Y	Y
Bosnia & Herzegovina	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Botswana	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	N	Y	N	Y	Y
Brazil	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
British Virgin Islands ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Brunei Darussalam	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Bulgaria	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Burkina Faso	N	N	Y	N	M	N	N	N	N	N	N	N	N	N	Y	Y
Burma	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	N	Y	Y
Burundi	N	N	N	Y	N	N	Y	N	Y	Y	N	N	N	N	Y	N
Cambodia	Y	N	Y	Y	M	N	N	N	Y	Y	N	N	N	Y	Y	Y
Cameroon	Y	Y	Y	Y	M	N	Y	N	N	N	N	N	N	N	Y	Y
Canada	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cape Verde	Y	Y		Y	M	N	Y	N			Y			N	Y	Y
Cayman Islands ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Chad	Y	Y	Y	Y	M	N	Y	N	N	Y	N	N	N	N	Y	N
Chile	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
China (PRC)	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	N	Y	Y	Y
Colombia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Comoros	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Congo (Dem. Republic)	Y	Y	Y	Y	M	N	Y	N	N	N	N	Y	Y	Y	Y	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 Bolivia's FIU was suspended from membership in the Egmont Group on July 31, 2007

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)	Egmont Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Internat'l Terrorism Financing Convention
Congo (Republic)	Y	Y	Y	Y	M	N	N	N	N	N	Y	Y	Y	Y	Y	Y
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	N	N	Y	Y
Cote D'Ivoire	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	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 (ROC)	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cyprus ("TRNC")	Y	Y	Y	Y	M	N	N	N	N	Y	N	N			NA	NA
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	Y
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	N	Y	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	N	Y	Y
Egypt	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
El Salvador	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Equatorial Guinea	Y	Y	Y	Y	M	N	N	N	N	N	N	N	N	N	N	Y
Eritrea	N	N	Y	Y	N	N	N	N	Y	Y	N	N	N	N	Y	N
Estonia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Ethiopia	Y	Y	Y	Y	M	N	N	N	N	N	N	N	N	N	Y	N
Fiji	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	N	Y	N	Y	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	Y	N	N	Y	Y
Gambia	Y	Y	N	Y	M	N	Y	N	N	N	N	N	Y	N	Y	N

Actions by Governments	Actions by Governments															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Engage Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Internat'l Terrorism Financing Convention
Georgia	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Germany	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Ghana	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	Y
Gibraltar ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N
Greece	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Grenada	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Guatemala	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Guernsey ¹	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Guinea	Y	N	N	N	N	N	N	N	N	Y	N	N	N	N	Y	Y
Guinea-Bissau	Y	Y	Y	Y	M	N	N	N	N	N	Y	Y	Y	Y	Y	N
Guyana	Y	Y	N	Y	M	N	Y	N	N	Y	Y	N	Y	N	Y	Y
Haiti	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	N
Honduras	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y
Hong Kong ²	Y	Y	Y	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	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Indonesia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Iran	N	N	N	Y	M	N	N	N	N	N	N	N	N	N	Y	N
Iraq	Y	Y	N	Y	M	N	Y	N	N	Y	N	Y	Y	Y	Y	N
Ireland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Isle of Man ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

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 The People's Republic of China extended the UN Financing of Terrorism Convention to the Special Administrative Regions of Hong Kong and Macau.

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)	Egmont Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Internat'l Terrorism Financing Convention
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
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	Y	Y	N	N	Y	Y	Y	Y	Y	Y
Kazakhstan	Y	N	N	Y	P	N	N	N	N	Y	Y	N	N	Y	Y	Y
Kenya	Y	N	Y	Y	P	N	N	N	Y	Y	Y	N	N	N	Y	Y
Korea (DPRK)	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N
Korea (Republic of)	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y
Kosovo	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	NA	NA
Kuwait	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	N
Kyrgyzstan	N	N	N	N	P	N	Y	N	N	N	N	N	Y	N	Y	Y
Laos	Y	Y	N	N	M	N	N	N	Y	Y	Y	Y	Y	Y	Y	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	N	Y	Y
Liberia	Y	Y	N	N	P	N	N	N	N	Y	N	N	N	N	Y	Y
Libya	Y	Y	N	Y	M	N	N	N	N	N	N	Y	Y	N	Y	Y
Liechtenstein	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	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

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

Actions by Governments	Actions by Governments															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Egmont Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Internat'l Terrorism Financing Convention
Macau ¹	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	Y	Y
Madagascar	Y	Y	N	Y	N	N	Y	N		N	Y	Y	Y	N	Y	Y
Malawi	N	N	Y	Y	P	N	N	N		N	N	N	N	N	Y	Y
Malaysia	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
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	Y	Y	Y	Y
Malta	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Marshall Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y
Mauritania	Y	Y	Y	Y	P	N	Y	N	Y	N	Y	N	Y	Y	Y	Y
Mauritius	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Mexico	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Micronesia	Y	Y	N	Y	N	N	Y	N	Y	N	Y	N	Y	N	Y	Y
Moldova	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Monaco	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mongolia	N	N	N	N	N	N	Y	N	N	N	N	N	Y	N	Y	Y
Montenegro	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Montserrat ²	Y	Y	N	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Morocco	Y	Y	N	Y	M	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y
Mozambique	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
Namibia	Y	Y	Y	Y	M	N	N	N	N	Y	Y	Y	N	N	N	N
Nauru	Y	Y	N	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	N	Y

¹ The People's Republic of China extended the UN Financing of Terrorism Convention to the Special Administrative Regions of Hong Kong and Macau.

² 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)	Egmont Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Internat'l Terrorism Financing Convention
Nepal	N	N	N	Y	N	N	N	N	Y	N	N	N	N	N	Y	N
Netherlands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Netherlands Antilles	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
New Zealand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Nicaragua	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	N	Y	Y	Y	Y
Niger	Y	Y	N	Y	M	N	Y	N	Y	N	N	Y	N	N	Y	Y
Nigeria	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Niue	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	N	NA	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	Y	N
Pakistan	Y	Y	Y	Y	M	N	Y	N	N	N	Y	Y	Y	Y	Y	N
Palau	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	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	N	Y	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	Y	Y
Poland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	N	Y	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	P	N	N	N	Y	N	N	N	N	N	Y	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	N	Y	Y

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)	Egmont Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Internat'l Terrorism Financing Convention
Saudi Arabia	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Senegal	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	Y
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	Y	Y	M	N	Y	N	N	Y	Y	Y	Y	Y	Y	Y
Singapore	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	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	Y	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	N	Y	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	N	Y	N
Swaziland	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	N	Y	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	Y	Y	N	N	N	Y	Y	N	N	Y	Y
Taiwan	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	N	NA	NA
Tajikistan	Y	Y	N	N	N	N	N	N	N	Y	Y	N	N	Y	Y	Y
Tanzania	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Thailand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Togo	Y	N	Y	Y	N	N	Y	N	Y	N	Y	N	Y	N	Y	Y

Money Laundering and Financial Crimes

Actions by Governments																
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Egmont Financial Intelligence Units	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"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Internat'l Terrorism Financing Convention
Tonga	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	N	N	N	Y	Y
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	Y	N	Y	Y	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	Y	N
Uganda	Y	N	N	N	N	N	N	N	Y	N	N	N	Y	Y	Y	Y
Ukraine	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	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	Y	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	N	Y	N	N	Y	N	Y	Y	Y	N	Y	Y	Y	Y
Vanuatu	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Venezuela	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
Vietnam	Y	Y	Y	Y	M	N	Y	N	N	Y	Y	Y	N	N	Y	Y
Yemen	Y	Y	N	Y	M	N	N	N	Y	N	Y	Y	Y	N	Y	N
Zambia	Y	Y	N	Y	M	N	Y	N	Y	N	Y	N		N	Y	N
Zimbabwe	Y	Y	N	Y	M	N	Y	N	N	Y	N	N	N	Y	Y	N

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

Country Reports

Afghanistan

Afghanistan is not a regional financial or banking center, and is not considered an offshore financial 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 October 2005, and efforts are being made to strengthen police and customs forces. However, there remain few resources, limited capacity, little expertise and insufficient political will 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. Public corruption is a significant problem. Afghanistan is ranked 172 out of 180 countries in Transparency International's 2007 Corruption Perception Index.

According to United Nations (UN) statistics, in 2005 and 2006, opium production increased and today Afghanistan accounts for over 90 percent of the world's opium production. Opium gum 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) gross domestic product (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. 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 and Iran. Many of these goods are smuggled into Afghanistan from neighboring countries, particularly Iran and Pakistan, or enter via the Afghan Transit Trade Agreement (ATTA) 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 300 known hawala dealers in Kabul, with branches or additional dealers in each of the 34 provinces. These dealers are 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 focus of the regulation is on anti-money laundering and counter-terrorist financing (AML/CTF). The regulation requires and provides standard mechanisms for record keeping and reporting of large transactions. The DAB provided training sessions on the regulation and has developed a streamlined application process. In Kabul, approximately 100 licenses have been issued under the regulation, which is the result of the DAB outreach, law enforcement actions, and pressure from commercial banks where hawaladars hold accounts. Options for strengthening the hawaladar unions and promoting self-regulation are also being studied. The DAB has begun outreach efforts to money service providers in other large cities, specifically Mazar-e-Sharif and Herat, and hopes to expand the licensing to these cities in 2008. Given how widely used the hawala system is in Afghanistan, financial crimes undoubtedly occur through these entities.

In early 2004, the DAB worked in collaboration with international donors to establish the legislative framework for AML/CTF initiatives. 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 and Proceeds of Crime and Combating the Financing of Terrorism laws incorporate provisions that are designed to meet the recommendations of the Financial Action Task Force (FATF). These laws 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. Under the law, money laundering and terrorist financing are criminal offences. 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.

Under the AML law, the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), Afghanistan's FIU, has been established and is functioning as a semi-autonomous unit within the DAB. The FIU, originally to be established in January 2005, was actually initiated in October 2005—with the assignment of a General Director, office space, and other basic resources.

Banks and other financial and nonfinancial institutions are required to report to the FIU all suspicious transactions and large cash transactions above the equivalent of U.S. \$10,000, as prescribed by the DAB. These financial institutions are also required to maintain their records for a minimum of 10 years. Approximately 10,000 large cash transaction reports are currently being received from financial institutions and processed each month. The FIU has over 140,000 large transaction reports currently stored in its database that can be searched using a number of criteria. The FIU has the legal authority to freeze financial assets for up to seven days. FinTRACA also has access to records and databases of other government entities.

The formal banking sector consists of sixteen licensed banks. AML examinations have been conducted for all these banks that have resulted in a growing awareness of AML requirements, deficiencies among the banks, and a need for building the AML capacity of the formal financial sector. Additionally, the Central Bank has worked with the banking community through the Afghan Bankers

Association (ABA) to develop several ongoing topical working groups focused on AML issues. The ABA has recently designed a “know your customer” (KYC) form that has been accepted by the financial industry and has provided on-going education on identifying suspicious transactions. Seven suspicious transaction reports were received in 2007 by the FIU, one of which was referred to law enforcement for investigation.

The Afghanistan Central Bank has circulated a list of individuals and entities that have been included on the UN 1267 Sanctions Committee’s consolidated list of designated individuals and entities to financial institutions. There is no information currently available regarding the results of these lists being circulated.

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/CTF legislation, conducting examinations, licensing new institutions, overseeing money service providers, and outreach to the commercial banking sector. The effectiveness of the Supervision Department in the AML area remains limited due to staffing, organization, and management issues. As a result, FinTRACA has taken on some supervisory responsibilities, yet resources are limited.

The Ministry of Interior (MOI) and the Attorney General’s Office are the primary financial enforcement and investigative authorities. They are responsible for tracing, seizing and freezing assets. While MOI generally has adequate police powers, it lacks the resources to trace, seize, and freeze assets. According to FinTRACA, it is not aware of Afghanistan freezing, seizing, or forfeiting related assets in 2007, or of any calls on the banking community for cooperation with enforcement efforts. FinTRACA has an MOU in place with the MOI for cooperation and currently shares information with the Sensitive Investigations Unit (SIU), a law enforcement group within the MOI.

Pursuant to the Central Bank law, a Financial Services Tribunal will be established to review certain decisions and orders of the DAB. Judges and administrative staff will need to significantly increase their technical knowledge before the Tribunal is effective. The Tribunal will review supervisory actions of the 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 to no activity in the last three years. The process to prosecute and adjudicate cases is long and cumbersome, significantly underdeveloped, and corruption can play a role at various levels. There was one arrest for alleged terrorist financing in 2007 but the individual was not prosecuted.

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 are not 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 at the Kabul International Airport (KIA). This prototype will serve as the foundation for expansion to other land, air and sea crossings. Currently, KIA requires incoming and outgoing passengers to fill out declarations forms for carrying cash in an amount of 1 million Afghanis (approximately U.S. \$20,000) or its equivalent. The DAB is working with Customs authorities to further improve enforcement of airport declarations. However there is very little international air travel outside of Kabul. Although Afghanistan has limited resources to enforce

customs declarations outside of Kabul, the DAB has sent delegations to border crossings in Hairatan and Islam Qala to assess the capacity and describe the provisions of the law to the local authorities. There is no restriction on transporting any amount of declared currency. However, in the case of cash smuggling at the airport, reports are entered into a Customs database and this information is shared with the FIU.

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 nonexistent, 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) is a party to 12 of the United Nations (UN) conventions and protocols against terrorism and is a signatory to the International Convention for the Suppression of Acts of Nuclear Terrorism (which is pending ratification). 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. Afghanistan is also a signatory to the UN Convention against Corruption (UNCAC). Ratification of UNCAC, one of the benchmarks established under the London Compact, as well as amendment of domestic laws to conform to the UNCAC’s obligations, remain pending.

In July 2006, Afghanistan became a member in the Asia Pacific Group, a FATF-Style Regional Body (FSRB), and has also obtained observer status in the Eurasian Group, another FSRB. No mutual evaluation has been conducted on the AML/CTF regime of Afghanistan to date; however, the APG is scheduled to assess the financial system in the third quarter of 2009. FinTRACA, Afghanistan’s FIU, has active bilateral MOUs for cooperation with the FIU’s of the United Kingdom, Russia, the Kyrgyz Republic, and Belarus. Although FinTRACA is not yet a member of the Egmont Group of financial intelligence units, it has taken several steps to build its capacity in efforts to meet international standards.

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 its nascent FIU, the reporting of large cash transactions, participation in international AML bodies, improvement in bank AML compliance awareness, information technology systems, and in efforts to bring money service providers into a legal and regulatory framework. However, much work remains to be done. Afghanistan needs to commit additional resources and find the political will to seriously combat financial crimes, including corruption. 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 various areas of financial crimes, particularly money laundering and terrorist finance. Judicial authorities need to become proficient in understanding the various elements required for money laundering prosecutions. The FIU should become autonomous and increase its staff and resources. Afghan customs authorities should implement cross-border currency reporting and learn 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 also work to address the widespread corruption in commerce and government.

Albania

Albania is not considered an important regional financial or offshore center. As a transit country for trafficking in narcotics, arms, contraband, and humans, Albania remains at significant risk for money laundering. The major sources of criminal proceeds in the country are trafficking offenses, official corruption and fraud. Corruption and organized crime are likely the most significant sources of money laundering, but the exact extent to which these various illegal activities contribute to overall crime proceeds and money laundering is unknown.

Criminals frequently invest tainted money in real estate and business development projects. Albania has a significant black market for smuggled goods because of its high level of consumer imports and weak customs controls. Organized crime groups use Albania as a base of operations for conducting criminal activities in other countries and often return their illicit gains to Albania. The proceeds from these activities are easily laundered in Albania because of the cash economy and weak government controls on banking.

As a cash-based economy, the Albanian economy is also particularly vulnerable to money laundering activity. Few individuals have bank accounts and check writing is not common. Of the 17 banks in Albania, 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. 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. According to a 2007 United Nations Office on Drugs and Crime (UNODC) report, remittances comprise nearly 14 percent of Albania's annual gross domestic product (GDP.) Black market exchange is still present in the country despite repeated efforts by the Government of Albania (GOA) institutions to impede such exchanges. The Bankers Association estimates that only 20-30 percent of transactions take place through formal banking channels. Similarly, the GOA estimates that proceeds from the informal sector account for approximately 30-60 percent of Albania's GDP. Although current law permits the operation of free trade zones, none are currently in operation.

Electronic and automatic teller machine (ATM) transactions are relatively few in number but are growing as more banks introduce this technology. The number of ATMs expanded following the decision of the GOA to deliver salaries through electronic transfers. All central government institutions have now converted to electronic pay systems, and many private companies have also started to issue salaries electronically. Credit card usage has also increased, but only a small number of people possess them and usage is primarily limited to a few large vendors. Bank fraud still remains largely undetected.

Albania criminalized money laundering with Article 287, Albanian Criminal Code 1995, as amended. 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, Albania expanded and upgraded many powers. The new law also revises the definition of money laundering, outlaws the establishment of anonymous accounts, and permits the confiscation of accounts. The law also mandates the identification of beneficial owners. Currently, no law criminalizes negligence by financial institutions in money laundering cases. The Bank of Albania has established a task force to confirm banks' compliance with customer verification rules.

Albania's law sets forth an "all crimes" definition for the offense of money laundering. However, the Albanian court system applies a difficult burden of proof. Albanian courts require a prior or simultaneous conviction for the predicate offense before issuing an indictment for money laundering.

Money Laundering and Financial Crimes

Law 9084 places reporting requirements on both financial institutions and individuals. Obligated institutions must report to Albania's financial intelligence unit (FIU) all transactions that exceed approximately U.S. \$200,000 as well as those transactions that involve suspicious activity, regardless of the amount. A new draft law, when enacted, will lower the threshold for currency transaction reporting from the current U.S. \$200,000 to U.S. \$15,000, thereby ensuring compliance with EU standards. Subject transactions must be reported within 72 hours of their occurrence. Individuals and entities reporting transactions are protected by law if they cooperate with and provide financial information to the FIU and law enforcement agencies. Reportedly, however, leaks of financial disclosure information from other agencies compromise the entities' client confidentiality.

Under current Albanian law, financial institutions have no legal obligation to identify customers prior to opening an account. Albania distinguishes between record keeping of client information and record keeping of transaction information, and, in an effort to reduce the record-keeping burden on obligated entities, has a different threshold for each. 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 U.S. \$20,000 or when there is a suspicion of money laundering. For all transactions in excess of U.S. \$20,000, entities must maintain customer records. With regard to transactions, obliged entities are not required to maintain records on transactions under a U.S. \$200,000 threshold. For every transaction in excess of U.S. \$200,000 entities must maintain records that can be used to reconstruct the transaction if necessary. If there is no suspicion, entities must retain customer identification information for all transactions exceeding U.S. \$20,000—but could destroy all records of financial transactions below U.S. \$200,000. The new draft law, when enacted, will require client identification regardless of the size of the transaction.

It is the responsibility of the licensing authority to supervise intermediaries for compliance. For example, the Ministry of Justice is responsible for oversight of attorneys and notaries, and the Ministry of Finance for accountants. Although regulations also cover nonbank financial institutions, enforcement has been poor in practice. There is an increasing number of suspicious transaction reports (STRs) coming from banks as that sector matures, although the majority continues to come from tax and customs authorities and foreign counterparts.

Individuals must report to customs authorities all cross-border transactions that exceed approximately U.S. \$10,000. Albania provides declaration forms at border crossing points, and the law does not distinguish between an Albanian and a foreign visitor. However, customs controls on cross-border transactions lack effectiveness due to a lack of resources, poor training and, reportedly, corruption of customs officials.

Law No. 8610 established an administrative FIU to coordinate the GOA's efforts to detect and prevent money laundering. Under Law No. 9084, the FIU became a quasi-independent agency within the Ministry of Finance, formally known as the General Directorate for the Prevention of Money Laundering (DPPPP). Albania is in the process of preparing a new administrative law on FIU operations. Referred to as the "draft law," it will clarify certain anti-money laundering measures and elaborate on reporting requirements for obliged entities.

As an administrative-type FIU, the DPPPP does not have law enforcement capabilities. The FIU receives reports from obliged entities, analyzes them, and then disseminates the results of its analysis to the prosecutor's office. After nearly six years, the FIU cannot demonstrate any referral that has resulted in a money laundering prosecution. There were only three money laundering referrals to the Prosecutor's Office during 2006 and all three were declined for prosecution. There were no money laundering referrals to the Prosecutor's Office during 2007. In an effort to increase money laundering prosecutions, in May 2007, Albania established the Economic Crimes and Corruption Joint Investigative Unit (ECCJIU) within the Tirana District Prosecution Office. This unit focuses efforts and builds expertise in the investigation and prosecution of financial crimes and corruption cases by

bringing together members of the General Prosecutors Office, the Albanian State Police's Financial Crimes Sector, the Ministry of Finance's Customs Service and Tax Police, and Albanian intelligence services. The ECCJIU will also receive cooperation from the FIU and the National Intelligence Service. The ECCJIU will have responsibility for the prosecution of money laundering cases within the District of Tirana.

To address the criminal aspects of its informal economy, Albania passed comprehensive legislation against organized crime in 2004. Law No. 9284, the "anti-mafia law," enables civil asset sequestration and confiscation provisions in cases involving organized crime and trafficking. The law applies to the assets of suspected persons, their families, and close associates. In cases where the value of the defendant's assets exceeds the income generated by known legal activity, the law places the burden on the defendant to prove a legitimate source of income for the assets. During 2006, the Serious Crimes Prosecution Office filed twenty forfeiture cases pursuant to the anti-mafia law. The properties sequestered include a sports center of 4000 square meters, hotels, apartments, land, vehicles, and approximately U.S. \$35,000 in cash. Although the Agency for the Administration of the Sequestration and Confiscation of Assets (AASCA) is charged with the responsibility of administering confiscated assets, the agency has failed to function in a meaningful fashion. As such, enforcement of the assets law remains reportedly inadequate due to a lack of financial or political support for the agency.

Article 230/a of the Penal Code criminalizes the financing of terrorism. Financing of terrorism or its support of any kind is punishable by a term of imprisonment of at least fifteen years, and carries a fine of U.S. \$50,000 to U.S. \$100,000. The Penal Code also contains additional provisions dealing with terrorist financing including sections dealing with giving information regarding the investigation or identification to identified persons, and conducting financial transactions with identified persons. There are no known prosecutions under these laws, but the Prosecutor's Office is currently investigating one case with such implications.

In 2004, Albania enacted Law No. 9258, "On Measures against Terrorist Financing". This law provides a mechanism for the sequestration and confiscation of assets belonging to terrorism financiers, particularly as to the United Nations (UN) updated lists of designees. While comprehensive, it lacks implementing regulations and thus is not fully in force. As of October 2007, the Ministry of Finance claimed to maintain asset freezes against six individuals and fourteen foundations and companies from the UN Security Council's 1267 Consolidated lists of identified terrorist entities. In total, assets worth more than U.S. \$10 million, belonging to six persons, five foundations and nine companies, remain sequestered. Reportedly, the full extent of sequestered assets and their exact whereabouts are unknown.

The Ministry of Finance is the main entity responsible for issuing freeze orders. After the Minister of Finance executes an order, the FIU circulates it to other government agencies, which then sequester any assets found belonging to the UNSCR 1267 named individual or entity. The sequestration orders remain in force as long as their names remain on the list.

Albania is a party to 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 1988 UN Drug Convention. Albania is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and was most recently evaluated by MONEYVAL in July 2006. Albania's FIU is also a member of the Egmont Group, the international organization of financial intelligence units.

Although there are continuing initiatives to improve Albania's capacity to deal with financial crimes and money laundering, the lack of positive results and apparent inability to adequately address the deficiencies in the programs continue to hamper progress. Despite Albania's efforts, additional improvements are needed. Albania should increase support and training for the FIU, as a majority of its staff is new and lacks experience in the analysis of money laundering and terrorist financing cases.

The FIU should create or obtain a database to allow effective analysis of the large volume of currency transaction reports and suspicious transaction reports received. Albania should ensure that those charged with pursuing financial crime increase their technical knowledge to include modern financial investigation techniques. Albania should provide its police force with a central database. Investigators and prosecutors should implement case management techniques, and prosecutors, and judges need to become more conversant with the nuances of money laundering. The FIU, prosecutors and ECCJIU should enhance their effectiveness through cooperation with one another and outreach to other entities. Albania should remove the requirement of a conviction for the predicate offense before a conviction for money laundering can be obtained. Albania should devise implementing regulations for Law 9258 regarding sequestration and confiscation of assets linked to the financing of terrorism so that it can be fully effective. The Government of Albania should also improve the enforcement and enlarge the scope of its asset seizure and forfeiture regime, including fully funding and supporting the Agency for the Administration of the Sequestration and Confiscation of Assets (AASCA). Albania should also incorporate into anti-money laundering legislation specific provisions regarding negligent money laundering, corporate criminal liability, comprehensive customer identification procedures, and the adequate oversight of money remitters and charities. Albania should enact its draft law and promulgate implementing regulations as soon as possible.

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. Embezzlement, fraud, and tax evasion are common financial crimes. Algeria has a large informal and cash-based economy. Algeria is a transit country for men and women trafficked from sub-Saharan Africa en route to Europe.

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.

The 2005 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 antiquities. Provided that 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. \$760 to U.S. \$76,000). 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 provides significant authority to the Algerian Banking Commission, the independent body established under the authority of the Bank of Algeria to supervise banks and financial institutions, to inform CTRF of suspicious or complex transactions. The law also 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 50,000 Algerian dinars 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.

In 1996 Algeria adopted ordinance 96-22 regarding exchange regulations and currency movements abroad. The law criminalized cash smuggling as well as the failure to respect reporting requirements for the transfer of cash into or out of Algeria. The maximum value of cash that may be carried by an individual at any given time is the equivalent of 7,600 euros (approximately U.S. \$11,000). Higher sums may only be legally sent abroad by wire transfer. Given limits on convertibility of the Algerian dinar, even sums less than the 7,600 euros threshold must be accompanied by a bank statement declaring that the holder acquired the foreign currency with the authorization of the central bank. Holders of foreign currency without such a declaration, such as individuals who traded dinars for foreign currencies in one of Algiers' many black markets, risk confiscation. In addition to foreign currency, the ordinance applies to other liquid financial instruments, precious metals and gemstones. Penalties for noncompliance range from three to five years of imprisonment or a fine valued of up to twice the value of the seized property.

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.

In 2006, the Algerian customs service reported 373 cases of cash smuggling with a total value of U.S. \$5.6 million. These cases occurred in 11 of the country's 48 wilayas (regional departments). In 2005, customs reported 426 cases with a total value of U.S. \$2.7 million. The total fines levied against smugglers were U.S. \$41 million in 2006. In 2007, CTRF investigated 103 suspicious transaction reports.

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 escape the notice of government monitoring efforts.

Algerian customs and law enforcement authorities are increasingly concerned with cases of customs fraud and trade-based money laundering. In response, 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 (MENAFATF). Algeria is a party to 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 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.

The Government of Algeria has taken significant steps to enhance its statutory regime against 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 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 need to enhance their ability to recognize and investigate trade-based money laundering, value transfer, and bulk cash smuggling used for financing terrorism and other illicit financial activities.

Angola

Angola is neither a regional nor an offshore financial center and has not prosecuted any known cases of money laundering. Angola does not produce significant quantities of drugs, although it continues to be a transit point for drug trafficking, particularly cocaine brought in from Brazil or South Africa destined for Europe. 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 implemented a diamond control system in accordance with the Kimberley Process. However, through the method of "mixing parcels" of licit and illicit diamonds and the fraudulent purchasing of Kimberley Process "certificates of authenticity," the Kimberley 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. Other provisions of the criminal code do address some related crimes. The various ministries with responsibility for detection and enforcement are revising a draft anti-money laundering law drawn up with help from the World Bank. The Central Bank's Supervision Division, which has responsibility for money laundering issues, exercises some authority to detect and suppress illicit banking activities under legislation governing foreign exchange controls. The Central Bank has the authority to freeze assets, but Angola does not presently have an effective system for identifying, tracing, or seizing assets. Instead, such crimes are addressed through other provisions of the criminal code. For example, Angola's counternarcotics laws criminalize money laundering related to narcotics trafficking.

Angola's high rate of cash flow makes its financial system an attractive site for money laundering. With no 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 U.S. \$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 U.S. \$2 million in a briefcase to make a deposit. No currency transaction reports cover such large cash transactions. These massive cash flows occur in a banking system ill-equipped to detect and report suspicious activity. The Central Bank has no workable data management system and only rudimentary analytic capability. Corruption pervades Angolan society and commerce and extends across all levels of government. Angola is rated 147 out of 180 countries in Transparency International's 2007 International Corruption Perception Index.

Angola is party to the 1988 UN Drug Convention and the UN Convention against Corruption. Angola has signed but has 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 to criminalize money laundering beyond drug offenses and terrorist financing. The GRA should establish a system of financial transparency reporting requirements and a corresponding Financial Intelligence Unit through legislation that adheres to world standards. The GRA should then move quickly to implement this legislation and bolster the capacity of law enforcement to investigate financial crimes. Angola's judiciary, including its Audit Court (Tribunal de Contas) should give priority to prosecuting 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, by establishing an effective system to identify, trace, seize, and forfeit assets and by empowering investigative magistrates to actively seek out and prosecute high profile cases of corruption.

Antigua and Barbuda

Antigua and Barbuda has comprehensive legislation in place to regulate its financial sector, but remains susceptible to money laundering because of its offshore financial sectors and Internet gaming industry. As with other countries in the region, illicit proceeds from the transshipment of narcotics are laundered in Antigua and Barbuda. Its offshore financial sector exacerbates Antigua and Barbuda's vulnerability to money laundering.

In 2007, Antigua and Barbuda had 17 offshore banks, three offshore trusts, two offshore insurance companies, 3,255 international business corporations (IBCs), and 23 licensed Internet gaming companies. The International Business Corporations Act of 1982 (IBCA), as amended, is the governing legal framework for offshore businesses in Antigua and Barbuda. Bearer shares are permitted for international companies. However, the license application requires disclosure of the names and addresses of directors (who must be natural persons), the activities the corporation intends to conduct, the names of shareholders, and number of shares they will hold. Registered agents or service providers are required by law to know the names of beneficial owners. Failure to provide information or giving false information is punishable by a fine of U.S. \$50,000. Offshore financial institutions are exempt from corporate income tax. All licensed institutions are required to have a physical presence, which means presence of at least a full-time senior officer and availability of all files and records. Shell companies are not permitted.

Antigua and Barbuda has five domestic casinos, which are required to incorporate as domestic corporations. Internet gaming companies are required to incorporate as IBCs, and as such are required to have a physical presence. Internet gaming sites are considered to have a physical presence when the primary servers and the key person are resident in Antigua and Barbuda. The Government of Antigua and Barbuda (GOAB) receives approximately U.S. \$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 seeks to attract investment in priority areas of the government. Casinos and sports book-wagering operations in Antigua and Barbuda's free trade zone are supervised by the Office of National Drug Control and Money Laundering Policy (ONDPC), which serves as the GOAB's financial intelligence unit (FIU), and the Directorate of Offshore Gaming (DOG), housed in the Financial Services Regulatory Commission (FSRC). The GOAB has adopted regulations for the licensing of interactive gaming and wagering, to address possible money laundering through client accounts of Internet gambling operations. The FSRC and DOG have also issued Internet gaming technical standards and guidelines. Internet gaming companies are required to submit quarterly and annual audited financial statements, enforce know-your-customer verification procedures, and maintain records relating to all gaming and financial transactions of each customer for six years. Suspicious activity reports from domestic and offshore gaming entities are sent to the ONDCP and FSRC.

Money Laundering and Financial Crimes

The GOAB has not initiated a unified regulatory structure or uniform supervisory practices for its domestic and offshore banking sectors. Currently, the Eastern Caribbean Central Bank (ECCB) supervises Antigua and Barbuda's domestic banking sector. The Registrar of Insurance supervises and examines domestic insurance agencies. The director of the ONDCP—who was designated in 2003 as the Supervisory Authority created under the Money Laundering Prevention Act of 1996 (MLPA)—supervises all financial institutions for compliance with suspicious transaction reporting requirements. The FSRC is responsible for the regulation and supervision of all institutions licensed under the IBCA, including offshore banking and all aspects of offshore gaming. This includes issuing licenses for IBCs, maintaining the register of all corporations, and conducting examinations and reviews of offshore financial institutions as well as some domestic financial entities, such as insurance companies and trusts.

In the offshore sector, the IBCA requires that a corporate entity submit all books, minutes, cash, securities, vouchers, customer identification, and customer account records. Financial institutions are required to maintain records for six years after an account is closed. The IBCA provides for disclosure of confidential information pursuant to a request by the director of the ONDCP, and pursuant to an order of a court of competent jurisdiction in Antigua and Barbuda. In addition, section 25 of the MLPA states that the provisions of this Act shall have effect notwithstanding any obligation as to secrecy or other restriction upon the disclosure of information imposed by any law or otherwise. The MLPA contains provisions for obtaining client and ownership information.

The MLPA, 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 any unlawful activity. The MLPA covers institutions defined under the Banking Act, IBCA, and the Financial Institutions (NonBanking) 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. Internet gaming companies, however, are required by the Interactive Gaming and Interactive Wagering Regulations to report to the ONDCP all payouts over U.S. \$25,000.

The Office of National Drug Control and Money Laundering Policy Act, 2003 establishes the ONDCP as the GOAB's FIU. The ONDCP is an independent organization 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 with respect to filing suspicious transaction reports (STRs). Additionally, the ONDCP Act authorizes the director to appoint officers to investigate narcotics trafficking, fraud, money laundering, and terrorist financing offenses. Auditors of financial institutions review their compliance program and submit a report to the ONDCP for analysis and recommendations. The ONDCP has no direct access to databases of financial institutions. Domestically, the ONDCP has a memorandum of understanding with the FSRC and is expected to sign another with the ECCB. Other memoranda of understanding have been drafted to cover all aspects of the ONDCP's relationship with the Royal Antigua and Barbuda Police Force, Customs, Immigration, and the Antigua and Barbuda Defense Force.

As of October 2007, the ONDCP had received 43 STRs (down from 52 in 2006), 11 of which were investigated. No arrests, prosecutions or convictions were reported by the GOAB in 2006 or 2007, although there were two arrests in 2005. Antigua and Barbuda has yet to prosecute a money laundering case.

Under the MLPA, a person entering or leaving the country is required to report to the ONDCP whether he or she is carrying U.S. \$10,000 or more in cash or currency. In addition, all travelers are required to fill out a customs declaration form indicating if they are carrying in excess of U.S. \$10,000 in cash or currency. If so, they may be subject to further questioning and possible search of their belongings by Customs officers. 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 Misuse of Drugs Act empowers the court to forfeit assets related to drug offenses. The ONDCP is responsible for tracing, seizing and freezing assets related to money laundering. 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. If a charge is not filed or an application for civil forfeiture is not made within 30 days, the freeze order lapses. Convictions for a money laundering offense make it likely that an application for forfeiture will succeed unless the defendant can show that the property was acquired by legal means or the defendant's business was legitimate. Forfeited assets are placed into the Forfeiture Fund and can be used by the ONDCP for any other purpose. Approximately 20 percent of forfeited assets go to the Consolidated Fund at the Treasury.

The GOAB is currently working on asset forfeiture agreements with other jurisdictions. The director of ONDCP, with Cabinet approval, may enter into agreements and arrangements with authorities of a foreign State, which covers matters relating to asset sharing. There are asset sharing agreements with certain countries, while others are negotiated on an ad hoc basis. The ONDCP is presently overseeing the drafting of MOUs with a number of countries in Central America to enhance asset tracing, freezing and seizure. An MOU has recently been concluded with Canada. 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 U.S. \$6 million in Antigua and Barbuda financial institutions as a result of U.S. requests and has repatriated approximately U.S. \$4 million. The GOAB has frozen, on its own initiative, over U.S. \$90 million believed to be connected to money laundering cases still pending in the United States and other countries. The GOAB reported seizing U.S. \$420,236 in 2006 and U.S. \$14,753 in 2007.

The GOAB enacted the Prevention of Terrorism Act 2001, amended in 2005, to implement the UN conventions on terrorism. 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 terrorist 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 on whether or not 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 does not believe indigenous alternative remittance systems exist in country, and 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. As a result of such cooperation, both the United States and Canada have shared forfeited assets with the GOAB on several occasions. The amended Banking Act 2004 enables the ECCB to share information directly with foreign regulators if a memorandum of understanding is established. 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 that allows the exchange of tax information between the two nations.

Antigua and Barbuda is a member of the Caribbean Financial Action Task Force (CFATF) and will undergo a mutual evaluation in early 2008. Antigua and Barbuda is also a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). The GOAB is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, the International Convention for the Suppression of the Financing of Terrorism, and the Inter-American Convention against Terrorism. The ONDCP is a member of the Egmont Group.

The Government of Antigua and Barbuda has taken steps to combat money laundering and terrorist financing by passing relevant legislation that applies to both domestic and offshore financial institutions, and establishing a thorough regulatory regime. However, the GOAB should implement and enforce all provisions of its anti-money laundering and counter-terrorist financing legislation, including the 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 and there are few arrests or prosecutions. The GOAB should conduct more thorough investigations that could lead to higher numbers of arrests, prosecutions, and convictions. Law enforcement and customs authorities should be trained to recognize money laundering typologies that fall outside the formal financial sector. The GOAB should continue its international cooperation, particularly with regard to the timely sharing of statistics, information related to offshore institutions, and seized assets.

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 continuing 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.

In 2007, the Argentine Congress passed legislation criminalizing terrorism and terrorist financing. Law 26.268, "Illegal Terrorist Associations and Terrorism Financing", entered into effect in mid-July. The law amends the Penal Code and Argentina's anti-money laundering law, Law No. 25.246, to criminalize acts of terrorism and terrorist financing, and establish terrorist financing as a predicate offense for money laundering. Persons convicted of terrorism are subject to a prison sentence of five to 20 years, and those convicted of financing terrorism are subject to a five to 15 year sentence. The new law provides the legal foundation for Argentina's financial intelligence unit (the Unidad de Información Financiera, or UIF), Central Bank, and other regulatory and law enforcement bodies to investigate and prosecute such crimes. The adoption of counter-terrorist financing legislation effectively removes Argentina from the Financial Action Task Force's (FATF) follow-up process, which began in 2004 to address deficiencies in the GOA's anti-money laundering and counter-terrorist financing (AML/CTF) regime. With the passage of Law 26.268, Argentina also joins Chile, Colombia, and Uruguay as the only countries in South America to have criminalized terrorist financing.

On September 11, 2007, President Nestor Kirchner signed into force the National Anti-Money Laundering and Counter-Terrorism Finance Agenda. The overall goal of the National Agenda is to serve as a roadmap for fine-tuning and implementing existing money laundering and terrorist financing laws and regulations. The Agenda's 20 individual objectives focus on closing legal and regulatory loopholes and improving interagency cooperation. The next challenge is for Argentine law enforcement and regulatory institutions, including the Central Bank and UIF, to implement the National Agenda and aggressively enforce the newly strengthened and expanded legal, regulatory, and administrative measures available to them to combat financial crimes.

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 National Insurance Superintendence (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.

Law 26.087 of March 2006 amends and modifies Law 25.246 to address many previous deficiencies in Argentina's anti-money laundering regime. 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 court 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 U.S. \$3,200).

In September 2006, Congress passed Law 26.119, which amends Law 25.246 to modify the composition of the UIF. The law reorganized 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 established 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 UIF has issued resolutions widening the range of institutions and businesses required to report suspicious or unusual transactions 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. 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. As of September 30, 2007, the UIF had received 2851 reports of

Money Laundering and Financial Crimes

suspicious or unusual activities since its inception in 2002, forwarded 165 suspected cases of money laundering to prosecutors for review, and assisted prosecutors with 121 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.

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 (approximately U.S. \$3200). The UIF further receives copies of the declarations to be made by all individuals (foreigners or Argentine citizens) entering or departing Argentina with over U.S. \$10,000 in currency or monetary instruments. These declarations are required by Resolutions 1172/2001 and 1176/2001, which were 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).

Although the GOA has passed a number of new laws in recent years to improve its AML/CTF regime, Law 25.246 still limits the UIF's role to investigating only money laundering arising from seven 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 independently 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 (approximately U.S. \$16,000) can constitute money laundering. Transactions below 50,000 pesos can constitute only concealment, a lesser offense.

In 2006 and 2007, the National Coordination Unit in the Ministry of Justice and Human Rights became fully functional, managing the government's AML/CTF efforts and representing Argentina at the FATF and the Financial Action Task Force for South America (GAFISUD). The Attorney General's special investigative unit set up to handle money laundering and terrorism finance cases began operations in 2007. The proposal by the Argentine Banking Superintendence to create a specialized anti-money laundering and counter-terrorism finance examination program is awaiting authorization and is not yet operational.

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.

Prior to the passage of terrorist financing legislation in June 2007, the Central Bank was the lead Argentine entity responsible for issuing regulations on combating the financing of terrorism. 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 regularly updates and modifies the original Circular. 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. The GOA and Central Bank assert that they

remain committed to freezing assets of terrorist groups identified by the United Nations if detected in Argentine financial institutions.

In December 2006, the U.S. Department of Treasury designated nine individuals and two entities that have provided financial or logistical support to Hizballah and operate in the territory of neighboring countries that border Argentina. This region is commonly referred to as the Tri-Border Area, between Argentina, Brazil, and Paraguay. According to the designation, the nine individuals 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 in generating or moving terrorist funds. The GOA joined the Brazilian and Paraguayan governments in publicly disagreeing with the designations, stating that the United States had not provided new information proving terrorist financing activity is occurring in the Tri-Border 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 has discovered a major discrepancy in import-export data and is supporting an on-going investigation. One key focus of the TTU, as well as of other TTUs in the region, will be financial crimes occurring in the Tri-Border Area. 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 often use fraudulent trade documents and over and under invoicing schemes to provide counter valuation in value transfer (hawala) and settling accounts.

The GOA remains active in multilateral counternarcotics and international AML/CTF organizations. It is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, the FATF and GAFISUD. The GOA is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the Inter-American Convention against Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. Argentina participates in the "3 Plus 1" Security Group (formerly the Counter-Terrorism Dialogue) between the United States and the Tri-Border 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 passage of counter-terrorist financing legislation and strengthened mechanisms available under Laws 26.119, 26.087, and 25.246, Argentina has the legal and regulatory capability to combat and prevent money laundering and terrorist financing. Furthermore, the new national anti-money laundering and counter-terrorist financing agenda provides the structure for the Government of Argentina to improve existing legislation and regulation, and enhance inter-agency coordination. The challenge now is for Argentine law enforcement and regulatory agencies and institutions, including the Ministry of Justice, Central Bank, and UIF, to implement the National Agenda and aggressively enforce the newly strengthened and expanded legal, regulatory, and administrative measures available to them to combat financial crimes. The GOA could further improve its legal and regulatory structure by enacting legislation to expand the UIF's role to enable it to investigate money laundering arising from all crimes, rather than just seven enumerated crimes; establishing money laundering as an autonomous offense; and eliminating the current monetary threshold of 50,000 pesos (approximately U.S. \$16,000) required to establish a money laundering offense. To comply with the FATF recommendation on the regulation of bulk money transactions, Argentina should review the legislation vetoed in 2003 to find a way to regulate such transactions consistent with its MERCOSUR obligations. Other 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.

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, casinos, and free trade zones, Aruba is both attractive and vulnerable to narcotics trafficking and money laundering.

Aruba has four commercial and two offshore banks, one mortgage bank, one credit union, an investment bank, a finance company, and eleven casinos. The island also has four registered money transmitters, two exempted U.S. money transmitters (Money Gram and Western Union), eight life insurance companies, 13 general insurance companies, four captive insurance companies, and 11 company pension funds. There are approximately 5,343 limited liability companies (NVs), of which 372 are offshore limited liability companies or offshore NVs, which may operate until 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 U.S. \$280 registration fee and must have a minimum of U.S. \$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 payment. As of July 1, 2003, the incorporation of low tax offshore NVs was halted. The NFR contains a specific exemption for the AECs. 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 July 1, 2008.

Aruba currently has three designated free zones: Oranjestad Free Zone, Bushiri Free Zone, and the Barcadera Free Zone. The free zones 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.

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) brought all insurance companies under the supervision of

the Central Bank. The insurance companies already active before the introduction of this ordinance were also required to obtain a license from the Central Bank. The State Ordinance on the Supervision of Money-Transfer Companies, effective August 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.

Aruba's State Ordinance on the penalization money laundering of 1993 (AB 1993 no. 70) was repealed in 2006 through amendments to the Penal Code (AB 2006 no. 11). The GOA's anti-money laundering legislation extends to all crimes, and the Penal Code allows for conviction-based forfeiture of assets. All financial and nonfinancial institutions, which include banks, money remitters, brokers, insurance companies, and casinos, are obligated to identify clients that conduct transactions over 20,000 Aruban guilders (approximately U.S. \$11,300), and report suspicious transactions to Aruba's financial intelligence unit (FIU), the Meldpunt Ongebruikelijke Transacties (MOT). Obligated entities are protected from liability for reporting suspicious transactions. The GOA's anti-money laundering requirements do not extend to such nonfinancial businesses and professions as lawyers, accountants, the real estate sector, or dealers in precious metals and jewels.

The MOT was established in 1996. The MOT is authorized to inspect all obligated entities for compliance with reporting requirements for suspicious transactions and the identification requirements for all financial transactions. The MOT is currently staffed by 10 employees. In 2007, the MOT received approximately 5,715 suspicious transaction reports (STRs), resulting in 180 investigations conducted and 47 cases transferred to the appropriate authorities. The MOT reports that very few STRs are filed by the gaming and insurance sectors.

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 2007, approximately 820 such reports were submitted.

The MOT shares information with other national government departments. In April 2003, the MOT signed an information exchange agreement with the Aruba Tax Office, which is in effect and being implemented. The MOT and the Central Bank have also 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.

In 2004, the Penal Code of Aruba was modified to criminalize terrorism, the financing of terrorism, and related criminal acts. The GOA has a local committee comprised of officials from different departments of the Aruban Government, under the leadership of the MOT, to oversee the implementation of Financial Action Task Force (FATF) Forty Recommendations and Nine Special Recommendations on terrorist financing. The local committee, FATF Committee Aruba, reviewed the GOA anti-money laundering legislation and proposed, in accordance with the nine FATF Special Recommendations on Terrorist Financing, amendments to existing legislation and introduction of new laws. In 2007, the Parliament of Aruba approved the Ordinance on Sanctions 2006 (AB 2007 no. 24), to enhance the GOA's compliance with the FATF 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.

The bilateral agreement between the Netherlands and the United States Government (USG) regarding mutual cooperation in the tracing, freezing, seizure, and forfeiture of proceeds and instrumentalities of crime and the sharing of forfeited assets, which entered into force in 1994, applies to Aruba. The Mutual Legal Assistance Treaty between the Netherlands and the USG also 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 Netherlands extended application of the 1988 UN Drug Convention to Aruba in 1999, the UN International Convention for the Suppression of the Financing of Terrorism in 2005, and the UN Convention against Transnational Organized Crime in 2007. The Netherlands has not yet extended application of the UN Convention against Corruption to Aruba. Aruba participates in the FATF and the FATF mutual evaluation program as part of the Kingdom of the Netherlands. The GOA is also a member of CFATF. The MOT became a member of the Egmont Group in 1997. Aruba is also a member of the Offshore Group of Banking Supervisors.

The Government of Aruba has shown a commitment to combating money laundering and terrorist financing by establishing an anti-money laundering and counter-terrorist financing regime that is generally consistent with the recommendations of the FATF and CFATF. Aruba should take additional steps to immobilize bearer shares under its fiscal framework and to enact its long-pending ordinance addressing the supervision of trust companies. The GOA should ensure that all obligated entities are fully complying with their anti-money laundering and counter-terrorist financing reporting requirements, and consider extending these reporting requirements to designated nonfinancial businesses and professions.

Australia

Australia is one of the major centers for capital markets in the Asia-Pacific region. In 2006-07, turnover across Australia's over-the-counter and exchange-traded financial markets was AU \$120 trillion (approximately U.S. \$108 trillion). Australia's total stock market capitalization is over AU \$1.63 trillion (approximately U.S. \$1.5 trillion), 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. A 2004 Australian Government estimate suggests that the amount of money laundered in Australia is in the vicinity of AU \$4.5 billion (approximately U.S. \$4 billion) per year.

The Government of Australia (GOA) has maintained a comprehensive system to detect, prevent, and prosecute money laundering. The last five 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/counter-terrorist financing (AML/CTF) system. Australia was one of the first member countries to be evaluated under FATF's revised recommendations. The FATF's findings from the mutual evaluation of Australia were published in October 2005; and Australia was found to be compliant or largely compliant with just over half of the FATF Recommendations. The FATFME noted that although Australia "has a comprehensive money laundering offense . . . the low number of prosecutions . . . indicates . . . that the regime is not being effectively implemented."

In response, the GOA has committed to reforming Australia's AML/CTF system to implement the revised FATF Forty plus Nine recommendations. The Attorney General's Department (AGD) is

coordinating this process, now underway, which is significantly reshaping Australia's AML/CTF regime and bringing it into 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 in Division 400 of the Criminal Code specifically relate to money laundering and 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.

The Anti-Money Laundering and Counter-Terrorism Financing Act (AML/CTF Act) received Royal Assent on December 12, 2006 and was subsequently amended on April 12, 2007. The Act forms part of a legislative package that implements the first tranche of reforms to Australia's AML/CTF regulatory regime. The AML/CTF Act covers the financial sector, gambling sector, bullion dealers and any other professionals or businesses that provide particular 'designated services'. The Act imposes a number of obligations on entities that provide designated services, including customer due diligence, reporting obligations, record keeping obligations, and the requirement to establish and maintain an AML/CTF program. The AML/CTF Act implements a risk-based approach to regulation and the various obligations under the Act will be implemented over a two-year period (the final components will commence in December 2008). The legislative framework authorizes operational details to be settled in AML/CTF Rules, which will be developed by the Australian Transaction Reports and Analysis Centre (AUSTRAC) in consultation with industry. During 2006-07, AUSTRAC published 16 Rules relating to the AML/CTF Act, all developed in consultation with industry. AUSTRAC has also published a number of guidance notes for entities, including guidance regarding correspondent banking and providers of designated remittance services.

In 2007, the Australian Government began work on a second tranche of AML/CTF reforms, which will extend regulatory obligations to designated services provided by real estate agents, dealers in precious stones and metals, and specified legal, accounting, trust and company services (lawyers and accountants were included in the first tranche, but only where they compete with the financial sector and not for general services). The AGD has actively engaged with a broad cross-section of entities and interest groups regarding the proposed reforms.

Money Laundering and Financial Crimes

The AML/CTF Act will gradually replace the Financial Transaction Reports Act 1988 (FTR Act) which currently operates concurrently to the AML/CTF Act, providing certain AML/CTF obligations until the various provisions of the new act are fully implemented. The FTR Act was enacted to combat tax evasion, money laundering, and serious crimes and it 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 cash dealers. Required to be reported are: suspicious transactions, cash transactions equal to or in excess of AU \$10,000 (approximately U.S. \$9,000), 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 AU \$10,000 (or a foreign currency equivalent) or more, into or out of Australia, either in person, as a passenger, by post or courier to make a report of that transfer. When the reporting obligations of the AML/CTF Act are implemented in December 2008, reporting entities will be required to report suspicious matters (which is broader than the current obligation to report suspect transactions), international funds transfers, and threshold transactions (more than AU \$10,000), as well as being obliged to report details of their compliance with the AML/CTF legislation in the form of compliance reports.

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) are also 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.

AUSTRAC was established under the FTR Act and is continued in existence by the AML/CTF Act. AUSTRAC is Australia's AML/CTF regulator and specialist financial intelligence unit (FIU). AUSTRAC collects, retains, compiles, analyzes, and disseminates financial transaction report (FTR) information. AUSTRAC also provides advice and assistance to revenue collection, social justice, national security, and law enforcement agencies, and issues guidelines to regulated entities regarding their obligations under the FTR Act, AML/CTF Act and the Regulations and Rules. Under the AML/CTF Act, AUSTRAC now has an expanded role as the national AML/CTF regulator with supervisory, monitoring and enforcement functions over a diverse range of business sectors. As such, AUSTRAC plays a central role in Australia's AML system both domestically and internationally. During the 2006-07 Australian financial year, AUSTRAC's FTR information was used in 1,529 operational matters. Results from the Australian Taxation Office (ATO) shows that the FTR information contributed to more than AU \$87 million (approximately U.S. \$77 million) in ATO assessments during the year. In 2006-07, AUSTRAC received 15,740,744 financial transaction reports, with 99.7 percent of the reports submitted electronically through the EDDS Web reporting system. AUSTRAC received 24,440 suspect transaction reports (SUSTRs), a decline of 1.5 percent following a 44.1 percent increase in the previous year.

During 2006-07, 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 2006-07 and are reported by cash dealers and solicitors. In 2006-07, AUSTRAC received 2,675,050 SCTRs, an increase of 10.7 percent from the previous year. Cash dealers are also required to report all international funds transfer instructions (IFTIs) to AUSTRAC. Cash dealers reported 13,017,467 IFTIs to AUSTRAC during the financial year—a 14.0 percent increase from 2005-06. International currency transfer reports (ICTR) are primarily declared to the Australian Customs Service (ACS) by individuals when they enter or depart

from Australia. AUSTRAC received 23,351 ICTRs—a 15.9 percent decrease from the previous financial year. The Infringement Notice Scheme (INS) is a new penalty-based scheme introduced in 2007 under the AML/CTF Act to strengthen Australia's cross border movement procedures. An ACS or Australian Federal Police (AFP) officer can issue infringements at the border, where there is a failure to report a cross border movement of physical currency (CBM-PC) or the cross border movement of a bearer negotiable instrument (CBM-BNI; for example, travelers checks). The issuing of infringements for a failure to report a CBM-BNI is based on disclosure upon request rather than a declaration.

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. In December 2007, the new Minister for Home Affairs launched three new tools to assist industry comply with their AML/CTF obligations, in addition to updating the eLearning application. AUSTRAC Online is a secure Internet-based system which assists entities adhere to their reporting and regulatory obligations, and enables them to access their own information. The AUSTRAC Regulatory Guide is an instructional and 'living' document that assists industry to understand and meet their AML/CTF obligations, which will be updated as further AML/CTF Act provisions are implemented. Lastly, the AUSTRAC Typologies and Case Studies Report 2007 was published to raise industry awareness regarding potential AML/CTF risk factors, methods and typologies.

The Australian Prudential Regulation Authority (APRA) is the prudential supervisor of Australia's financial services sector. AUSTRAC regulates anti-money laundering/counter-terrorist financing (AML/CTF) compliance. 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. As a result, the AML/CTF Act has given AUSTRAC a wide range of enhanced enforcement powers to complement the criminal sanctions that were available under the FTR Act. The AML/CTF Act now provides AUSTRAC with a civil penalty framework and other intermediate sanctions, such as enforceable undertakings, remedial directions and external audits 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. During 2006-07, AUSTRAC conducted 78 educational visits to regulated entities to raise awareness of their obligations under the AML/CTF Act.

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. While there have been some charges laid for acts in preparation of terrorism, there have been no terrorist financing charges 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.

Money Laundering and Financial Crimes

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 AML/CTF Act further addressed terrorist financing by placing an obligation on providers of designated remittance services to register with AUSTRAC.

Investigations of money laundering reside with the 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 well staffed Financial Investigative Teams (FIT) 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. One individual plead guilty to charges of money laundering in 2007, and legal proceedings are underway against a group of individuals arrested in late 2006 for involvement in a multi-million dollar money laundering operation.

In April 2003, the AFP established a Counter Terrorism Division to undertake intelligence-led investigations to prevent and disrupt terrorist acts. A number of Joint Counter Terrorism Teams (JCTT), including investigators and analysts with financial investigation skills and experience, are conducting 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.

The GOA participates in the Strategic Alliance Group, also known as "5 Eyes". This group of five countries include representatives from the UK Serious Organized Crime Agency (SOCA), the Royal Canadian Mounted Police (RCMP), the Australian Federal Police (AFP), the New Zealand Police (NZP), the United States Immigration and Customs Enforcement (ICE), the Drug Enforcement Administration (DEA), and the Federal Bureau of Investigation (FBI), all of whom analyze various genres of criminal activity and exchange information and best practices.

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 FATE, the Pacific Islands Forum, and the Commonwealth Secretariat. Through its funding and hosting of the Secretariat of the Asia/Pacific Group on Money Laundering (APG), 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 48 other countries.

Following the bombings in Bali in October 2002, the Australian Government announced an AU \$10 million (approximately U.S. \$9 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 enhancements to the Indonesian FIU, PPATK (Indonesian Financial Transaction Reports and Analysis Center). In the Pacific region, AUSTRAC has developed and provided unique software and training for personnel to six Pacific island FIUs (Cook Islands, Solomon Islands, Samoa, Tonga, Palau and Vanuatu) to fulfill their domestic obligations and share information with foreign analogs. AUSTRAC is also undertaking IT Needs Assessments in Papua New Guinea and Nauru as part of its engagement with Pacific FIUs. AUSTRAC has worked collaboratively with the Fiji FIU to develop a larger scale information management system solution and enable the collection and analysis of financial transaction reports. The AGD received a grant of AUD7.7 million (approximately U.S. \$6.9 million) over four years to establish the Anti-Money Laundering Assistance Team (AMLAT). AMLAT works cooperatively with the U.S. Department of State-funded Pacific Islands Anti-Money Laundering Program (PALP) to enhance AML/CTF regimes for Pacific island jurisdictions. The PALP, a four-year program, is managed by the Pacific Islands Forum (PIF) and employs residential mentors to develop or enhance existing AML/CTF regimes in the nonFATF member states of the PIF.

The GOA continues to pursue a comprehensive anti-money laundering/counter-terrorist 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

As a major financial center, Austrian banking groups control significant shares of the banking markets in Central, Eastern and Southeastern Europe. According to Austrian National Bank statistics, Austria has one of the highest numbers of banks and bank branches per capita in the world, with about 870 banks and one bank branch for every 1,605 people. Austria is not an offshore jurisdiction. Money laundering occurs within the Austrian banking system as well as in nonbank financial institutions and businesses. The percentage of undetected organized crime may be enormous, with much of it reportedly coming from the former Soviet Union. Money laundered by organized crime groups derives primarily from serious fraud, corruption, narcotics trafficking and trafficking in persons. Criminal groups use various instruments to launder money, including informal money transfer systems, the Internet, and offshore companies.

Austria criminalized money laundering in 1993. Predicate offenses include terrorist financing and 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 of 2004 and 2006 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, to implement the European Union (EU) regulation on controls of cash entering or leaving the EU, the Government of Austria (GOA) requires an oral or written declaration for cash amounts of 10,000 euros (approximately U.S. \$13,500) or more. This declaration, which includes information on source and use, must be provided when crossing an external EU border. In December 2007 the new Schengen countries were adopted, making it possible to travel from Estonia to Portugal without border controls. Spot checks for currency at border crossings and on Austrian territory do occur. Customs officials have the authority to seize suspect cash, and will file a report with the Austrian Financial Intelligence Unit (FIU) in cases of suspected money laundering. Austria has no database for cash smuggling reports.

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 financial institutions to identify all customers when beginning an ongoing business relationship. In addition, the Banking Act requires customer identification for all transactions of more than 15,000 euros (U.S. \$20,250) for customers without a permanent business relationship with the bank. Identification procedures require that all customers appear in person and present an official photo identification card. These procedures also apply to trustees of accounts, who must disclose the identity of the account beneficiary. Procedures allow customers to carry out nonface-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.

To implement the EU's Third Money Laundering Directive (Directive 2005/60/EC), an amendment to the Banking Act has been in effect since January 1, 2008. The new regulations will tighten customer identification procedures by requiring renewed identification in case of doubt about previously obtained ID documents or data as well as requiring personal appearances of trustees. Regulations will also require institutions to determine the identity of beneficial owners and introduce risk-based customer analysis for all customers. Financial institutions must also begin to implement these requirements in their subsidiaries abroad. The 2008 Banking Act amendment also broadens the reporting requirement by replacing "well-founded suspicion" with "suspicion or probable reason to assume" that a transaction serves the purpose of money laundering or terrorist financing or that a customer has violated his duty to disclose trustee relationships.

Enhanced due diligence obligations will apply if the customer has not been physically present for identification purposes (for example, nonface-to-face transactions, Internet banking), and with regard to cross-border correspondent banking relationships. In cases where a financial institution is unable to establish customer identity or obtain other required information on the business relationship, it must decline to enter into a business relationship or process a transaction, or terminate the business relationship. The institution must also consider reporting the case to the FIU. The law also requires 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. An amendment to the Insurance Act of 1997, in effect since January 1, 2008, tightened record keeping requirements for insurance companies.

The Banking Act includes a due diligence obligation, and the law holds individual bankers responsible if their institutions launder money. The Banking Act and other laws provide "safe harbor" to obligated reporting individuals, including bankers, auctioneers, real estate agents, lawyers, and notaries. The law excuses those who report from liability for damage claims resulting from delays in completing suspicious transactions. Although there is no requirement for banks to report large currency

transactions, unless they are suspicious, the FIU provides outreach and information to banks to raise awareness of large cash transactions.

On January 1, 2008, responsibility for on-site inspections of banks, exchange businesses and money transmitters moved from the Financial Market Authority (FMA) to the Austrian National Bank. These on-site inspections, including inspections at subsidiaries abroad, are all-inclusive, and will require analysis of financial flows and compliance with money laundering regulations. Money remittance businesses require a banking license from the FMA and are subject to supervision. Informal remittance systems such as hawala exist in Austria, but are subject to administrative fines for carrying out banking business without a license. On its website, the FMA has published several circular letters with details on customer identification, money laundering and terrorist financing regulations, and reporting of suspicious transactions.

The Austrian Gambling Act, the Business Code, and the Austrian laws governing lawyers, notaries, and accounting professionals introduce additional money laundering and terrorist financing regulations concerning customer identification, reporting of STRs and record keeping for dealers in high value goods, auctioneers, real estate agents, casinos, lawyers, notaries, certified public accountants, and auditors. To implement the EU's Third Money Laundering Directive, amendments to the Stock Exchange Act, the Securities Supervision Act, the Insurance Act, and Austrian laws governing lawyers and notaries are in effect since January 1, 2008. Amendments to the Gambling Act and the law governing accounting professionals are pending approval. These introduced stricter regulations regarding customer identification procedures, including requiring customer identification for all transactions of more than 15,000 euros (U.S. \$20,250) for customers without a permanent business relationship. Lawyers and notaries are exempt from their reporting obligation for information obtained in course of judicial proceedings or providing legal advice to a client unless the client has sought legal advice for laundering money or financing terrorism. The Business Code amendment will require all traders, not only dealers in high-value goods, auctioneers and real estate agents, to establish the identity of customers for cash transactions of 15,000 euros (U.S. \$20,250) or more.

The EU regulation on wire transfers (EC 1781/2006) entered into force on January 1, 2007, and became immediately and directly applicable in Austria. Since November 1, 2007, financial institutions require customer identification for all cash fund transfers of 1,000 euros (U.S. \$1,350) or more.

Austria's financial intelligence unit (FIU) is located within the Austrian Interior Ministry's Bundeskriminalamt (Federal Criminal Intelligence Service). The FIU is the central repository of suspicious transaction reports (STRs) and has police powers. During the first ten months of 2007, the FIU received approximately 830 STRs from banks—a significant increase from the 692 suspicious transactions reported in 2006. The FIU has also responded to requests for information from Interpol, Europol, other FIUs, and other authorities. Although no information for 2007 convictions is currently available, there were three money laundering convictions in 2006.

Since 1996, legislation has provided 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. Austria has regulations in the Code of Criminal Procedure that are similar to civil forfeiture in the U.S. 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 ten months of 2007, Austrian courts froze assets worth more than 100 million euros (U.S. \$135 million).

The Extradition and Judicial Assistance Law provides for expedited extradition; expanded judicial assistance; acceptance of foreign investigative findings in the course of criminal investigations; and enforcement of foreign court decisions. Austria's strict bank secrecy regulations 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.

The 2002 Criminal Code Amendment (Federal Law Gazette number I/134 of August 13, 2002) introduced the following criminal offense categories: terrorist “grouping,” terrorist criminal activities, and financing of terrorism, in line with United Nations Security Council Resolution 1373. The Criminal Code defines “financing of terrorism” as a separate criminal offense category, punishable in its own right. Terrorist financing is also included in the list of criminal offenses subject to domestic jurisdiction and punishment, regardless of the laws where the act occurred. The money laundering offense is also expanded to terrorist “groupings.” The Federal Economic Chamber’s Banking and Insurance Department, in cooperation with all banking and insurance associations, has published an official Declaration of the Austrian Banking and Insurance Industries to Prevent Financial Transactions in Connection with Terrorism. The law also gives the judicial system the authority to identify, freeze, and seize terrorist financial assets. Asset 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 whether the crime was committed in Austria or the whereabouts of the criminal.

The Austrian authorities distribute to all financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee’s consolidated list, as well as the list of Specially Designated Global Terrorists that the United States has designated pursuant to E.O. 13224, and those distributed by the EU to members. According to the Ministry of Justice and the FIU, no accounts found in Austria have shown any links to terrorist financing. The FIU immediately shares all reports on suspected terrorist financing with the Austrian Interior Ministry’s Federal Agency for State Protection and Counterterrorism (BVT). Figures on suspected terrorist financing transaction reports are not available. There were no convictions for terrorist financing in 2006.

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 implemented the Financial Action Task Force (FATF) Special Recommendation on Terrorist Financing regarding nonprofit organizations. The Law on Associations 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. Since January 1, 2007, associations whose finances exceed a certain threshold are subject to special provisions. Each association must appoint two independent auditors and must inform its members about its finances and the auditor’s report. Associations with a balance sheet exceeding 3 million euros (U.S. \$4.05 million) or annual donations of more than 1 million euros (U.S. \$1.35 million) must appoint independent auditors to review and certify the financial statements. Public collection of donations requires advance permission from the authorities. The Central Register of Associations offers basic information on all registered associations in Austria free of charge via the Internet. Stricter customer identification procedures and due diligence obligations for financial institutions will implement an additional layer to monitor charities and nonprofit organizations, particularly in cases where business relationships suggest that they could be connected to money laundering or terrorist financing.

The Law on Responsibility of Associations maintains 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.

The GOA is generally cooperative with U.S. authorities in money laundering cases. Austria has not enacted legislation that provides for sharing forfeited narcotics-related assets with other governments. However, a bilateral U.S.-Austria agreement on sharing of forfeited assets is pending parliamentary ratification. In addition to the exchange of information with home country supervisors permitted by the EU, Austria has defined this information exchange in agreements with more than a dozen other EU members including the United Kingdom, and with Croatia.

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, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. Austria is a member of the EU and the FATF and will undergo a FATF mutual evaluation in 2008. The FIU is a member of the Egmont Group.

The Government of Austria has implemented a viable comprehensive anti-money laundering and counter-terrorist financing regime. The GOA should ensure that it provides the FIU and law enforcement the resources that they require to effectively perform their functions. The GOA should introduce safe harbor legislation protecting FIU and other government personnel from damage claims as a result of their work. Customs authorities should continue spot-checking operations for bulk cash smuggling despite the lack of border controls with Austria's neighbors. The GOA also should consider enacting legislation that will provide for asset sharing with other governments.

Bahamas

The Commonwealth of The Bahamas is an important regional and offshore financial center. The financial services sector provides a 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 primarily 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 web of legitimate businesses and international business companies.

There are presently four casinos operating in The Bahamas, with three new casinos scheduled to open within the next few years. 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. The Gaming Board of The Bahamas issues licenses and has anti-money laundering oversight for the gaming industry. Freeport is the only free trade zone in The Bahamas. There are no indications that it is used to launder money.

The financial sector of The Bahamas is comprised of onshore and offshore financial institutions, which include banks and trust companies, insurance companies, securities firms and investment funds administrators, financial and corporate service providers, cooperatives, societies, and designated nonfinancial businesses and professions (including accountants, lawyers, real estate agents, and casinos). The Bahamas has six financial sector regulators: the Central Bank of the Bahamas, which is responsible for licensing and supervision of banks and trust companies; the Securities Commission, responsible for regulating the securities and investment funds industry; the Compliance Commission, which supervises financial sector businesses that are not subject to prudential supervision such as lawyers and accountants; the Inspector of Financial and Corporate Service Providers (IFCSP), which licenses and supervises company incorporation agents and other financial service providers; the Director of Societies, which regulates credit unions and societies; and the Registrar of Insurance Companies. These six regulators comprise the Group of Financial Sector Regulators (GFSR). The GFSR meets on a monthly basis to facilitate information sharing between domestic and foreign regulators and discuss cross-cutting regulatory issues, including anti-money laundering.

The Central Bank Act 2000 (CBA) and The Banks and Trust Companies Regulatory Act 2000 (BTCRA) enhance the supervisory powers of the Central Bank to, among other things, conduct on-site and off-site inspections of banks and enhance 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 Governor. These expanded rights include the right to deny licenses to banks or trust companies deemed unfit to transact business in The Bahamas. Draft legislation has been prepared to provide the Central Bank with the mandate to supervise nonbank money transmission businesses. Currently, these institutions are licensed and regulated by the IFCSA, and are supervised by the Compliance Commission for anti-money laundering and counter-terrorist financing purposes.

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 139 as of June 30, 2007.

The International Business Companies Act 2000 and 2001 (Amendments) enacts provisions that abolish bearer shares, require international business companies (IBCs) to maintain a registered office in The Bahamas, and require the registered office to maintain a copy of the names and addresses of the directors and officers and a copy of the shareholders register. A copy of the register of directors and officers must also be filed with the Registrar General. There are approximately 115,000 registered IBCs, only 42,000 of which are active. 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. As of year-end 2007, there were 139 banks and trust companies in the Bahamas.

The Proceeds of Crime Act 2000 criminalizes money laundering. 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 Bahamas Financial Intelligence Unit (FIU), established by the FIU Act 2000, 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 FTRA requires financial and nonfinancial institutions to report suspicious transactions to the 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. 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. The FIU receives approximately 190 STRs annually.

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 2006, there were eight cases of asset restraints as a result of STRs. One led to the issuance of a restraint order by the Supreme Court of The Bahamas, in which approximately \$2 million was restrained.

The FIU is responsible for publishing guidelines to advise entities of their reporting obligations. In March 2007, the FIU revised its guidelines to incorporate terrorist financing reporting requirements. These new guidelines give financial institutions information on requirements that must be met, how to identify suspicious transactions, and how to report these transactions to the FIU. In February 2008, the FIU plans to implement the National Strategy to Prevent Money Laundering. The Strategy arose in response to recommendations from the Financial Action Task Force (FATF) and will provide a means to ensure compliance with international anti-money laundering standards.

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. There are no statistics available on prosecutions or convictions for 2007.

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 2007, nearly \$8 million 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. In 2006, the FIU received two suspicious transaction reports relating to terrorist financing from financial institutions. The reports were analyzed with one forwarded to the police for further investigation.

The Bahamas is a member of the Offshore Group of Banking Supervisors and the Caribbean Financial Action Task Force (CFATF). The Bahamas underwent a CFATF mutual evaluation in June 2006. The report, which was presented at the November 2007 CFATF plenary, will be finalized by January 2008 and published electronically via CFATF's website.

The Bahamas is a party to the UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the Inter-American Convention against Corruption. The Bahamas has signed, but 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 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 FIU has the ability to sign memoranda of understanding (MOU) with other counterpart FIUs to exchange information. 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 requests for mutual legal assistance. The Bahamas has an information exchange agreement with the U.S. Securities and Exchange Commission to ensure that requests can be completed in an efficient and timely manner.

The Government of the Commonwealth of The Bahamas has enacted substantial reforms to reduce its vulnerability to money laundering and terrorist financing. The GOB should continue to enhance its anti-money laundering and counter-terrorist financing regime by implementing the National Strategy on the Prevention of Money Laundering. It should also ensure that there is a registry of the beneficial owners of all entities licensed in its offshore financial center. 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. The GOB should become a party to the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the Inter-American Convention against Terrorism.

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 21.3 percent of Bahrain's gross domestic product (GDP) in 2006. Bahrain has promoted itself as an international financial center in the Gulf region. It hosts a mix of: 387 diverse financial institutions, including 190 banks, of which 54 are wholesale banks (formerly referred to as off-shore banks or OBUs); 42 investment banks; and 26 commercial banks, of which 19 are foreign-owned. There are 31 representative offices of international banks. Bahrain has 34 Islamic banks and financial institutions. There are 21 moneychangers and money brokers, and several other investment institutions, including 85 insurance companies. The vast network of Bahrain's banking system, along with its geographical location in the Middle East as a transit point along the Gulf and into Southwest Asia, may attract money laundering activities. It is thought that the greatest risk of money laundering stems from questionable foreign proceeds that transit Bahrain.

In January 2001, the Government of Bahrain (GOB) enacted an anti-money laundering law that criminalizes the laundering of proceeds derived from any predicate offense. The law stipulated punishment of up to seven years in prison, and a fine of up to one million Bahraini dinars (approximately \$2.66 million) for convicted launderers and those aiding or abetting them. If organized criminal affiliation, corruption, or a disguised origin of proceeds is involved, the minimum penalty is a fine of at least 100,000 dinars (approximately \$266,000) and a prison term of not less than five years.

On August 12, 2006, Bahrain passed Law 54/2006, amending the anti-money laundering law. Law 54 criminalizes the undeclared transfer of money across international borders for the purpose of money laundering or in support of terrorism. Anyone convicted under the law 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. The law also stipulates a fine of between the equivalent of \$26,700 and \$1.34 million. Law 54 also codified a legal basis for a disclosure system for cash couriers, though supporting regulations must still be enacted.

A controversial feature of the new law is a revised definition of terrorism that is based on the Organization of the Islamic Conference definition. 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), principal financial sector regulator and de-facto central bank, 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 BMA became the Central Bank of Bahrain (CBB) in 2006. Immunity from criminal or civil action is given to those who report suspicious transactions. Even prior to the enactment of the new anti-money laundering law, financial institutions were obligated to report suspicious transactions greater than 6,000 dinars (approximately \$15,000) to the BMA/CBB. The current requirement for filing STRs stipulates no minimum thresholds and since 2005 the BMA/CBB has had a secure online website that banks and other financial institutions can use to file STRs.

In September 2006, Law 64/2006 replaced the BMA, which had acted as the de-facto central bank, with the CBB. Law 64 consolidated several laws that had previously governed the various segments of the financial services industry. Under the law, the CBB enjoys reinforced operational independence and enhanced enforcement powers. Part 9 of the law, for example, outlines investigational and administrative proceedings at the CBB's disposal to ensure licensee compliance with rules and regulations. The CBB's compliance arm was upgraded from a unit to a directorate.

The original law also provided for the formation of an interagency committee to oversee Bahrain's anti-money laundering regime. Accordingly, in June 2001, the Policy Committee for the Prohibition and Combating of Money Laundering and Terrorist Financing was established and assigned the responsibility for developing anti-money laundering policies and guidelines. In early 2006, the chairmanship of the Policy Committee was transferred from the Ministry of Finance to the CBB. The committee's membership was also expanded, to comprise representatives from the Ministries of Finance, Industry and Commerce, Interior, and Social Development; the Directorates of Customs and Legal Affairs; the Office of Public Prosecution; the National Security Agency; the Bahrain Stock Exchange; and the Central Bank of Bahrain.

In addition, the original law provided for the creation of the Anti-Money Laundering Unit (AMLU) as Bahrain's financial intelligence unit (FIU). The AMLU, which is housed in the Ministry of Interior, is empowered to receive reports of money laundering offenses; conduct investigations; implement procedures relating to international cooperation under the provisions of the law; and execute decisions, orders, and decrees issued by the competent courts in offenses related to money laundering. The AMLU became a member of the Egmont Group of FIUs in July 2003.

The AMLU receives STRs from banks and other financial institutions, investment houses, broker/dealers, moneychangers, insurance firms, real estate agents, gold dealers, financial intermediaries, and attorneys. Financial institutions must also file STRs with the Central Bank, which supervises these institutions. Nonfinancial institutions are required under a Ministry of Industry and Commerce (MOIC) directive to also file STRs with that ministry. The Central Bank analyzes the STRs, of which it receives copies, as part of its scrutiny of compliance by financial institutions with anti-money laundering and counter terrorist financing (AML/CTF) regulations, but it does not independently investigate the STRs (responsibility for investigation rests with the AMLU). The Central Bank may assist the AMLU with its investigations where special banking expertise is required.

The Central Bank of Bahrain is the regulator for other nonbanking financial institutions including insurance companies, exchange houses, and capital markets. The Central Bank inspected seven insurance companies in 2006 and had conducted eight more inspections by September 2007. Additional insurance industry inspections are scheduled for 2008. Anti-money laundering regulations for investment firms and securities brokers were revised in April 2006.

In November 2007, 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, and real estate agencies. 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 Central Bank's system. Good cooperation exists between MOIC, Central Bank, and AMLU, with all three agencies describing the double filing of STRs as a backup system. The AMLU and Central Bank'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 the Public Prosecutor.

From January through December 2007, the AMLU has received and investigated 183 STRs, 39 of which have been forwarded to the courts for prosecution. The GOB completed its first successful money laundering prosecution in May 2006. The prosecutions resulted in the convictions of two expatriot felons with sentences of one and three years and fines of \$380 and \$1900 respectively.

In August of 2006, Bahrain passed its first law specifically criminalizing terrorism and establishing harsh penalties for terrorist crimes including financing and money laundering in support of terrorism.

Money Laundering and Financial Crimes

The government used this law to bring charges against five suspects in October 2007. The five face a range of charges, including the financing of terrorism. As of January 2008, trial proceedings remained ongoing.

Bahrain is moving ahead with plans to establish a special court to try financial crimes, and judges are undergoing special training to handle such crimes. Six Bahraini judges will join a group of twelve Jordanian judges on loan to the Ministry of Justice to serve on the court, which is expected to begin hearing cases in March 2008.

There are 54 Central Bank-licensed wholesale banks (formerly referred to as offshore banking units OBUs) that are branches of international commercial banks. The license that changed OBUs to wholesale banks allows wholesale banks to accept deposits from citizens and residents of Bahrain, and undertake transactions in Bahraini dinars (with certain exemptions, such as dealings with other banks and government agencies). In all other respects, wholesale banks are regulated and supervised in the same way as the domestic banking sector. They are subject to the same regulations, on-site examination procedures, and external audit and regulatory reporting obligations.

However, Bahrain's Commercial Companies Law (Legislative Decree 21 of 2001) does not permit the registration of offshore companies or international business companies (IBCs). All companies must be resident and maintain their headquarters and operations in Bahrain. Capital requirements vary, depending on the legal form of company, but in all cases the amount of capital required must be sufficient for the nature of the activity to be undertaken. In the case of financial services companies licensed by the Central Bank, various minimum and risk-based capital requirements are also applied in line with international standards of Basel Committee's "Core Principles for Effective Banking Supervision."

BMA Circular BC/1/2002 states that money changers may not transfer funds for customers in another country by any means other than Bahrain's banking system. In addition, all 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 that suspect, or have reasonable grounds to suspect, that funds are linked or related to suspicious activities-including terrorist financing-are required to file STRs. Licensees must 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/CTF regulations, to reflect revisions by the FATF to its Forty plus Nine Recommendations. Revised and updated BMA regulations were issued in mid-2005.

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. Banks must report to the Central Bank 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. The Directorate of Development and Local Societies (DDL) has a very small staff to undertake the necessary reviews of the financial information submitted by societies or to undertake inspections of these organizations

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 34 Islamic banks and financial institutions. Given the large share of such institutions in Bahrain's banking community, the Central Bank has developed an appropriate framework for regulating and supervising the Islamic banking sector, applying regulations and supervision as it does with respect to conventional banks. In March 2002, the Central Bank introduced a comprehensive set of regulations for Islamic banks called the Prudential Information and Regulatory Framework for Islamic Banks (PIRI). The framework was designed to monitor certain banking aspects, such as capital requirements, governance, control systems, and regulatory reporting.

Bahrain is a party to the 1988 UN Drug Convention. Bahrain has signed but not yet ratified the UN Convention against Corruption. In March 2004, Bahrain issued a Legislative Decree ratifying the UN Convention against Transnational Organized Crime. In June 2004, Bahrain published two Legislative Decrees ratifying the UN International Convention for the Suppression of the Financing of Terrorism, and the UN International Convention for the Suppression of Terrorist Bombings. In January 2002, the BMA issued a circular implementing the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing as part of the Central Bank's AML regulations, and subsequently froze two accounts designated by the UNSCR 1267 Sanctions Committee and one account listed under U.S. Executive Order 13224.

In November 2004, Bahrain hosted the inaugural meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF), which decided to place its Secretariat in Bahrain's capital city of Manama. An initial planning meeting was held in Manama in January 2004, and the FATF unanimously endorsed the MENAFATF proposal in July 2004. As a FATF-style regional body, it promotes best practices on AML/CTF issues, conducts mutual evaluations of its members against the FATF standards, and works with its members to comply with international standards and measures. In November 2006, MENAFATF approved a mutual evaluation report on Bahrain. The creation of the MENAFATF is critical to encourage jurisdictions in the region to improve the transparency and regulatory frameworks of their financial sectors.

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. MENAFATF commended Bahrain for its achievements in the area of AML/CTF and praised the government for its commitment to implement the FATF recommendations. However, work remains to be done. Bahrain should continue to develop a disclosure or declaration system for the country's borders that fulfills FATF's Special Recommendation Nine covering bulk cash smuggling. The Anti-Money Laundering Unit should maintain its efforts to obtain and solidify the necessary expertise in tracking suspicious transactions. Nevertheless, there should not be an over-reliance on suspicious transaction reporting to initiate money laundering investigations. Authorities should continue to raise awareness within the capital markets and designated nonfinancial businesses and professions regarding STR reporting obligations and consider applying sanctions for willful noncompliance. Adequate resources should be devoted to the Ministry of Social Development to increase its oversight of NGOs and charities.

Bangladesh

Bangladesh is not a regional or offshore financial center. Under the new caretaker government that declared a state of emergency when it came to power on January 11, 2007, evidence of funds laundered through the official banking system escalated. The new government instituted a stringent anticorruption campaign that netted more than \$30 million in proceeds—a fraction of the estimated total amount of corrupt funds located both domestically and abroad. Money transfers outside the formal banking and foreign exchange licensing system are illegal and therefore not regulated. 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 expatriate Bangladeshi workers.

The Central Bank (CB) reports a considerable increase in remittances since 2002 through official channels. The figure more than doubled from \$2 billion to \$4.3 billion in fiscal year 2006 (July 1-June 30) and then rose again to \$5.9 billion in fiscal year 2007. The increase is due to competition from commercial banks through improved delivery time, guarantees, and value-added services such as group life insurance. However, hundi remains entrenched because 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. Hard currency and other assets flow out of Bangladesh to support the smuggling networks.

Fighting corruption is a keystone of the caretaker government under the state of emergency. For the past twenty years, corrupt practices became so common that between 2001 and 2005, Bangladesh was ranked by Transparency International’s Corruption Perception Index as the country with the highest level of perceived corruption in the world. In 2007, Bangladesh was ranked 162 out of 179 countries surveyed. The sweep of corrupt officials and businessmen resulted in over 200 arrests including the two former prime ministers.

Bangladeshis are not allowed to carry cash outside of the country in excess of the equivalent of \$3,000 to South Asian Association for Regional Cooperation (SAARC) countries and the equivalent of \$5,000 to other countries. Proper documents are required by authorized foreign exchange banks and dealers. There is no limit on how much currency can be brought into the country, but amounts over \$5,000 must be declared within 30 days. Customs is primarily a revenue collection agency, accounting for 40-50 percent of Bangladesh’s annual government income.

The CB conducts training for commercial banks’ headquarters around the country in “know your customer” procedures. Additional training is conducted in identifying suspicious transactions and reporting them to the Central Bank, where the country’s financial intelligence unit is located. Since Bangladesh only began in mid-2007 to develop a national identity card (in the form of a voter registration 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. Some accounting procedures used by the Central Bank do not always achieve international standards. 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 CB. 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 CB conducts regular training programs for compliance officers based on the Guidance Notes and routinely works with the banks and, if need be, investigates compliance with regulations to curb financial irregularities. Instructors from the CB also conduct regional workshops.

In May 2007 the Central Bank’s Anti-Money Laundering Unit (AMLU) was named Bangladesh’s Financial Intelligence Unit (FIU). The FIU along with the National Board of Revenue (NBR), the country’s tax authority, are the only entities authorized to collect bank statements. While the NBR can freeze an account without a court order, the FIU cannot. Both institutions require a court order to seize

and/or forfeit the accounts. The CB has link analysis capability for investigating suspicious transactions.

Since the Money Laundering Prevention Act (MLPA) was enacted in 2002, the Central Bank has received approximately 470 suspicious transaction reports. To date, there have been no successful prosecutions. In part, this is 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 the cases and returned them. As a result, the Criminal Investigation Division of the national police force agreed to take the cases. During 2006, the bank and police hammered out a procedure to pursue investigations initiated through suspicious transactions reports. With the State of Emergency, a differently configured law enforcement regime headed by military officers began. The results have yielded solid evidence of money laundering. They are not prosecuting these cases as money laundering but as tax evasion or unexplained wealth.

The caretaker Government has pledged to pass amendments to strengthen the current MLPA. The legislation is in the final stages of review. Reportedly, the draft anti-money laundering provisions meet most of the international recommendations set forth by the Egmont Group, including sharing appropriate information with domestic and international law enforcement. The draft legislation addresses asset forfeiture. It does not criminalize terrorist financing. In 2006, 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 anti-money laundering legislation. As of late 2007 the anti-terrorism law is still pending with the Law Advisor (de facto Law Minister) repeatedly saying that Bangladesh does not need an anti-terrorism law.

Since 2003, Bangladesh has frozen nominal sums in accounts of three designated entities on the UNSCR 1267 Sanctions Committee's consolidated list. 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 CB regulatory directives. In 2005, the Government of Bangladesh (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 and the UN Convention against Corruption. The GOB is not a party to the Convention against Transnational Organized Crime. Bangladesh is a member of the Asia-Pacific Group, a Financial Action Task Force (FATF)-style regional body.

Although progress has been made, the Government of Bangladesh should continue to strengthen its anti-money laundering/terrorist finance regime so that it adheres to world standards. Bangladesh should criminalize terrorist finance. There should be technology enhancements to reporting channels from outlying districts to the Central Bank. Bangladesh law enforcement and customs should examine forms of trade-based money laundering. A crackdown on pervasive customs fraud would add new revenue streams for the GOB. Continued efforts should be made to fight corruption, which is intertwined with money laundering, smuggling, customs fraud, and tax evasion. The GOB should ratify the UN Convention against Transnational Organized Crime.

Barbados

A transit country for illicit narcotics, Barbados remains vulnerable to money laundering, which primarily occurs in the formal banking system. Domestically, money laundering is largely drug-related and appears to be derived from the trafficking of cocaine and marijuana. There is also evidence of Barbados being exploited in the layering stage of money laundering with funds originating abroad. The major source of these funds appears to be connected to fraud.

As of December 2007, there are six commercial banks in Barbados. The offshore sector includes 4,635 international business companies (IBCs), 164 exempt insurance companies and 55 qualified exempt

Money Laundering and Financial Crimes

insurance companies, seven mutual funds companies and one exempt mutual fund company, seven trust companies, seven finance companies, and 55 offshore banks. There are no free trade zones and no offshore casinos.

The International Business Companies Act (1992) provides for the 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. The International Business (Miscellaneous Provisions) Act 2001 enhanced due diligence requirements for IBC license applications and renewals. Bearer shares are not permitted, and financial statements of IBCs are audited if total assets exceed \$500,000.

The Central Bank regulates and supervises domestic 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 (IFSA) requires offshore applicants to disclose directors and shareholders names and addresses. Offshore banks must submit quarterly statements of assets and liabilities and annual balance sheets to the Central Bank. The Central Bank has the mandate to conduct on-site examinations of offshore banks. This allows the Central Bank to augment its off-site surveillance system of reviewing anti-money laundering policy documents and analyzing prudential returns. Additionally, permission must be obtained from the Central Bank to move currency abroad.

In 2007, the Central Bank revised the anti-money laundering guidelines for licensed financial institutions to reflect changes in international standards, and to include guidance on how licensees can fulfill their obligations in relation to combating the financing of terrorism. The guideline applies to all entities that are incorporated in Barbados and are licensed under the Financial Institutions Act (FIA) 1996 and the IFSA. The Central Bank conducts off-site surveillance and undertakes regular on-site examinations of licensees to assess compliance with anti-money laundering legislation and regulations. Licenses can be revoked by the Minister of Finance for noncompliance.

The Government of Barbados (GOB) criminalized drug money laundering through the Proceeds of Crime Act and the Drug Abuse (Prevention and Control) Act, 1990-14. The Money Laundering (Prevention and Control) Act 1998 (MLPCA) and subsequent amendments extends the offense of money laundering beyond drug-related crimes by criminalizing the laundering of proceeds from unlawful activities. 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, insurance companies, 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 audit and compliance procedures. Financial institutions must also report suspicious transactions to the Anti-Money Laundering Authority (AMLA).

Established by the MLPCA, the AMLA supervises financial institutions' compliance with the MLPCA, and issues training requirements and regulations for financial institutions. The AMLA is comprised of nine members including a chairperson, selected from the private sector; a deputy chairperson, from the University of the West Indies; the Solicitor General; the Commissioner of Police; the Commissioner of Inland Revenue; Comptroller of Customs; the Supervisor of Insurance; the Registrar of Corporate Affairs; and a representative of the Central Bank. The Barbados Financial Intelligence Unit (FIU) is the operational arm of the AMLA and carries out the AMLA's supervisory function over financial institutions.

Established in 2000, the FIU is an independent agency housed in the office of the Attorney General. The FIU is responsible for receiving and analyzing suspicious transactions reports from financial institutions; instructing financial institutions to take steps that would facilitate an investigation; and conduct awareness training in regards to record and reporting obligations. There are no laws that

prevent disclosure of information to relevant authorities and persons who report to the FIU are protected under the law.

Financial institutions are required to report transactions when the entity has reasonable grounds to suspect the transaction involves the proceeds of crime; involves the financing of terrorism; or is suspicious in nature. In cases where the FIU suspects a transaction involves the proceeds of crime, the FIU will forward the report for further investigation to the Commissioner of Police. As of June 30, 2007, the FIU had received 56 SARs; none were referred to the Commissioner of Police. Government entities and financial institutions are required to provide the FIU with information requested by the Director of FIU. The Royal Barbados Police force pursues all potential prosecutions.

The MLPCA provides only for criminal asset seizure and forfeiture. In 2001, the GOB amended 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 sanction, which can result in 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 Anti-Terrorism Act of 2002 as well as provisions of the Money Laundering Financing of Terrorism (Prevention and Control) Act (MLFTA) criminalizes the financing of terrorism. The MLFTA 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 United Nations 1267 Sanctions Committee's Consolidated List and the list of Specially Designated Global Terrorists designated by the United States. In 2007, the GOB 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 the United Kingdom, Canada, Finland, Norway, Sweden, Switzerland, and the United States. The United States and the GOB ratified amendments to its bilateral tax treaty in 2004. The treaty with Canada currently allows IBCs and offshore banking profits to be repatriated to Canada tax-free after paying a much lower tax in Barbados. A Mutual Legal Assistance Treaty (MLAT) and an extradition treaty between the United States and the GOB each entered into force in 2000.

Barbados is a member of the Caribbean Financial Action Task Force (CFATF) and underwent a mutual evaluation in December 2006. The report is anticipated to be finalized in the summer of 2008 and published electronically via CFATF's website. Barbados is 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 is a member of the Egmont Group. 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.

The Government of Barbados has taken a number of steps in recent years to strengthen its anti-money laundering and counter-terrorist financing legislation, and should continue to implement these reforms. The GOB 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 consider adopting civil forfeiture and asset sharing legislation. The GOB should ensure adequate supervision of nonprofit organizations and charities. It should also work to improve information sharing between regulatory and enforcement agencies. Additionally, Barbados should continue to provide adequate resources to its law enforcement and prosecutorial personnel, to ensure mutual legal assistance treaty requests are efficiently processed. The GOB should also ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Belarus

Belarus is not a regional financial center. A general lack of transparency throughout the financial sector means that assessing the level of or potential for money laundering and other financial crimes is difficult. Due to 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 hinders law enforcement and impedes much-needed reforms. Economic decision-making in Belarus is highly concentrated within the top levels of government. Recent decrees have further concentrated economic power into the hands of the president, granting the Presidential Administration the power to manage, dispose of, and privatize all state-owned property and to confiscate at will any plot of land for agricultural, environmental, recreational, historical, or cultural uses.

Belarus is not considered an offshore financial center, and offshore banks, shell companies, and trusts are not permitted. As of early September 2007, the Belarusian banking sector totaled 27 banks and 383 subsidiaries. Twenty-three banks involved foreign capital, with seven being foreign-owned. In Belarus, there are currently eight offices of foreign banks, including those based in Germany, Latvia, Lithuania, Russia and Ukraine, and a representative office of the CIS Interstate Bank. The state-owned Belarus Bank is the largest and most influential bank in Belarus. In February 2006, the government abolished the 1997 identification requirements for all foreign currency exchange transactions at banks.

Belarus has established six free economic zones (FEZs) based on a 1996 Presidential Decree, one in each of the regions of Belarus. 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 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. Presidential Decree 66 has tightened FEZ regulations on transaction reporting and security, including mandatory installation of video surveillance systems. A 2005 National Bank resolution changed the status of banks in the zones by removing special provisions. Banks in the zones are currently subject to all regulations that apply to banks outside the zones.

Belarus uses customs declaration forms at points of entry and exit to fulfill cross-border currency reporting requirements for both inbound and outbound currency. Upon entry into or departure from the country, travelers must declare in writing any sum over \$3,000. Travelers crossing the Belarus border with sums exceeding \$10,000 require permission from the National Bank to carry that amount of currency. Officials have reported several cases of attempts to smuggle undeclared cash across borders.

Belarus' "Law on Measures to Prevent the Laundering of Illegally Acquired Proceeds" (AML Law), amended in 2005, establishes the legal and organizational framework to prevent money laundering and terrorist financing. Measures in the law apply to all entities that conduct financial transactions in Belarus, including credit and financial institutions; stock and currency exchanges; investment funds and dealers in securities; insurance institutions; dealers' and brokers' offices; notary offices; gaming establishments; pawn shops; leasing and estate agents; post 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, businesses, government entities, and entities without legal status criminally liable for money laundering, although the punishments for laundering or financing terrorism are not explicitly codified. However, Article 235 of the Belarusian criminal code (“legalization of illegally acquired proceeds”) stipulates penalties of fines or prison terms of up to ten years for money laundering. The law defines “illegally acquired proceeds” as currency, securities or other assets, including real and intellectual property rights, obtained in violation of the law. The National Bank of the Republic of Belarus (National Bank or NBRB) has suggested anti-money laundering and counter-terrorist financing (AML/CTF) regulations, including know your customer (KYC) and due diligence requirements. Although not legally binding, they are treated as mandatory by the institutions that the National Bank supervises. A 2005 International Monetary Fund (IMF) Financial System Stability Assessment pointed out that these regulations needed to be significantly upgraded to meet Financial Action Task Force (FATF) standards.

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.

There is a threshold reporting requirement. Individual and corporate financial transactions exceeding approximately \$27,000 and \$270,000, respectively, are subject to special inspection. Banks that violate the law face fines of up to one percent of their registered capital and suspension of their licenses for up to one year. However, the AML Law exempts most government transactions and those sanctioned by the President from extraordinary inspection. The government has used the AML 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, imposing stricter tax regulations on owners of gaming businesses. In addition, a provision intended to combat money laundering requires those participating in gaming activities to produce identification to receive winnings.

The National Bank is the monitoring agency for the majority of transactions conducted by financial institutions. Information regarding suspicious transactions is reported to the Bank’s Department of Bank Monitoring. Failure to report and transmit required information on financial transactions may subject financial institutions to criminal liability. 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 over it. 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.

Financial institutions conducting transfers subject to special monitoring are required to disclose to the Department of Financial Monitoring (DFM) within one business day the identity of the individuals and businesses ordering the transaction or the person on whose behalf the transaction is being placed, information about the beneficiary of a transaction, and account information and document details used in the transaction. Article 121 of the Banking Code 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, and reporting individuals are protected by law when notifying authorities of suspicious transactions. 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.

In 2003, Belarus established the Department of Financial Monitoring (DFM) as its financial intelligence unit (FIU). As the primary government agency responsible for gathering, monitoring and disseminating financial intelligence, the DFM analyzes financial information for evidence of money laundering and forwards it to law enforcement officials for prosecution. The DFM also has the power to penalize those who violate money laundering laws and suspend the financial operations of any company suspected of money laundering or financing terrorism. The DFM cooperates with counterparts in foreign states and with international organizations to combat money laundering and is a member of the Egmont Group. Since its accession to the Egmont Group, the DFM's workload has increased, which the DFM attributes not only to its Egmont membership, but also to increased interest by law enforcement in the FIU's work.

Financial institutions are obligated to report to the DFM transactions subject to special monitoring, including: transactions whose suspected purpose is money laundering or terrorist 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 terrorist financing; and finally, transactions exceeding the currency reporting threshold that involve cash, property, securities, loans or remittances. If the total value of transactions conducted in one month exceeds set thresholds and there is reasonable evidence to suggest that the transactions are related, then all the transaction activity must be reported.

All remittances by law must be conducted through licensed banks. The government does not acknowledge alternative remittance systems. Currency exchange is allowed only through licensed currency exchange kiosks. All charities are registered with the Department of Humanitarian Assistance in the Presidential Administration. Charity assistance provided by foreign states, international organizations and individuals are regulated by Presidential Decree 24 passed in 2003 which requires all organizations and individuals receiving charity assistance to open charity accounts in a local bank.

Terrorism is a crime in Belarus and 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 terrorism by 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 for law enforcement to identify and trace assets. Forfeiture is permitted in the Criminal Code for all serious offenses, including money laundering. Seizure of assets from third parties appears 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. In accordance with a resolution passed in March 2006, the Belarusian KGB compiled a list of 221 individuals suspected of participation in terrorism which the National Bank distributed to all domestic banks. Through 2007, 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 established specifically to address these AML/CTF 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 Afghanistan, Bulgaria, India, Latvia, Lithuania, the People's Republic of China, Poland, Romania, Syria, Turkey, the United Kingdom, and Vietnam. In September 2006, Belarus signed an AML 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 Eurasian Regional Group Against Money Laundering and the Financing of Terrorism (EAG), which is a FATF-style regional body (FSRB) with observer status in FATF. The DFM is a member of the Egmont Group, attaining membership in that body in May 2007. Belarus has also assumed international commitments to combat terrorism as a member of the Collective Security Treaty Organization (CSTO), which includes Armenia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. In April 2007 the National Banks of Belarus and Kyrgyzstan signed an agreement on financial information exchange and training for fighting money laundering and terrorist financing.

Belarus is a party to the UN Convention against Corruption. In July 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. In June 2007 Parliament passed Criminal Code amendments to toughen penalties for various offences by officials, including larceny through abuse of office, embezzlement, and legalization of assets illegally obtained. In July 2007 President Lukashenko issued an edict mandating the formation of specialized departments within prosecutors' offices, police stations and the KGB to fight against corruption and organized crime. Despite recent legislation, corruption remains a serious obstacle to enforcing laws dealing with financial crimes. Belarus ranked number 150 out of 180 territories listed in Transparency International's 2007 International Corruption Perception Index.

Belarus is a party to the 1988 UN Drug Convention, to the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism, though it has been actively expanding ties with Iran and Syria, both state sponsors of terrorism.

The Government of Belarus (GOB) has taken steps to construct a legal and regulatory framework to fight money laundering and terrorist financing. It should also focus on the implementation of the law by law enforcement, increasing the investigation and prosecution of money laundering and terrorist financing offenses. This could be accomplished through training and outreach by the FIU and other regulators. Belarus should increase the transparency of its business, finance, and banking sectors. Belarus' AML legislation should be amended to comport with international standards and to provide for more transparency and accountability. The GOB can accomplish this by extending the application of its current AML legislation to cover the governmental transactions that are currently exempted under the law, and ensure that the regulations and guidance provided by the National Bank and other regulators are legally binding. Similarly, the National Bank should be given the authority to carry out

its responsibilities, and not be subject to influence by the Presidential Administration. The GOB should implement strict regulation on its industries operating abroad and on those operating within the FEZ areas. The GOB needs to reinstate the identification requirement for foreign currency exchange transactions, and reconsider the relationships it wishes to foster with state sponsors of terrorism. Belarus should continue to hone its guidance and enforcement of suspicious transaction reporting and provide adequate staff, tools, training and financial resources to its FIU so that it can operate effectively, especially with the increased attention and reporting that the DFM has generated of late. The GOB must work to further improve the coordination between agencies responsible for enforcing AML measures. The GOB also needs to take steps to ensure that the AML framework operates more objectively and less as a political tool. The GOB should take serious steps to combat corruption in commerce and government.

Belgium

With assets of over \$2.5 trillion dollars in 2006, Belgium has a formidable banking industry. Strong legislative and oversight provisions are in place in the formal financial sector to combat money laundering and terrorist financing. However, the informal financial sector is particularly vulnerable to money laundering especially through the use of alternative remittance and underground banking. The diamond industry has also long been a sector of vulnerability. Belgian officials have also 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 outlines customer due diligence and reporting requirements, which are also applicable to designated nonfinancial business and professions (DNFBPs). Obligated entities include estate agents, private security firms, funds transporters, diamond merchants, notaries, bailiffs, auditors, chartered accountants, tax advisors, certified accountants, surveyors, and casinos. Additional laws make the requirements applicable to other sectors including credit institutions, investment firms, intermediaries, investment advisors and attorneys. The Belgian Banking and Finance Commission (CBFA) supervises financial institutions, including 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, reported three suspicious transactions to the financial intelligence unit (FIU) in 2006. 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. Belgium is still awaiting a decision from the court of arbitration on this matter.

Article 505 of the Penal Code sets penalties of up to five years' imprisonment for money laundering convictions. Any unlawful activity may serve as the predicate offense. Legislation 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, has broadened the scope of money laundering predicate offenses beyond drug trafficking to include the financing of terrorist acts or organizations.

The most recent mutual evaluation of Belgium was conducted by the Financial Action Task Force (FATF) in June 2005. Of the 49 recommendations, one of which was not applicable, Belgium received 41 ratings of "compliant" or "largely compliant." Although the report concluded that Belgium's anti-money laundering and counter-terrorist financing (AML/CTF) regime is effective, the assessment

team found partial or noncompliance in some areas. These areas include: due diligence and regulation requirements for DNFBPs, 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.

Royal Decree of 5 October 2006, On Measures to Control Cross-border Transportation of Cash came into force on June 15, 2007. This decree implements regulation 1889/2005 of the EU Council on controls of cash entering or leaving the EU: travelers must declare transportation of currency into or out of the EU worth 10,000 euros (U.S. \$14,600) or more. In case of nondeclaration, or if there is a suspicion that the funds being declared originates from illegal activities or is intended to finance such activities, the Belgian Customs and Excise administration will confiscate the cash for a maximum period of 14 days and file a report. The Belgian FIU examines all the declarations and Customs reports that are filed. Since June 2007, Belgian Customs has received information on approximately 4.5 million euros (U.S. \$6.6 million) in cash being transported through Zaventem International Airport. To date, Belgian Customs has confiscated 670,000 euros (U.S. \$978,200) and filed eight reports with the FIU.

Belgian financial institutions must 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 U.S. \$14,650). Institutions must retain records of suspicious transactions reported to the FIU for at least five years. Financial institutions must 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. Penalties for failure to comply with the AML legislation, including failure to report, include a fine of up to \$1.72 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 15,000 euros (U.S. \$21,900), whichever is lower. Cash payments over 15,000 euros (U.S. \$21,900) for goods are illegal.

Belgium has long permitted the issuance of bearer bonds (“titres au porteur”), widely used to transfer wealth between generations and to avoid taxes, for individuals as well as for institutions. 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, as well as nonBelgian bearer bonds.

Belgium needed to implement the Third EU Money Laundering Directive by December 15, 2007. The European Commission adopted recommendations for EU member states and a framework for a code of conduct for the nonprofit/charitable sector. Belgian officials are working to increase transparency in this sector through better enforcement of registration and reporting procedures. Requirements for nonprofit organizations include registering, furnishing copies of their statutes and lists of members, providing minutes from council meetings, and filing budget reports.

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, the Belgian authorities have closed more than 150 “phone shops” and have estimated that the Belgian state may have been 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 3,500 “phone shops” may be operating in Belgium. Only an estimated one-quarter of these shops have licenses to operate, 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 that office is 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 Belgian 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. A regulation approved by a Royal Decree dated October 22, 2006 contains a detailed description of the required obligations for diamond dealers. This regulation primarily deals with the different aspects of client identification, including the identification of “nonface to face” operations and of the beneficial owner, customer due diligence, and obligations regarding the internal organization.

The Belgian financial intelligence unit (FIU), known in French as *Cellule de Traitement des Informations Financières* and in Flemish as *Cel voor Financiële Informatieverwerking* (CTIF-CFI), was created in June 1993. 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. Institutions, their employees, and representatives are protected from civil, penal, or disciplinary actions when 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 analyzed the diamond industry and is 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 to clarify the obligations of diamond traders with respect to AML/CTF laws, and how diamond traders apply this legislation.

Financial experts, including three magistrates (public prosecutors) appointed by the King to a six-year renewable term of service, comprise the leadership of CTIF-CFI. A magistrate presides over the body. In addition to administrative and legal support, the investigative department consists of inspectors, analysts, three liaison police officers, one customs officer, and one officer of the Belgian intelligence service charged with maintaining contact with the various law enforcement agencies in Belgium.

In the first half of 2007, CTIF-CFI received 5,995 STRs and opened 2,301 case files, of which 551 were transmitted to the public prosecutor. By comparison, in 2006, the FIU received 9,938 disclosures, opened 3,367 new cases, and transmitted 912 cases to the public prosecutor. A breakdown of the 2007 figures was not available; but, in 2006, nearly 80 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 15 percent of the files transmitted with notaries, casinos, and other entities also reporting. The files concerning narcotics trafficking represented 15 percent of the total number of cases in 2006, while cases regarding terrorism and terrorist finance represented about four percent of the total number. The FIU reported 36 cases regarding terrorism or terrorist financing to the judicial authorities.

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. Although 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. Belgian authorities have confiscated more than approximately \$788 million connected with money laundering crimes. The majority of convictions in relation to money laundering are based upon disclosures made by the financial institutions and others to CTIF-CFI.

The federal police must also transmit suspected money laundering cases to the public prosecutor. In 2006 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. According to the FATF MER, 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/CTF duties.

The federal police enjoy good cooperation with their counterparts 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 \$2.45 million.

According to the FATF MER, Belgium has created a sophisticated and comprehensive confiscation and seizure regime, which includes the Central Office for Seizures and Confiscation (COSC). COSC operates under the auspices of the Ministry of Justice. Belgian law allows for criminal forfeiture of assets. A July 2006 law 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. Since a judicial order is necessary before carrying out confiscations and seizures, COSC ensures that confiscations and seizures are executed smoothly and efficiently in accordance with Belgian law.

Belgian authorities attempt to sell confiscated items such as cars, computers, and cell phones soon after confiscation to minimize the loss of the market value of the goods over time. If a suspect is later found innocent, he/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 2007, the fund held more than \$165 million. COSC also maintains safe deposit boxes for the storage of high value items, such as jewelry. 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 homes, cars, jewels, and other items of value not directly linked to the crime in question. Money from seizures and from the sale of seized goods is deposited into the Belgian Treasury.

Belgian legislation implementing the EU Council's Framework Decision on Combating Terrorism criminalizes terrorist acts and the provision of material and financial support for terrorist acts. It also allows judicial freezes on terrorist assets. The law followed the Second European Money Laundering Directive and also 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 AML/CTF law, 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 to complete its analysis. If criminal evidence exists, the FIU forwards the case to the public prosecutor.

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 target gave support knowing that it would contribute to the commission of a crime by the terrorist group. Because the law does not establish a national capacity for designating foreign terrorist organizations, Belgian authorities must demonstrate in each case that the group that received the support actually constitutes a terrorist group.

In Belgium, the Ministry of Finance can administratively freeze assets of individuals and entities associated with Al-Qaida, the Taliban and Usama Bin Laden on the United Nations (UN) 1267 Sanctions Committee's consolidated list. It can also do so if the individual or entity is covered by an EU asset freeze regulation. Frozen 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, the GOB passes a ministerial decree to freeze assets 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 colleagues in sharing information. CTIF-CFI has signed a memorandum of understanding with its United States counterpart 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 as well.

Belgium 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. 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 January 2000, and an extradition treaty between the two countries has been operative since September 1997. Bilateral instruments amending and supplementing these treaties, in implementation of the U.S.-EU Extradition and Mutual Assistance Agreements, were signed with Belgium in December 2004, and await ratification, including by the U.S. side.

Belgium's continuing work on implementing the FATF recommendations complements an already solid AML 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, as well as increase attention to and dedicate more resources toward tracking the informal financial sector and nonbank financial institutions. This is especially applicable to the identification, regulation and enforcement of hawala enterprises that the GOB has already articulated as a concern. The GOB should strengthen adherence to reporting requirements by some nonfinancial entities in Belgium, such as lawyers and notaries, and

enhance the regulations and reporting obligations for the nonprofit and charitable sector. 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, is suspected to occur 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, 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. By law, offshore banks cannot serve customers who are citizens or legal residents of Belize. To legally operate from within Belize, all offshore banks must be licensed by the Central Bank and be registered with international business companies (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.

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. Only nonresident entities have access to offshore banks, and banks are not permitted to issue bearer shares. Local money exchange houses, which were suspected of money laundering, were closed effective July 2005. There is also an undisclosed number of 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.

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 nonbank 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. Belize's legislation allows for the appointment of nominee directors of nonbank IBCs. 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

Money Laundering and Financial Crimes

Bank of Belize, monitors the operations of CFZ business activities. There is no indication the CFZ is presently being used in trade-based money laundering schemes or by financiers of terrorism.

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 part, financial institutions. Therefore, Belizean authorities monitor such activities at the borders with Mexico and Guatemala.

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 and amended in 2002, 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 includes 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 (IFSPR); Money Laundering Prevention Regulations 1998 (MLPR); and the Offshore Banking Act, 2000, renamed the International Banking Act, 2002 (IBA).

The Central Bank of Belize supervises and examines financial institutions for compliance with anti-money laundering and counter-terrorist financing laws and regulations. The banking regulations governing offshore banks are different from the domestic banking regulations in terms of capital and operational requirements. 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 counter-terrorist financing requirements. 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 training sessions to regulate counterfeit currency.

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 transaction to the financial intelligence unit (FIU) of Belize. 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, established in 2002, 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. Due to financial constraints, the FIU is not adequately staffed and existing personnel lack sufficient training and experience. In November 2005, the director of the FIU resigned, leaving the FIU with only four employees; the new FIU director did not begin until July 2006. In

December 2007, both the financial examiner and the office attendant resigned from their posts. According to the FIU's office manager, however, replacements for both employees have already been identified.

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. The FIU received 38 suspicious transaction reports (STRs) from obligated entities in 2007, nine of which became the subject of investigations. In 2007, there were press reports indicating a possible money laundering scheme by a former public official, but no subsequent investigation was conducted. Overall there were no major money laundering cases to report in 2007, and the anti-money laundering regime in Belize remains relatively ineffective.

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. However, the FIU is empowered to share information with FIUs in other countries. On several occasions, the FIU has cooperated with the United States.

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 money laundering or terrorist financing. 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, and any property—tangible or intangible—that may be related to a crime or is shown to constitute the proceeds of a crime, including legitimate businesses, may be seized. However, Belizean law enforcement lacks the resources necessary to effectively trace and seize assets.

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 GOB cooperates with the efforts of foreign governments to trace or seize assets related to financial crimes.

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 United Nations (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.

Belize has signed and ratified a Mutual Legal Assistance Treaty with the United States, which provides for mutual legal assistance in criminal matters and entered into force in 2003. 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 Group to Control Money Laundering and the Caribbean Financial Action Task Force (CFATF). The FIU became a member of the Egmont Group of financial intelligence units in 2004.

The Government of Belize should ensure effective implementation of its anti-money laundering and counter-terrorist financing regime. The GOB should increase resources to provide adequate staffing levels and training to those entities responsible for enforcing Belize's anti-money laundering and counter-terrorist 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 the gaming sector, including Internet gaming facilities. Belize should immobilize bearer shares and ensure that the offshore sector complies with anti-money laundering and counter-terrorist financing reporting requirements. The GOB should also become a party to the UN Convention against Corruption.

Bolivia

Although Bolivia is not a regional financial center, money laundering activities related to public corruption, contraband smuggling, trafficking in persons, and narcotics trafficking continue to be vulnerabilities. Bolivia's long tradition of bank secrecy and the lack of effective government oversight of nonbank financial activities facilitate the laundering of the profits of organized crime and narcotics trafficking, evasion of taxes, and the laundering of other illegally obtained earnings.

Bolivia's 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 financial system is highly dollarized, with approximately 69 percent of deposits and 81 percent of loans distributed in U.S. 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.

Many entities that move money in Bolivia remain unregulated. Hotels, currency exchange houses, illicit casinos, cash transporters, and wire transfer businesses are known 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, also transmit money to avoid law enforcement scrutiny.

Law 1768 of 1997 criminalizes money laundering in Bolivia. 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. However, the law cannot be applied unless the prosecution demonstrates in court that the accused participated in and was convicted of the predicate offense. 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. Supreme Decree 24771 of 1997 defines the attributes and functions of the UIF.

As Bolivia's FIU, the UIF is responsible for collecting and analyzing data on suspected money laundering and other financial crimes, and sharing this information with the Bolivian National Police and the Public Ministry (Attorney General's Office) as appropriate. Decree 24771 requires banks, insurance companies, and securities brokers to identify their customers, retain records of every transaction 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). There is no requirement for obligated entities to report cash transactions above a designated threshold under the current law, and no requirement exists stating that persons entering or leaving the

country declare the transportation of currency over a designated threshold. However, the UIF may request additional information from obligated financial institutions to assist prosecutors with their investigations.

The UIF is responsible for implementing anti-money laundering controls, and may request that the Superintendent of Banks sanction obligated institutions for noncompliance with reporting requirements. The UIF also conducts on-site inspections of obligated entities 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, with the UIF receiving an average of 50 suspicious transaction reports (STRs) per year. According to the UIF, banks in Bolivia were reporting more frequently in 2007: in the first six months of 2007, the UIF received 60 STRs. The UIF is currently reviewing a total of 110 reports.

The Special Group for Investigation of Economic Financial Affairs (GIAEF) was created in 2002 within Bolivia's Special Counter-Narcotics Force (FELCN) and is responsible for investigating narcotics-related money laundering cases. Currently, there are three GIAEF units in Bolivia with a total of 27 personnel. The GIAEF reported 26 money-laundering investigations and over \$9 million in assets seized over the last 12 months. The GIAEF, UIF, Public Ministry, National Police, and FELCN have established mechanisms for the exchange and coordination of information, including formal exchange of bank secrecy information.

Corruption remains a serious issue in Bolivia. According to 2006 estimates by the U.S. Agency for International Development (USAID), corruption costs Bolivians approximately \$115 million per year. Traditionally, allegations against high-ranking law enforcement officials were routinely dismissed or forgotten. However, recent anti-corruption laws increased the effectiveness of investigations and the number of cases related to corruption is growing. The Office of Professional Responsibility (OPR) of the National Police has investigated a total of 1,779 cases involving allegations of misconduct and/or impropriety alleged against police officers. Of these, 205 cases were investigated involving police officers assigned to FELCN. Of these 205 cases involving FELCN officers, however, none resulted in findings of corruption.

To further combat corruption, the Government of Bolivia (GOB) promulgated Supreme Decree 28695, the Organizational Structure for the Fight against Corruption and Illicit Enrichment, in April 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 originally repealed Decree 24771, which gave the UIF its authority. However, because the repeal of Decree 24771 would eliminate the UIF before its replacement was operational, the GOB passed Decree 28956 in November 2006, 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.

As a result of the new decree and the plans to establish the Financial and Property Intelligence Unit, the UIF has lost a number of staff, bringing the number of personnel down to only five. Limitations in its reach, a lack of resources, and weaknesses in its basic legal and regulatory framework have 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 UIF.

In addition to Decrees 28695 and 28956, the Constitutional Commission of the Bolivian Chamber of Deputies is considering two competing anti-money laundering bills. Although the draft law provides a mission for the Financial and Property Intelligence Unit, there are concerns regarding the functions and authorities of the new entity, as its primary function would be to investigate cases of corruption rather than money laundering. The law also does not criminalize "self-laundering," meaning that a person could only be convicted of money laundering if he/she launders the funds generated by a crime committed by a third party. In general, the law does not include provisions to bring Bolivia's anti-

Money Laundering and Financial Crimes

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 the Chamber has not acted on it.

The second draft anti-money laundering law addresses more of the deficiencies in Bolivia's current level of compliance with the international standards for combating money laundering. This draft criminalizes self-laundering, permits special investigative techniques, and prohibits bank secrecy. This draft expands predicate offenses for money laundering beyond the three current offenses, but they are still limited to a list of specific offenses, rather than all serious crimes. Although the bill establishes terrorist financing as a predicate offense for money laundering, terrorist financing is not a crime in Bolivia. The draft law expands the number of obligated entities (to include exchange houses and money remitters); but other entities that are required to be regulated under the Financial Action Task Force (FATF) standards, such as dealers in precious metals and jewels, are not included. The draft law also does not provide legal protection for obligated entities when filing STRs or responding to requests for information from the UIF.

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. To prosecute a money laundering case, Bolivian law requires that the crime of money laundering be charged alongside an underlying predicate offense. Although the Public Prosecutors are responsible for prosecuting money laundering offenses, they do not have a specialized dedicated unit. 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 problematic 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. In 2007, DIRCABI submitted a draft decree proposing changes in the existing law and procedures relating to asset seizure, forfeiture, and sharing. The President signed Decree 29305 on October 10, 2007. However, the decree does not correct problems related to the sharing of forfeited assets among law enforcement entities. DIRCABI initiated 485 cases in the first six months of 2007, with 16 bank accounts containing over \$4 million subject to seizure or forfeiture.

The UIF, with judicial authorization, may also freeze accounts for up to 48 hours in suspected money laundering cases. To date, 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 criminalizes the financing of terrorism or grants 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. The UIF created a draft terrorist financing law in 2006 and presented it to the Superintendence of Banks. However, the bill has not yet been presented to Congress.

The GOB's lack of terrorist financing legislation resulted in Bolivia's suspension from the Egmont Group of financial intelligence units on July 31, 2007. The Egmont Group amended its membership requirements in June 2004, requiring all member states to criminalize the financing of terrorism and their FIUs to receive STRs related to terrorist financing. Existing members, which included Bolivia, were given until June 2007 to draft terrorist financing legislation. Bolivia was the only Egmont member that had not drafted legislation by the deadline and as a result, the UIF was suspended from the Egmont Group. The suspension bars the UIF from participating in Egmont meetings or using the Egmont Secure Web (the primary means of information exchange among Egmont members) to share information with other FIUs. If the GOB does not take significant steps towards the criminalization of terrorist financing by June 2008, the UIF will be expelled from the Egmont Group.

The GOB is a member of GAFISUD, and its most recent mutual evaluation was conducted in April 2006. As a result of the GOB's failure to pay its membership dues for the past three years, GAFISUD placed sanctions on Bolivia in July and suspended its membership on December 1, 2007. The GOB made a partial payment of its arrears immediately following its December 1 suspension. At its December plenary meeting, GAFISUD agreed to reinstate Bolivia's membership, on the condition that the remainders of its debts are paid by July 2008. As a result of GAFISUD members' concerns regarding the GOB's failure to meet the FATF standards on combating money laundering and terrorist financing, the GAFISUD Secretariat sent a high level delegation to meet with senior GOB officials in November 2007.

Bolivia is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control 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 has signed, but not ratified, the Inter-American Convention against Terrorism. 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 is taking some necessary steps to combat corruption, the GOB should ensure that any changes in its anti-corruption legislation 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 FATF and GAFISUD. Money laundering should be an autonomous offense without requiring prosecution for the underlying predicate offense, and currently unregulated sectors should be subject to anti-money laundering and counter-terrorist financing controls. The GOB should criminalize terrorist financing in a timely manner and allow for the blocking of terrorist assets, to fulfill its international obligations. Doing so will also ensure that the UIF is not expelled from the Egmont Group. In addition to the need to make significant changes to the current laws, Bolivia should also ensure that the UIF and its potential replacement have sufficient staff and resources. The UIF should also have the authority to receive suspicious transaction reports on activities indicative of terrorist financing and reports from nonbank financial institutions. The GOB should also pay its GAFISUD dues to avoid being suspended from GAFISUD again. Finally, Bolivia needs to strengthen the relationships and cooperation between all government entities involved in the fight against money laundering and other financial crimes.

Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) has a cash-based economy and is not an international, regional, or offshore financial center. The laundering of illicit proceeds derives from criminal activity including the proceeds from smuggling, corruption, and widespread tax evasion. 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 success over the past few years in clamping down on money laundering through the formal banking system. There are four active Free Trade Zones in BiH, with production based mainly on automobiles and textiles.

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. Criminal and criminal procedure codes from the State, the two entities, and Brcko District were enacted and harmonized in 2003, although 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 is a criminal offense in all state and entity criminal and criminal procedure codes. At the state level, the Law on the Prevention of Money Laundering 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 suspicious financial transactions to the state-level FIU. Those convicted of money laundering exceeding the equivalent of \$30,000 receive prison terms between one and ten years. For lesser amounts, the penalty is imprisonment between six months and five years.

The Law on the Prevention of Money Laundering requires twenty-six types of entities to report to the FIU all transactions of U.S. \$18,000 or more as well as all transactions (regardless of amount) suspected of connections to money laundering or terrorist financing. The money laundering law applies to all banks, individuals and several nonbank financial institutions including 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. In addition to cash and suspicious transaction reporting requirements, the law requires that customs officials from the Indirect Tax Authority (ITA) forward to the FIU all reports of cross-border transportation of cash and securities in excess of \$6,000. All banks have the ability to send electronic cash transaction reports (CTRs) and suspicious transactions reports (STRs) to the FIU, which then stores them in a central database. Although the law places reporting obligations on twenty-six types of entities, the banking sector and the ITA file the majority of reports, leaving a majority of the nonbank sector even more vulnerable to money laundering.

BiH has not enacted bank secrecy laws that prevent the disclosure of client and ownership information to bank supervisors and law enforcement authorities. The law requires banks and other financial institutions to know, record, and report the identity of customers engaging in significant transactions, including currency transactions above the equivalent of \$18,000. Financial institutions must maintain records for twelve years to respond to law enforcement requests. 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. There is, however, no formal supervision mechanism in place for nonbank financial institutions and intermediaries. Nonbank financial transfers are reportedly very difficult for law

enforcement and customs officials to investigate. This is due not only to a lack of reporting, but also to 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 .

Police at both the state and entity levels investigate financial crimes. At the state level, SIPA and the FIU are responsible for investigating financial crimes. In addition, the Federation Police has an Economic Crime Unit which focuses on public corruption, economic crimes, money laundering, and cyber crime. Although Republika Srpska (RS) police also investigate financial crimes, they do not have a specialized unit to handle such crimes. Both the Federation Police and the RS police lack adequate resources and training. In addition, both agencies acknowledge that the level of cooperation and information exchange with SIPA is poor and needs improvement.

The ITA suffers from a lack of resources and sufficiently trained personnel. BiH is largely a cash economy, and it is typical to carry large amounts of cash, even across borders. Bosnia and Herzegovina also receives significant remittances from emigrants. Official remittances constitute over 20 percent of GDP. While some of this will come into the country through bank transfers, others will also cross the border via courier.

The Financial Intelligence Department (FID), Bosnia-Herzegovina's FIU, is a hybrid body, performing analytical duties while maintaining 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 handles international cooperation on money laundering issues. Officially, the FID has access to the records of other government entities and formal mechanisms for inter-agency information sharing are in place. In practice, however cooperation between the FID and other government agencies is weak, with little information shared among agencies. This applies particularly to information sharing between the FID and the different police forces, as the banking agencies do share information with the FID. When suspicion of illicit activity exists, the FID has the power to freeze accounts for five days. During this time, if the FID is able to collect sufficient evidence of possible criminal activity, it may forward the case to the Prosecutor. At that point, the freeze on the accounts may be extended. The FID reports that it froze KM 752,439 (approximately U.S. \$537,456) in six different cases during the first nine months of 2007.

The September 2006, International Monetary Fund's Financial System Stability Assessment report praised Bosnia Herzegovina for the progress made since MONEYVAL's 2005 mutual evaluation report. It cited in particular "the development of an effective state-level FIU." This has been augmented by the FID's hiring and training of several new analysts in late 2006. The report also cited the problems with information-sharing, coordination, and communication, as well as jurisdictional issues between the Financial Police and other State agencies.

In the first nine months of 2007, FID received 195,170 currency reports from banks and other financial institutions. Of these, the FID identified 57 cases as suspicious and investigated them. The FID submitted 12 reports to the BiH Prosecutor—eight related to money laundering and four related to other crimes such as abuse of position and tax evasion. Since BiH established its AML regime, there have been 28 confirmed convictions for money laundering. The FID is not the only active agency in the regime: the RS entity police agency and the Federation Financial Police, among others, all reported cases. In the first nine months of 2007, Bosnia-Herzegovina had seven convictions for money laundering.

BiH has no specific asset forfeiture law as regards money laundering, 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 Breko Criminal Codes) are the only legal provisions that authorize asset forfeiture. 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 law does not provide for the seizure and forfeiture of assets that may have been used or facilitated the commission of the illegal activity. The courts administer confiscation, which can only take place as part of a verdict in a criminal case. 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. The government may seize property as punishment for criminal offenses for which a term of imprisonment of five years or more is prescribed. In such cases, asset seizure is possible without proving a specific relationship between the assets and the crime. 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. The banking community cooperates with law enforcement efforts to trace funds and freeze accounts.

Article 202 of the criminal procedure code criminalizes terrorist financing. BiH is a party to the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism. Entity banking agencies are cognizant of the requirements to sanction individuals and entities listed by the UNSCR 1267 Sanctions Committee’s consolidated list, but the state authorities do not regularly circulate this list to entity authorities. The U.S. Embassy, however, provides updates to appropriate entity authorities

In 2006, after a cooperative investigation between BiH and law enforcement authorities in several European Union countries, authorities initiated a prosecution at the Court of Bosnia and Herzegovina against five people suspected of terrorist crimes. Four of the defendants were found guilty in January 2007, and this verdict was affirmed by a three-judge appellate panel of the BiH State Court in June, making the verdict final and binding. 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.

Bosnia and Herzegovina has no Mutual Legal Assistance Treaty with the U.S. BiH succeeded to the extradition treaty concluded between the Kingdom of Serbia and the United States in 1902; while this treaty covers some financial crimes, it does not address 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 FID, like many state institutions, remain underfunded and under-resourced. The GOBH should make efforts to increase funding for its AML/CTF programs and enhance cooperation between concerned departments and agencies. Although prosecutors, financial investigators, and tax administrators have received training on tax evasion, money laundering and other financial crimes, the GOBH should provide training to ensure that they

understand diverse methodologies and aggressively pursue investigations. BiH authorities should undertake efforts to understand the illicit markets and their role in trade-based money laundering and alternative remittance systems. The banking agencies in BiH need to increase awareness by improving outreach programs with respect to compliance with AML/CTF regulations. Major vulnerabilities that they should address include the identification of shell companies and beneficial owners as well as the monitoring of NGO's. In addition, GOBH should implement a formal supervisory mechanism for nonbank financial institutions and intermediaries. The adoption of such a mechanism would help increase reporting in the nonbank sector, thereby reducing the vulnerability to money laundering that currently exists in that sector. BiH law enforcement and customs authorities should take additional steps to control the integrity of the border and limit smuggling. BiH should study the formation of centralized regulatory and law enforcement authorities and take specific steps to combat corruption at all levels of commerce and government. BiH should also adopt a comprehensive asset forfeiture law which provides a formal mechanism for the administration of seized assets, and should consider establishing a civil forfeiture regime. The government should enact implementing legislation for the international conventions to which it is a signatory

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. However, use of the Brazilian financial system to launder the proceeds of foreign criminal activity also persists. For example, Colombian narcotics trafficker Juan Carlos Ramirez Abadia, who is currently pending extradition to the United States, laundered millions in Norte Valle drug cartel proceeds through Brazil.

A primary source of criminal activity and contraband is the Tri-Border 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, compact discs (CDs), digital versatile discs (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 Government of Brazil (GOB) maintains that it has not seen any evidence of such. In recent years, the GOB has enhanced its border controls in the TBA, particularly at the Foz do Iguacu border crossing, in an attempt to combat the significant inflow of contraband goods and subsequent tax revenue loss.

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 by kidnapping, crimes against the public administration or the national financial system, and organized crime, and penalizes offenders with a maximum of 10 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 U.S. \$10,000, now approximately U.S. \$5,500) in cash, checks, or traveler's checks across the Brazilian border must fill out a customs declaration that is sent to the Central Bank.

Money Laundering and Financial Crimes

Law 10.467 of 2002, which modifies 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 adds 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 in foreign jurisdictions 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 establishes Brazil's FIU, 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 42, comprised of 20 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 \$55,000) 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 2006 further extended these anti-money laundering requirements to the real estate sector. The insurance regulator, SUSEP, clarified its reporting requirements for insurance companies and brokers in Circular 327 of May 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. In addition, on January 8, 2008, the Securities Commission (CVM) extended anti-money laundering requirements to additional entities, including luxury goods dealers and persons or companies that conduct business activities involving a large volume of cash.

Since 2006, the COAF, Central Bank, SUSEP, and the Pension Funds Secretariat have issued resolutions and circulars mandating the reporting of suspected terrorist financing activity, and the reporting of suspicious or large cash transactions by politically exposed persons (PEPs). The Central Bank issued Circular 3339 in December 2006, defining procedures for monitoring the financial accounts of PEPs. SUSEP Circular 21 of December 2006 addresses reporting procedures for transactions and possible transactions linked to terrorism and terrorist financing. SUSEP Circular 341, issued April 30, 2007, amends Circular 327 of May 2006, and includes procedures to be observed regarding PEPs. On March 28, 2007, COAF issued Resolutions 15 and 16, which respectively expand reporting requirements regarding suspected terrorist financing and transactions by PEPs. The Pension Funds Secretariat published new rules on PEPs on December 11, 2007, through Circular Letter SPC 18/2007.

The COAF has direct access to the Central Bank database, so that it has immediate access to the SARs and cash transaction reports (CTRs) filed with the Central Bank. The COAF also has access to a wide

variety of government databases. The COAF may 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 the COAF may directly access the COAF databases via a password-protected system. In 2007, the COAF received 50,320 CTRs and 18,960 SARs per month. In 2007, the COAF sent 1,555 reports to law enforcement authorities for further investigation, and responded to 1,047 requests for information received from law enforcement and prosecutorial authorities in the last year.

The Central Bank has established the Departamento de Combate a Ilícitos Cambiais e Financeiros (Department to Combat Exchange and Financial Crimes, or DECIC) 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, the DECIC brought on-line a national computerized registry of all current accounts (e.g., checking accounts) in the country. The COAF also has access to this database. 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 fifth annual high-level planning and evaluation session in November 2007. At these sessions, the GOB defines annual goals within the scope of its overall strategy that aims to advance six strategic goals: improve coordination of disparate federal and state level anti-money laundering efforts, utilize computerized databases and public registries to facilitate the fight against money laundering, evaluate and improve existing mechanisms to combat money laundering, increase international cooperation to fight money laundering and recover assets, promote an anti-money laundering culture, and prevent money laundering before it occurs. The 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. In 2006, following a number of high-level corruption cases, the national strategy was expanded to include anti-corruption initiatives as well.

In 2003, the GOB created specialized money laundering courts. 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. During November 2007, two judges, a prosecutor and investigator visited the United States as part of an International Visitor Leadership Program to gain information on the U.S. regime for combating money laundering.

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 2007, the Ministry of Justice, working through its National Program of Citizens' Public Security (PRONASCI), entered into agreements to establish money laundering forensic laboratories in the Federal District and the states of Rio de Janeiro and Sao Paulo as part of an overall plan to establish ten such facilities in states throughout the country by the end of 2008.

GOB reports appeared to indicate a reversal in 2007 of the upward trend, begun in 2003, of annual growth in the number of money laundering investigations, trials, and convictions. However, the Ministry of Justice indicated that it changed its methodology in 2007 for calculating these statistics to more accurately reflect the number of investigations, trials, and convictions. The Ministry of Justice is currently working to convert data from previous years to correspond to this new methodology, which

Money Laundering and Financial Crimes

it expects will lower results from past years. In 2007, there were 590 investigations, 37 trials, and 190 convictions.

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. A GOB computerized registry of all seized assets to improve tracking and disbursal is currently being tested and is now in the pilot phase. The judicial system has the authority to forfeit seized assets, and Brazilian law permits the sharing of forfeited assets with other countries.

A COAF-supported amendment, PLS 209, to Law 9.613 was introduced to the legislature in 2003. The bill has passed in the Chamber of Deputies, and is currently in the Senate for consideration. COAF expects the amendment to pass in 2008. If passed, PLS 209 would expand the definition of money laundering to encompass additional predicate offenses, such as tax evasion and trafficking in persons. It would also expand the scope of Law 9.613 to cover games of chance, slot machines and the clandestine art trade; tighten bank secrecy rules; and enhance cooperation between the public prosecutor's office and the COAF. A Senate-proposed amendment to PLS 209 would include penalties for those who finance or collect funds for the purpose of causing crimes that result in widespread panic or constrain the state. The Senate amendments would also require the financial sector to adopt stricter anti-money laundering controls, require attorneys and accountants to report suspicious transactions, and increase the maximum penalty for involvement in money laundering activities from ten to 18 years imprisonment.

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. If the Senate-proposed amendment to PLS 209 is adopted, its passage should bring the GOB into greater compliance with the anti-money laundering and counter-terrorist financing standards of the Financial Action Task Force (FATF) and the Egmont Group of financial intelligence units.

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.

On December 6, 2006, the U.S. Department of Treasury placed nine individuals and two entities in the Tri-Border Area that have provided financial or logistical support to Hezbollah on its list of Specially Designated Nationals. The nine individuals operate in the Tri-Border 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 Hezbollah 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 Tri-Border Area.

In 2001, the Mutual Legal Assistance Treaty between Brazil and the Government of the United States (USG) 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's tax and customs authority (Receita Federal) and U.S. Immigration and Customs Enforcement (ICE)

established a trade transparency unit (TTU) in 2006 to detect trade-based money laundering. In 2007, Receita conducted five investigations with other law enforcement agencies, resulting in 108 arrests and 5 convictions. ICE and the Brazilian Federal Police currently have two major on-going investigations into trade-based money laundering activities. Future plans include an upgrade of USG and GOB program-related computer systems and USG-sponsored training for Receita officials.

Brazil is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, the International Convention for the Suppression of the Financing of Terrorism, and the Inter-American Convention against Terrorism. Brazil is a member of the FATF and the Financial Action Task Force for South America (GAFISUD). The GOB will hold the presidency of the Financial Action Task Force (FATF) in 2008, and the COAF's director will assume the role of FATF president. Brazil is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The COAF has been a member of the Egmont Group since 1999. The GOB also participates in the "3 Plus 1" Security Group between the United States and the Tri-Border Area countries.

The Government of Brazil should criminalize terrorist financing as an autonomous offense. To continue to successfully combat money laundering and other financial crimes, Brazil should also ensure the passage of 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, to provide its investigators and prosecutors with more advanced tools to tackle sophisticated organizations that engage in money laundering, financial crimes, and terrorist financing. Brazil should also enforce currency controls and cross-border reporting requirements, particularly in the Tri-Border region. Additionally, the GOB and the COAF should 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 drug trafficking and its significant offshore financial services industry. As of June 2007, the BVI has approximately nine banks, 2,550 active mutual funds, 19 local insurance companies, 402 captive insurance companies, 208 trust licenses, seven authorized custodians, 18 company management companies, 100 registered agents, 430 limited partnerships, 10,666 local companies, and 802,850 BVI business companies or international business companies (IBCs).

The BVI International Finance Centre (BVI IFC) was created in 2002 under the Ministry of Finance and Economic Development to promote and market the BVI as an offshore financial center. The BVI IFC recently announced a new outreach program that includes "ambassadors" from the public and private sectors. The "ambassadors" include senior executives and officials from the private sector and the government, including regulators. These individuals will promote the BVI's offshore regime at select trade shows, international conferences, media interviews, and networking events.

The International Business Companies Act (IBCA) of 1984 was created to facilitate companies wishing to conduct international transactions from a tax exempt environment. According to the IBCA, 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 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 Financial Services Commission (FSC). Registered agents must verify the identities of their clients.

As a UK overseas territory, the Government of the British Virgin Islands (GOBVI) has to comply with the European Union Code of Conduct on Business Taxation. The code, among other things, requires that local and offshore companies be treated equally for tax purposes. To address this, and to update the BVI companies' legislation, the BVI Business Companies Act (BCA) 2004 came into force in 2005. The BCA superseded the IBCA act in January 2007, and now exclusively regulates all companies incorporated in the BVI. The BCA retains many of the same requirements of the IBCA including exemption from BVI taxes, privacy of directors and share registries, no director member residency requirements, and no requirement to file accounts or retain visible and tangible evidence of incorporation. The BCA places all companies, offshore and onshore, within a zero tax regime. Companies registered under the IBCA were provided a two-year transition period. During this period, IBCs had the option of re-registering as business companies under the BCA. Any IBC that did not re-register was automatically re-registered as a business company on January 1, 2007.

While the IBCA only permitted the incorporation of companies limited by shares, the BCA offers seven different types of companies: companies limited by shares, which is the most widely used vehicle; companies limited by guarantee authorized to issue shares, which are typically used for structuring transactions by combining equity and guarantee membership; companies limited by guarantee not authorized to issue shares; unlimited companies that are authorized to issue shares; unlimited companies that are not authorized to issue shares; restricted purposes companies, which are used primarily in structured finance and securitization transactions; and segregated portfolio companies, which are presently limited to insurance companies and mutual funds. The BCA permits the use of numbered names for businesses, i.e. BVI Company # (followed by a number). If a company chooses this format, it will also be permitted to have a foreign character name; an English translation of the name is not required. The BVI reports that Asian countries continue to be a high user of BVI companies, and predicts that the use of BVI companies by Asian countries will increase in the future.

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, accountants, 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 instituted a new penalty regime in 2007. The Financial Services (Administrative Penalties) Regulations went into effect in January 2007, and are intended to deter and penalize regulated entities that are found to be noncompliant with BVI regulatory laws. The lowest penalty that may be imposed is \$100 and the highest is \$20,000.

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. In 2007, the FSC published the Handbook on International Cooperation and Information Exchange. The Handbook is publicly available via the FSC's website and explains the statutory mandates and regulations established in the BVI to facilitate and improve international cooperation.

The Proceeds of Criminal Conduct Act 1997 (POCCA) criminalizes money laundering in the BVI. The POCCA establishes all indictable offences except drug trafficking as predicates for money laundering; drug trafficking predicated money laundering is established under similar provisions in the Drug Trafficking Offences Act 1992. The Proceeds of Criminal Conduct (Amendment) Act, 2006 mandates financial institutions and other providers of financial services to report suspected money laundering transactions. The POCCA 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 POCCA mandates the creation of a financial intelligence unit (FIU), the Reporting Authority. The Financial Investigation Agency Act 2003 reorganizes and renames the FIU. The Financial Investigation Agency (FIA) is responsible for the collection, analysis, investigation, and dissemination of financial information. The FIA receives approximately 200 suspicious transaction reports (STRs) annually. The FIA's staff is comprised of a director, two senior police officers, one senior customs officer, a chief operating officer, and an administrative assistant. A Board is responsible for setting the policy framework under which the FIA operates. The Board members include the Deputy Governor as chairperson, the Attorney General, the Financial Secretary, Managing Director/CEO of the Financial Services Commission, Commissioner of Police, and Comptroller of Customs. The FIA has a memorandum of understanding (MOU) with the FSC to facilitate information exchange between the two agencies. The FIA exchanges information with foreign counterpart FIUs, and does not require an MOU.

In 2007, the FIA Act was amended to redefine the FIA's responsibilities to include investigation and analysis of any offense in relation to money laundering and terrorist financing, although the financing of terrorism is not an offense in the BVI. The amendment gave the FIA authority to receive disclosures of suspected terrorist financing. It also empowered the FIA to investigate matters relating to the breach of any domestic or international sanction prescribed by or under any enactment.

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. In December 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 JAMLCC, in conjunction with the FIA, are currently revising anti-money laundering and counter-terrorist financing guidelines.

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) and will undergo a mutual evaluation in 2008. The BVI is an Observer to the Offshore Group of Supervisors. The FIA is a member of the Egmont Group, and participates in the Egmont Training Working Group. 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. The UK extended the application of the UN Convention against Corruption to the BVI in October 2006. Application of the U.S.-UK Mutual Legal Assistance Treaty (MLAT) concerning the Cayman Islands was extended to the BVI in 1990. If an MLAT request's subject matter falls within the FIA's purview, it is forwarded to the FIA for further investigation after it is received and reviewed by the Office of the Attorney General.

The Government of the British Virgin Islands should criminalize the financing of terrorism. The GOBVI 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 counter-terrorist financing regulations to a wider range of entities, including money remitters. The GOBVI should ensure that there are a sufficient number of regulators and examiners to exercise

effective due diligence and regulation of its more than 800,000 offshore entities in a manner compliant with international standards.

Bulgaria

Bulgaria is not considered an important regional financial center or 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 relatively 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. Although Bulgaria is primarily a cash economy, ATM and credit card fraud remain serious problems. Tax fraud is prevalent. The sources for money laundered in Bulgaria likely derive from both domestic and international criminal activity. In some cases, organized crime groups, which in the past have operated openly in Bulgaria, are moving into legitimate business operations or even slowly legitimizing themselves, making it difficult to trace the origins of their wealth. Public officials, watchdog institutions, and journalists who challenge organized crime operations often feel intimidated. Smuggling remains a problem in Bulgaria, sustained by ties with shady financiers and corrupt businessmen. While counterfeiting of currency, negotiable instruments, and identity documents has historically been a serious problem in Bulgaria, joint activities by the Government of Bulgaria (GOB) 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.

With support and pressure from the United States, the European Union (EU), and nongovernmental organizations (NGOs), the government has continued efforts to address the operation of duty free shops and petrol stations as a funding source for the gray economy and as a conduit for 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 Ministry of Finance (MOF) to close down all duty free shops and petrol stations operating in Bulgaria have been unsuccessful, in large part due to political opposition within the ruling coalition. Bulgaria's January 2007 accession to the EU mandated the country close nine duty free shops and six petrol stations operating at Bulgaria's borders with neighboring EU countries. However, in December 2006, the Bulgarian Parliament granted permanent licenses for duty free trade to all existing operators and allowed them to relocate businesses to Bulgaria's external nonEU borders. A substantial portion of excise goods sold at duty-free shops and stations stay within the country avoiding taxation. Analysts describe this scheme as protected smuggling, which results in significant losses for the state budget.

While duty free shops and petrol stations are largely perceived as tools to violate customs and tax regimes, duty free shops may be used to facilitate other crimes, including financial crimes. Credible allegations have linked duty free trade in Bulgaria to organized crime interests involved in fuel smuggling, forced prostitution, the illicit drug trade, and human trafficking. There is no indication, 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 some NGOs, 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. 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. Amendments made to the Penal Code in 2006 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) is the legislative backbone of Bulgaria's anti-money laundering regime. The LMML was adopted in 1998 and has since been amended several times, most recently in 2007. Bulgaria has strict and wide-ranging banking, tax, and commercial secrecy laws that limit the dissemination of financial information absent the issuance of a court order. Bulgaria's financial intelligence unit (FIU), the Financial Intelligence Agency (FIA), is the main administrative unit for collecting and analyzing information on suspected money laundering transactions. Unlike all other government institutions, the FIU is not bound by the typical secrecy provisions that 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 facilitate 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. The FIA does not participate in criminal investigations.

Prior to December 2007, the FIA was a fully independent agency operating under the MOF, with the independence of the FIA director being guaranteed by the LMML. It had the authority to perform onsite compliance inspections, obtain information without a court order, share all information with law enforcement, and receive reports of suspected terrorist financing. However, on December 11, 2007, the Parliament passed legislation, which came into force on January 1, 2008. This law, the Act on the State Agency for National Security, established a new national intelligence agency, the State Agency for National Security (SANS). The law also restructures the FIA by changing its status from an independent agency within the MOF to a directorate within the SANS. The legislation lacks clarity regarding the new FIU's autonomy, operational status, and ability to exchange information consistent with international standards. The FIU's ability to conduct on-site inspections as well as its free access all government databases has been removed. In addition, the analytical capacity of FIA is not precisely defined: the SANS law permits the FIU to acquire and handle national security-related information, but financial crimes information is not necessarily of national security importance. The FIA is no longer an individual legal entity with its own budget. The status of the joint instructions signed between FIA and other government organizations such as the Ministry of Interior and the Prosecution Service is now unclear. The FIA's authority to exchange information with international partners, which was explicitly provided for in the LMML, has been removed. Exchange of classified information with other Bulgarian agencies is not clearly defined.

Although the oversight and other authorities of the new FIU are set to be addressed in supplemental legislation or implementing regulations that are to be drafted by March 2008, each of the legal gaps listed above potentially undermines the financial intelligence unit's ability to execute its mission and uphold its international commitments. As such, in January 2008, the Egmont Group temporarily suspended Bulgaria's access to their secure information exchange system, pending further clarification of the FIU's proposed structure and operational capacities.

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 30,000 BGN (approximately \$22,500) or foreign exchange transactions greater than 10,000 BGN (approximately \$7,500). Reporting entities are also required to notify the FIA of any cash payment greater than 30,000 BGN (\$22,500). Current reporting requirements do not mandate that banks and other reporting entities report the actual amounts involved

Money Laundering and Financial Crimes

in a currency transaction greater than 30,000 BGN (\$22,500); they are only required to report the fact that such a transaction occurred. Concerted action by NGOs and others is underway to convince the MOF and the Bulgarian National Bank (BNB) to change the law so as to require reporting of the actual amount of the transaction.

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, Bulgaria’s anti-money laundering legislation was determined to be in full compliance with all EU standards when it was assessed in September 2003 for purposes of EU accession.

In 2006, the Ministry of the Interior (MOI), the Prosecutor’s Office, and the FIA signed a joint instruction establishing new procedures for closer cooperation when following leads contained in a suspicious transaction report (STR). A 2007 supplement to the instruction institutes a political-level contact group comprised of high-level representatives of the three institutions to improve cooperation. As of October 2007, the group had held two meetings to discuss cooperation mechanisms and improved protection of the reporting entities’ employees. Reports prepared by FIA were forwarded to the Prosecutor General with a copy for the MOI, which subsequently produced a report on the enforcement potential of the case within 30 days of receipt.

From January 2007 through October 2007, the FIA received 293 STRs on money laundering, totaling 219,291,944 BGN (approximately \$161,244,000). The FIA also received one STR on suspected terrorist financing activity. During the same period, the FIA received 158,000 currency transaction reports (CTRs). On the basis of the forwarded reports, 249 cases valued at 219,191,944 BGN (approximately \$161,170,000) were opened, 15 cases valued at 35,309,072 BGN (approximately \$26,000,000) were referred to the Supreme Prosecutor’s Office of Cassation, and 203 cases valued at 151,337,126 BGN (approximately \$111,278,000) were referred to the Ministry of Interior and copied to the Supreme Cassation Prosecution.

In response to pressure from the EU, in 2006, Bulgaria’s Parliament tightened the LMML with further amendments. These amendments expanded the definition of money laundering and the list of reporting entities; outlawed anonymous bank accounts; expanded the definition of “currency”; and required the disclosure of source for currency exported from the country. 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. The banking sector has substantially complied with the law’s filing requirement. Reporting by other sectors, however, has been much lower. Historic lower rates of reporting compliance by exchange bureaus, casinos, and other nonbank financial institutions can be attributed to numerous 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.

Following the 2006 amendments to the LMML, which instituted compliance checks for the nonbanking sector, the FIA noted a slight improvement in reporting. As of October 2007, the FIA inspected four banks, 19 exchange offices, 14 financial houses, three insurance companies, eight investment intermediaries, four casinos, 10 public notaries, four leasing undertakings, six car dealers, five sports organizations, one wholesale dealer, and eight real estate agents in 2007, imposing fines in 42 cases. Most of the violations disclosed were for failure to declare the origin of funds, perform identification procedures for clients, or report transactions over 30,000 BGN (approximately \$22,500). The National Revenue Agency also conducted 509 on-site inspections of exchange offices.

In October 2006, the courts rendered the country’s first two convictions for money laundering. In 2007, money laundering convictions increased, reaching 11 by October. A total of 25 people were indicted on money laundering charges. Only four of the initiated cases ended in acquittal and nine were awaiting a court’s decision.

Although there are few indications of terrorist financing directly connected with Bulgaria, the possibility remains that terrorism-related funds can transit across Bulgarian borders through cash couriers and other informal mechanisms. Article 108a of the Penal Code criminalizes terrorism and terrorist financing. Article 253 of the Criminal Code qualifies terrorist acts and terrorist 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 any suspicion of terrorist financing or pay a penalty of up to 50,000 BGN (approximately \$37,500). The law is consistent with Financial Action Task Force (FATF) Nine Special Recommendations on Terrorist Financing, and authorizes the FIA to use its resources and financial intelligence to combat terrorist 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.

Although alternative remittance systems may operate in Bulgaria, their scope is unknown and there are no reported initiatives underway to address them. In general, regulatory controls over nonbank financial institutions are weak, with some of those institutions engaging in banking activities absent any regulatory oversight. Some anecdotal evidence suggests that charitable and nonprofit legal status is occasionally used to conceal money laundering.

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 60,000 BGN (approximately \$45,100) 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. As required by the law, an Assets Identification Commission was established and became operational in 2006. The Commission 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. As of March 2007, the Commission has filed with the court 38 injunction requests for property valued at 19,037,365 BGN (approximately \$14.2 million) and 10 forfeiture requests for property valued at 3,453,783 BGN (approximately \$2.5 million)

In September 2007, the United States and Bulgaria signed a mutual legal assistance treaty (MLAT), implementing the U.S.-EU Mutual Legal Assistance Agreement, which has yet to come into force. The 2005 ratification of the UN Convention against Transnational Organized Crime by the U.S. established an MLAT-type relationship between the two countries (Bulgaria having ratified the Convention in 2001). As of October 2007, the FIA had bilateral memoranda of understanding (MOU) regarding information exchange relating to money laundering with 28 countries. The FIA is authorized by law to exchange financial intelligence on the basis of reciprocity without the need of an MOU. As of October 2007, the FIA sent 261 requests for information to foreign FIUs and received 54 requests for assistance from foreign FIUs.

Bulgaria participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The most recent mutual evaluation of Bulgaria was conducted by MONEYVAL in 2007. The mutual evaluation report (MER) is still in draft format.

The FIA is a member of the Egmont Group and also participates in information sharing with foreign counterparts. As of January 1, 2008, some of the FIA's rights within the Egmont Group were temporarily suspended pending a review of its authorities under the new legislation for the State Agency for National Security. Bulgaria 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. The GOB is also a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

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 government to implement its obligations under international agreements, including: the OECD Anti-Bribery Convention, the Civil Law Convention on Corruption, the Criminal Law Convention on Corruption, the UN International Convention for the Suppression of the Financing of Terrorism, 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 Financial Interests of the European Communities and its Protocols.

Until December 2007 Bulgaria's legislative framework was largely viewed as consistent with international anti-money laundering standards. The new legislation on the State Agency for National Security brings uncertainty as to the authority of the financial intelligence unit, potentially jeopardizing its independence and investigatory mandate. It also raises questions about the FIA's ability to cooperate on equal basis with its international partners. The Government of Bulgaria should address these issues. The GOB should also take steps to improve and tighten its regulatory and reporting regime, particularly with regard to nonbank sectors and cash payments. 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. Inter-agency cooperation should be streamlined to ensure effective implementation of Bulgaria's anti-money laundering and counter-terrorist financing regime, and to improve prosecutorial effectiveness in money laundering and terrorist financing cases. The GOB should close duty free shops, or establish procedures for identifying unlawful activities associated with duty free shops, thereby tackling organized crime involved in smuggling and other financial crimes. The GOB should also disseminate the UNSCR 1267 Sanctions Committee's Consolidated List of designated terrorist entities to all financial institutions.

Burma

Burma, a major drug-producing country, has taken steps to strengthen its anti-money laundering regulatory regime in 2007. 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 several 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. Traffic in narcotics, people, wildlife, gems, timber, and other contraband flow through Burma. Regionally, value transfer via trade is of concern and hawala/hundi networks frequently use trade goods to provide counter-

valuation. Burma's border regions are difficult to control and poorly patrolled. In some remote regions active in smuggling, there are continuing ethnic tensions with armed rebel groups that hamper government control. Collusion between traffickers and Burma's ruling military junta, the State Peace and Development Council (SPDC), allows organized crime groups to function with virtual impunity. Although progress was made in 2007, the criminal underground faces little risk of enforcement and prosecution. Corruption in business and government is a major problem. Burma is ranked 179 out of 179 countries in Transparency International's 2007 Corruption Perception Index.

The Government of Burma (GOB) has addressed some key areas of concern identified by the international community by implementing some anti-money laundering measures. In October 2006, the Financial Action Task Force (FATF) removed Burma from the FATF list of Non-Cooperative Countries and Territories (NCCT). To ensure continued effective implementation of reforms in Burma, the FATF, in consultation with the relevant FATF-style regional body (FSRB), will continue to monitor developments there for a period of time after de-listing. Burma is scheduled to undergo a mutual evaluation by the FSRB Asia-Pacific Group on Money Laundering in January 2008.

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). In September and October 2007, under Executive Order 13310, the United States imposed additional sanctions on leaders of the Burmese regime, as well as key businessmen. In October 2007, Executive Order 13448 was issued. It expands the Treasury Department's existing authority to designate individuals for sanctions to include individuals responsible for human rights abuses and public corruption and individuals and entities who provide material or financial support to designated individuals or to the Government of Burma.

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. The law created reporting requirements to detect suspicious transactions. It set a threshold amount for reporting cash transactions by banks and real estate firms, albeit at a high level of 100 million kyat (approximately U.S. \$75,000). As of May 2007, over 40,000 cash transaction reports were filed. The GOB's 2004 anti-money laundering measures amended regulations instituted in 2002-2003 that set out 11 predicate offenses, including narcotics activities, human trafficking, arms trafficking, cyber-crime, and "offenses committed by acts of terrorism," among others. In 2004 the GOB added fraud to the list of predicate offenses, established legal penalties for leaking information about suspicious transaction reports, and adopted a "Mutual Assistance in Criminal Matters Law." The 2003 regulations, further 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 GOB submitted an anti-money laundering implementation plan and produced regular progress reports in 2006 and 2007. 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.

In 2007, the Burmese Government amended its "Control of Money Laundering Law" to expand the list of predicate offenses to all serious crimes to comport with FATF's recommendations. In July 2007, the Central Control Board issued five directives to bring more nonbank financial institutions,

including dealers in precious metals and stones, under the AML/CTF compliance regime. As of August 2007, 823 STRs had been received. One case related to trafficking in persons was filed for prosecution, resulting in the convictions of one individual under the “Control of Money Laundering Law” and the Trafficking in Persons Law. In the first eight months of 2007, seven cases have been identified as potential money laundering investigations.

The United States maintains the separate countermeasures it adopted against Burma in 2004, and identified the jurisdiction of Burma and two private Burmese banks, Myanmar Mayflower Bank and Asia Wealth Bank, to be “of primary money laundering concern” pursuant to Section 311 of the 2001 USA PATRIOT Act. 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. 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 September 2007, 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 March 2006. The GOB is a party to the 1988 UN Drug Convention. Over the past several years, Burma has expanded its counter narcotics 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 International Convention for the Suppression of the Financing of Terrorism in August 2006. Burma signed the UN Convention on Corruption in December 2005, but has yet to deposit an instrument of ratification with the UN Secretary General. Likewise, Burma signed the Treaty on Mutual Legal Assistance in Criminal Matters among Like-Minded ASEAN Member Countries in January 2006, but has yet to deposit its instrument of ratification with the Attorney General of Malaysia.

The Government of Burma 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/counter-terrorist 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 and proceeds from other crimes into the legitimate economy. The reporting threshold for cash transactions should be lowered to a realistic threshold that fits the Burmese context. Customs should be strengthened and authorities should monitor more carefully the misuse of trade and its role in informal remittance or hawala/hundi networks. The GOB should ratify the UN Convention against Corruption, as well as the Treaty On Mutual Legal Assistance In Criminal Matters Among Like-Minded ASEAN Member Countries. The GOB should take serious steps to combat smuggling of contraband and its link to the pervasive corruption that permeates all levels of business and government. The GOB should criminalize the financing of terrorism.

Cambodia

Cambodia is neither an important regional financial center nor an offshore financial center. While there are only four reported money laundering cases 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. The major crimes reported by the Cambodian authorities are human trafficking and exploitation (which is widespread), drug trafficking, kidnapping for ransom and corruption. Its weak but improving anti-money laundering regime, a cash-based economy with an active informal banking system, porous borders with attendant smuggling and widespread corruption of officials also contributes to the significant money laundering risk in Cambodia. 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. In addition, terrorist financing is a significant risk in Cambodia as highlighted by two recent cases involving Jemaah Islamiyah (JI) and the Cambodian Freedom Fighters (CFF).

In June 2007, The Royal Government of Cambodia promulgated a new "Law on Anti-Money Laundering and Combating the Financing of Terrorism" (AML). This law creates the framework for a National Bank of Cambodia financial investigations unit (FIU) to have far-reaching regulation over all banks and a long list of nonbank financial institutions such as casinos and realtors and can include entities to be designated by the FIU. In July 2007, a new Counterterrorism Law criminalized the financing and provision of material support to terrorism.

The National Bank of Cambodia (NBC) is making strides to regulate large or suspicious financial transactions, but is still in the process of working with relevant ministries to draft a prakas (decree) and related sub-decrees to fully implement the new anti-money laundering law. The prakas is expected to be issued in the first half of 2008. The Ministry of Interior has legal responsibility for oversight of the casinos and providing security; however, it exerts little supervision.

Cambodia's banking sector is small but expanding, with fifteen commercial banks, five specialized banks, and numerous microfinance institutions. Bank operations are primarily undertaken in U.S. dollars and on a cash basis. 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 29.2 percent (September 2007), low even by developing economy standards. Cambodia's banking system is highly consolidated, with two banks—Canadia Bank and ANZ Royal—accounting for more than 30 percent of all bank deposits. Besides banks, individual and legal persons can undertake foreign exchange provided they register with the NBC. There were 647 registered money changers in December 2006—53 in Phnom Penh and 594 in provinces.

The NBC has regulatory responsibility for the banking sector. The NBC regularly audits individual banks to ensure compliance with laws and regulations. The new AML law requires that banks and other financial institutions declare transactions over 40,000,000 riel (approximately U.S. \$10,000). The NBC reports that 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, until the FIU is fully established, government audits would likely not be a sufficient deterrent to money laundering through most Cambodian banks. With increased political stability and the gradual return of normalcy in Cambodia after decades of war and instability, bank deposits have risen by about 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.

Cambodia lacks meaningful statistics on the extent of financial crime which exists and only a few crime statistics and open source information is available to evaluate the major sources of illicit funds in Cambodia. As the FIU is still being established, some larger scale money laundering in Cambodia may also flow through informal banking activities or business activities. The Cambodian authorities consider that there are informal money or value transfer operations carried out by money changers, or individuals within Cambodia or cross border. There is a significant black market in Cambodia for smuggled goods, including drugs, 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.

The NBC's Financial Investigations Unit (FIU) has the authority to apply anti-money laundering controls to nonbank financial institutions such as casinos and other intermediaries, such as lawyers or accountants. The FIU is under the control of the NBC with a permanent secretariat working under the authority of a board composed of one senior representative each from the Council of Ministers and the Ministries of Economy and Finance, Justice, and Interior.

The major nonbank financial institutions in Cambodia are the casinos, which the authorities have noted are particularly vulnerable to money laundering. Foreigners are allowed to gamble but Cambodians nationals are prohibited from entering casinos. The regulation of casinos falls under the jurisdiction of the Ministry of Interior, although the Ministry of Economy and Finance issues casino licenses and the NBC Financial Investigations Unit will have the newly legislated power to receive reports on financial transactions at casinos and cooperate with casino regulators on AML, including suspicious transactions. 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. 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.

Although there is a legal requirement to declare to Cambodian Customs the entry of more than U.S. \$10,000 into the country, in practice there is no effective oversight of cash movement into or out of Cambodia. Article 13(1) of the Law of Foreign Exchange requires the import or export of any means of payment equal to or exceeding U.S. \$10,000 or equivalent to be reported to the Customs authorities at the border crossing point and Customs should transmit this information on a monthly basis to the National Bank of Cambodia. Outbound travelers are in practice not required to fill in a declaration form concerning the amount of currency or negotiable instruments they are carrying. There is no explicit power to stop or restrain transported funds and negotiable instruments to ascertain whether evidence of money laundering or terrorist financing exists. No specific provisions exist to sanction persons involved in cross border cash smuggling for money laundering or terrorist financing purposes or seize the cash or instruments involved.

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. Together with the recently passed AML law, these two laws provide an additional 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 NBC expects to issue a prakas (decree) on the AML in the first half of 2008. One current 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.

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. The new Counterterrorism Law criminalizes terrorist financing; and regulation of transactions suspected of financing terrorism are covered by the new AML. Under the new counter terrorism law the Minister of Justice may order the prosecutor to freeze property of a person if he is listed on the list of persons and entities belonging or associated with the Taliban and Al Qaida issued by the UNSCR 1267 committee or if he is a person who has committed an offence as defined in the law or a corresponding offence under the law of another state. The NBC circulates 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 has not been an opportunity to monitor compliance of these new provisions. However, 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 until prosecution commences and a competent court has adjudicated the case. Penal sanctions for convictions of money laundering or financing terrorism include seizure of the assets to become state property.

In June 2004, Cambodia joined the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF) style regional body. In May 2007, Cambodia underwent a comprehensive AML/CTF assessment that was conducted by the World Bank and APG. This assessment report was adopted by the APG in July 2007 and noted the progress, and remaining deficiencies the GOC's AML/CTF regime. This report marks the first time there has been detailed external scrutiny of AML/CTF in Cambodia and publication of the findings. However, questions regarding the government's ability to implement and enforce the new measures on money laundering remain, and approval of an implementing decree and related sub-decrees are important next steps. The GOC should also take the necessary steps to enhance its nascent FIU and should gain control over its porous

borders as well as increasing the capability of its law enforcement and judicial sectors to investigate, prosecute and adjudicate financial crimes. To achieve these ends, the GOC should continue its engagement with the Asia/Pacific Group on projects supported by the United States, Australia, the World Bank and the UN Office on Drugs and Crime (UNODC) to develop a comprehensive viable anti-money laundering/counter-terrorist financing regime that comports with international standards.

Canada

Money laundering in Canada is primarily associated with drug trafficking and financial crimes, particularly those related to fraud. The International Monetary Fund indicates that approximately U.S. \$22-50 billion is laundered annually in Canada. Organized criminal groups involved in drug trafficking remain a concern of the Government of Canada (GOC). According to the Criminal Intelligence Service Canada's 2007 Annual Report on Organized Crime, there are approximately 950 organized crime groups operating in Canada, with approximately 80 percent of all crime groups in Canada involved in the illicit drug trade. With U.S. \$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.

The 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 Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). 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 or more. Failure to report cross-border movements of currency and monetary instruments could result in seizure of funds or penalties ranging from approximately U.S. \$250 to \$5,000. Failure to file a suspicious transaction report (STR) could result in up to five years' imprisonment, a fine of approximately U.S. \$2 million, or both. The law protects those filing suspicious transaction reports 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.

In December 2006, Parliament passed Bill C-25 to amend the PCMLTFA. The new legislation expands the coverage of Canada's anti-money laundering and counter-terrorist 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 enhances client identification and record-keeping requirements. In addition, Bill C-25 mandates that FINTRAC create a national registry for money service businesses, and establish a system of administrative monetary penalties for noncompliance. 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 a 2004 Canadian Auditor General's Report.

FINTRAC, established in 2006, is an independent agency with regulatory and FIU functions. The majority of FINTRAC's 300-member staff works as analysts, compliance officers, and information

technology specialists. FINTRAC is the sole authority with the mandate to ensure compliance with the PCMLTFA and associated regulations. Guidelines explaining the PCMLTFA and its requirements were published by FINTRAC in 2002; further additions were made in 2003 and in July 2007. 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 also works closely with Canada's Office of the Superintendent of Financial Institutions (OSFI) concerning the policies and procedures that reporting entities have in place for complying with the PCMLTFA.

FINTRAC's compliance program is risk-based and emphasizes awareness training, compliance examinations, disclosures to law enforcement of reporting entities' noncompliance, and minimizing the regulatory burden for obligated entities. During 2006 and 2007, over 14,000 individuals representing all reporting sectors participated in a variety of FINTRAC's awareness initiatives. FINTRAC has Memoranda of Understanding (MOUs) with Canadian national regulators, including OSFI and the Investment Dealers Association of Canada (IDA), as well as provincial regulators. These MOUs permit FINTRAC and the regulators to exchange compliance information. FINTRAC, together with national and provincial regulators, conducted a record number of compliance examinations across all reporting sectors in 2006 and 2007.

As Canada's FIU, FINTRAC 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. FINTRAC may only disclose information related to money laundering or terrorist financing offences. FINTRAC has access to other law enforcement and national security agencies databases through an MOU and, on a case-by-case basis, with other relevant agencies. FINTRAC received approximately 15 million reports from reporting entities in 2006 and 2007, which includes approximately 29,000 suspicious transaction reports (STRs), 6 million cash transaction reports, 50,000 cross-border reports, and 9 million electronic funds transfer reports (which includes funds that enter and exit the country). FINTRAC produced a total of 193 case disclosures in 2006 and 2007, totaling approximately \$10 billion. Of the 193 case disclosures, 152 were suspected money laundering, 33 were suspected terrorist activity, and 8 involved suspected money laundering, terrorist financing, and/or threats to the security of Canada. FINTRAC has the ability to exchange information with foreign FIUs through an MOU, and has signed over 45 MOUs with its counterparts. In 2006 and 2007, FINTRAC made 35 disclosures to 14 counterpart FIUs.

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 MOU on exchange of cross-border currency declarations expanded the extremely narrow disclosure policy. However, the scope of the exchange remains restrictive.

The PCMLTFA enables Canadian authorities to identify, deter, disable, prosecute, convict, and punish terrorist groups. The PCMLTFA expands FINTRAC's mandate to include counter-terrorist financing and 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 addition to new legislation, the GOC is undertaking other initiatives to bolster its ability to combat money laundering and terrorist financing. Canada's Department of Finance has created a public/private sector advisory committee to discuss matters of mutual interest in the ongoing fight against money laundering and counter-terrorist financing. In May 2006, the GOC announced that it had added in the 2006 budget approximately U.S. \$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 counter-terrorist 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 has longstanding agreements with the United States on law enforcement cooperation, including treaties on extradition and mutual legal assistance, as well as an asset sharing agreement. Canada has provisions for sharing seized assets, and exercises them regularly. The CBSA and the United States Department of Homeland Security Immigration and Customs Enforcement (ICE) are in the process of negotiating an MOU to share information on currency seizures.

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. On October 2, 2007, the GOC ratified the UN Convention against Corruption.

Canada is a member of the Financial Action Task Force (FATF) and underwent a mutual evaluation in early 2007. The results are expected to be released publicly via the FATF's website in 2008. Canada is a member of the Asia/Pacific Group on Money Laundering (APG), and also supports the Caribbean Financial Action Task Force (CFATF). 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 \$5 million over a five-year period to help establish the Secretariat.

Canada has demonstrated a strong commitment to combat money laundering and terrorist financing both domestically and internationally. In 2007, the GOC made strides in enhancing its anti-money laundering and counter-terrorist financing regime, and reducing its vulnerability to money laundering and terrorist financing. The GOC should continue to implement these efforts, particularly a system for administrative monetary penalties in 2008. The GOC should also ensure that its privacy laws do not excessively prohibit provision of information to domestic and foreign law enforcement that might lead to prosecutions and convictions. Such prohibitions also should not prohibit the exchange of information between FINTRAC and its counterpart FIUs, or information sharing on the cross-border movement of currency.

Cayman Islands

The Cayman Islands, a United Kingdom (UK) Caribbean overseas territory, continues to make strides in strengthening its anti-money laundering and counter-terrorist financing regime. However, the islands remain vulnerable to money laundering due to their significant offshore sector. Most money laundering that occurs in the Cayman Islands is primarily related to fraud (particularly securities fraud), drug trafficking, and tax evasion.

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. There are approximately 450 banks and trust companies, 8,600 funds, 740 captive insurance companies, and 62,572 exempt companies licensed or registered in the Cayman Islands. Shell banks are prohibited, as are anonymous accounts. Bearer shares can only be issued by exempt companies and must be immobilized. Gambling is illegal; and the Cayman Islands does not permit the registration of offshore gaming entities.

The Misuse of Drugs Law and the Proceeds of Criminal Conduct Law (PCCL) criminalize money laundering related to narcotics trafficking and all other serious crimes. A revision and consolidation of these laws has been proposed for enactment before the end of 2007. 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 was amended in May 2007 to incorporate terrorist financing offenses into the definition of money laundering.

The Cayman Islands Monetary Authority (CIMA) is responsible for the licensing, regulation and supervision of the Cayman Islands' financial industry, as well as monitoring the industry for compliance with its anti-money laundering and counter-terrorist financing (AML/CTF) obligations. The financial industry includes banks, trust companies, investment funds, fund administrators, insurance companies, insurance managers, money service businesses, and corporate service providers. These institutions, as well as most designated nonfinancial businesses and professions, are subject to the AML/CTF regulations set forth in the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands (Guidance Notes). The Guidance Notes are issued by the CIMA and were last amended in May 2007. With the enactment of the Money Laundering (Amendment) (No 2) Regulation 2007 on August 7, 2007, dealers in precious metals and precious stones are now included in the definition of relevant financial businesses, but have been given a transitional grace period until January 1, 2008, for compliance. The real estate industry is also subject to AML/CTF regulations, but the CIMA does not have responsibility for supervising this sector.

The CIMA conducts on-site and off-site examinations of licensees. These examinations include monitoring for compliance with the PCCL and the CIMA's Guidance Notes. The Guidance Notes require employee training, record keeping, and "know your customer" (KYC) identification requirements for financial institutions and certain financial services providers. The regulations require due diligence measures for 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 application of the AML/CTF measures to the financial sector and designated nonfinancial businesses is not based on risk assessment, although the CIMA does employ a risk-based approach to its on-site inspections.

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. A suspicious activity report (SAR) must be reported once it is known or suspected that a transaction may be related to money laundering or terrorist financing. There is no threshold amount for the reporting of suspicious activity. It is currently not an offense to tip off the subject of a SAR; however, this should be corrected with the upcoming consolidation of the PCCL with the Misuse of Drugs Law that is currently underway.

Money Laundering and Financial Crimes

Established under PCCL (Amendment) Law 2003, the Financial Reporting Authority (FRA) replaces the former financial intelligence unit of the Cayman Islands. The FRA is responsible for, among other things, receiving, analyzing, and disseminating SARs, including those relating to the financing of terrorism. The FRA began operations in 2004 and has a staff of six: 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 and includes as its members the Financial Secretary, the Managing Director of the Cayman Islands Monetary Authority, the Commissioner of Police, the Solicitor General, and the Collector of Customs. Obligated entities currently report suspicious activities to the FRA via fax, although the FRA plans to establish an electronic reporting system. Under the PCCL, the FRA has the authority to require all obligated entities to provide additional information related to a SAR.

The majority of SARs received by the FRA are submitted by banks, with 10 percent of the total SARs received submitted by lawyers. From July 1, 2006 to June 30, 2007 (the fiscal year of the FRA), the FRA received 219 SARs. As of August, the FRA had responded to nine requests for information from foreign FIUs in 2007, and sent an additional seven disclosures to foreign law enforcement or FIUs.

The Financial Crime Unit (FCU) of the Royal Cayman Islands Police (RCIP) is responsible for investigating money laundering and terrorist financing. The FCU works in conjunction with the Joint Intelligence Unit (JIU), which gathers and disseminates intelligence to domestic and international law enforcement agencies. The Legal Department of the Portfolio of Legal Affairs is responsible for prosecuting financial crimes. As of August, the FRA had sent two cases to the FCU for further investigation in 2007. There have been five money laundering convictions in the Cayman Islands since 2003.

On August 10, 2007, the Cayman Islands enacted the Customs (Money Declarations and Disclosures) Regulations, 2007. These regulations establish a mandatory declaration system for the inbound cross-border movement of cash and a disclosure system for money that is outbound. All persons transporting money totaling 15,000 Cayman Islands dollars (approximately \$18,000) or more into the Cayman Islands are required to declare such amount in writing to a Customs officer at the time of entry. Persons carrying money out of Cayman Islands are required to make a declaration upon verbal or written inquiry by a Customs officer.

The Cayman Islands has a comprehensive system in place for the confiscation, freezing, and seizure of criminal assets. In addition to criminal forfeiture, civil forfeiture is allowed in limited circumstances. Under the Misuse of Drugs Law and the PCCL, the courts can order the restraint of property upon application by a prosecutor. The FRA can also request a court order to freeze bank accounts if it suspects the account is linked to money laundering or terrorist financing. However, while the police may obtain production orders for the purposes of investigation and confidential information, there are no specific asset-tracing provisions. These will be provided for in the proposed consolidation of the PCCL and the Misuse of Drugs Law. Over \$120 million in assets has been frozen or confiscated since 2003.

The Cayman Islands is subject to the United Kingdom Terrorism (United Nations Measure) (Overseas Territories) Order 2001. 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. 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. While lists promulgated by the UN Sanctions Committee and other competent authorities are legally recognized, there is no legislative basis for independent domestic listing and delisting. The confiscation, freezing, and seizure of assets related to terrorist financing are permitted by law. Nonprofit organizations must

be licensed and registered, although there is no competent authority responsible for their supervision. There have been no terrorist financing investigations or prosecutions to date in 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). In June 2007, CFATF conducted its third mutual evaluation of the Cayman Islands. The evaluation team found the Cayman Islands to be compliant or largely compliant with 38 of the 49 Financial Action Task Force recommendations. The FRA is a member of the Egmont Group. The FRA currently has nine MOUs with FIUs in Australia, Canada, Chile, Guatemala, Indonesia, Mauritius, Nigeria, Thailand, and the United States.

The Government of the Cayman Islands should continue its efforts to implement its anti-money laundering and counter-terrorist financing regime. It should enact the proposed provisions to consolidate the Misuse of Drugs Law and the Proceeds of Criminal Conduct Law to criminalize tipping off the subjects of suspicious activity reports and to allow for asset tracing provisions. The Cayman Islands should also ensure that new provisions related to AML/CTF requirements for dealers in precious metals and stones and the disclosure/declaration system for the cross-border movement of currency are fully implemented.

Chile

Chile's has a large and well-developed banking and financial sector. The government is actively seeking to turn Chile into a global financial center and has signed 55 Free Trade Agreements with countries around the world. With the increase in legitimate trade and currency flows and the growing economy may come an increase in illicit activity and money laundering. Stringent bank secrecy laws emphasizing privacy rights have been broadly interpreted and hamper Chilean efforts to identify and investigate money laundering and terrorist financing. Chile's incomplete and still-developing regulatory oversight is an additional vulnerability.

In 2007, the Government of Chile (GOC) prosecuted its first four money laundering cases under the new penal system. In the first case, the defendant was found guilty of drug trafficking, but not money laundering. However, the sentence he received included the seizure of all his assets, not solely those tied to narcotics trafficking; thus, while not convicted of money laundering, he received the penalty associated with a money laundering conviction. The second and third cases were resulted in conviction on charges of money laundering as a result of plea bargaining, marking the first two recorded money laundering convictions under the new penal system. The fourth case, however, resulted in a conviction of money laundering by the trial judges. The accused in this case laundered money from the proceeds of drug trafficking in Europe and was sentenced to six years in prison, with all of his assets confiscated.

Chile criminalized money laundering under Law 19.366 of 1995, Law 19.913 of 2003, and Law 20.119 of 2006. Under Law 19.913, predicate offenses for money laundering include narcotics trafficking, terrorism in any form and the financing of terrorist acts or groups, illegal arms trafficking, kidnapping, fraud, corruption, child prostitution and pornography, and some instances of adult prostitution. Chile has yet to widen the scope of money laundering to apply it to other types of crimes such as trafficking in persons, intellectual property rights violations, and extortion. Detection methods, particularly when not tied to drug trafficking, are still weak. Thus, while most money laundering thus far discovered is tied to drug dealing, it is difficult to determine whether the majority of money laundering in Chile truly is tied to this crime.

Money Laundering and Financial Crimes

Law 19.913 created Chile's financial intelligence unit, the Unidad de Análisis Financiero (UAF), as an autonomous agency affiliated with the Ministry of Finance. The UAF currently has a staff of 21, and has received approval in the budget for 2008 to expand to 31 employees. Law 19.913 requires mandatory reporting of suspicious transactions to the UAF by banks and financial institutions, financial leasing companies, general and investment funds-managing companies, pension fund administration 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. Law 20.119 now also subjects pension funds and sports clubs to reporting requirements. Dealers in jewels and precious metals, and intermediaries (such as lawyers and accountants) are not subject to reporting requirements.

In addition to filing suspicious transaction reports (STRs), Law 19.913 also requires that obligated entities maintain registries of cash transactions that exceed 450 unidades de fomento (UF) (approximately \$17,000). 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 UAF requires banks to submit CTRs every month, and money exchange houses and most other obliged institutions every three months. Some specific institutions without a high amount of cash transactions (e.g. notaries) may submit CTRs 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. As of September, the UAF had received 1,839 CTRs and 301 STRs in 2007.

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. Twenty-four banks joined together to appeal this regulation, claiming compliance would violate bank secrecy and expose them to lawsuits. The court of appeals ruled in favor of the banks, which are no longer subject to Resolution 120. The physical transportation of cash exceeding \$10,000 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 daily. However, Customs and other law enforcement agencies are not legally empowered to seize or otherwise stop the movement of funds, and the GOC does not impose a significant penalty for failing to declare the transportation of currency in excess of the threshold amount.

Law 20.119 authorizes the UAF to impose sanctions on obligated entities for noncompliance with requirements to establish an anti-money laundering and counter-terrorist financing (AML/CTF) system or reporting suspicious/cash transactions. In 2007, the UAF identified several cases of failure to report suspicious activity or to establish an AML/CTF system. It sanctioned some nonbank financial institutions for the first time this year by either fining the institution, or by sending it a letter stating the institution was sanctioned. If the organization is not found to be compliant within a year, it can be subject to three times the maximum fine for being sanctioned twice in a year. The UAF may also access any government information (police, taxes, etc.) not covered by secrecy or privacy laws. The UAF does not have regulatory responsibilities, but can issue general instructions on reporting obligations, such as requiring reporting entities to report any transactions by persons suspected of terrorist financing.

The Superintendence of Banks and Financial Institutions (SBIF) supervises banks in Chile, and stock brokerages, securities firms, and insurance companies are under the supervision and regulation of the Superintendence of Capital Markets. Chile's anti-money laundering laws oblige banks to abide by "know-your-customer" standards and other money laundering controls for checking accounts. However, the same compliance standards do not apply to savings accounts. Only a limited number of

banks rigorously apply money laundering controls to noncurrent accounts. Banks and financial institutions must keep records with updated background information on their clients throughout the period of their commercial relationship, and maintain records for a minimum of five years on any case reported to the UAF. The UAF has expressed concern about the quality of STRs, but is the organization responsible for working with reporting entities to improve quality. Bank compliance officers complain that, while the UAF has criticized the quality of their reports, it has provided no training to teach them how to improve. The UAF and the Banking Association have asked representatives from Colombia's FIU to provide training to the banks in 2008. None of the money laundering cases that have gone to trial in Chile to date were referred by the UAF, nor did they contain evidence provided by banks, though money passed through banks in all of the cases.

Insufficient supervision and the lack of a definition of "suspicious activity" for nonbank and nonfinancial institutions continue to be identified as deficiencies in the GOC's AML/CTF regime. Each entity independently decides what constitutes irregularities in financial transactions. Nonbank financial institutions, such as money exchange houses and cash couriers, do not fall under the supervision of any regulatory body for compliance with AML/CTF standards. In Santiago alone there are more than 60 exchange houses (approximately 114 nationwide), many of which do not record or share with other exchange houses any information about their customers. The GOC is aware of the need for regulation of these entities. As of May 2007, nonbank financial institutions must obtain contact information and a declaration of origin statement from individuals carrying out transactions of more than \$5,000. These institutions must also report transactions of up to \$4,999 to the UAF if they are considered to be suspicious. Nevertheless, the lack of supervision, training in the 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 (SCJ), which is in charge of drafting regulations about casino facilities, and the administration, operation and proper development of the industry. Online gambling is prohibited except for the Internet purchase of lottery tickets from one of Chile's two lotteries. Eight casinos are currently operating throughout the country. The SCJ has oversight powers and regulatory authority over the industry but no law enforcement authority. Under Law 19.995, the SCJ granted authorization for 15 casinos to operate in Chile after participating in an international and domestic bidding process to assign permits during 2005 and 2006. One new casino opened in 2007, and nine are expected to open in 2008. By 2009, a total of 22 casinos will be fully operational and under the oversight authority of the SCJ. The SCJ screened applications for the new casino licenses with the support of domestic and international police and financial institutions. However, Chilean law limits the SCJ to 270 days for the entire background check and determination of whether to issue a license.

Law 19.913 requires casinos to keep a record of all cash transactions over UF 450 (the equivalent of approximately \$17,000), and to designate a compliance officer. However, in July 2007, the UAF instructed casinos to identify, know, and maintain records on all customers—Chileans and foreigners—who carry out any transaction over \$3,000. The SCJ also requires the casinos to prepare and submit for approval manuals detailing their AML/CTF plan. The SCJ is working to establish additional regulations, internal control standards, and standardized forms to improve their ability to monitor the growing number of casinos. Chile's Finance Ministry, in cooperation with the SCJ, presented to Congress a draft law addressing some of the weaknesses of Chile's gaming law. The draft law, if it passes, will provide increased regulatory authority to the SCJ and prohibit individuals without licenses from operating electronic gambling games.

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 is responsible

for receiving and investigating all cases from the UAF and has up to two years to complete an investigation and begin prosecution. In 2007, the UAF referred seven cases to the Public Ministry.

The Public Ministry's unit for money laundering and economic crimes has been proactive in investigating crimes, and pursuing training opportunities to further educate its prosecutors and other players in the criminal justice process. The money laundering unit is also developing a manual for prosecutors trying drug cases. The manual provides practical steps to investigate assets so as to identify possible money laundering as well as drug trafficking. They have also established a computer link with the tax service, SBIF, and other relevant agencies to access information that is not protected by bank and tax secrecy laws.

The Chilean investigative police (PICH) and the uniformed national police (Carabineros) work in conjunction with the Public Ministry on money laundering investigations. They also cooperate with U.S. and regional law enforcement in money laundering investigations. In 2004, Customs agents at Santiago's airport alerted the newly formed UAF of cash couriers bringing large amounts of euros to Chile from Colombia. After analysis, the UAF referred the case to the CDE (the precursor to the Public Ministry), which formally opened an investigation. The PICH's anti-money laundering unit and DEA uncovered an international money laundering scheme in which employees of some cash exchange houses carried euros and U.S. dollars from Colombia to Chile. The money was then carried by Chilean employees on commercial flights to the United States where it was deposited in banks and returned to Colombia in pesos. Through Chilean/DEA cooperation, arrests were made in Chile and the U.S. simultaneously and the money laundering ring was broken.

The police are competent and well-trained, but many are new to investigating financial crimes. Many complain of 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 police must request financial information from the Public Ministry, which in turn requests it from the UAF. The UAF responds with all available information; however, much financial and tax information is protected through Chile's strict secrecy laws.

Bank secrecy is the most often identified obstacle to money laundering investigations identified by the police and prosecutors. Article 154 of the General Banking Law states that deposits and obligations of any kind shall be subject to banking secrecy, and information about such transactions may only be provided to the depositor or creditor (or an authorized legal representative). Law 707 also states that banks may not share information about the movement and balances in a current account with a third party. To avoid possible lawsuits, banks do not share information with prosecutors unless the prosecutors produce a judicial order. Thus, bank compliance officers are restricted to simply reporting suspicious activity and then waiting for the appropriate court authorization to release any private information. Many banks respond quickly to requests for information from the UAF, but are slow to reply to judicial court orders to provide prosecutors with additional information. When they do reply, they often provide incomplete information. Police and prosecutors complain they lose valuable time waiting at least a month (but usually more) for banks to provide incomplete information. Judges can require the detention of the bank's general manager until all information is disclosed, but this tool is rarely used. In the instances when the judge has issued the order for the general manager's detention, bank information was provided immediately.

Under Law 20.119, the Public Ministry can, with the authorization of a judge, lift bank secrecy provisions to gain account information if the account is directly related to an ongoing case. Unless a suspicious transaction report has been filed on an account, prosecutors and the UAF must get permission from a judge to examine an account. The process is often subject to the determination of judges who have received little training in financial crimes. The judges must decide if the prosecutors have presented sufficient evidence to warrant lifting bank secrecy. However, this process often prohibits prosecutors and the UAF from accessing the information they would need to convince a

judge of suspicious activity. The UAF has made approximately 10 requests per year, petitioning a judge only when confident the request would be granted. All requests have been granted within 24 hours, but the system does not yet encourage aggressive examination of suspicious activity on the part of the UAF, and time is lost in the preparation of the case for the judge.

A draft law currently under discussion in a committee of Chile's House of Representatives would facilitate easier access to bank and tax records for the UAF and prosecutors in certain instances. If passed, this law would bring Chile more into greater compliance with the Financial Action Task Force (FATF) Recommendations, and UN resolutions on terrorist financing. The draft law has been sitting in the Congressional commission since it was introduced in May 2007. Without urgent status granted to it by the President, it appears unlikely to work its way through the legislative process quickly. The Organization for Economic Cooperation and Development (OECD), to which Chile hopes to accede, criticized Chile's bank secrecy laws in October 2007. Chile's Foreign Minister used the opportunity to encourage passage of the draft law.

Law 19.913 contains provisions that allow prosecutors to request that assets be frozen only when tied to drug trafficking. No provisions have been made for freezing assets under other circumstances, including assets of individuals or companies designated by UN Security Council Resolution 1267. 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. Chilean law does not permit the seizure of substitute assets or civil forfeiture. The same draft law that would facilitate lifting bank secrecy for the UAF and Public Ministry would allow for the freezing of assets in cases of suspected terrorist financing and would enable Chile to share seized assets with other governments. The draft law would also ensure assets seized in money laundering convictions would go, at least in part, to law enforcement rather than only to drug rehabilitation programs. A total of \$2 million in assets were seized in money laundering investigations in 2007.

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. All companies in the free trade zone are reporting entities and must report any suspicious activity to the UAF. Due to weak detection methods, determining the extent of money laundering in the free trade zones is virtually impossible. Iquique appears to be the primary conduit for counterfeit goods into Chile, and one of the main conduits of counterfeit goods moving to the Tri-Border Area between Brazil, Paraguay, and Argentina. Chilean resources to combat this issue are extremely limited. Police investigative efforts suggest possible criminal links between Iquique and the Tri-Border Area involving both terrorist financing of Hizballah and Hamas and money laundering.

Law 18.314 and Law 19.906 criminalize terrorist financing in Chile. Law 19.906 modifies Law 18.314 to more efficiently sanction terrorist financing in conformity with the UN International Convention for the Suppression of the Financing of Terrorism. Under Law 19.906, 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. The UAF also posts the 1267 list on its website and has instructed all reporting entities to report any transactions by those on the list. The GOC has not identified any terrorist assets belonging to individuals or groups named on the list to date in Chile. Law enforcement lacks tools to investigate terrorist financing; undercover operations, for example, are not permitted for such investigations.

The GOC does not monitor transactions outside of Chile to prevent terrorist financing, nor does it regulate nongovernmental organizations (NGOs). Nonprofit organizations must register at the Justice

Ministry, but this Ministry has no regulatory responsibility over them. In response to the evaluation of Chile by the Financial Action Task Force of South America (GAFISUD), which was released in December 2006, the Finance Ministry initiated discussions with the Superintendence of Banks and the Superintendence of Capital Markets to identify the best way to monitor NGOs; these discussions have not yet reached conclusions.

Chile is 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 on Terrorism. Chile is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and GAFISUD. The UAF is a member of the Egmont Group of financial intelligence units and serves as one of the representatives 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 32 other jurisdictions.

The GOC is proactive in pursuing partnerships with other countries. It signed an agreement with Colombia in 2007 to cooperate on terrorism and economic crimes. There is no regular, formal exchange of records with the United States, but case-specific cooperation and exchange of records is very strong. Negotiations with Chile on the FBI's South American Fingerprint Exploitation (SAFE) project, whereby Chile and U.S. would share fingerprint records of criminals, are ongoing. As part of Chile's strategy to access the OECD, Chile participates, as an observer or invitee, in 18 OECD Committees and Working Groups, including the Working Group on Bribery and Transnational Crimes.

The first money laundering conviction by judges under the new judicial system demonstrates a significant step in the Government of Chile's anti-money laundering regime. However, it remains to be seen if the system will be successful in convicting money launderers without ties to drug trafficking. Issues of limited access to information for the Public Ministry, the PICH, and the Carabineros and inter-agency conflict should be resolved. Reporting entities should be adequately supervised, receive sufficient training in determining suspicious activity, and monitored for compliance with reporting requirements. The GOC should ensure the passage of the draft law currently sitting in the lower house of Congress to allow for the lifting of bank secrecy and the freezing of assets. Passage of this law would bring Chile closer to compliance with its UNSCR 1267 obligations and FATF Recommendations. The GOC should also increase government oversight of nonfinancial institutions, allow for greater access to information for the UAF and other key agencies, and enhance inter-agency cooperation to improve Chile's ability to combat money laundering and terrorist financing.

China, People's Republic of

Over the past five years, the Government of the People's Republic of China has made significant progress in developing anti-money laundering and counter-terrorist financing measures including through legislative reform, strengthening enforcement mechanisms, and international cooperation efforts. However, money laundering remains a serious concern as China restructures its economy and develops its financial system. Narcotics trafficking, smuggling, trafficking in persons, counterfeiting of trade goods, fraud, tax evasion, and other financial crimes are major sources of laundered funds. Most money laundering cases currently under investigation involve funds obtained from corruption and bribery. Chinese officials have noted that most acts of corruption in China are closely related to economic activities and accompanied by illegal money transfers. Proceeds of tax evasion, recycled through offshore companies, often return to China disguised as foreign investment and, as such, receive tax benefits. Underground banking and trade-based money laundering are an increasing concern. According to the International Monetary Fund, money laundering in China may total as much

as U.S. \$24 billion per year and officials with the People's Bank of China reported a total of 1,239 cases involving illicit money flows involving 362.6 billion Chinese yuan renminbi (RMB) (approximately U.S. \$45.3 billion) in 2006.

The People's Bank of China (PBC), China's central bank, maintains primary authority for anti-money laundering and counter terrorist finance coordination. The PBC also shares some anti-money laundering responsibilities with other financial regulatory agencies, including: the China Banking Regulatory Commission (CBRC), which supervises and regulates banks, asset management companies, trust and investment companies, and other deposit-taking institutions; the China Insurance Regulatory Commission (CIRC), which supervises the insurance sector; and the China Securities Regulatory Commission (CSRC), which supervises the securities sector. The Ministry of Public Security's Anti-Money Laundering Division and Anti-Terrorism Bureau lead anti-money laundering and counter-terrorist finance-related law enforcement efforts.

Within the PBC's Financial Intelligence Unit (FIU), the Anti-Money Laundering Bureau (AMLB) handles the coordination of all anti-money laundering programs and carries out administrative and policy oversight, while the China Anti-Money Laundering Monitoring and Analysis Center (CAMLMAC) collects, analyzes, and disseminates suspicious transaction reports and currency transaction reports. According to CAMLMAC, which was established in 2004, 683 reports on suspicious transactions, involving RMB 137.8 billion (approximately U.S. \$18.9 billion), were identified for further investigation by the end of 2005. From July 1, 2005 to June 30, 2006, CAMLMAC received 619,962 RMB suspicious transaction reports and 2,245,267 foreign currency suspicious transactions. The 2007 FATF mutual evaluation of China noted that consideration should be given to the problem of how to effectively manage and exploit such a large volume of STRs coming directly to CAMLMAC, which has a staff of only sixty people.

Since its inception, the FIU has transferred 57 files (involving about 80,000 separate suspicious transactions) to the Ministry of Public Security (MPS) for investigation. Nine referrals have resulted in cases being filed for investigation; and one has been referred for prosecution. Since October 2005, approximately ten suspicious transaction dossiers have been transferred to other agencies, including five to the Ministry of State Security (MSS). Four of these cases are still being investigated by the MSS. The other referral was closed after investigation.

The MPS is China's main law enforcement body, responsible for following up on STRs and for guiding and coordinating public security authorities across China in investigations involving money laundering and the seizure, freezing and confiscation of proceeds of crime. Most of these responsibilities are concentrated in the AML Division of the MPS Economic Crime Investigation Department (ECID). The Anti-Terrorism Bureau of the MPS is responsible for investigating general crimes relating to terrorist financing. Crimes against state security (including terrorism and related crimes) are the responsibility of the Ministry of State Security (MSS). The Supreme People's Procuratorate (SPP) supervises and directs the approval of arrests, prosecution, and supervision of cases involving money laundering crimes. The Supreme People's Court (SPC) supervises and directs the trial of money laundering crimes. Both can issue judicial interpretations. Law enforcement agencies are authorized to use a wide range of powers, including special investigative techniques, when conducting investigations of money laundering, terrorist financing and predicate offences. These powers include seizing articles relevant to the crime, including all (customer) records held by financial institutions. Reportedly, law enforcement and prosecutorial authorities currently focus on pursuing predicate offences, to the exclusion of AML/CTF.

China has criminalized money laundering under three separate articles of the Penal Code. Article 349 of the Penal Code was introduced in December 1990 to criminalize the laundering of proceeds generated from drug-related offenses. In June 2006, Article 191 of the Penal Code was amended to expand the criminalization of money laundering to seven predicate offenses, which now include fraud,

Money Laundering and Financial Crimes

bribery, and embezzlement, in addition to narcotics trafficking, organized crime, smuggling, and terrorism. Article 312 was also amended in June 2006 to make it an offense to launder the proceeds of any crime through a variety of means, and it criminalizes complicity in concealing the proceeds of criminal activity.

A new Anti-Money Laundering Law, which covers AML/CTF preventative measures for the entire financial system, took effect January 1, 2007. The law broadened the scope of existing anti-money laundering regulations by mandating that financial institutions maintain thorough records on accounts and transactions, and report large and suspicious transactions. These actions firmly established the PBC's authority over national anti-money laundering efforts.

The PBC executed a revised regulatory framework in early 2007 to support the new Anti-Money Laundering Law. "Rules for Anti-Money Laundering by Financial Institutions" (AML Rules) took effect January 1, 2007, and "Administrative Rules for Reporting of Large-Value and Suspicious Transactions by Financial Institutions" (LVT/STR Rules) took effect March 1, 2007. Under the revised rules, all financial institutions-including securities, insurance, trust companies and futures dealers are considered accountable for managing their own anti-money laundering mechanisms and must report large and suspicious transactions. The LVT/STR Rules were amended on June 21, 2007 to require financial institutions to report suspicious transactions related to terrorist financing.

Under the AML and LVT/STR Rules, any cash deposit or withdrawal of over RMB 200,000 or foreign-currency withdrawal of over U.S. \$10,000 in one business day must be reported within five days electronically or within 10 days in writing to the PBC Financial Intelligence Unit. Money transfers between companies exceeding RMB 2 million (approximately U.S. \$274,000) in one day or between an individual and a company greater than RMB 500,000 (approximately U.S. \$68,500) must also be reported. The new rules also require that all financial institutions submit monthly reports outlining suspicious activities and retain transaction records for five years. Financial institutions that fail to meet reporting requirements in a timely manner are subject to a range of administrative penalties and sanctions including having their licenses or business operations suspended.

The Administrative Rules for Financial Institutions on Customer Identification and Record Keeping of Customer Identity and Transaction Information (CDD Rules) became effective on August 1, 2007. These rules require all financial institutions to identify and verify their customers, including the beneficial owner. Specific requirements relating to the identification of legal persons (e.g. requirements to verify their legal status by obtaining proof of incorporation) have been extended to all financial institutions. The CDD Rules also introduce specific requirements for financial institutions in relation to foreign Politically Exposed Persons (PEPs), including having to obtain approval from senior management before opening an account and determining the source of funds.

China has implemented a cross-border disclosure/declaration system operated by the General Customs Administration (GCA). All cross-border transportations of cash exceeding RMB 20,000 for local currency (approximately U.S. \$2,740) or for foreign currency must be declared. Bearer negotiable instruments do not need to be declared, but cross-border transportation of RMB through the mail system or in vehicles is not permitted. China has also implemented a disclosure system based on a risk-based targeting system. The GCA is authorized to conduct checks of persons entering or leaving the country, seize undeclared cash, and question, detain and sanction anyone who violates any requirement. Those who carry out physical cross border transportation related to money laundering or terrorist financing are also subject to criminal sentences. New provisions allowing the use of RMB in Hong Kong have also created loopholes for money laundering activity. From January 2005 to October 2006, there were 4,926 cases involving travelers who did not disclose cash being carried, but this data is not effectively being utilized for money laundering or terrorist financing investigations. .

China's cash-based economy, combined with robust cross-border trade, contributes to a high volume of difficult-to-track large cash transactions. While China is proficient in tracing formal financial

transactions, the large size of the informal economy—estimated by the Chinese Government at approximately ten percent of the formal economy, but quite possibly much larger—means that tracing informal financial transactions presents a major obstacle to law enforcement. Anti-money laundering efforts are further hampered by the prevalence of counterfeit identity documents and underground banks, which in some regions reportedly account for over one-third of lending activities. Only banks are authorized to provide money or value transfer services in China. Banks are not allowed to have agents that could offer such services. According to Article 174 of the Penal Code, it is a criminal offense to operate an illegal financial institution or provide financial services illegally in China. Authorities have expressed concern that criminal or terrorist groups could exploit underground banking mechanisms to bypass law enforcement. According to the FATF, China has had some success at combating illegal underground banking. Authorities destroyed 47 underground banks in 2005; in 2006, Chinese police uncovered seven underground banks and seized laundered assets totaling more than 14 billion RMB (approximately U.S. \$1.92 billion).

The extent of underground banking's link to the large expatriate Chinese community is not known. Traditionally, "flying money" or fei-chien networks, are operated by money changers, gold shops, and trading companies. The international Chinese underground banking system is dependent on close associations and family ties that are resistant to most law enforcement countermeasures. Value transfer via trade goods, including barter exchange, is a common component in Chinese underground finance. Many Chinese underground trading networks in Africa, Asia, the Middle East, and the Americas are involved in the trade of Chinese-manufactured counterfeit goods, in violation of intellectual property rights. There are reports that the proceeds of narcotics produced in Latin America are laundered via trade by purchasing Chinese manufactured goods (both licit and counterfeit) in an Asian version of the Black Market Peso Exchange.

To remedy information deficiencies, the PBC launched a national credit-information system in January 2006. Although still very limited, this system allows banks to have access to information on individuals as well as on corporate entities. The new Anti-Money Laundering Law also explicitly prohibits financial institutions from opening or maintaining anonymous accounts or accounts in fictitious names, and PBC rules obligate financial institutions to perform customer due diligence, regardless of the type of customer (business or individual), type of transaction, or level of risk.

To address online fraud, the PBC has tightened regulations governing electronic payments. In 2005, the PBC announced new rules prohibiting consumers from making online purchases of more than RMB 1,000 (approximately U.S. \$137) in any single transaction or more than RMB 5,000 (approximately U.S. \$688) in a single day. Enterprises are limited to electronic payments of no more than RMB 50,000 (approximately U.S. \$6,900) in a single day. In March 2007, Chinese regulators announced additional online restrictions regarding the use "virtual money;"—online credits sold by websites to customers to pay for games and other web-based services—amidst rumors that such credits were being used to launder money.

China is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. In 2006, China became a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Corruption.

China has signed mutual legal assistance treaties with over 24 countries and has entered into some 70 MOUs and cooperation agreements with over 40 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 enforcement issues under the auspices of the U.S./China Joint Liaison Group's (JLG) subgroup on law enforcement cooperation.

In addition, the United States and China have established a Working Group on Counterterrorism that meets on a regular basis. China has established similar working groups with other countries as well.

China has signed extradition agreements with 30 countries to make it more difficult for economic criminals to seek shelter abroad. According to China's Ministry of Public Security, approximately 800 Chinese economic crime suspects have reportedly fled abroad with more than 70 billion RMB (approximately U.S. \$9.1 billion) involved.

In late 2004, China joined the Eurasian Group (EAG), a FATF-style regional body that includes Russia, Belarus, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. In January 2005, China became an observer to the FATF and gained full membership in June 2007. FATF published its Mutual Evaluation Report on China in June 2007. China's FIU has applied for membership to the Egmont Group.

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 counter-terrorist financing resolutions. According to the FATF, China has not implemented UNSCR 1267 and UNSCR 1373 in a manner that meets the specific requirements of FATF Special Recommendation III. China's primary domestic concerns with terrorist financing focus on the western Xinjiang Uighur Autonomous Region. Terrorist financing is a criminal offense in China. However, the terrorist financing laws lack clarity in a number of critical areas.

The Chinese Government significantly strengthened its anti-money laundering regime through legislative and regulatory reforms, law enforcement mechanisms, and membership in international organizations, in particular the FATF. The Chinese Government should continue to build upon actions taken in recent years to develop a viable anti-money laundering/counter-terrorist financing regime consistent with international standards. Important steps include expanding the list of predicate crimes to include terrorism, including terrorist financing, as a predicate offense. China should continue to develop a regulatory and law enforcement environment designed to prevent and deter money laundering, and it should raise awareness within the judiciary of money laundering as a criminal offense. China should ensure that law enforcement and prosecutorial authorities specifically pursue money laundering and terrorist financing offenses, and not simply treat them as a subsequent byproduct of investigations into predicate offenses. China's Anti-Money Laundering Law and related regulations should also apply to a broader range of nonfinancial businesses and professions. The application of sanctions for noncompliance with requirements that financial institutions perform customer identification, due diligence, and record keeping should be assessed to ensure that they have a genuinely dissuasive effect. In addition to strengthening its counter-terrorism finance regime, Chinese law should specifically define the term "terrorist activities" to be consistent with international standards. The Penal Code should also specify the definition of "funds" and criminalize the act of collecting funds for terrorist purposes. In addition, China should strengthen its mechanisms for freezing terrorist assets. Chinese law enforcement authorities should examine domestic ties to the international network of Chinese expatriate brokers and traders that are often linked to underground finance, trade fraud, and trade-based money laundering.

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 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 constrain improvements.

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 U.S. Government-designated terrorist organizations. The GOC and U.S. law enforcement agencies closely monitor 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 resulting from Colombia's drug trade.

Colombia's economy is robust and diverse and is fueled by significant export sectors that ship goods such as coal, petroleum products, 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.

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, its scope has decreased in recent years. The GOC continues to implement steps to ensure the integrity of its most sensitive institutions and senior government officials.

Money launderers in Colombia employ a wide variety of techniques, and frequently use such methods as the Black Market Peso Exchange and contraband trade to launder the proceeds of illicit activities. Colombia's financial intelligence unit (FIU), the Financial Information and Analysis Unit (Unidad de Información y Análisis Financiero or UIAF) has identified more than ten techniques alone for laundering money via contraband trade. Colombia also appears to be a significant destination and transit location for bulk shipment of narcotics-related U.S. currency and EU euros. Local currency exchangers convert narcotics currency to Colombian pesos and then ship the U.S. dollars and euros 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 and stored value 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 and stored value cards, Internet banking, and the dollarization of the economy of neighboring Ecuador represent some of the growing challenges to money laundering enforcement in Colombia.

Colombia has broadly criminalized money laundering. Under legislation passed in 1995, 1997, and 2001, the GOC has established the "legalization and concealment" of criminal assets as a separate criminal offense, and 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. Under a new law approved in 2006, penalties under the criminal code for money laundering and terrorist financing range from eight to 22 years with fines from 650 to 50,000 times the current legal minimum salary. 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.

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. In 2007, the Superintendence of Finance issued a circular requiring entities under its authority to implement a new consolidated risk monitoring system that includes risk prevention and control measures based on international standards by January 1, 2008.

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 FIUs in Central and South America. 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, notaries, casinos, lottery operators, car dealers, and foreign currency traders, are required to report suspicious transactions 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 U.S. \$5,000. The UIAF requires exchange houses to provide data on all transactions above U.S. \$200. In 2007, 7,136 suspicious transaction reports (STRs) were filed through the month of September, with 58 percent of STRs deemed by UIAF to merit further investigation by their analysis unit. The Fiscalía (National Prosecutor's Office) reported 48 convictions for money laundering in 2007.

In 2006, the UIAF inaugurated a new centralized data network connecting 15 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 facilitates greater cooperation among government agencies in preventing money laundering and other financial crimes. As of October 2007, the UIAF's database contained over 525 million transaction and activity reports. Between 2000 and September 2007, the UIAF provided authorities with 610 financial intelligence reports pertaining to 32,774 individuals, 2,031 businesses, and approximately U.S. \$3.5 billion in transactions.

Given concerns about bulk cash smuggling, the GOC requires individual cash transactions above U.S. \$5,000 or combined monthly transactions above U.S. \$50,000 to be handled through the formal financial system, which is subject to the UIAF reporting requirements. It is illegal to transport more than the equivalent of US\$ 10,000 in cash across Colombian borders, and the GOC has criminalized cross-border cash smuggling and defined 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 customs officials often lack the proper technical equipment necessary to do their job. The GOC has been slow to make needed changes in this area.

In July 2007, the Drug Enforcement Administration (DEA) and the Department of Homeland Security's Immigration and Customs Enforcement (ICE) agency seized approximately 20 million

euros and U.S. dollars at the Miami International Airport belonging to several casas de cambio. Documents seized indicated that five of the ten registered Colombian casas de cambio had sent the currency to the United States with an ultimate destination of London. News reports in the Colombian press widely reported the downward effect on the black market currency exchange rate in Colombia resulting from these seizures. One of the five implicated financial institutions was Cambios y Capitales, which was designated by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) on October 10, 2007, as one of seven individuals and 14 companies tied to Specially Designated Narcotics Trafficker Juan Carlos Ramirez Abadia (alias "Chupeta"). Chupeta was arrested in Brazil on July 3, 2007, and is awaiting extradition to the U.S.

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. Law 793 of 2002 eliminates 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 is shorter and the focus is on 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, the National Drug Directorate (DNE) has the authority to conduct interlocutory sales of seized assets and contract with entities for the management of assets. Law 785 also permits provisional use of seized assets prior to a final forfeiture order, including assets seized prior to the enactment of the law.

In spite of improvements to the GOC's asset forfeiture capabilities, a number of 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 decisions remains slow compared to new seizures. Until this year, prosecutors had limited discretion on asset seizures and had to seize all assets associated with a case, including those of minimal value or those that clearly risk loss under state administration, such as livestock. However, in November 2007, the Attorney General approved pre-seizure guidelines, applicable to forfeitures nationwide, which will require an evaluation of an asset's worth prior to seizure, and made other significant changes to the manner in which seizures for forfeiture will be conducted. The guidelines were also approved by the DNE Director. 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. In 2007, the DNE and the Fiscalia concluded their work with the U.S. Department of Justice to establish regulations and guidelines that would give Colombian prosecutors authority not to seize assets of limited value. These guidelines will also aid DNE in its task of managing the assets under its control.

The GOC pursues the seizure of assets obtained by drug traffickers through their illicit activities. For the last four years, the Sensitive Investigations Unit (SIU) of the Colombian National Police (CNP), in conjunction with U.S. law enforcement and the Colombian Fiscalia have been investigating the Cali and North Valle cartels' business empires, including the Rodriguez Orejuela brothers, the Grajales family, and Juan Carlos Ramirez Abadia ("Chupeta"). The Cali and Norte Valle cartels, as well as their leaders and associated businesses, are on the OFAC list of Specially Designated Narcotics Traffickers (SDNTs), pursuant to Executive Order 12978. The Executive Order imposes economic sanctions authorities to attack the financial empires built by Colombian narcotics traffickers.

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. In August 2007, OFAC added dozens of businesses and front men tied to Chupeta's financial empire to its list of SDNTs. In September 2007, the Colombian National Police and Colombian Fiscalia seized 332 business entities and assets tied to Chupeta, which were valued at

approximately U.S. \$400 million. These entities and assets included office buildings, a resort hotel, night clubs, and an amusement park. In October 2007, OFAC added additional businesses and front men tied to Chupeta's financial empire to its list of SDNTs. These joint actions to apply economic sanctions have 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 to seize narcotics-related assets.

In 2007, several major investigations by DEA and the SIU of the Department of Administrative Security (DAS) resulted in arrests and seizures of major money laundering organizations operating between the countries. These included Operation Rock Salt, which resulted in 60 arrests for money laundering in Italy and Colombia, and the seizure of \$39 million in business entities and assets in Colombia. An additional \$10 million was seized under Operation Plata Sucia, which led to the arrests of 28 money launderers in Colombia and the United States, and the seizure of \$5 million, 65 kilograms of heroin, and 60 kilograms of cocaine in the United States in 2006. Extradition requests to the United States are pending in many of the arrests for Operation Plata Sucia. 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.

ICE 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). The DIJIN has successfully initiated investigations against money laundering organizations in Colombia as well as pursued leads received from on-going U.S. investigations which have resulted in significant arrests and seizures. These include Operation Goldmine, which targeted an organization utilizing textiles as a means to launder narcotics proceeds between the U.S. and Colombia. This investigation led to 32 indictments in the U.S. and the seizure of over \$9 million. The DIJIN also successfully targeted the money-laundering infrastructure of Norte Valle Cartel leader Luis Hernando Gomez Bustamante. Coordinating actions with ICE domestic and foreign offices lead to the arrest of high-level members of this organization, which have been extradited to the U.S. from Colombia and other countries, to include its leader.

ICE has also helped Colombia establish a Trade Transparency Unit (TTU) with the GOC to aggressively target trade-based money laundering organizations that facilitate the movement of criminal proceeds across borders. TTUs provide a mechanism for the GOC and the USG to identify existing vulnerabilities in both U.S. and foreign financial and trade systems, and to jointly work associated criminal investigations. Colombia's TTU is one of four established foreign TTUs, and includes members from the Directorate of Customs and Revenue (DIAN), UIAF, and DIJIN.

Terrorist financing is now an autonomous crime in Colombia. A new law entered into effect in 2007 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 new law allows the UIAF to receive STRs regarding terrorist financing, and freeze terrorists' assets immediately after their designation. In addition, banks are now held responsible for their client base and must immediately inform the UIAF of any accounts held by newly designated terrorists. Banks also have to screen new clients against the current list of designated terrorists before the banks are allowed to provide prospective clients with services. To fulfill increased monitoring requirements, the GOC increased the size of UIAF staff to 65 positions and authorized the creation of new subdivisions for Information Management and Legal Affairs.

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.

The GOC is a member of GAFISUD. However, as a result of the GOC's failure to pay its membership dues dating back to 2004 (totaling approximately \$87,000), GAFISUD placed sanctions on Colombia in July and suspended its membership on December 1. According to GOC officials, legislation must be passed to authorize the GOC to pay its membership dues; past dues had been paid without legal authorization. At its December plenary meeting, GAFISUD agreed to reinstate Colombia's membership, but the GOC's participation in GAFISUD-sponsored events is limited, and the GOC does not have a voice at GAFISUD plenary meetings. The GAFISUD Secretariat will send a letter to the President of Colombia outlining its concerns and a high-level delegation from various GAFISUD member countries will meet with GOC officials in 2008.

Colombia is a member the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Money Laundering Experts Working Group. The UIAF is a member of the Egmont Group, and has signed memoranda of understanding with 27 FIUs around the world. The GOC is a party to the 1988 UN Drug Convention, the International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime. The GOC has signed, but not yet ratified, the Inter-American Convention against Terrorism.

In 2007, the Government of Colombia made additional progress in the development of its financial intelligence unit, regulatory framework and interagency cooperation within the government. The implementation of a formal terrorist finance law 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 remain problems. Limited resources for prosecutors, investigators, and the judiciary hamper their ability to close cases and dispose of seized assets. Further, 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 counter-terrorist financing regime. The GOC is also strongly encouraged to enact legislation to permit the use of proceeds from confiscated assets to support its law enforcement efforts. In addition, the GOC should ensure that the necessary legislation is passed to allow it to pay its GAFISUD dues and become active in GAFISUD once again.

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 and democratic transfer 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,

Money Laundering and Financial Crimes

Azali Assoumani, represented Grand Comore; Sambu 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.

One year after Sambu's election, Island president (governor) elections were scheduled on Grande Comore, Moheli, and Anjouan. The first two held free and fair elections. In Anjouan, Colonel Bacar refused elections and de facto seceded from the Union. In October 2007, the African Union applied financial and travel sanctions on Bacar and his illegitimate government. Union President Sambu and his cabinet are unable to travel to, or govern, the island of Anjouan.

Union Vice President Idi Nadhoim hosted a seminar in early 2007 on policies to combat money laundering and terrorist finance. The event was sponsored by the World Bank and the Bank of France. Union Central Bank officials, commercial banks, and operators participated, with a focus on Union policies with regard to Anjouan's illicit banking license activities. Marc Lantieri, Head of the Franc Zone at the Bank of France, made a keynote presentation on financial risk management and money laundering.

At the same seminar, Vice President Nadhoim emphasized that a stable and healthy financial system was a prerequisite for economic development. Jean Pierre Michau, an advisor to the Governor of the Bank of France, stated firmly that the Anjouan government's Internet-based banking license sales were against Comoran law and facilitated fraudulent banking activity. Vice President Nadhoim publicly accused Mr. F. LeCler of La Réunion as an accomplice of Anjouan in setting up money laundering operations. The Vice President also said Mr. Ronnie Dvorkin of "Anjouan Corporate Services" based in London was accused of violating Union Laws in his dealings with Anjouan.

Soon thereafter, Central Bank Governor Abdou Bastoi sent the United States Embassy a comprehensive report on Union Government policies and actions with regard to illicit Anjouan banking activities. Citing the 2003 law that conferred sole authority for granting banking licenses on the Union Central Bank, the Governor reported he had informed financial authorities in France, Brussels, and the United States to prohibit all activities by Anjouan-registered entities. The Governor repeated an earlier request that U.S. or European authorities help the Comoros by closing down all websites associated with Anjouan, including National Bank of Anjouan, International Company Office, Wall Street Bank, anjouan.net, anjouan.com, anjouan.org and numerous others.

The Union Central Bank has for years corresponded with French commercial banking authorities to request action against Anjouan entities. The Union Government has also issued numerous public announcements warning the public against all Anjouan financial entities. A regularly-updated circular lists the six banks properly accredited by the Union Central Bank in the Comoros: Central Bank of Comoros, Commerce and Industry Bank, Comoros Development Bank, National Post Office and Financial Services Company, Meck Union, and Sanduk Union.

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 U.S. \$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 U.S. \$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. 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.

President Sambu has reiterated Union Government support for efforts made under former President Azali to bring AML enforcement under Union government jurisdiction. 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 Union Finance Minister contravene the May 3, 1980 legislation. Since taking office, President Sambu has sought to have corrupt former officials prosecuted. A grossly inadequate budget, dysfunctional ministries, and a nonfunctioning judiciary limit Sambu. Throughout 2006 there were reports that Sambu'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. Under the Constitution, the Union AML applies to all three islands, but is not enforced in Anjouan.

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 300 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, nonComoran 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. Union President Sambu has repeatedly requested international assistance in closing any shell banks or illicit financial entities that operate within the Comoros without legitimate approval.

France, the former colonial power, maintains substantial influence and activity in Comoros, and has bypassed the Union and island governments 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. The total annual operating budget of the Union Finance Ministry is less than U.S. \$100,000. Combined with the lack of political strength, it is highly unlikely that the needed reforms in Moheli and Anjouan will be successfully implemented without significant outside assistance.

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, seven trustee companies, and six offshore and three domestic insurance companies. The domestic insurance companies are not regulated by the FSC, but legislation is being drafted to allow regulation to take place in 2008.

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 are able to contain a “flee clause.” One of the purposes of a “flee clause,” is to evade law enforcement. 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” exists to transfer APTs in times of emergency, such as a natural disaster, but they may also incorporate clauses designed to avoid the courts of the jurisdiction they are in or investigations by regulatory authorities. In practice they are rarely used as they are difficult to implement without the trustee finding itself in breach of the law.

The Cook Islands was placed on the Financial Action Task Force (FATF) list of Non-Cooperative Countries and Territories (NCCT) in 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) 2004 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, which replaced a similar Act passed a year earlier, the Cook Islands authorities strengthened its anti-money laundering and counter-terrorist 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 is drafting new insurance legislation. 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 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 U.S. \$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/CTF 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/CTF issues; and enables government agencies to share information and training resources gathered from their regional and international networks. The AML/CTF 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/CTF 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 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

Although Costa Rica is not a major regional financial center, it remains vulnerable to money laundering and other financial crimes. Narcotics trafficking (mainly cocaine) continues to be a primary motive for money laundering, but fraud, trafficking in persons, arms trafficking, corruption, and the presence of Internet gaming companies all contribute to money laundering activity. While local criminals are active, the majority of criminal proceeds laundered derive primarily from foreign criminal activity. Reforms in 2002 to the Costa Rican counternarcotics law expanded the scope of anti-money laundering regulations, but also, unintentionally, created an opportunity to launder funds by eliminating the government's licensing and supervision of casinos, jewelers, realtors, attorneys, cash couriers, and other nonbank financial institutions. While these loopholes have not yet been closed, these weaknesses should be addressed as part of a legal reform bill on money laundering that may be passed in 2008. Bank fraud and counterfeit currency, though they do exist, do not seem to be on the rise.

Gambling is legal in Costa Rica, and there is no requirement that the currency used in Internet gaming operations be transferred to Costa Rica. There are well over 250 sports-book companies registered to

operate in Costa Rica. One U.S. citizen, who had been running a sports-book company in Costa Rica, was arrested in the Dominican Republic in 2007.

Costa Rica is not considered an offshore financial center. While the formal banking industry in Costa Rica is tightly regulated, 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. They must also have a license to operate in their country of origin. Furthermore, they must comply with Article 126 of the Costa Rican Central Bank's Organic Law, which requires offshore banks to have assets of at least U.S. \$3 million, a physical presence in Costa Rica, and be subject to supervision by the banking authorities of their registered country. Shell banks are not allowed in Costa Rica and regulated institutions are forbidden from having any direct or indirect relationships with institutions that may be described as shell banks or fictitious banks. Bearer shares are not permitted in Costa Rica.

Currently, six offshore banks maintain correspondent operations in Costa Rica: three from The Bahamas and three from Panama. The Government of Costa Rica (GOCR) has supervision agreements with its counterparts in both countries, permitting the review of correspondent banking operations. However, these counterpart regulatory authorities occasionally interpret the agreements in ways that limit review by Costa Rican officials. In 2005, the Attorney General ruled that the Superintendent General of Financial Entities (SUGEF) lacked authority to regulate offshore operations due to an apparent contradiction between the 1995 Organic Law of the 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 and is expected to pass in 2008. Costa Rican authorities acknowledge that they are currently unable to adequately assess risk.

The GOCR reports that Costa Rica is primarily used as a bridge to send funds to and from other jurisdictions using, in many cases, companies or established banks in offshore financial centers. Alternative remittance systems exist in Costa Rica, mainly as a result of Costa Rican immigration to the United States, or Nicaraguans to Costa Rica. However, there is no confirmation that these remittance systems are used for money laundering.

There are 287 free trade zones (FTZs) within Costa Rica. The Promotora del Comercio Exterior de Costa Rica (PROCOMER) manages the FTZ regime and has responsibility for registering all qualifying companies. PROCOMER's qualification process consists of conducting due diligence on a candidate company's finances and assessing the total cost of ownership. PROCOMER annually audits all of the firms within the FTZ regime and touts its system of tight controls. The four major types of firms operating in Costa Rica's FTZ regime are manufacturing, services, trading, and administrative organizations. PROCOMER reports that there has been no evidence of money laundering activity in the FTZs in 2007.

In 2002, the GOCR enacted Law 8204. Law 8204 criminalizes the laundering of proceeds from all serious crimes (not only drug-related money laundering), which are defined as crimes carrying a sentence of four years or more. Law 8204 obligates financial institutions and other businesses to identify their clients, report currency transactions over U.S. \$10,000 and suspicious transactions to the financial intelligence unit (FIU), the Unidad de Analisis Financiero (UAF). Law 8204 also requires that financial records be retained for at least five years, and that the beneficial owners of accounts and funds involved in transactions be identified. While Law 8204, in theory, applies to the movement of all capital, current regulations are narrowly interpreted so that the law applies only to those entities that are involved in the transfer of funds as a primary business purpose, such as exchange houses and stock brokerages. Therefore, the law does not cover such entities as casinos, dealers in jewels and precious metals, insurance companies, intermediaries such as lawyers, accountants or broker/dealers, or Internet gambling operations, as their primary business is not the transfer of funds.

Costa Rican financial institutions are regulated by the Office of the Superintendent General of Financial Entities (SUGEF), the Superintendent General of Securities (SUGEVAL), and the Superintendent of Pensions (SUPEN). All three of these entities fall under the National Council of Supervision of the Financial System (CONASSIF). All financial entities subject to the jurisdiction of SUGEF, SUGEVAL and SUPEN are obligated to submit suspicious transaction reports (STRs), regardless of the amount involved or transaction reported. Law 8204 does not establish any protection for reporting individuals with respect to their cooperation with law enforcement entities. Nevertheless, this does not exempt them from reporting; if they do not file STRs, they may be subject to pecuniary sanctions established in Article 81 of Law 8204.

The UAF, which is located within the Costa Rican Drug Institute (ICD), became operational in 1998. Article 123 of Law 8204 empowers the UAF to request, collect and analyze STRs and cash transaction reports (CTRs) submitted by obligated entities. The Money Laundering, Financial, and Economic Crimes Unit of the Judicial Investigative Organization (OIJ), under the Public Ministry (Prosecutor's Office), receives a copy of the information sent to the UAF. This practice gives rise to the possibility of duplication of information and waste of time and resources, and the risk of contamination or leakage of information. Each superintendence holds the CTRs until the UAF requests them. All requests and reports from the UAF must be signed by the Director of the ICD. Approval and authorization is therefore given by the Director of the ICD, not the Director of the UAF. This practice may interfere with the UAF's operational autonomy.

The UAF 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. Additionally, there are formal mechanisms in place to share information domestically and with other countries' FIUs.

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. Additionally, in 2007, the UAF had a 40 percent turnover in personnel, including one of their most senior analysts. Nevertheless, in 2007, the UAF continued to increase the quality of its analysis and forwarded more thoroughly analyzed cases to prosecutors. The UAF received 280 STRs in 2007, 92 of which are still under review.

The GOOCR body responsible for investigating financial crimes is the OIJ. The OIJ is assisted by the UAF and has adequately trained staff. In 2007, there were two prosecutions for financial crimes.

All persons carrying entering or exiting Costa Rica are required to declare any amount over U.S. \$10,000 to Costa Rican officials at ports of entry. Declaration forms are required. Cash smuggling reports are entered into a database maintained by ICD and is shared with appropriate government agencies, including the UAF.

Articles 33 and 34 of Law 8204 cover asset forfeiture and stipulate that all movable or immovable property used in the commission of crimes covered by this act shall be subject to preventative seizure. When seizure or freezing takes place, the property is placed in a legal deposit under the control of ICD. The banking industry closely cooperates with law enforcement efforts to trace funds and seize or freeze bank accounts. During 2007, officials seized over U.S. \$9.6 million (an increase over the U.S. \$5.2 million seized in 2006) in narcotics-related assets, much of it in undeclared cash. Seized assets are processed by the ICD and if judicially forfeited, are divided among drug treatment agencies (60 percent), law enforcement agencies (30 percent), and the ICD (10 percent).

Although the GOOCR has ratified the major UN counterterrorism conventions, terrorist financing is not a crime in Costa Rica. 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 2007, Costa Rica was notified that if its terrorist financing law was not passed by May 2008, it risks being expelled from the Egmont Group of financial intelligence units. The GOCR expects the legislation to be passed by the May 2008 deadline.

Costa Rican authorities receive and circulate 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 2007.

Costa Rica fully cooperates with appropriate USG law enforcement agencies and other governments investigating financial crimes related to narcotics and other crimes. Articles 30 and 31 of Law 8204 grant authority to the UAF to cooperate with other countries in investigations, proceedings, and operations concerning financial and other crimes covered under that law.

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. On March 21, 2007, the GOCR ratified the UN Convention against Corruption. The GOCR has also signed, but not yet ratified, 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 assumed the CFATF presidency in 2007. The most recent mutual evaluation of Costa Rica was conducted by the CFATF in July 2006. The GOCR is a member of 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 the Government of Costa Rica convicted a handful of individuals for money laundering over the last several years, further efforts are required to bring Costa Rica into compliance with international anti-money laundering and counter-terrorist financing standards. The GOCR should criminalize terrorist financing prior to the Egmont Group deadline for expulsion. The GOCR should also pass legislation that reconciles 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, dealers in jewelry and precious metals, attorneys, casinos, and other nonbank financial institutions. Costa Rica should ensure that its financial intelligence unit and other GOCR authorities are adequately equipped to combat financial crime.

Côte d'Ivoire

The Republic of 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. Reportedly, 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 other West African nationals are becoming more and more involved in criminal activities and the subsequent laundering of funds. Cote d'Ivoire is ranked 150 out of 179 countries in Transparency International's 2007 Corruption Perceptions Index. The extent to which Ivorian territory is used in the growing use of West Africa as a transshipment point for drugs from South America to Europe is largely unknown. The de facto ongoing division of the country makes such an assessment, as well as that of Cote d'Ivoire's possible associated role as a drug laundering center, difficult.

The outbreak of the rebellion in 2002 increased the amount of smuggling of goods across the northern borders, including cocoa, timber, textiles, tobacco products, and light motorcycles. There have also been reports of an increase in the processing and smuggling of diamonds from mines located in the north. Ivorian law enforcement authorities have, until the mid-2007, had very little control over the northern half of the country. While national authority is slowly being redeployed, the government's control over borders in the formerly rebel-controlled regions of the country remains very weak. The relationship between revenues associated with smuggled goods and narcotics proceeds remains unclear due to the lack of effective border controls in the north. 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.

Banks have begun to resume operations, but because banking services were largely absent from the northern part of Côte d'Ivoire until the end of 2007, informal money couriers, money transfer organizations similar to hawaladars and, increasingly, goods transportation companies transferred funds domestically, as well as within the sub-region. Domestic informal value transfer systems are not regulated. Informal remittance transfers from outside Cote d'Ivoire violate West African Central Bank (BCEAO) money transfer regulations. The standard fee for informal money transfer services is approximately ten percent. In addition to transferring funds, criminal enterprises have been known to launder illicit funds by investing in real estate and consumer goods such as used cars in an effort to conceal the source of funding.

Hizballah is present in Côte d'Ivoire and 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 or 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 remains dormant.

The Economic and Financial Police report an ongoing rise 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 advance 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. French financial interests account for the majority of retail and other banking and insurance services. The banking law was recently changed to require banks be capitalized with U.S. \$10 million and nonbank financial institutions (mortgage firms, insurance companies, etc.) with U.S. \$5 million.

The Ivorian banking law, enacted in 1990, prevents disclosure of client and ownership information, but 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 National Assembly adopted the l'Union Economique et Monetaire Ouest Africaine/West African Economic and Monetary Union

Money Laundering and Financial Crimes

(L'UEMOA/WAEMU), common law on money laundering, making all forms of money laundering a criminal offense.

The law focuses on the prevention of money laundering and also expands the definition 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, and establishes procedures and a suspicious transaction reporting obligation which covered institutions must follow to assist in the detection of money laundering. The law provides for the creation of an Ivorian financial intelligence unit (FIU), as well as a legal basis for international cooperation. The new law includes both criminal and civil penalties, and permits the freezing and seizure of assets, which can be instruments for and proceeds of crime. Legitimate businesses are among the assets which can be seized if used to launder money or support terrorist or other illegal activities. Substitute assets cannot be seized if there is no relationship with the offense.

The money laundering law provides for the establishment of a financial intelligence unit (FIU) known as “Cellule Nationale de Traitement des Informations Financieres” (CENTIF). Participants at the September 2007 L'UEMOA/WAEMU meeting of finance ministers had urged Cote d'Ivoire to accelerate the start of CENTIF operations. CENTIF members were nominated on December 20, 2007. The government of Cote d'Ivoire announced on January 8, 2008 that CENTIF is now operational, and its members were sworn in on January 16, 2008. It reports to the Finance Minister. On a reciprocal basis and with the permission of the Ministry of Finance, CENTIF can share information with other FIUs in L'UEMOA/WAEMU and with those of nonL'UEMOA/WAEMU countries, as long as those institutions keep the information confidential.

Once established, the FIU 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 Economic and Financial police, the criminal police unit (Police Judiciaire), the Department of Territorial Surveillance, the CRF and ANSI all are responsible for investigating financial crimes, including money laundering and terrorist financing.

The Ministry of Finance, the BCEAO, and the West African Banking Commission, headquartered in Cote d'Ivoire, supervise and examine compliance with anti-money laundering/counter-terrorist financing (AML/CTF) laws and regulations. All Ivorian financial institutions are required to maintain customer identification and transaction records for ten years. Additionally, as in all BCEAO member countries, all bank deposits over CFA 5,000,000 (approximately U.S. \$10,000) must be reported to the BCEAO, along with customer identification information. Law enforcement authorities can request access to these records to investigate financial crimes through a public prosecutor. In 2007, 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 U.S. \$100,000) for known customers. New money laundering controls 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, nonfinancial businesses, and professions subject to the scope of the 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 L'UEMOA/WAEMU administrative regulation R/09/98/CM/L'UEMOA/WAEMU. There is no separate domestic law or regulation. When traveling to another L'UEMOA/WAEMU country, Ivorian and expatriate residents must declare the amount of currency being carried out of the country. When traveling to a destination other than another L'UEMOA/WAEMU country, Ivorian and expatriate residents are prohibited from carrying an amount of currency greater than the equivalent of 500,000 CFA francs (approximately U.S. \$1,000) for tourists, and two million CFA francs (approximately U.S. \$4,000) for business operators, without prior approval from the Department of External Finance of the Ministry of Economy and Finance. If additional amounts are approved, they must be in the form of travelers' checks.

Cote d'Ivoire does not have a specific law that criminalizes terrorist financing, as required under UNSCR 1373, although financing of all "serious crimes" falls under the domain of the law. Until the passage of the 2005 money laundering law, the Government of Cote d'Ivoire (GOCI) relied on several L'UEMOA/WAEMU directives on terrorist financing, which provided a legal basis for administrative action by the GOCI to implement the asset freeze provisions of UNSCR 1373. The BCEAO and the 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. To date, no assets related to terrorist entities or individuals have been discovered, frozen or seized.

The GOCI participates in the Intergovernmental Group for Action against Money Laundering (GIABA) based in Dakar, which is the Financial Action Task Force-style regional body (FSRB) for West Africa. GIABA has scheduled a mutual evaluation scheduled for Cote d'Ivoire for November 2008. Other than the authority granted to CENTIF by the AML law, the GOCI has neither adopted laws nor promulgated regulations that specifically allow for the exchange of records with United States on money laundering and terrorist financing.

Cote d'Ivoire has demonstrated a willingness to cooperate with the United States in investigating financial or other crimes. For example, in a 2007 case, a prominent American government official based in the UK was defrauded by a party based in Cote d'Ivoire who was using the individual's credit card information to purchase expensive medical equipment and ship it to Cote d'Ivoire. While the perpetrator(s) were not apprehended, Ivorian authorities worked cooperatively with U.S. law enforcement.

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. The GOCI has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

The Government of Cote d'Ivoire should specifically criminalize terrorist financing and become a party to the relevant UN Conventions. The Ministry of Finance should work to build capacity at CENTIF to maximize effectiveness in FIU functions, especially analysis, outreach and information sharing. CENTIF should work toward becoming a member of the Egmont Group. The GOCI's law enforcement and customs authorities need to implement measures to diminish smuggling, trade-based money laundering and informal value transfer systems. The GOCI should also enact legislation criminalizing terrorist financing and facilitating information sharing with other countries. Authorities should also take steps to halt the spread of corruption that permeates both commerce and government and facilitates the continued growth of the underground economy and money laundering. Cote d'Ivoire should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Cyprus

Cyprus has been divided since the Turkish military intervention of 1974, following an unsuccessful coup d'état directed from Greece. Since then, the Republic of Cyprus (ROC) has controlled the southern two-thirds of the country, while a Turkish Cypriot administration calling itself the "Turkish Republic of Northern Cyprus (TRNC)" controls the northern part. Only Turkey recognizes the "TRNC." The U.S. Government recognizes only the Republic of Cyprus. This report primarily discusses the area controlled by the ROC but also includes a separate section on the area administered by Turkish Cypriots.

Cyprus is a major regional financial center with a robust financial services industry and a significant amount of nonresident businesses. As with all such centers, Cyprus remains vulnerable to international money laundering activities. Fraud along with other financial crimes and narcotics trafficking are the major sources of illicit proceeds laundered in Cyprus.

A number of factors have contributed to the development of Cyprus as a financial center: 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 well trained in legal and accounting skills; a sophisticated telecommunications infrastructure; and EU membership.

Four authorities regulate and supervise financial institutions in Cyprus: the Central Bank of Cyprus, responsible for supervising locally incorporated banks and money transfer businesses; the Cooperative Societies Supervision and Development Authority (CSSDA), supervising cooperative credit institutions; the Superintendent for Insurance Control; and the Cyprus Securities and Exchange Commission. Three entities act as regulators for designated nonfinancial businesses and professions (DNFBPs): the Council of the Bar Association supervises attorneys; the Institute of Certified Public Accountants supervises accountants; and the financial intelligence unit (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' anti-money laundering (AML) laws and regulations.

Cyprus currently hosts a total of 43 banks, 17 of which are incorporated locally. The remaining 26 banks are branches of foreign-incorporated banks and conduct their operations mainly with nonresidents. At the end of August 2007, the cumulative assets of all banks were U.S. \$112 billion. Under the EU's "single passport" policy, 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. By the end of 2007, nine foreign banks were operating a branch in Cyprus under this arrangement.

Cyprus hosts seven licensed money transfer companies, 65 investment firms, two management firms handling "undertakings for collective investment in transferable securities" (UCITS), 40 licensed insurance companies, 400 licensed real estate agents, 2,311 registered accountants, 1,810 practicing lawyers, and around 165 cooperative credit institutions, controlling about 32 percent of total deposits. Stricter EU requirements on credit institutions have pushed cooperative credit institutions to merge on a large scale over the last three years. Their number shrank from 359 to the current 165 in less than three years, and authorities expect it to drop to just over 100 by the middle of 2008.

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 now pay taxes at a uniform rate of 10 percent, irrespective of the permanent residence of their owners or whether they do business internationally or in Cyprus. Cyprus has lifted the prohibition from doing business domestically and companies formerly classified as offshore are now free to engage in business locally. In March 2007, Cyprus withdrew from the Offshore Group of Banking Supervisors.

The Cypriot government made this move specifically to change the focus and impression of its foreign business from “offshore” to “international.” By removing any distinction between resident and nonresident or on-shore and offshore companies, the same disclosure, reporting, tax and other laws and regulations apply equally to all registered companies. Despite these stricter standards, few of the estimated 54,000 nonresident companies established in Cyprus as of 2006 have taken themselves off the company register and the number of new nonresident companies registering in Cyprus continues to increase as a result of the low tax rate and high service quality.

Cyprus continues to revise its anti-money laundering (AML) framework to meet evolving international standards. The Prevention and Suppression of Money Laundering Activities Law criminalizes all money laundering, establishes a customer identification requirement and obligations for suspicious transaction reporting, provides for the confiscation of proceeds from serious crimes, and codifies the actions that banks, nonbank financial institutions, and obligated nonfinancial businesses must take. The AML law establishes the financial intelligence unit (FIU) and authorizes criminal (but not civil) seizure and forfeiture of assets. The definition of predicate offense is any criminal offense punishable by a prison term exceeding one year. Cypriot AML legislation addresses government corruption, provides for the sharing of assets with other governments, and facilitates the exchange of financial information with other FIUs. Cypriot authorities reportedly have full access to information concerning the beneficial owners of every company registered in Cyprus. This includes companies doing business abroad and companies with foreign beneficial owners and shareholders. Due diligence and reporting requirements extend to auditors, tax advisors, accountants, and, in certain cases, attorneys, real estate agents, and dealers in precious stones and gems. Although the professional organizations for accountants and lawyers publicize strict “know your customer” regulations, the regulatory oversight of these sectors is reportedly nearly nonexistent. Violations result in administrative fines of up to Cyprus Pounds (CP) 3,000 (approximately U.S. \$7,500). The FIU can instruct banks, financial institutions and other obligated entities to delay or prevent execution of customers’ transactions. Casinos and Internet gaming sites are not permitted, although sports betting halls are allowed.

ROC law requires all persons entering or leaving Cyprus to declare all currency, Cypriot or foreign, and gold bullion worth CP 7,300 (approximately U.S. \$18,250) or more. The Central Bank has the authority to revise this amount. On June 15 2007, EU Directive 1889/2005, went into effect. As a result, for currency worth €10,000 (U.S. \$14,620) or more, Cyprus regulates cash transactions for travelers entering its borders from countries outside the EU.

Cyprus is currently in the process of passing legislation entitled “Law for the Prevention and Suppression of Money Laundering Activities,” which was expected to pass without significant changes before the end of 2007. This legislation will consolidate and supersede existing legislation. When enacted, the draft law will encompass all recent FATF and MONEYVAL recommendations, and revises Cyprus’ AML legislation, to harmonize it with the EU’s Third AML Directive. This Directive mandated implementation by December 15, 2007. The new law provides much stricter administrative fines for noncompliance, i.e., from the current €5,130 (U.S. \$7,500) to €200,000 (U.S. \$292,400) and generally raises Cyprus’ AML standards.

The draft law also addresses: enhanced due diligence extending coverage of “politically-exposed persons” (PEPs), cross-border transactions, and transactions with customers not physically present or on behalf of third parties. The law introduces simplified due diligence for certain persons or entities deemed to be low risk as well as requirements for Unit for Combating Money Laundering (MOKAS), the Cypriot financial intelligence unit (FIU), and other supervisory authorities to collect statistical data. MOKAS must provide banks and other obligated entities with feedback in response to any STR submission. The law criminalizes the general collection of funds with the knowledge that terrorists or terrorist groups would use them for any purpose (i.e., not just for violent acts); and terrorism finance is explicitly covered by the new law (although already considered a predicate offense under existing legislation).

A second draft law, expected to pass by early 2008, regulates trust and company service providers (other than accountants and lawyers), bringing them under the supervisory authority of the Central Bank. As soon as these laws go into effect, the supervisory authorities will issue revised directives.

In October 2006, the IMF released a detailed assessment of the “Observance of Standards and Codes for Banking Supervision, Insurance Supervision and Securities Regulation.” The report noted that the Cyprus Securities and Exchange Commission (SEC) was legally unable to cooperate with foreign regulators if the SEC did not have a direct interest and that the SEC had difficulty obtaining information regarding the beneficial owners of Cypriot-registered companies. The report also noted that commitments emerging from EU accession had “placed stress on the skills and resources” of the staff of the Co-operative Societies Supervision and Development Authority (CSSDA) and the Insurance Superintendent. The SEC has drafted amending legislation to resolve these issues, expected to pass by early 2008.

In recent years the Central Bank has introduced regulations aimed at strengthening AML vigilance in the banking sector. Among other requirements, banks must ascertain the identities of the natural persons who are the “principal/ultimate” beneficial owners of all legal entities; adhere to the October 2001 paper of the Basel Committee on Banking Supervision on “Customer Due Diligence for Banks”; and pay special attention to business relationships and transactions involving persons from jurisdictions identified by the Financial Action Task Force (FATF) as deficient in their AML regime, particularly concerning counter-terror financing (CTF).

All banks must report to the Central Bank, on a monthly basis, individual cash deposits exceeding 10,000 Cypriot pounds (approximately U.S. \$22,000 in local currency) or approximately U.S. \$10,000 in foreign currency. Bank employees must 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, which the Central Bank audits 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. 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 client identification data, transaction records, and business correspondence for five years.

Central Bank money laundering directives place additional obligations on banks, including requirements on customer acceptance policy; and updating customers’ identification data and business profiles. Banks must have computerized risk management systems to verify whether a customer constitutes a PEP; provide full details on any customer sending an electronic transfer in excess of U.S. \$1,000; and have adequate management information systems for on-line monitoring of customers’ accounts and transactions. Cypriot banks typically use electronic risk management systems to target transactions to and from high-risk countries, as well as high-risk customers. Since the expiration of Cyprus’ Exchange Control Law, the Central Bank no longer reviews foreign investment applications for nonEU residents. Since January 1, 2007, Cyprus has begun implementing EU Directive 1781/2006 (“Information on the Payer Accompanying Transfers of Funds”), which requires full disclosure of details for electronic fund transfers in excess of €1,000 (U.S. \$1,462).

The Central Bank also requires compliance officers to file annual reports outlining measures taken to prevent money laundering and to comply with its guidance notes and relevant laws. In addition, the Central Bank has the authority to conduct unannounced inspections of bank compliance records. In July 2002, the U.S. Internal Revenue Service (IRS) officially approved Cyprus’ “know-your-customer” rules, which form the basic part of Cyprus’ AML system. As a result of the approval, banks

in Cyprus that acquire United States securities on behalf of their customers may enter into a “withholding agreement” with the IRS and become qualified intermediaries.

The Prevention and Suppression of Money Laundering Activities Law mandated the establishment of the Unit for Combating Money Laundering (MOKAS), the Cypriot financial intelligence unit (FIU). MOKAS is responsible for receiving and analyzing STRs and for conducting money laundering investigations. A representative of the Attorney General’s Office heads the unit. All banks and nonbank financial institutions, insurance companies, the stock exchange, cooperative banks, lawyers, accountants, and other financial intermediaries must report suspicious transactions to MOKAS. Sustained efforts by the Central Bank and MOKAS to strengthen reporting have resulted in a significant increase in the number of STRs being filed. Between January 1 and November 19, 2007, MOKAS received 160 STRs. In the same interval, MOKAS received 261 information requests from foreign FIUs, other foreign authorities, and INTERPOL. MOKAS cooperates closely with the U.S. in money laundering investigations.

Money laundering is an autonomous crime in Cyprus. MOKAS evaluates evidence generated by its member organizations and other sources to determine if an investigation is necessary. MOKAS has the power to administratively suspend financial transactions for an unspecified period of time. MOKAS also has the power to apply for freezing or restraint orders affecting any kind of property at a preliminary stage of an investigation. MOKAS has issued several warning notices, based on its own analysis, identifying possible trends in criminal financial activity. These notices have resulted in the closure of dormant bank accounts. MOKAS conducts AML training for Cypriot police officers, bankers, accountants, and other financial professionals, and, in conjunction with the Central Bank of Cyprus, for bankers.

During the interval from January 1 through November 19, 2007, MOKAS opened 447 cases and closed 150. Since 2000, there have been 13 prosecutions for money laundering, one of which took place in 2007. Of the 13 prosecutions, eight have resulted in convictions. In 2007, MOKAS issued one confiscation order for a total of approximately \$10.5 million. A number of other cases are pending.

Sections 4 and 8 of the Ratification Law 29 (III) of 2001 criminalize terrorist financing. The implementing legislation amends 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. 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 finds matching accounts, it will immediately freeze the accounts and inform the Central Bank. As of November 2007, no bank has reported holding a matching account. When FIUs or governments—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. To date, none of these checks have revealed anything suspicious. The lawyers’ and accountants’ associations cooperate closely with MOKAS and the Central Bank. Cyprus 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. In 2006, there was one investigation for terrorist financing involving four persons.

Cyprus believes that its existing legal structure is adequate to address money laundering through alternative remittance systems such as hawala. Cypriot authorities maintain that there is no evidence

that alternative remittance systems such as hawala operate in Cyprus. Cyprus licenses charitable organizations, which must submit copies of their organizing documents and annual statements of account to the government. The majority of charities registered in Cyprus are reportedly domestic organizations.

Cyprus 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. Cyprus has signed, but not ratified, the UN Convention Against Corruption. Cyprus is a member of MONEYVAL the FATF-style regional body for Council of Europe member states. 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 has put in place a comprehensive AML/CTF regime, which it continues to upgrade. Cyprus should ensure not only the passage, but also the full implementation, of the two laws that will tighten the current regime requirements. Cyprus should ensure that it is able to implement the law criminalizing the collection of funds with the knowledge that they will be used by terrorists or terrorist groups for any purpose, not only to commit terrorist or violent acts. Cyprus should enact provisions that allow for civil forfeiture of assets in the future.

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. There are currently 24 domestic banks in the area administered by Turkish Cypriots. Internet banking is available. The offshore sector consists of 14 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 “Central Bank” audits the offshore entities, which must submit an annual 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. A new law restricts the granting of new bank licenses to only those banks with licenses in an OECD country or a country with “friendly relations” with the “TRNC.” A new law to more closely regulate offshore banks is pending in “parliament.”

It is thought that the 18 essentially unregulated and primarily Turkish-mainland owned casinos and the 14 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 remain unregulated. Some of these companies are owned by banks and others by auto dealers. Recent years have seen a large increase in the number of sport betting halls, which are licensed by the “Office of the Prime Minister.” There are currently five companies operating in this sector, with a total of 30 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, 2006 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 authorities 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. In 2007, FATF conducted an informal review and found numerous shortcomings in AML laws and regulations as well as insufficient resources devoted to the effort. Turkish Cypriot officials objected to the conclusions.

The offshore banking sector remains a concern. In August 2004, the U.S. Department of the Treasury's FinCEN, pursuant to Section 311 of the USA PATRIOT Act, found First Merchant Bank to be of primary money laundering concern based on a number of factors. These factors, included that it is licensed as an offshore bank in a jurisdiction with inadequate AML controls, particularly those applicable to its offshore sector; and that it is involved in the marketing and sale of fraudulent financial products and services. Other factors point to its use as a conduit for the laundering of fraudulently obtained funds; and its apparent use to launder criminal proceeds by the individuals who own, control, and operate First Merchant Bank—individuals with links to organized crime. In December 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 the risk of financial crime, including enacting an anti-money laundering law (AMLL) for the area. The law aims to reduce the number of cash transactions in the area administered by Turkish Cypriots, as well as improve the tracking of any transactions above U.S. \$10,000. Under the AMLL, banks must report to the "Central Bank" any electronic transfers of funds in excess of U.S. \$100,000. Such reports must include information identifying the person transferring the money, the source of the money, and its destination. Banks, nonbank financial institutions, and foreign exchange dealers must report all currency transactions over U.S. \$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 authorities lack the technical skills needed to investigate and prosecute financial crimes. The "AMLC" also complains that since foreign jurisdictions will not cooperate with them by providing evidence or appearing to testify, they have difficulty presenting cases to their court system.

Although the AMLL prohibits individuals entering or leaving the area administered by Turkish Cypriots from transporting more than U.S. \$10,000 in currency without prior "Central Bank" authorization, "Central Bank" officials note that this law is difficult to enforce. This is particularly true given the large volume of travelers to and from Turkey, especially since 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 AML 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 authorities 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 three years. Turkish Cypriot officials have promised FATF that the laws will pass in 2007, after which the European Commission plans to help with their implementation through selected training and funding.

The Turkish Cypriot AMLL provides 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. Passage of new laws and willingness to cooperate with foreign experts for implementation will be the early tests of a change in approach to these issues.

Czech Republic

The Czech Republic is one of the most stable and prosperous of the post-Communist states of Central and Eastern Europe. However, 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 growth of the Czech Republic economy between 2000 and 2007 was supported by exports to the European Union (EU), primarily to Germany. However, despite the progressive development of modern payments techniques, the economy is still heavily cashed-based. The Czech Republic decided to adopt the single European currency (euro) in connection with its accession to the EU in 2004, and in July 2007 the Organizational Committee of National Coordination Group published “The National Changeover Plan for the Czech Republic,” which covers the technical, legislative and organizational preparation for the future introduction of the euro in Czech Republic.

Major sources of criminal proceeds include criminal offenses against property, insurance fraud, and credit fraud. Connections between organized crime and money laundering have been observed mainly in relation to activities of foreign groups, in particular from the former Soviet republics, the Balkan region, and Asia. The Czech Republic is also vulnerable to other illicit financial activities conducted through credit and loan services, money remittances (particularly in connection with the Asian community), and illegal foreign exchange business.

The Government of the Czech Republic (GOCR) first criminalized money laundering in September 1995 through additions to its Criminal Code. Although the Criminal Code does not explicitly mention

money laundering, its provisions apply to financial transactions involving the proceeds of all serious crimes. A July 2002 amendment to the Criminal Code introduces a new independent offense called “Legalization of Proceeds from Crime.” This offense has a wider scope than previous provisions and enables prosecution for laundering one’s own illegal proceeds (as opposed to those of other parties). The 2002 amendment also stipulates punishments of five to eight years imprisonment for the legalization of proceeds from all serious criminal activity and calls for the forfeiture of assets associated with money laundering. Despite some improvements, the criminalization of money laundering under Section 252a (“Legalization of Proceeds from Criminal Activity”) of the Criminal Code still does not contain a broad definition and coverage of money laundering. To date, Section 252a has mostly been applied to criminal offenses that have more to do with stolen goods than with the laundering proceeds.

The Czech anti-money laundering legislation (Act No. 61/1996, Measures Against Legalization of Proceeds from Criminal Activity) became effective in July 1996. The Anti-Money Laundering (AML) Act, which provides for the general preventive framework, was adopted in 1996 and covered only the banking sector. It has been amended several times and to comply with EU requirements. The law now requires a wide range of financial institutions, as well as attorneys, casinos, realtors, notaries, accountants, tax auditors, and entrepreneurs engaging in financial transactions, to report all suspicious transactions to the Ministry of Finance’s financial intelligence unit (FIU), known as the Financial Analytical Unit (FAU). Suspicious transactions exceeding 15,000 euros (approximately U.S. \$22,140) must be reported, and those exceeding 1,000 euros (approximately U.S. \$1,476) must be identified internally.

The GOCR recently approved a new draft law on “Measures against Legalization of Proceeds from Criminal Activity and Terrorism Financing.” This proposal implements the EU’s Third Money Laundering Directive. Legislative approval by December 15, 2007, as requested by the EU, is expected. 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.

The Law on International Sanctions that came into force in April 2006 also represents progress by the GOCR. Under this law, the Ministry of Finance has the authority to fine institutions for failure to report 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 by the Law on International Sanctions.

The Czech Republic still has more than 2.6 million anonymous deposit passbooks containing 3.9 billion crowns (approximately U.S. \$200 million). Due to ongoing criticism, the Czech Republic introduced legislation in 2000 prohibiting new anonymous passbook accounts. In 2002 the Act on Banks was amended to abolish all existing bearer passbooks by December 31, 2002. In principle, bearer passbooks will be completely phased out by 2012. While account holders can still withdraw money from the accounts for another few years, the accounts do not earn interest and cannot accept deposits. In 2007, approximately 350 million crowns (approximately \$18 million) were withdrawn from these accounts. Although in general the customer identification procedures are mostly in place, full customer due diligence (CDD) requirements should be introduced in the AML Act with appropriate guidance.

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 AML Act, anyone entering or leaving the Czech Republic with more than 10,000 euros (approximately U.S. \$14,750) in cash, traveler’s checks, or other monetary instruments must make a declaration to customs officials, who are required to forward the information to the FAU.

Similar reporting requirements apply to anyone seeking to mail the same amount in cash to or from the country. In practice, the effectiveness of these procedures is difficult to assess. With the accession of the Czech Republic to the EU, 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.

The FAU was established in July 1996 as an administrative FIU under the umbrella of the Ministry of Finance. It has overall supervisory competence to ensure the implementation of the AML Act by all obliged entities. Since 2000 financial institutions have been required to report all suspicious transactions to the FAU. The FAU is 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 Czech Police, Customs, and counterparts abroad. The GOCR expects 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 charged with reviewing suspicious transaction reports (STRs) filed by police agencies, financial, and other institutions. It is also charged with uncovering cases of tax evasion, which is a widespread problem in the Czech Republic. The FAU has neither the mandate nor the capacity to initiate or conduct criminal investigations. Investigative responsibilities remain with the Czech National Police Unit for Combating Corruption and Financial Crimes (UOKFK) or other Czech National Police bodies. The FAU's work covers only a relatively small segment of total financial activity within the Czech Republic. Since April 2006, the FAU has had the power to fine financial institutions that fail to report accounts or other assets belonging to individuals, organizations, or countries on which international sanctions have been imposed.

The UOKFK has primary responsibility for all financial crime and corruption cases. Following the dissolution of the specialized Financial Police on January 1, 2007, the unit became the main law enforcement counterpart to the FAU and is responsible for investigations of terrorist financing cases. Following the abolition of the Financial Police, the UOKFK took over all of its ongoing cases, but the pace of investigations has slowed.

The number of STRs transmitted to the FAU has been growing. There were 3,404 suspicious transactions reported in 2005 and 3,480 in 2006. From January through October 2007, there were 1,729 reports of suspicious transactions. This upward trend is interpreted as evidence of the active participation of concerned entities in the anti-money laundering regime. Conversely, the number of inquiries evaluated and forwarded to law enforcement bodies have decreased compared to 2005. In 2005, the FAU forwarded 208 reports to the police and only 137 in 2006. From January through October 2007, the number of reports forwarded to the police was 82; in 25 cases, the payments were temporarily frozen. The abolition of the Financial Police and the transfer of its cases to the Unit Combating Corruption and Financial Crimes caused temporary difficulties in communication between the FAU and the Police. It is not clear whether every case transferred to law enforcement was investigated. Cooperation with foreign counterparts remains good. In 2005, the FAU received 130 assistance requests from abroad and sent 69 requests abroad. In 2006, it received 128 and sent 77. During the first nine months of 2007, the FAU received 102 requests and sent out 49 requests.

From January to June 2007, the Police investigated eight individuals, but did not seize any related funds. This is a significant decrease from 2006, when the police investigated 11 offenders and seized 373 million crowns (approximately \$20 million). The decrease can be partially explained by the abolition of the specialized Financial Police.

The Czech Republic saw its first convictions of individuals attempting to legalize proceeds from crime only in 2004. In 2005, there were 23 alleged offenders prosecuted and three were convicted. In 2006, there were 33 were prosecuted, and five convicted. In the first half of 2007, only six people were prosecuted and two convicted. The sentences were low and included suspended sentences or fines. An

ongoing issue in criminal prosecutions is that law enforcement agencies 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.

While the institutional capacity to detect, investigate, and prosecute money laundering and financial offenses has increased in recent years, both the FAU and the Police face staffing challenges. The Financial Action Task Force (FATF) and the Council of Europe's FATF-style regional body (MONEYVAL) have both emphasized the need for the Czech Republic to increase the FAU's staff. Given the scope of its responsibilities, the FAU remains a relatively small organization. The Police face even bigger challenges due to recent changes in police retirement rules and the perceived lack of political support for independent police work. Many senior and experienced police officers are reportedly leaving or are considering early retirement. These departures will affect not only the UOKFK, but the Organized Crime Unit and other critical police organizations as well. The dissolution of the Financial Police, which was created in 2004 in response to EU recommendations and had a good track record of investigating and prosecuting money laundering and terrorist finance cases, has also had a negative impact on police work on financial crimes.

Czech laws facilitate 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 to give the FAU sufficient time to investigate whether 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 UOKFK, which has another three days to gather the necessary evidence. If the UOKFK is 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 UOKFK fails 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 suspected terrorists and terrorist organizations, or by other individuals and organizations covered under the Law on International Sanctions.

Although Czech law authorizes officials to use asset forfeiture, it is still not widely used. It was introduced into the criminal system in 2002 and allows judges, prosecutors, or the police (with the prosecutor's consent) 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 must 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 administrators of seized assets.

A 2006 amendment to the Czech Criminal Procedure Code and Penal Code brought several positive changes to the asset forfeiture and seizure law. The law, as 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 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.

The National Drug Headquarters (NDH) cooperates with the UOKFK on drug-related cases. However, as a result of the abolition of the Financial Police the NDH conducts its basic financial investigations alone and, if needed, contacts the UOKFK. In the first ten months of 2007, the NDH confiscated 1.9 million crowns (approximately U.S. \$108,000), 44 thousand euros (approximately U.S. \$65,000), and other assets valued at 1.8 million crowns (approximately U.S. \$103,000).

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. In addition to reporting all suspicious transactions possibly linked to money laundering, concerned institutions are now required to report all transactions suspected of being tied to terrorist financing. 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.

The Czech Republic ratified the UN International Convention for the Suppression of the Financing of Terrorism in October 2005. Subsequently, the GOOCR adopted the National Action Plan for the Fight against Terrorism for 2005-2007. This document covers topics such as police work and cooperation, protection of security interests, enhancement of security standards, and customs issues. The fight against terrorist financing is one of the major priorities contained in the plan.

Although the terrorist finance threat in the Czech Republic is considered to be modest, some law enforcement officials believe that the presence of third-country remuneration networks operating in the country (“hawala” shops) could translate into a greater possibility of financing terrorist activities. 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 was established in 2002 to streamline the collection of information from institutions to enhance cooperation and response to a terrorist threat. The Clearinghouse meets only in cases of necessity. It has not met thus far in 2007. 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, and adoption of the Law International Sanctions has made their work easier. Several cases have been detected, and payments to suspected organizations were not permitted. No sanctions have been imposed.

The Czech Republic has signed memoranda of understanding on information exchange with 23 countries, and, most recently, signed a new agreement with Paraguay. The Czech Republic formalized an agreement with Europol in 2002. The FAU has been a member of the Egmont Group since 1997 and is authorized to cooperate and share information with all of its international counterparts, including those that are not part of the Egmont Group. The Czech Republic participates in MONEYVAL. The most recent mutual evaluation of Czech Republic was conducted by the MONEYVAL in 2006. The mutual evaluation report (MER) was adopted by the MONEYVAL at its 24th plenary meeting in December 2007.

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; however, these instruments have not yet been ratified.

The Government of the Czech Republic has made progress in its efforts to strengthen its money laundering regime. The GOOCR cooperates to a large extent with foreign counterparts in the field of anti-money laundering and counter-terrorist financing. However, the incomplete Czech legal framework on seizure and confiscation is a major limitation to its international cooperation, and its staffing problems could be an obstacle to timely and effective collaboration. Czech authorities are using a risk-based approach when determining priorities and imposing obligations on obliged entities.

However, there is a tendency to rely on assumptions rather than on assessments, and as a result there is a lack of unanimity on sectors exposed to and used for money laundering purposes. The Czech Republic should approve already-drafted amendments to its existing money laundering legislation by to implement the European Union's Third Money Laundering Directive. The GOCR should also 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 confidential financial services, low fees, and minimal government oversight. A rapid expansion of Dominica's offshore sector without proper supervision made it attractive to international criminals and vulnerable to official corruption. In response to international criticism, Dominica enacted legislation to address many of the deficiencies in its anti-money laundering and counter-terrorist financing regime.

Dominica's financial sector includes one offshore bank, approximately 12,787 international business companies (IBCs) (an increase from 11,452 in 2006), 20 insurance agencies, six money remitters, one building and loan society, and three operational Internet gaming companies. However, reports indicate more Internet gaming sites may exist. There are no free trade zones in Dominica.

Under Dominica's Economic Citizenship Program, individuals can purchase citizenship and obtain passports for approximately U.S. \$75,000 for an individual and U.S. \$100,000 for a family of up to four persons. There is no residency requirement and passport holders may travel to Commonwealth countries without a visa. An application for economic citizenship must be made through a government approved local agent and requires a fee for due diligence or background check purposes. An in-person interview is also required. Dominica's Economic Citizenship Program does not appear to be adequately regulated. In the past, subjects of United States criminal investigations have been identified as exploiting this program. In 2007, 15 individuals acquired economic citizenship.

Under common banking legislation enacted by its eight member jurisdictions, the Eastern Caribbean Central Bank (ECCB) acts as the primary supervisor and regulator of onshore banks in Dominica. The ECCB, in conjunction with the Financial Services Unit (FSU), supervises Dominica's offshore bank. The ECCB assesses applications for offshore banking licenses, conducts due diligence checks on applicants, and provides a recommendation to the Minister of Finance. Offshore banks are required to have a physical presence and are forbidden from opening client accounts before verifying the beneficial owner of the bearer shares and/or companies. The Minister of Finance is required to seek advice from the ECCB before exercising his powers with respect to licensing and enforcement.

The ECCB also conducts on-site inspections for anti-money laundering compliance of onshore and offshore banks in Dominica. Inspections of offshore banks are conducted by the ECCB in collaboration with the FSU. The Offshore Banking (Amendment) Act No. 16 of 2000 prohibits the opening of anonymous accounts, prohibits IBCs from direct or indirect ownership of an offshore bank, and requires disclosure of beneficial owners and prior authorization to changes in beneficial ownership of banks. All offshore banks are required to have available for review on-site books and records of transactions. Per the Banking Act, which went into effect in Dominica in 2006, the ECCB is able to share information directly with foreign regulators through a memorandum of understanding (MOU).

The International Business Companies Act (IBCA) enacted in 1996 and amended in 2000, requires that bearer shares be kept with an approved fiduciary, 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. Dominica permits "shelf companies" or ready made offshore companies. Shelf companies have already been incorporated with a nominee director and nominee shareholder, and are for sale for immediate use. IBCs are not required to have a physical

presence and are restricted from conducting local business activities. Internet gaming entities must register as IBCs.

The IBCA empowers the FSU to perform regulatory, investigatory, and enforcement functions over IBCs. The FSU also supervises, regulates, and inspects Dominica's registered agents and conducts on-site visits to ensure that the companies are operating in compliance with requirements imposed by law. The FSU staff consists of a manager, two professional staff (supervisors/examiners), and one administrative assistant.

Amendments to the Money Laundering Prevention Act (MLPA) No. 20 of December 2000 adopted in 2001 criminalize the laundering of proceeds from any indictable offense. The law applies to narcotics-related money laundering and all hybrid or indictable offenses as predicate offenses for money laundering, 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 also requires persons to report cross-border movements of currency that exceed U.S. \$10,000 to the financial intelligence unit (FIU). The MLPA requires a wide range of financial institutions and businesses, including any offshore institutions, to report suspicious transactions simultaneously to the MLSA and the FIU. Additionally, financial institutions are required to report any transaction over U.S. \$5,000.

The MLPA establishes the Money Laundering Supervisory Authority (MLSA) and authorizes it to inspect and supervise nonbank financial institutions and regulated businesses for compliance with anti-money laundering legislation. The MLSA is also responsible for developing anti-money laundering policies, issuing guidance notes, and conducting training. The MLSA consists of five members: a former bank manager, the FSU manager, the Deputy Commissioner of Police, a senior State Attorney, and the Deputy Comptroller of Customs.

The 2001 Money Laundering Prevention Regulations apply to all onshore and offshore financial institutions including banks, trusts, insurance companies, money transmitters, regulated businesses, and securities companies. The regulations specify know-your-customer requirements, record keeping, and suspicious transaction reporting procedures, and require compliance officers and training programs for financial institutions. The regulations require that the true identity of the beneficial interests in accounts be established, and mandate the verification of the nature of the business and the source of the funds of the account holders and beneficiaries. Reporting entities are protected by law with respect to their cooperation with law enforcement entities. Anti-Money Laundering Guidance Notes, also issued in 2001, provide further instructions for complying with the MLPA and provide examples of suspicious transactions to be reported to the MLSA and the FIU.

The FIU, established under the MLPA, became operational in August 2001. The FIU's staff consists of a certified financial investigator and a director. The FIU analyzes suspicious transaction reports (STRs) and cross-border currency transactions reports, forwards appropriate information to the Director of Public Prosecutions, and works with foreign counterparts on financial crimes cases. The FIU has access to records of financial institutions and other government agencies with the exception of the Inland Revenue Division. In 2007, the FIU received 17 STRs. The FIU is closely examining the relationship between narcotics proceeds and money laundering in Dominican financial institutions. However, Dominica believes most of the money laundering cases under investigation involves external proceeds from fraudulent investment schemes.

The MLPA provides for the freezing of assets for seven days by the FIU, after which time a suspect must be charged with money laundering or the assets released. 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 state. 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. In 2006, \$55,481 was frozen but subsequently the matter was discontinued by the Director of Public Prosecutions and the funds returned. No statistics are currently available on the amount of assets frozen or seized in 2007.

There are no known convictions on money laundering charges in Dominica and there were no arrests or prosecutions for money laundering or terrorist financing in 2007. In 2006, a French national was arrested for attempting to obtain a line of credit through fraudulent wire transfers; he had been under investigation since 2004 for misappropriation of funds from Guadeloupe nationals. Since 2003, Dominica has collaborated closely with U.S. and foreign law enforcement agencies in a widespread money laundering case involving a European fraudulent investment scheme proceeds in one of the now closed offshore banks in Dominica.

In 2003, Dominica enacted the Suppression of Financing of Terrorism Act (No. 3 of 2003), which provides authority to identify, freeze, and seize terrorist assets, and to revoke the registration of charities providing resources to terrorists. The MLSA and the Office of the Attorney General supervise and examine financial institutions for compliance with anti-money laundering and counter-terrorist financing laws and regulations. The Government of the Commonwealth of Dominica (GOCD) circulates pertinent terrorist lists to financial institutions. To date, no accounts associated with terrorists or terrorist entities have been found in Dominica. There were no terrorist-related assets frozen, forfeited, or seized in 2007. The GOCD has not taken any specific initiatives focused on alternative remittance systems.

In 2000, a Mutual Legal Assistance Treaty between Dominica and the United States entered into force. However, in 2007, Dominica has not been cooperative in meeting mutual legal assistance requests. The GOCD also has a Tax Information Exchange Agreement with the United States but Dominica has not responded to more than two dozen requests from the USG for information regarding a potential money laundering case involving both countries. The MLPA authorizes the FIU to exchange information with foreign counterparts. Cash smuggling reports are not shared with foreign governments.

Dominica is a member of the Caribbean Financial Action Task Force (CFATF). The GOCD is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Dominica's FIU became a member of the Egmont Group in June 2003. Dominica is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and to the Inter-American Convention against Terrorism. The GOCD has neither signed nor ratified the UN Convention against Corruption or the UN Convention against Transnational Organized Crime.

The Government of the Commonwealth of Dominica should fully implement and enforce the provisions of its legislation and provide additional resources for regulating offshore entities, including immobilizing the bearer shares of current "shell companies". It should stringently regulate Internet gaming entities. Dominica should take measures to update its anti-money laundering regulations and guidance notes to reflect current international standards. In addition, Dominica should conduct awareness training for financial institutions, specifically banks, to ensure their understanding and compliance of STR reporting requirements. The GOCD should either commit to engage in scrupulous due diligence on Economic Citizenship applicants, or eliminate the program. Per its agreements with the United States Government (USG), Dominica should make efforts to share information with the USG in an effective and timely manner as stipulated under the terms of its MLAT and Tax information Exchange Agreement. The GOCD should also become a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

Dominican Republic

As a major transit country for drug trafficking, the Dominican Republic remains vulnerable to money laundering. 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.

Money laundering in the Dominican Republic is criminalized under Act 17 of 1995 (the 1995 Narcotics Law) and Law No. 72-02 of 2002. Under these laws, the predicate offenses for money laundering include illegal drug activity, 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 also imposes financial penalties on institutions that engage in money laundering, although the Government of the Dominican Republic (GODR) is in the process of amending the law to add a parallel structure of criminal penalties. Law No. 78-03 permits the seizure, conservation and administration of assets that 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 narcotics-related investigations have been initiated under the 1995 Narcotics Law, and substantial currency and other assets have been confiscated, there have been only four 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 aid in prosecutors' ability to obtain money laundering convictions. Since 2006, there have been 25 investigations and seven cases brought to court, one of which is the Banco Intercontinental (BANINTER) case.

The 2003 collapse of BANINTER revealed 14 years of double-bookkeeping designed to hide sweetheart loans, embezzlement, and money laundering. Subsequent state reimbursement of depositors resulted in costs of approximately 2.3 billion dollars. With the fraud-based collapse of Banco Mercantil and Banco Nacional de Credito (BANCREDITO) that same year, total bank fraud-based losses to the Dominican government approached \$3 billion in 2003. These frauds gutted the Dominican economy, almost tripled national indebtedness, and caused a massive devaluation of the Dominican peso. 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 to improve banking supervision. Though legislative changes have been made, full implementation of IMF requirements lags.

By the end of 2007, the prosecutor's investigations were essentially completed in the BANCREDITO case, although none of the convictions—which are currently under appeal—were for money laundering. Preparations for a case against Banco Mercantil officials have been hampered since February as the Supreme Court has not yet resolved related jurisdictional issues. In the BANINTER case, which concluded in November 2007, convictions and significant sentences were entered for bank president Ramon Baez Figueroa and bank vice-president Marcos Baez Coco for violation of banking and monetary laws, although both were acquitted of money laundering. Dominican economist and entrepreneur Luis Alvarez Rentá, a U.S. citizen, was convicted of criminal money laundering in connection with the collapse and sentenced to ten years in prison. These convictions, criticized by civil society, the media, and jurists as internally inconsistent, are nevertheless a significant challenge to impunity for the country's elite. The convictions are currently under appeal.

Under Law No. 72-02 and Decree No. 288-1996, numerous financial and nonfinancial institutions are subject to anti-money laundering provisions. Obligated entities include banks, currency exchange houses, stockbrokers, 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, 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 U.S. \$10,000, and maintain records for a minimum of five years. Moreover, the legislation requires individuals to declare cross-border movements of currency that are equal to or greater than the equivalent of U.S. \$10,000 in domestic or foreign currency.

In 1997 the Unidad de Inteligencia Financiera (UIF) was established as the financial intelligence unit (FIU) of the Dominican Republic, with the responsibility of receiving financial disclosures and suspicious transaction reports (STRs) from reporting entities in the financial sector. In 2002, Law 72-02 created the Unidad de Análisis Financiero (Financial Analysis Unit, or UAF) 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, as well as present leads to the prosecutors' office. According to the GODR, the UAF, which became operational in 2005, has replaced the UIF as the FIU of the Dominican Republic. As a result, 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.

Although the UAF is now recognized as the GODR's financial intelligence unit, it appears that there is still confusion among obligated entities regarding their reporting requirements. In 2007, rather than reporting directly to the UAF, reporting entities filed 824 STRs with the UIF. The UIF then reported the STRs to the UAF. The majority of the reports the UAF received in 2007 are believed to have been transferred from the UIF.

Further confounding the duality of FIU functions in the Dominican Republic is the proposed creation of an offshore financial center with its own agency equivalent to an FIU. In 2006, legislation was introduced by the GODR to allow for the creation of an Independent Financial Center of the Americas (IFCA), which would not be subject to the regulatory authority of GODR banking supervisors. To reassure international concerns regarding the IFCA's susceptibility to abuse by money launderers and terrorist financiers, as well as the GODR's inability to ensure that the IFCA complies with anti-money laundering and counter-terrorist financing standards, the creators of the IFCA have proposed establishing their own FIU to report to the UAF and exchange information with other FIUs. However, an FIU must by definition be a single, national entity. Although proposed amendments to the draft legislation suggest changing the name of the IFCA's FIU-equivalent agency to avoid confusion, it would still serve as a filter for STRs that should be sent to the UAF, which is not permissible under the international standards of the Egmont Group and Financial Action Task Force.

Although terrorist financing is not a crime in the Dominican Republic, the GODR continues to support U.S. Government efforts to identify and block terrorist-related funds. While no assets have been 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 of terrorism and provide reporting entities with a legal basis to carry out counter-terrorist 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 2007, GODR and U.S. law enforcement were able to work together to intercept and disrupt bulk cash smuggling organizations operating in the airports and seaports of the Dominican Republic. Law enforcement in the Dominican Republic is also actively targeting commercial flights and vessels that operate to drug source countries to disrupt the illicit money flow back to narcotics traffickers.

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 UN Convention against Corruption, and the UN Convention against Transnational Organized Crime. The GODR has signed, but has not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

The GODR is enhancing its anti-money laundering regime; however, additional improvements are needed, particularly with regard to combating terrorist financing. Legislative and oversight provisions are being put in place in the formal financial sector, but there exists a lack of coordination among the various entities tasked with anti-money laundering activities. 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 GODR should bolster the operational capacity of the fledgling UAF and ensure a full transition of FIU functions. Provisions should be put in place to ensure that the International Financial Center of the Americas is not susceptible to money laundering and terrorist financing activity, and the establishment of a FIU-equivalent within the IFCA should be prohibited. The GODR should formally criminalize the financing of terrorism and ratify the International Convention for the Suppression of the Financing of Terrorism.

Ecuador

With a dollar economy geographically situated between two major drug producing countries, Ecuador is highly vulnerable to money laundering, although it is not an important regional financial center. Because thus far only a few major banks have active money laundering controls in place, and because a large number of transactions take place through unregulated money exchange and remittance companies, 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.

Ecuador's financial sector consists of 29 banks, 13 investment companies, two formal exchange houses, 28 cooperatives, 39 insurance companies, two stock exchanges, and eight mutual funds. Several Ecuadorian banks maintain offshore offices. The Superintendence of Banks and Insurance 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. Small local credit unions are numerous and are regulated only by the Ministry of Social Affairs

Law 2005-13 of October 2005 criminalizes money laundering in Ecuador. The law 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. Prior to the passage of Law 2005-13, the Narcotics and Psychotropic Substance Act of 1990 (Law 108) criminalized money laundering activities only in connection with illicit drug trafficking. The new law criminalizes money laundering in relation to any illegal activity, including drug trafficking, trafficking in persons and prostitution. Money laundering is penalized by a prison term of one to nine years, depending upon the amount laundered, as well as a monetary fine. However, it is unclear if a conviction is required for the predicate offense to prosecute for money laundering, and money laundering is only considered to be a crime if the amount of funds laundered exceeds U.S. \$5,000.

Law 2005-13 established the National Council Against Money Laundering, 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. Law 2005-13 also establishes Ecuador's financial intelligence unit (FIU), the Unidad de Inteligencia Financiera (UIF), under the purview of the Council. Regulations for application of the law and establishment of the FIU were published in April 2006 under Decree 1328. The first UIF director was appointed in November 2006 but quickly resigned. A second director was appointed in December 2006 and currently leads the UIF. During 2007, the UIF acquired office space, hired 17 personnel, and set up computer systems. The UIF became operational on December 1, 2007. In the month of December, the UIF received 61 suspicious transaction reports (STRs) from obligated entities, and referred 20 suspicious transactions to the judicial police and Attorney General's Office for review. Although now operational, the director is still seeking technical support and improved software to improve the analytical capacity of the unit.

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 UIF within 48 hours. Financial institutions under the supervision of the Superintendence of Banks and Insurance currently report suspicious transactions to the Superintendence. Obligated entities are also required to establish "know-your-client" provisions, report cash transactions over \$10,000, and maintain financial transaction records for ten years. Any person entering Ecuador with \$10,000 or more in cash must file a report with the customs service; however, this requirement is currently not being enforced. Entities or persons who fail to file the required reports or declarations may be sanctioned by the Superintendence of Banks. The UIF 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 UIF 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 includes sanctions for banks and other financial institutions that provide information about accounts to police or advise the police of suspicious transactions if no criminal activity is ultimately proven. The law also does not provide safe harbor provisions for bank compliance officers.

Many of these obstacles can be overcome by a judge properly issuing an appropriate warrant. Also, the UIF is entitled by law to obtain information from the Superintendence of Banks and individual financial institutions, as an exception to the Banking Secrecy Law, and can provide this information to

the judicial police when part of an investigation. However, this contradictory legal framework may impede cooperation between other Government of Ecuador (GOE) agencies and the police, and cooperation to date has fallen short of the level needed for effective enforcement of money laundering statutes.

Ecuador's first major money laundering case began 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. The suspects were linked to accused drug trafficker Hernan Prada Cortes, who had acquired many Ecuadorian businesses and real properties in the names of other persons since 2000, and was recently extradited to the United States from Colombia. Two of the ten individuals detained in 2006 were released due to insufficient evidence, while the other eight remain in detention and pending trial. The prosecution of this case has been delayed, in part, pending additional evidence that is expected from the Prada trial in the United States. There have been a total of three money laundering cases initiated by prosecutors since the passage of Law 2005-13, and no convictions to date.

Ecuador's legal system provides for asset forfeiture upon conviction; however, civil forfeiture is not permitted. The National Council Against Money Laundering is 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. No statistics are available on the amount of assets seized or frozen by the GOE in 2007.

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. In 2006, the draft law passed its first debate in Congress, but since then the draft has seen no revisions and is awaiting further debate. With the Congress in recess and the transition to a Constituent Assembly, there has been little opportunity to address the issue.

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 member of the Financial Action Task Force for South America (GAFISUD), and held the GAFISUD presidency in 2007. The GOE underwent a mutual evaluation by GAFISUD in September 2007, and the mutual evaluation report was accepted by the GAFISUD plenary in December 2007. The evaluation team found the GOE to be noncompliant or only partially compliant with 48 of the 49 Financial Action Task Force Recommendations on money laundering and terrorist financing. The mutual evaluation report noted the lack of a counter-terrorist financing law and the lack of successfully prosecuted money laundering cases, but recognized that the UIF is making some progress.

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, the UN Convention against Corruption, and the Inter-American Convention against Terrorism. The GOE is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. 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 a 1994 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. The UIF has signed memoranda of understanding with the FIUs of Argentina, Brazil, Bolivia, Chile, Colombia, Panama, and Peru for the exchange of information.

The Government of Ecuador has made progress in combating money laundering in recent years with the passage of anti-money laundering legislation and the establishment of an operational financial intelligence unit. However, the GOE should fully implement the existing legislation and ensure that reporting requirements are enforced. Ecuador is one of only two countries in South America that is not a member of the Egmont Group of FIUs, and the GOE should ensure that the UIF becomes fully functional and meets the standards of the Egmont Group and the Financial Action Task Force. Ecuador still needs to criminalize the financing of terrorism, which is a prerequisite for membership in the Egmont Group and is necessary to fully comply with international anti-money laundering and counter-terrorist financing standards. The GOE should address items that were not accounted for in its money laundering legislation, including the abolition of strict bank secrecy limitations and any potential sanctions for financial institutions that report suspicious transactions. The GOE should also amend its current legislation so that the laundering of funds under U.S. \$5,000 is considered to be a money laundering offense, and clarify whether a conviction for a predicate offense is required before prosecutors may charge an individual with money laundering.

Egypt, The Arab Republic of

Egypt is not considered a regional financial center or a major hub for money laundering. Egypt still has a large informal cash economy, and many financial transactions do not enter the banking system. As part of its on-going economic reform plan, the Government of Egypt (GOE) continued financial sector reform in 2007. Few money laundering cases have made it to court in the last several years. Illegal dealings in antiquities, corruption, misappropriation of public funds, smuggling, and the use of alternative remittance systems, such as hawala, increase Egypt's vulnerability to money laundering.

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 smuggling, 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 schemes. The number of businesses and individuals filing tax returns as a result of June 2005 tax cuts continue to rise. Nevertheless, a large portion of Egyptian economy remains undocumented and tax evasion is commonplace.

At present, money laundering and terrorist financing are officially reported as not widespread. The few cases of money laundering that have been detected involved laundering of money through the formal banking sector. However, informal remittance systems are widespread in Egypt, and are a potential means for laundering funds. Nevertheless, Egyptian authorities claim these systems do not operate in Egypt, and therefore make no effort to detect, monitor and regulate them. Due to lack of regulation and investigations, it is unclear if and to what extent money laundering is actually occurring through these systems. Expatriate Egyptian workers frequently use informal underground remittance systems due to cost and unfamiliarity with official banking procedures. Western Union and Moneygram, the two formal cash transfer operators in Egypt, are also widely used and managers have petitioned the Central Bank to expand their operations. The Central Bank has not yet approved the requests. Reports on the number of Egyptian expatriate workers are contradictory, but the figure generally stated is 5

Money Laundering and Financial Crimes

million. The latest figures from the Central Bank indicate that overseas workers remitted U.S. \$6.321 billion in fiscal year 2006-2007.

Egypt does not have a high prevalence of financial crimes, such as counterfeiting or bank fraud. There is no evidence that Egyptian financial institutions engage in currency transactions involving international narcotics-trafficking proceeds. The Anti-Money Laundering (AML) 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 Egyptian Money Laundering Combating Unit (EMLCU) as Egypt's financial intelligence unit (FIU), which officially began operating on March 1, 2003, as an independent entity within the Central Bank. The administrative regulations of the EMLCU provide the legal basis by which the EMLCU derives its authority, spelled out the predicate crimes associated with money laundering, established a Council of Trustees to govern the EMLCU, defined the role of supervisory authorities and financial institutions, and allowed for the exchange of information with foreign competent authorities.

The Central Bank's Supervision Unit shares responsibility with the EMLCU for regulating banks and other 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 Central Bank 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 demonstrating compliance with AML regulations. Reporting of suspicious transactions is required by banks and nonbank financial institutions.

The Central Bank and EMLCU undertook frequent compliance assessments of all banks operating in Egypt. The assessments consisted of questionnaires and on-site visits to check AML compliance systems. 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. The Central Bank 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, also conducts inspections of firms and independent brokers and dealers under its jurisdiction. Inspections are 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 EMLCU 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 U.S. \$20,000 to U.S. \$10,000. The declaration requirement was also

extended to travelers leaving as well as entering the country. However, enforcement of this provision is not consistent. The Customs Authority also signed an agreement with the EMLCU to share information on currency declarations. 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. As an example, there have been reports that Hamas ministers in the last Palestinian cabinet 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 EMLCU and also alert the European Union border guards of individuals crossing the border with large amounts of cash.

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 nine public free zones, 250 private free zones, and one SEZ. 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 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. All banks and nonfinancial institutions operating in such zones are subject to Egypt's AML law provisions (AML).

The EMLCU, Egypt's FIU, is an independent entity within the Central Bank. The EMLCU has its own budget and staff and also has the full legal authority to examine and analyze all Suspicious Transaction Reports (STRs). Investigations are conducted by law enforcement agencies, including the Ministry of Interior, the National Security Agency, and the Administrative Control Authority. The EMLCU shares information with these agencies. The unit handles implementation of the AML law, which includes publishing the executive directives. The EMLCU takes its direction from a six-member council, the Council of Trustees, 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 Central Bank, a Sub-Minister (Under Secretary) 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 EMLCU was admitted to the Egmont Group of FIUs.

The Executive Director of the EMLCU 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.

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 Central Bank 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 Central Bank seizes cash and the Ministry of Justice seizes real assets. Confiscated assets are given 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 EMCLU. 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 counter-terrorism law, an emergency law enacted in 1981 that is due to expire in spring of 2008, with a new comprehensive law. It will reportedly include specific measures against terrorist financing. Currently, article 86 of the Egyptian Penal Code criminalizes the financing of terrorism.

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 Central Bank 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 2007.

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 counter-terrorist financing. There is no information available on Egypt's mutual evaluation by MENAFATF. Egypt 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.

The Government of Egypt will not have a successful anti-money laundering and terrorist finance regime until it has successful prosecutions and convictions. Improved investigative capacity in financial crimes is a prerequisite. Egypt should consider ways of improving the EMCLU'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. Egyptian law enforcement and customs authorities should examine and investigate trade-based money laundering, informal value transfer systems, and customs fraud. The GOE should ensure that its updated law against terrorism specifically addresses the threat of terrorist financing, including asset identification, seizure and forfeiture.

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 2007, approximately \$3.5 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. One such case was investigated jointly by the Drug Enforcement Administration (DEA) and the Government of El Salvador (GOES) beginning in 2005. Two individuals were arrested. One Panamanian national was subsequently found guilty of money laundering in 2006, and a Salvadoran pled guilty in 2007. It is estimated that between U.S. \$7 million and U.S. \$11 million were laundered through local Western Union branch remittances.

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 U.S. \$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.

In 2007, the GOES investigated 27 cases of suspected money laundering. GOES law enforcement arrested five individuals suspected of engaging in money laundering and financial crime, and prosecutors obtained convictions for four of those individuals in 2007. There were also two notable high-profile financial crime cases in 2007. In the first, a former National Legislative Assembly Deputy facing public corruption and money laundering charges fled to the United States and was later apprehended in Anaheim, California, and held on immigration charges. In the second high-profile case, a fugitive financier wanted on charges of defrauding Salvadoran investors in a case dating back to 2005 was arrested in Miami, Florida, and held pending resolution of a Salvadoran government extradition request.

The GOES has begun to more aggressively investigate private companies and financial service providers involved in suspicious financial activities. Despite demonstrating a greater commitment to pursue financial crimes, 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 National Civilian Police. In addition to providing communication, the system has a software component that filters, sorts, and connects financial and other information vital to money

laundering investigations. The system, which became operational in 2006, is expected to enhance investigative capabilities. The UIF recently undertook an effort to establish a closer information sharing relationship with the Superintendent of the Salvadoran Financial System (SSF), as well as to formally incorporate the SSF into the existing secure computerized communication link.

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 U.S. \$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 the assets. In 2007, eight individuals were detected carrying undeclared cash at the international airport or at international border crossings, and a total of U.S. \$1.2 million was confiscated from these individuals.

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, forfeited funds are rarely 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, and not for civil or administrative forfeiture. A draft law to reform Decree 498 to provide for civil forfeiture of assets, currently in the national legislature, has run into resistance from businessmen and others who are fearful that a civil asset forfeiture regime could lead to a crackdown on tax evaders, or possibly be misused for political purposes. In 2007, the GOES froze U.S. \$57,853 in bank deposits related to money laundering and financial crime investigations.

The GOES passed counterterrorism legislation, Decree No. 108, in September 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 United Nations (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 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, terrorist 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 (CFATF). 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 2007 in terms of improvements in the operational capabilities of the UIF. To build upon this progress, however, El Salvador should continue to expand and enhance its anti-money laundering and counter-terrorist financing policies, and strengthen its ability to seize and share assets. The GOES should ensure the passage of the civil forfeiture legislation that is currently under consideration by the legislature. Remittances remain an important sector of the Salvadoran economy, and as such should be carefully supervised. The GOES should improve supervision of cash couriers and wire transfers as outlined in the Financial Action Task Force Nine Special Recommendations on terrorist financing. The GOES should also ensure that sufficient resources are provided to the overburdened Attorney General's office, as well as to the financial crime and narcotics divisions of the National Civilian Police.

France

France remains an attractive venue for money laundering because of its sizable economy, political stability, and sophisticated financial system. Narcotics trafficking, human trafficking, smuggling, and other crimes associated with organized crime are among its vulnerabilities.

The Government of France (GOF) first criminalized money laundering related to narcotics trafficking in 1987. Law 96-392 criminalizes the laundering of proceeds of all crimes. 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. French law has obliged institutions to combat money laundering since 1990. Entities obliged to file suspicious transaction reports (STRs) include those within a variety of financial and nonfinancial sectors, including banks, insurance companies, casinos, and lawyers.

Under Article 324 of the Penal Code, money laundering carries a penalty of five years imprisonment and a fine of 375,000 euros (approximately U.S. \$547,500). With aggravating circumstances such as habitual or organized activity or connection with narcotics trafficking (Article 222-38), the penalty increases to ten years imprisonment and a fine of 750,000 euros (approximately U.S. \$1,095,000). Legal procedure for criminal conspiracy applies to money laundering crimes.

As a member of the European Union (EU), France is obligated to implement all three EU money laundering directives. In late 2005, the EU adopted the Third Money Laundering Directive (2005/60/EC), which mandated an implementation deadline of December 15, 2007.

France has developed the Liaison Committee against the Laundering of the Proceeds of Crime, which is comprised of 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 (AML) system. The Justice Ministry and the French financial intelligence unit (FIU), known as the Unit for Treatment of Intelligence and Action Against Clandestine Financial Circuits or TRACFIN, co-chair this group.

The Banking Commission supervises fiduciary institutions and conducts regular audits of credit institutions. The Insurance and Provident Institutions Supervision Commission reviews insurance brokers. The Financial Market Authority monitors the reporting compliance of the stock exchange and other nonbank financial institutions. The Central Bank (Banque de France) oversees management of the records required to monitor banking transactions. Bank regulators and law enforcement can access the French Tax Administration's database to obtain information on the opening and closing of accounts. Information is available for depository accounts, transferable securities, and other properties, including cash assets. These records are important tools in the French arsenal for combating money laundering and terrorist financing.

France's FIU, TRACFIN, is responsible for analyzing suspicious transaction reports (STRs) filed by obliged entities. 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. 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 12,047 STRs in 2006. The banking sector submits approximately 81 percent of STRs. The FIU referred 411 cases to the judicial authorities in 2006.

French law requires two types of reports, in addition to STRs, to be submitted to the FIU. An entity must file a report with TRACFIN when the identity of the principal or beneficiary remains unclear despite due diligence. There is no threshold limit for such reporting. Entities must also file reports when a financial entity acting in the form, or on behalf, of any asset management instrument, when legal or beneficial owners are unknown, carries out a transaction on a third party's behalf. 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.

Law No. 96-392 of 1996 instituted procedures for seizure and confiscation of the proceeds of crime. French law permits seizure of all or part of property. In cases of terrorist financing, France has promulgated an additional penalty of confiscation of the total assets of the terrorist offender. Authorities can freeze accounts and financial assets through both administrative and judicial measures.

Since 1986, French counter-terrorism legislation has provided for the prosecution of those involved in terrorist financing under the more severe offense of complicity in the act of terrorism. To strengthen this provision, France introduced several new characterizations of offenses, pointedly including terrorist financing. 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 euros (approximately U.S. \$328,500). Since 2001, TRACFIN has referred 92 cases of suspected terrorist financing to the judicial authorities for prosecution. TRACFIN participates in the "Cell for the fight against the financing of terrorism," an informal group created within the French Ministry of the Economy, Finance, and Industry to gather information to fight terrorist financing.

The Government of France (GOF) moved to strengthen France's anti-terrorism 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 opens flight passenger lists and identification information to access by counter-terrorism officials. The Act 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, and belonging to companies directly or indirectly controlled by these individuals. By granting explicit national authority to freeze assets, the Act closes a potential loophole concerning the freezing of a citizen's assets as oppose to a resident EU-member citizen's assets. Adopted in January 2006, it entered into force by presidential decree in April 2007.

French authorities have moved rapidly to identify and 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, France has sought to support and expand efforts targeting terrorist financing. France has worked to engage and improve the AML and counter-terrorist financing (CTF) capabilities of some African countries by offering technical assistance. On the operational level, French law enforcement cooperation targeting terrorist financing continues to be strong.

The United States and France entered into a mutual legal assistance treaty (MLAT) 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 Financial Action Task Force (FATF). 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 and is an active partner in international efforts to control money laundering and the financing of terrorism. France should continue its active participation in international organizations, and its outreach to lower-capacity recipient countries, to combat the domestic and global threats of money laundering and terrorist financing. France should ensure that the promulgating regulations for compliance with the Third Money Laundering Directive are fully effective, and that the supervisory authorities are well-equipped to handle their new duties. The GOF should enact a compulsory written cash declaration regime at its airports to ensure that travelers entering and exiting France and the EU provide, in writing, a record of their conveyance of currency or monetary instruments that can be saved and shared.

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. Organized criminal groups involved in drug trafficking and other illegal activities are an additional source of money laundering in Germany. Germany is not an offshore financial center.

In 2002, the Federal Republic of Germany (FRG) enacted a number of laws to improve law enforcement's ability to combat money laundering and terrorist financing. The 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.

Money Laundering and Financial Crimes

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 maintain a centralized register of all bank accounts with electronic access to all key account data held by banks in Germany. Banks cooperate with German authorities. Many have independently developed risk assessment software to screen potential and existing clients and their financial activity, and to monitor transactions for suspicious activity.

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 U.S. \$22,000). 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 as well as to the State Attorney (Staatsanwaltschaft).

The Federal Interior Ministry has drafted new legislation to implement the third EU Money Laundering Directive. The legislation is expected to be adopted in mid-2008. In addition to requiring that EU member states implement the Financial Action Task Force's (FATF) 40 Recommendations, the directive contains further provisions on customer due diligence and other internal risk-management measures to prevent money laundering and terrorist financing. The new regulations will apply to banks, insurance companies, and a number of professional groups (e.g., financial services providers, lawyers, notaries public, tax advisors, and other business operators). The directive calls for improved integrity and transparency to help prevent financial crime and improve information exchange between the public and private sectors. According to the draft legislation, suitable control structures must ensure that proper, accurate and current information is available about the contracting party, to ensure transparency. The EU requirement also expands reporting requirements to encompass transactions that support the financing of terrorism. The EU regulation on wire transfers (EC 1781/2006) entered into force on January 1, 2007.

As of June 15, 2007, travelers entering Germany from a nonEU country or traveling to a nonEU country with 10,000 euros (approximately U.S. \$14,500) or more in cash must declare their cash in writing. The definition of "cash" includes currency, checks, traveler's checks, money orders, bills of exchange, promissory notes, shares, debentures, and due interest warrants (coupons). The written declaration must also include personal data, travel itinerary and means of transport as well as the total amount of money being transported, where the money originated from, what it is to be used for, who the owner of the money is and who is the payee. If authorities doubt the information given, or if there are other grounds to suspect money laundering or the funding of a terrorist organization, the cash will be placed under customs custody until the matter has been investigated. Penalties for nondeclaration or false declaration include a fine of up to one million euros (U.S. \$1.46 million). During the period between January and September 2007 the Federal Customs Criminal Office identified 998 cases of individual cross-border cash movements that required further clarification and review. In December 2007 the new Schengen countries were enveloped within EU borders, making it possible to travel across Europe from Estonia through Germany to Portugal without border controls.

Germany established a single, centralized, federal financial intelligence unit (FIU) within the Federal Office of Criminal Investigation (Bundeskriminalamt or BKA). Staffed with financial market supervision, customs, and legal experts, the FIU is responsible for analyzing cases, responding to reports of suspicious transactions, and developing and maintaining a central database of this information. Another unit under the BKA, the Federal Financial Crimes Investigation Task Force, houses twenty BKA officers and customs agents.

Information for 2007 was unavailable, but in 2006, obligated entities filed 10,051 suspicious transaction reports (STRs) pursuant to the Money Laundering Act. According to the German Financial Intelligence Unit's (FIU's) 2006 annual report, 80 percent of the STRs filed pursuant to the Money Laundering Act and other notifications of money laundering activity forwarded to the FIU in 2006 cited fraud, including "phishing" and the use of "financial agents", as a possible criminal offense from the perspective of the reporting party. The individuals recruited in phishing schemes may be liable for money laundering penalties as well as for the illegal provision of financial services. Document forgery and tax offenses were the next most frequently cited offenses.

In 2006, approximately fifty-seven percent of the persons cited in German STRs were German nationals. Of the forty-three percent of the STRs that referenced nonGerman nationals, suspects with Turkish citizenship comprised the greatest proportion followed by Russian, Chinese, Italian and Kazakh. The 2006 statistics on STRs concerning transfers of assets to and from foreign countries displayed a number of significant trends. Russia and the Ukraine were the top two destinations for asset transfers that generated STRs. The United States is the eighth most frequently listed destination for asset transfers that are cited by STRs. When entities file STRs on transfers of assets from foreign countries, the USA is the most frequently cited source nation.

As with other crimes, actual enforcement of money laundering laws under the German federal system takes place at the state (sub-federal) level. Each state has a joint customs/police/financial investigations unit (GFG), which works closely with the federal FIU. The 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 for transfers into or out of the EU. However, this does not place Germany into compliance with FATF Special Recommendation Seven (SR VII) on Terrorist Financing, which governs wire transfers. SR VII requires such information on all cross-border transfers, including transfers between EU member countries.

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. One reform package closed loopholes that had permitted members of foreign terrorist organizations to engage in fundraising in Germany (e.g., through charitable organizations), which extremists had exploited to advocate violence. Subsequently, Germany increased its law enforcement efforts to prevent misuse of charitable entities. Germany has used its *Vereingeseetz*, or Law on Associations, to take administrative action to ban extremist associations that "threaten the democratic constitutional order."

A second reform package 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 FRG also added terrorism and terrorist financing to its list of predicate offenses for money laundering, as defined by Section 261 of the Federal Criminal Code. The Criminal Code allows prosecution of members in terrorist organizations based outside Germany.

An amendment to the Banking Act institutes a broad legal basis for BaFIN to order frozen assets of EU residents suspected as terrorists. Authorities primarily concentrate on financial assets. BaFIN's system allows immediate identification of financial assets that can be potentially frozen, and German law enforcement authorities can freeze accounts for up to nine months. However, unless the assets belong to an individual or entity designated by the UNSCR 1267 Sanctions Committee, the FRG cannot seize money until authorities prove in court that the funds were derived from criminal activity or intended for terrorist activity.

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. A court can order the freezing of nonfinancial assets. 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 go into the federal government treasury.

Since 1998, the FRG has licensed and supervised money transmitters, shut down thousands of unlicensed money remitters, and issued AML guidelines to the industry. German law 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.

German law enforcement authorities cooperate closely at the EU level, such as through Europol. Germany has mutual legal assistance treaties (MLATs) with numerous countries. 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. The U.S. and Germany signed a Mutual Legal Assistance Treaty in Criminal Matters on October 14, 2003. On July 27, 2006, the U.S. Senate ratified the MLAT and the German legislative bodies approved the implementing legislation in July and September 2007. Germany published the implementing legislation in the Federal Gazette on November 2, 2007, and the MLAT will come into effect once the parties formally exchange the instruments of ratification. 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 instruments, as well as the underlying U.S.-EU Agreements, have not yet been ratified. German authorities cooperate with U.S. authorities to trace and seize assets to the full extent allowed under German laws. German law does not currently permit the sharing of forfeited assets with other countries.

Germany is a member of the FATF, the EU and the Council of Europe. The 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 AML 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 terrorist financing, so that the freezing process does not require a criminal investigation as well as amend its legislation to allow asset sharing with other countries. Germany should ratify the UN Convention against Corruption.

Ghana

Ghana is not a regional financial center, but due to continuing turmoil in the region, Ghana's financial sector is likely to become more important regionally as it develops. Most of the money laundering found in Ghana involves narcotics and public corruption. Ghana is a significant transshipment point for cocaine and heroin. Police suspect that criminals use nonbank financial institutions, such as foreign exchange bureaus, to launder the proceeds of narcotics trafficking. Criminals can also launder their illicit proceeds through investment in banking, insurance, real estate, automotive import, and general import businesses. Reportedly, donations to religious institutions have been used as a vehicle to launder money. The number of "advance fee" or 419 fraud letters, known as Sakawa in Ghana, that

originate from Ghana continues to increase, as do other related financial crimes, such as use of stolen credit and ATM cards.

Informal activity accounts for about 45 percent of the total Ghanaian economy. Ghana's 2000 census found that 80 percent of employment was in the informal sector. Only a small percentage of the informal economy, however, relies on the banking sector. Because some traders smuggle goods to evade tax and import counterfeit goods, black market activity in smuggled goods is a concern. In most cases the smugglers bring the goods into the country in small quantities, and Ghanaian authorities have no indication that these smugglers have links to criminals who want to launder money gained through narcotics or corruption.

Ghana has designated four free trade zone areas, but the Tema Export Processing Zone is currently the only active free trade zone. Ghana also licenses factories outside the free zone area as free zone companies. Free zone companies must export at least 70 percent of their output. Most of the companies produce garment and processed foods. The Ghana Free Zone Board and the immigration and customs authorities monitor these companies. Immigration and customs officials do not suspect that trade-based money laundering (TBML) schemes are a major problem in the free trade zones. Although the Government of Ghana (GOG) has instituted identification requirements for companies, individuals, and their vehicles in the free zone, monitoring and due diligence procedures are lax.

The GOG has developed new laws to stimulate financial sector growth, including the revision of the banking law to strengthen the operational independence of the Central Bank (Bank of Ghana). The government is promoting efforts to model Ghana's financial system on that of the regional financial hub in Mauritius. In line with this, the GOG passed the Banking (Amendment) Act, 2007 Act 738, on June 18, 2007. The law establishes the basis for the provision of international financial services in Ghana and requires the Bank of Ghana to authorize offshore banks. Prior to this law, the Bank of Ghana licensed only reputable and internationally active banks. On September 7, 2007, Barclays Bank of Ghana Ltd., a subsidiary of Barclays Bank PLC, UK became the first to start operating as an offshore bank. The Bank of Ghana is in the process of drafting regulations for offshore banks.

Nearly six years after drafting began, the Parliament passed the Anti-Money Laundering (AML) Bill on November 2, 2007. The President signed it on January 22, 2008, and it was gazetted on January 25, 2008. The law covers obliged institutions and their reporting and disclosure requirements; the role of supervisory authorities; preventive measures; customer identification and record keeping requirements; and rules for suspicious transaction reporting. Ghana has bank secrecy laws, but allows the sharing of information with relevant law enforcement agencies. Law enforcement officials can compel disclosure of bank records for drug-related offenses. Bank officials have protection from liability when they cooperate with law enforcement investigations. The new AML law requires banks and individuals to report suspicious transactions.

The banking sector lacks a strong regulatory framework to prevent money laundering and report suspicious transactions, although entities recognize the importance of such a framework. The Bank of Ghana allows two types of foreign currency bank accounts: the foreign exchange (FE) account and the foreign currency (FC) account. The FE account is tailored to foreign currency sourced within Ghana while the FC account targets transfers from abroad. Bank of Ghana regulations instituted in December 2006 under the Foreign Exchange Act allow U.S. \$10,000 per year to be transferred from an FE account without documentation and approval from the Bank of Ghana. The regulations also allow import transactions of up to \$25,000 without initial documentation for FE accounts. There are no limits on the number of such transactions made on each account or on the number of such accounts that an individual can hold. The law does not permit foreign exchange bureaus to make outward transfers. Local banks strictly follow "know your customer" rules. Ghana has no effective system to obtain data on an individual's dealings with all the banks in Ghana.

Ghana has a cross-border currency reporting requirement. However, Ghanaian authorities have difficulty monitoring cross-border movement of currency.

The new AML bill calls for establishment of a Financial Intelligence Unit (FIU), overseen by the Minister of Finance. Ghana plans to fund the FIU through government grants and donations. The FIU will not investigate crime but will gather and analyze intelligence to help in identifying proceeds of unlawful activity and the perpetrators of the crimes. The FIU will have the authority to obtain information from other government regulatory authorities and from financial institutions. The GOG made no arrests, nor did it pursue any prosecutions related to money laundering or terrorist finance in 2007.

The Narcotic Drug Law of 1990 provides for the forfeiture of assets upon conviction of a drug trafficking offense. A February 2007 court order compelled authorities to release seized assets in a 1991 landmark narcotics trafficking case which resulted in a ten-year jail sentence of the convict, and return the assets to the owners. The ex-convict had appealed the seizure, arguing that the assets did not belong to him. The draft Proceeds of Crime Bill, pending since 2006, contains provisions dealing with pre-emptive measures, confiscation and pecuniary penalty orders, search and seizure, and restraining orders and realization of property. The draft Proceeds of Crime bill will merge with the existing Serious Fraud Office Law, 1993 (Act 466). The Serious Fraud Office, established by this law, investigates corruption and crimes that have the potential to cause economic loss to the state.

Ghana has not yet criminalized the financing of terrorism, as required by United Nations Security Council Resolution 1373. A draft Anti-Terrorism Bill, incorporating terrorist financing provisions, came before Parliament in 2005. The Bill is under examination by members of the Constitutional, Legal, and Parliamentary Affairs Committee and the Defense and Interior Committee. The draft bill addresses terrorist acts, support for terrorist offenses, specific entities associated with acts of terrorism, and search, seizure, and forfeiture of property relating to acts of terrorism. The Central Bank has circulated the list of individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list to local banks, but no Ghanaian entities have identified assets belonging to any of the designees.

Although current Ghanaian law does not allow for the sharing of seized narcotics assets with other governments, the Narcotic Drug Law of 1990 includes provisions for the sharing of information, documents, and records with other governments. It also provides for extradition between Ghana and foreign countries for drug-related offenses. The United States has not requested financial investigative assistance from Ghanaian authorities.

Ghana is a member of the Inter-Governmental Action Group Against Money Laundering and Terrorist Financing in West Africa (GIABA), a regional body modeled after the Financial Action Task Force (FATF). Ghana has bilateral agreements for the exchange of money laundering-related information with the United Kingdom, Germany, Brazil, and Italy. Ghana is a party to the twelve UN conventions on terrorism, including the UN International Convention for the Suppression of the Financing of Terrorism. Ghana is a party to the 1988 UN Drug Convention, and the African Union Convention on Preventing and Combating Corruption. In June 2007, Ghana ratified the UN Convention against Corruption. Ghana has not signed the UN Convention against Transnational Organized Crime. Ghana has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision."

Although the Government of Ghana (GOG) became a party to the UN International Convention for the Suppression of the Financing of Terrorism in 2002, it has not criminalized terrorist financing. It should do so. The GOG should move swiftly to implement the AML Bill, and should expand the list of predicate crimes to comply with international standards. The GOG should issue promulgating regulations, improve capacity among the agencies impacted, and establish its FIU. The GOG should make every effort to pass asset seizure and forfeiture legislation that comports with international standards as soon as possible. Once the laws are in place, Ghana should take the necessary steps to promote public awareness and understanding of financial crime, money laundering and financing of

terrorist activities. The GOG should reconsider establishing the offshore center altogether. Ghana should immediately release regulations and guidance for its new offshore entities, and draft legislation to ensure that offshore entities are treated identically to the onshore sector under the AML Bill. Additionally, the GOG should require that the true names of all offshore entities are held in a registry, accessible to law enforcement. The GOG should increase cooperation and information sharing with other governments. Ghana should also become a party to the UN Convention against Transnational Organized Crime.

Gibraltar

Gibraltar is an overseas territory of the United Kingdom. A November 2006 referendum resulted in constitutional reforms transferring powers exercised by the U.K. government to Gibraltar. Gibraltar is a significant international financial center with strong ties to London, the Channel Islands, Israel, Cyprus, and other financial centers. Located at the southern tip of Spain, near the north coast of Africa, Gibraltar is adjacent to known drug-trafficking and human smuggling routes. It is also a retail banking centre for northern European expatriates with property in southern Spain. All of these factors reportedly contribute to money laundering and terrorist financing vulnerabilities in Gibraltar.

Gibraltar was one of the first jurisdictions to introduce and implement money laundering legislation that covered all crimes. The Gibraltar Criminal Justice Ordinance to Combat Money Laundering, which related to all crimes, entered into effect in 1996. The Drug Offenses Ordinance (DOO) of 1995 and Criminal Justice Ordinance of 1995, amended in June 2007 as the Criminal Justice Act, criminalize money laundering related to all crimes. The laws mandate reporting of suspicious transactions by any obliged entity or individual therein. The DOO obliges 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.

Authorities issued comprehensive anti-money laundering (AML) Guidance Notes, which have the force of law, to clarify the obligations of Gibraltar's financial service providers. Gibraltar issued its most recent Guidance Notes in December 2007 with amendments based on the Criminal Justice (Amendment) Act 2007 and Terrorist (Amendment) Act 2007. The 2007 Guidance Notes apply to banks and building societies, the Gibraltar Saving Bank, investment business and controlled activities, life insurance companies, currency exchangers/bureaux de change, and money transmission/remittance offices. In transposing the EU's Third Money Laundering Directive to include nonfinancial sectors, Gibraltar extended the Criminal Justice Act.

Gibraltar established the Financial Services Commission (FSC), the unified regulatory and supervisory authority for financial services, under the FSC Ordinance (FSCO) 1989. Required by statute to match the supervisory standards of the United Kingdom, the FSC is the supervisory body for banks and building societies, investment businesses, insurance companies, and controlled activities, which include investment services, company management, professional trusteeship, insurance management and insurance intermediation. The main legal instruments governing the regulation and supervision of the financial system, in addition to the FSCO, are: the Banking Ordinance (1992) that provides powers to license and supervise banking and other deposit-taking business in Gibraltar; the Insurance Ordinance (1987) that provides powers to regulate and restrict the conduct of the business of insurance; and the Financial Services (Collective Investment Schemes) Ordinance that provide for the licensing and supervision of investment business.

Legislation requires that all businesses establish the beneficial owner of any companies or assets before undertaking a relationship or incorporating any company or asset. Onshore and offshore banks are subject to the same legal and supervisory requirements. Institutions must retain financial records for at least five years from the date of completion of the business. If the obligated institution has

submitted a suspicious transaction report (STR) to the Gibraltar financial intelligence unit (FIU) or when it knows that a client or transaction is under investigation, it is required to maintain any relevant record even if the five year interval has expired. If a law enforcement agency investigating a money laundering case cannot link the funds passing through the financial system with the original criminal money, then the funds cannot be confiscated.

The Financial Services Commission Act 2007 (FSCA) became effective in May 2007. This act repeals and replaces the Financial Services Commission Act of 1989. With this legislation, the FSC modernized and restructured itself. One of the most significant changes arising from the FSCA is in respect to the appointment of members of the Commission, who will be selected by the minister with responsibility for financial services (presently the Chief Minister) from a short list of three suitable persons provided to him by existing members. The FSC has also received expanded statutory functions. The FSC now holds formal licensing, supervisory, and regulatory powers over all firms authorized under the Supervisory Acts. The FSC authority also ensures compliance with legislation, rules and guidance notes in general as well as those specific to combating financial crime. The FSC is now able to issue Rules and Guidance, which enables the FSC to draft practical guidance for compliance with legislative measures, and regulatory expectations to supplement legislative provisions. As a safeguard against inappropriate or overregulation, the rules and guidance undergo a public consultation process and are subject to final veto of the Minister.

The Government of Gibraltar (GOG) permits Internet gaming that is subject to a licensing regime. Gibraltar has guidelines for correspondent banking, politically exposed persons (PEPs), bearer securities, and “know your customer” (KYC) procedures. In 2006, Gibraltar underwent a mutual evaluation by the International Monetary Fund (IMF). The IMF rated Gibraltar “largely compliant” or “better” with 32 of the Financial Action Task Force’s (FATF’s) 40 Recommendations and nine Special Recommendations.

In 1996, Gibraltar established the Gibraltar Coordinating Center for Criminal Intelligence and Drugs (GCID) to receive, analyze, and disseminate financial information and disclosures filed by obliged institutions. The GCID serves as Gibraltar’s FIU (GFIU) and is a sub-unit of the Gibraltar Criminal Intelligence Department. The GCID consists mainly of police and customs officers but is independent of law enforcement. The GFIU has responded to over 40 international requests for information and has initiated ten requests to counterpart FIUs. The GFIU receives approximately 100 STRs per year.

Gibraltar’s 2001 Terrorism (United Nations Measures) (Overseas Territories) Order criminalizes the financing of terrorism. The Order requires banks to report any knowledge that a present, past or potential client or customer is a terrorist, or receives funds in relation to terrorism, or makes funds available for terrorism. Gibraltar also addresses terrorist financing through the Terrorism Ordinance (2005).

Application of 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 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 its EU and Council of Europe partners. Gibraltar is a member of the Offshore Group of Banking Supervisors (OGBS) and the International Organization of Securities Commissions (IOSC). The GFIU is a member of the Egmont Group. The GOG has implemented the 1988 UN Drug Convention.

The Government of Gibraltar should continue its efforts to implement a comprehensive anti-money laundering and counter-terrorist financing (AML/CTF) regime. The criminal laws on money laundering should be consolidated, and powers presently available only in drug-related money laundering cases should be extended to money laundering cases involving the proceeds of other crimes. The GOG should introduce legislative provisions to its asset seizure and confiscation regime

allowing authorities to confiscate assets, including cash, even without a link to the original criminal proceeds. Gibraltar needs to conduct risk assessment of those designated nonfinancial businesses and professions that are unsupervised and determine and extend the necessary authority to conduct AML/CTF compliance examinations of these entities.

Greece

Greece is becoming a regional financial center in the rapidly developing Balkans as well as a bridge between Europe and the Middle East. Anecdotal evidence of illicit transactions suggests an increase in financial crimes in the past two years. Greek law enforcement proceedings indicate that Greece is vulnerable to narcotics trafficking, trafficking in persons and illegal immigration, prostitution, cigarette, and other forms of smuggling, large scale tax evasion, serious fraud or theft, and illicit gambling activities. The widespread use of cash facilitates a gray economy and tax evasion. Due to the gray economy, it is difficult to determine the amount of smuggled goods in the country. Crimes are often carried out by criminal organizations from Southeastern Europe and the Balkans.

U.S. law enforcement agencies believe that criminally derived proceeds are not typically laundered through the Greek banking system. Instead, they are most commonly invested in real estate, the lottery, and a growing stock market. U.S. law enforcement agencies also believe Greece's geographic location has led to a moderate increase in cross-border movements of illicit currency and monetary instruments due to the increasing interconnection of financial services companies operating in Southeastern Europe and the Balkans. Reportedly, currency transactions involving international narcotics-trafficking proceeds do not appear to include significant amounts of U.S. currency.

The June 2007 Financial Action Task Force (FATF) mutual evaluation report (MER) of Greece found its legal requirements in place to combat money laundering and terrorist financing generally inadequate to meet the FATF standards. The report articulated concerns about the overall effectiveness of the AML/CTF system, including inadequate customer identification preventative systems, lack of adequate legal systems to prevent money laundering and terrorist financing, and a lack of adequate preventive measures and regulatory oversight. Of the FATF 40 Recommendations and Nine Special Recommendations on Terrorist Financing, Greece received 12 ratings of "largely compliant" or better and 13 ratings of "noncompliant." Of the 5 core FATF recommendations (Recommendations 1, 5, 10, and 13, SR II and IV), Greece's Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF) regime was only deemed "partially compliant".

The Government of Greece has criminalized money laundering through a series of laws that have expanded the list of predicate offenses for money laundering that now includes terrorist financing, trafficking in persons, electronic fraud, and stock market manipulation. However evidence indicates that the ML provisions have not been effectively implemented. The laws also empower supervisory authorities to block transactions when money laundering is suspected and authorizes the financial intelligence unit (FIU) director to temporarily freeze assets without a court order. With its Act 25779/2006, the Bank of Greece has applied the main provisions of the Third European Union (EU) Money Laundering Directive to all financial institutions. The Greek government anticipates it will take steps to formally transpose the Directive into national law in 2008.

The Bank of Greece (BOG), through its Banking Supervision Department and the Ministry of National Economy and Finance, through its Capital Market Commission, supervise and monitor credit and financial institutions. Both the BOG and the Hellenic Capital Markets Commission (HCMC) have extensive supervisory programs. Each entity has internal departments focused on AML/CTF staffed with auditors and examiners. Supervision includes the issuance of guidelines and circulars, and on-site audits with a component assessing compliance with AML legislation. The Central Bank conducts on-site examinations for banks located in Greece as well as of Greek banks located in the Balkans. The HCMC conducts on-site examinations on a routine basis for its supervised entities and off-cycle

examinations of supervised entities when HCMC internal surveillance activities uncover possible noncompliance with regulations. In addition to their supervisory programs, both the BOG and HCMC conduct continuing education seminars for stakeholders inside and outside of the financial industry, to further heighten awareness of AML/CTF. While the BOG and HCMC have been granted sufficient powers and authorities to monitor financial institutions for AML/CTF requirements, according to the MER, these organizations may not be able to effectively carry out their supervisory functions due to a lack of resources.

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 BOG a monthly report on their daily purchases and sales of foreign currency. Infrequent audits of such companies also occur. However, there is reportedly weak implementation of regulatory requirements documenting the flow of large sums of cash through financial and other institutions.

Law 3148 incorporates EU directives regarding the operation of credit institutions and the operation and supervision of electronic transfers. Under this legislation, the BOG has direct scrutiny and control over transactions by credit institutions and entities involved in providing services for funds transfers. The BOG issues operating licenses after assessing the institutions, their management, and their capacity to ensure the transparency of transactions. The Ministry of Development, through its Directorate of Insurance Companies, supervises the insurance sector, but supervisory authority will soon shift to the Hellenic Private Insurance Supervisory Committee. The Directorate of Insurance Companies has not established a regulatory authority.

Under Decree 2181/93, banks in Greece must demand customer identification information when a customer opens an account or conducts transactions exceeding 15,000 euros (approximately U.S. \$22,000). 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, but, reportedly, do not normally do so. The BOG has taken steps to change this. Newly enacted legislation now requires banks to obtain specific documents from both natural and legal persons. Furthermore, credit institutions are now required to obtain identification documents in money changing transactions exceeding 500 euros (U.S. \$735). 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. According to the MER, customer due diligence (CDD) and other preventative measures lack both sufficient requirements on collecting beneficial ownership information and adequate measures relating to ongoing CDD requirements on existing clients and account holders.

Current AML laws do not adequately prevent anonymous accounts or accounts in fictitious names. Greek law does not prohibit financial institutions from engaging in business with foreign financial institutions that allow their accounts to be used by shell companies.

Both banks and nonbank financial institutions must report suspicious transactions, though in practice, the latter rarely do so. The law requires every financial institution to appoint a compliance officer to whom all other branches or other officers must report suspicious transactions. Reporting obligations also apply to government employees involved in auditing, including employees of the BOG, the Ministry of Economy and Finance, and the Capital Markets Commission. Those who report individuals must furnish all relevant information to the prosecuting authorities. In 2007, the FIU formalized the standard information required on the suspicious transaction reports (STRs), so that the information provided on the form is consistent. Safe harbor provisions in Greek law protect individuals reporting violations of AML laws and statutes.

Greece has adopted banker negligence laws under which individual bankers face liability if their institutions launder money. Authorities levy “fines” on banks and credit institutions if they breach

their obligations to report instances of money laundering, and bank officers can receive fines and a prison term of up to two years. In 2007, the BOG “fined” approximately 14 institutions for failure to supervise general compliance regulations. The fines totaled approximately 20 million euros (approximately U.S. \$30 million). The credit institution deposits the “fines” with the Central Bank in a separate, interest free account. After a designated period of time, the Central Bank returns the money to the credit institution. In 2007, the HCMC “fined” two supervised entities for failure to supervise in relation to AML/CTF regulations. The “fines” ranged from 5,000 to 10,000 euros (U.S. \$7,350-\$14,700). Some believe this sanction is not sufficiently prohibitive.

Law 2331/1995 established the Competent Committee (CC), which functions as Greece’s FIU. Law 3424 makes the CC a statutorily independent authority with access to public and private files and removes tax confidentiality restrictions. The law also broadens the CC’s authority with respect to evaluating information it receives from various organizations. The CC has, on paper, broad authority; however the FATF MER raised concerns about the CC, including its current structure, insufficient staff and technical resources to properly perform its tasks and functions and inadequate security measures to effectively protect information. A senior retired judge chairs the CC, which includes eleven senior representatives from the BOG, various government ministries and law enforcement agencies, the Hellenic Bankers Association, and the securities commission. The CC employs few or no financial analysts or experienced specialized AML/CTF personnel, and is significantly understaffed.

The CC has responsibility for receiving and processing all STRs, of which it receives approximately 1,000 per year. Although the CC recently established a database to track STR submissions, it still lacks other elements of a technology-savvy modern organization. STRs are hand delivered to the CC, where, upon receipt, the committee (comprised of only senior officials) reviews the STRs to determine whether further investigation is necessary. If the committee seeks more information from the reporting institution, the CC mails its questions to the institution. When it receives the reply, the committee reviews the file again to determine whether the report warrants further investigation. When the CC considers an STR to warrant further investigation, it forwards the case to the Special Control Service (YPPEE), which functions as the CC’s investigative arm.

The YPEE is under the direct supervision of the Ministry of Economy and Finance and has formal investigative authority over cases that, broadly defined, involve smuggling and high-worth tax evasion. The CC is responsible for preparing money laundering cases on behalf of the Public Prosecutor’s Office and the YPEE has its own in-house prosecutor to facilitate confidentiality and speed of action. The director of the FIU can temporarily freeze funds.

Although the CC has the authority to impose heavy penalties on those who fail to report suspicious transactions, it has not done so. Reportedly, staff limitations have hampered effective communication with Greece’s broader financial community, as well as with its international counterparts. The lack of adequate personal and fiscal resources and political support for its mission limits its effectiveness.

Authorities do not frequently prosecute money laundering cases independent of a predicate crime, and according to the MER, limited data indicates a low rate of convictions on ML prosecutions. . There are no prosecutors specifically assigned to prosecute financial crimes and all prosecutors carry a very large caseload. Furthermore, the Greek judicial system has only one court handling all judicial activity related to money laundering and terrorist financing. Greek authorities do not have an effective information technology (IT) system in place to track money laundering prosecution statistics. Despite requests by the CC and Greek Bar Association to do so, the Ministry of Justice has yet to compile statistics related to arrests or prosecutions for money laundering or terrorist financing offenses.

The Government of Greece does not provide guidance to institutions on freezing assets without delay and does not monitor compliance with requests. Furthermore, there are no sanctions for failure to follow freezing requests. The current process for notifying ministries and the financial sector to freeze or confiscate funds is lengthy. Therefore, these entities are unable to comply with requests to freeze

assets without delay. Greek law allows for the seizure of assets upon conviction for a money laundering offense with a jail term of three years or greater. The director of the CC can temporarily freeze assets, but must prepare a report and forward it to an investigating magistrate and prosecutor, who conduct further investigation and who, upon conclusion of the investigation, can issue a freezing order, pending the outcome of the criminal case. 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 government. YPEE investigators have authorization to immediately seize property pending court review and seize property purchased with proceeds of narcotics trafficking or used to facilitate narcotics trafficking. However, official forfeiture requires a court order. If the basis for the forfeiture is facilitation proceeds, the Government of Greece need not prove that the property was purchased with narcotics-related proceeds. It must only demonstrate that it was used in furtherance of narcotics trafficking. Even legitimate businesses can be seized if they have laundered narcotics money.

Greek authorities maintain that Greece is not an offshore financial center. However, Greek law 89/1967 provides for the establishment of offshore entities of any legal form which may be registered in Greece but engage exclusively in commercial activities outside of Greece—a typical identifying restriction of offshore centers. “Law 89” companies reportedly operate in the shipping industry and are known for their complex corporate and ownership structures which are frequently designed to hide the identity of the true beneficial owners of the companies.

Offshore entities must provide a bank letter of guarantee for U.S. \$50,000 to the Ministry of Economy and Finance. If it is a shipping company, it must cover its annual operating expenses in Greece. It must keep a receipts and expenses book, though it has no obligation to publish any financial statements. These firms fall under the authority of nonGreek jurisdictions and often operate through a large number of intermediaries. As such, these entities can serve as a catalyst for money laundering. Although Greek law allows banking authorities to check these companies’ transactions, other Greek jurisdictions must work with the banking authorities for audits to be effective. There is no separate regulatory authority for the offshore sector and there is no longer a tax exemption for offshore companies.

Greek law does not provide for nominee directors or trustees in Greek companies. Although the government has abolished bearer shares for banks and a limited number of other companies, most companies may still issue bearer shares. The information available in the Companies Registries maintained by several authorities relates solely to the Board of Directors at the time of the incorporation of the company and does not log changes of directors, or the true beneficial owners of the company. Rather, regional registries keep this information in a paper format.

Authorities have recently targeted the gaming industry to restrain money launderers from using Greece’s nine casinos to launder illicit funds, however there is little regulatory oversight of the gaming industry. 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. There is no specific information regarding whether these zones are being used in trade-based money laundering (TBML) or in the financing of terrorism.

The BOG maintains that alternative remittance systems do not exist in Greece and has no plans to introduce initiatives for their regulation. Foundations in Greece are self-governing, nonmembership organizations with an endowment that serves public or private purposes and which receive legal capacity by state approval. Types of foundations include private law foundations, public benefit foundations, public foundations, and nonautonomous foundations. Nonprofit organizations fall within the purview of YPEE. The Greek government does not view charitable organizations as vulnerable to terrorist financing or money laundering and does not actively monitor such entities for these crimes.

Laws criminalizing terrorism, organized crime, money laundering and corruption have been in effect since July 2002. In 2004, Law 3251 was enacted criminalizing the financing of, the joining, or the forming of a terrorist group with a penalty of up to ten years imprisonment. If a private legal entity is implicated in terrorist financing, it faces fines of between 20,000 and 3 million euros (approximately U.S. \$44,000 and U.S. \$4.5 million), closure for a period of two months to two years, and ineligibility for state subsidies. However, some have described the law as poorly drafted. The law is not comprehensive as it is not illegal in Greece to fund an already established terrorist group and it is only considered a terrorist financing crime if a person funds a specific attack executed by three or more people. As a consequence, the financing of an individual terrorist act conducted by an individual terrorist or the financing of an individual terrorist is not an offense.

The BOG has circulated to all financial institutions under its supervisory jurisdiction the list of individuals and entities on the United Nations Security Council Resolution (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. The BOG now includes Office of Foreign Asset Control lists for circulation to its supervised entities. The Greek government does not routinely circulate lists disseminated by the U.S. government, but it does circulate EU lists. In most instances, there must be an active investigation by Greek authorities before the Government of Greece can seize assets, thus hindering its ability to freeze assets without delay. The government has not found any accounts belonging to anyone on the circulated lists.

Greece is a member of the FATF. Its FIU is a member of the Egmont Group. The government is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Greece is a signatory to the UN Convention against Transnational Organized Crime and to the UN Convention against Corruption, but has not yet ratified them. 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. 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. Despite the existing mechanisms for information exchange, the FATF report highlighted a lack of cooperation between Greek national and international authorities.

To meet its stated goal of effectively addressing money laundering, the Greek government should implement all recommendations of the June 2007 FATF mutual evaluation report on Greece. Greece should accelerate its efforts to realize new laws and regulations aimed at upgrading its FIU. This includes fully staffing with experienced analysts and improving its IT standards and capabilities so that analysts can effectively use its database. These IT upgrades should allow Greek authorities to implement a system to track statistics on money laundering prosecutions and convictions, as well as asset freezes and forfeitures. The Greek government should improve its asset freezing capabilities and develop a clear and effective system for identifying and freezing terrorist assets within its jurisdiction. The government should also publicize its system for appealing assets frozen in accordance with its UN obligations.

Greece should ensure uniform enforcement of its cross-border currency reporting requirements and take steps to deter the smuggling of currency across its borders. The government should abolish company-issued bearer shares, so that all bearer shares are legally prohibited. It should also ensure that its "Law 89" offshore 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 rules and the identification of the beneficial owner, as in other sectors. The GOG should dedicate

additional resources to the investigation and prosecution of ML cases, as well as increase specialization and training on AML/CTF for law enforcement and judicial authorities. The GOG should also amend the existing legislative and regulatory framework to ensure that appropriate CDD requirements are implemented. Finally, it should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Grenada

Grenada is not a regional financial center. As a transit location, money laundering in Grenada is primarily related to smuggling and drug trafficking. Illicit proceeds are typically laundered through a wide variety of businesses, as well as through the purchase of real estate, boats, jewelry, and cars.

As of December 2007, Grenada's domestic financial sector is comprised of six commercial banks, 26 registered domestic insurance companies, two credit unions, and five money remitters. Grenada has one trust company and 1,580 international business companies (IBCs), a significant, if unexplained, decrease from the reported 6,000 IBCs in 2006. There are no casinos or Internet gaming sites operating in Grenada. There are no free trade zones in Grenada, although the Government of Grenada (GOG) has indicated that it may create one in the future. The GOG has repealed its economic citizenship legislation.

Bearer shares are not permitted for offshore banks. 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 U.S. \$11,500 penalty and possible revocation of the registered agent's license for failure to maintain records. Grenada has not enacted laws preventing disclosure of client and ownership information by domestic and offshore services companies to bank supervisors and law enforcement authorities.

The Grenada Authority for the Regulation of Financial Institutions (GARFIN) became operational in early 2007. The GARFIN was created to consolidate supervision of all nonbank financial institutions, and effectively replace the Grenada International Financial Services Authority (GIFSA). Institutions supervised by GARFIN include insurance companies, credit unions, offshore financial services, the building and loan society, money service businesses, and other such services. The Eastern Caribbean Central Bank (ECCB) retains supervision responsibility for Grenada's commercial banks.

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, 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, a conviction on a predicate offense is not required to prove that certain goods are the proceeds of crime, and subsequently convict a person for laundering those proceeds. The POCA establishes a penalty three to ten years in prison and fines of \$18,500 or more. This 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 monitor 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

potentially indicative of money laundering, the reporting entity must forward a suspicious transaction report (STR) to the Supervisory Authority within 14 days. Reporting individuals are protected by law with respect to their cooperation with law enforcement entities.

The Supervisory Authority issued its 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 corresponding information. Financial institutions may be fined for not granting access to Supervisory Authority personnel.

In June 2001, the GOG established a police-style financial intelligence unit (FIU). The FIU is charged with receiving and analyzing suspicious transaction reports (STRs) from the Supervisory Authority, and with investigating alleged money laundering offenses. The FIU has access to the records and databases of all government entities and financial institutions and is empowered to request any documents it considers necessary to its investigations. From January to November 2007, the FIU received 25 STRs and investigations commenced for all STRs received. The FIU has the authority to exchange information with its foreign counterparts without a memorandum of understanding (MOU).

Two foreign nationals were arrested by GOG authorities for money laundering in October 2007. These individuals came to Grenada with a large number of fraudulent credit cards and over a short period of time, withdrew in excess of \$40,000 from automatic teller machines (ATMs) from several local banks. Half of the amount stolen was sent out to a number of different destinations via a legitimate money remittance company, which agreed to freeze the transaction. Local authorities are working with the company to repatriate those funds. The two perpetrators were arrested and charged with money laundering and fraud by false pretense. The case is currently ongoing.

The FIU and the Director of Public Prosecution's Office are responsible for tracing, seizing and freezing assets. Under current law, all assets can be seized, including legitimate businesses if they are used in the commission of a crime. The banking community cooperates with law enforcement efforts to trace funds and seize or freeze bank accounts. The time period for restraint of property is determined by the High Court. Presently, only criminal forfeiture is allowed by law. Proceeds from asset seizures and forfeitures can either be placed in the consolidated fund or the confiscated asset fund, which is supervised by the Supervisory Authority or the Cabinet for use in the development of law enforcement. The approximate dollar amount seized in the past year was U.S. \$62,000, with approximately U.S. \$22,000 forfeited. The Civil Forfeiture Bill, Cash Forfeiture Act, and Confiscation of the Proceeds of Crime Bill were introduced in 2006 and remain under discussion.

Grenada is not engaged in bilateral or multilateral negotiations with other governments to enhance asset tracing, freezing, and seizure. However, the GOG works actively with other governments to ensure tracing, freezing, and seizures take place, if and when necessary, regardless of the status of existing agreements.

The GOG regulates the cross-border movement of currency. However, 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 terrorist financing through the Terrorism Act No. 5 2003. Grenada has the authority to identify, freeze, seize, and/or forfeit terrorist finance-related assets under the POCA and the Terrorism Act. The GOG circulates to the appropriate institutions the lists 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. It is suspected that alternative remittance systems are used in Grenada, though none have been positively identified.

In 2003, the GOG passed the Exchange of Information Act No. 2, which strengthens Grenada's ability to share information with foreign regulators. Grenada has a Mutual Legal Assistance Treaty (MLAT), Tax Information Exchange Agreement (TIEA) and an Extradition Treaty with the United States. The GOG cooperates fully with MLAT requests and responds rapidly to U.S. Government requests for information involving money laundering cases.

Grenada is a member of the Caribbean Financial Action Task Force (CFATF), and is expected to undergo a mutual evaluation in 2008. The GOG is also a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Grenada's FIU is a member of the Egmont Group. Grenada 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 against Terrorism. The GOG has not yet signed the UN Convention against Corruption.

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. 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 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, contribute to a favorable climate for significant money laundering in Guatemala. According to law enforcement agencies, narcotics trafficking and corruption are the primary sources of money laundered in Guatemala; however, the laundering of proceeds from other illicit activities, such as human trafficking, contraband, kidnapping, tax evasion, and vehicle theft, is substantial. Officials of the Government of Guatemala (GOG) believe that the sources of the criminal proceeds laundered in Guatemala are derived from both domestic sources (primarily corruption cases) and foreign criminal activities. GOG officials also believe that cash 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 been lifted and dollar accounts are common, but some larger banks conduct significant business through their offshore subsidiaries. The Guatemalan financial services industry is comprised of 22 commercial banks; ten offshore banks, all of which are affiliated, as required by law, with a domestic financial group (including affiliated credit card, insurance, finance, commercial banking, leasing, and related companies); two licensed money exchangers; 27 money remitters, including wire remitters and remittance-targeting courier services; 17 insurance companies; 17 financial societies; 15 bonded warehouses; 325 savings and loan cooperatives; eight credit card issuers; nine leasing entities; 11 financial guarantors; and one check-clearing entity run by the Central Bank. There are also hundreds of unlicensed money exchangers that exist informally.

The Superintendence of Banks (SIB), which is directed by 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 major money laundering concern, although some proceeds from tax-related contraband may be 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 incentives for legitimate businesses to conduct offshore operations. All offshore institutions are subject to the same requirements as onshore institutions and are regulated by the Superintendence of Banks. 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.

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. 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. 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 U.S. \$4.1 billion in 2007 remittance flows passed through informal channels, although sector reforms led to an increased use of banks and other formal means of transmission. Terrorist finance legislation enacted 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.

Decree 67-2001, or the "Law Against Money and Asset Laundering," criminalizes money laundering in Guatemala. This law specifies that 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 are deported from Guatemala. Conspiracy and attempt to commit money laundering are also penalized. The law applies to money laundering from any crime and does not require a minimum threshold to be invoked. It also holds institutions and individuals responsible for failure to prevent money laundering or allowing money laundering to occur, regardless of personal culpability. Bank and financial institution directors or other employees can lose their banking licenses and face criminal charges if they are found guilty of failure to prevent money laundering. This 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 to declare the cross-border movement of currency in excess of approximately U.S. \$10,000 at the port of entry. The declaration forms are provided and collected by the tax authority at land borders, airports, and ports. The tax authority sends a copy of the sworn declaration to IVE for its database. The IVE can share this information with other countries under the terms and conditions specified by mutual agreement. In addition, the Law Against the Financing of Terrorism penalizes the omission of declaration with a sentence from one to three years in prison. At Guatemala City's international airport, a 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 U.S. \$1.8 million in 2007—suggests that proceeds from illicit activity are regularly hand-carried over

Money Laundering and Financial Crimes

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 to the requirements of Decree 67-2001, the Guatemalan Monetary Board's Resolution JM-191, which approves the "Regulation to Prevent and Detect the Laundering of Assets" (RPDLA), establishes anti-money laundering requirements for financial institutions. The RPDLA required all financial institutions under the oversight and inspection of the SIB to establish anti-money laundering measures, and introduced 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.

Financial 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. However, Guatemalan law prohibits banking secrecy or privacy laws from being used to prevent the disclosure of financial information to bank supervisors and law enforcement authorities. Financial institutions are required to keep a registry of their customers as well as some types of transactions, 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 the IVE. Under Decree 67-2001, financial institutions must maintain records of these registries and transactions for five years. Financial institutions are also mandated by law to report all suspicious transactions to the IVE. The law also exonerates financial institutions and their employees of any criminal, civil or administrative penalty for their cooperation with law enforcement and supervisory authorities with regards to the information they provide.

Decree 67-2001 established the IVE within the Superintendence of Banks to supervise financial institutions and ensure their compliance with the law. The IVE began operations in 2002 and in 2007 had a staff of 32. 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 of financial institution management, compliance officers, anti-money laundering training programs, "know-your-client" policies, and auditing programs. From January 2001 to December 2007, the IVE imposed over U.S. \$115,000 in administrative penalties for institutional failure to comply with anti-money laundering regulations.

Since its inception, the IVE has received approximately 2,302 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. 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.

The AML Unit is in charge of directing the investigation and prosecution of money laundering cases. This unit has a staff of 14 officials, and an investigative support group of 16 law enforcement officers and investigators. Both the prosecutors and investigators receive yearly ad hoc training in various investigative and legal issues. 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. In late 2007, the task force was working on four major money laundering investigations and a number of smaller money laundering and drug-related cases. Under the Anti-Organized Crime Law of 2006, the use of undercover operations, controlled deliveries, and wire taps is permitted to investigate many forms of organized crime activity, including money laundering crimes.

Twenty-seven cases have been referred by the IVE to the AML Unit. In several cases, assets have been frozen. Sixteen money laundering prosecutions have been concluded, fifteen of which resulted in convictions. The Public Ministry's AML Unit had initiated 63 cases as of January 2007, five of which have been transferred to other offices (such as the anticorruption unit) for investigation and prosecution, due to the nature of the particular crime. The seizures were made possible by information supplied by cooperating financial institutions.

Current law permits the seizure of any assets linked to money laundering. The IVE, the National Civil Police, and the Public Ministry have the authority to trace assets; the Public Ministry can seize assets temporarily in urgent circumstances, and the Courts of Justice have the authority to permanently seize assets. In 2003, the Guatemalan Congress approved reforms to allow 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. The Anti-Organized Crime Law provides the possibility for a summary procedure to forfeit the seized assets and allows both civil and criminal forfeiture.

The courts do not allow seized currency to be used by 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 2006, Guatemalan authorities seized approximately U.S. \$222,000 in bulk currency. No statistics are currently on the amount of assets seized in 2007. 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, the Law Against the Financing of Terrorism. Implementing regulations were enacted by the Monetary Board in December 2005. The counter-terrorist financing legislation also clarifies the legality of freezing assets in the absence of a conviction where the assets were destined to support terrorists or terrorist acts. The legislation brings Guatemala into compliance with the FATF Special Recommendations on terrorist financing and the United Nations Security Council Resolution 1373. The GOG has cooperated fully with U.S. efforts to track terrorist financing funds.

Guatemala is a party to the 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. Guatemala is also a party to the Inter-American Convention against Terrorism and 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. The IVE has signed a number of Memoranda of Understanding regarding the exchange of information on money laundering issues, seventeen of which also include the exchange of information regarding the financing of terrorism.

Corruption and organized crime remain endemic in Guatemala and are the biggest long-term challenges to the rule of law in Guatemala. The Government of Guatemala has made efforts to comply with international standards and improve its anti-money laundering and counter-terrorist financing regime; however, Guatemala should eliminate the use of bearer shares as well as identify and regulate

offshore financial services and gaming establishments. The GOG should also continue efforts to improve enforcement of existing regulations and implement needed reforms. Cooperation between the IVE and the Public Ministry has improved in recent years, and several investigations have led to prosecutions. However, Guatemala should increase its capacity to successfully investigate and prosecute money laundering cases. Additionally, the GOG should identify or create a centralized agency to manage and dispose of seized and forfeited assets, create an assets forfeiture fund which would distribute forfeited assets to law enforcement agencies to assist in the fight against money laundering, terrorist financing, and other financial crime.

Guernsey

The Bailiwick of Guernsey (the Bailiwick) encompasses a number of the Channel Islands (Guernsey, Alderney, Sark, and Herm). A Crown Dependency of the United Kingdom, it relies on the United Kingdom for its 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 in matters of criminal justice for all of the islands in the Bailiwick. Guernsey is a sophisticated financial center and, as such, it continues to be vulnerable to money laundering at the layering and integration stages.

The approximately 18,800 companies registered in the Bailiwick do not fall within the standard definition of an international business company (IBC). Guernsey and Alderney incorporate companies, but Sark, which has no company legislation, does not. Companies in Guernsey must disclose beneficial ownership to the Guernsey Financial Services Commission (FSC) before legal formation or acquisition.

Guernsey has 47 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 632 international insurance companies and 851 collective investment funds. There are also 18 bureaux de change, ten of which are part of a licensed bank. Bureaux de change and other money service providers must register their information with the FSC.

Guernsey has a comprehensive legal framework to counter money laundering and the financing of terrorism. Guernsey had further honed its anti-money laundering and counter-terrorist financing (AML/CTF) legislation with the Criminal Justice (Proceeds of Crime) (Financial Services Businesses) (Bailiwick of Guernsey) Regulations, 2007. The legislation criminalizes money laundering for all crimes except drug trafficking, which the Drug Trafficking (Bailiwick of Guernsey) Law, 2000, as amended, covers in identical terms. The Disclosure (Bailiwick of Guernsey) Law 2007 makes failure to disclose the knowledge or suspicion of money laundering a criminal offense. The duty to disclose suspicious activity extends to all businesses, not only financial services businesses. The original 1999 money laundering law creates a system of suspicious transaction reporting (including suspicion of tax evasion) to Guernsey's financial intelligence unit (FIU), the Financial Intelligence Service (FIS). In 2007, the FSC issued companion guidance entitled "Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing" which replaced the Guidance Notes on the Prevention of Money Laundering and Countering the Financing of Terrorism.

Guernsey's legal framework contains additional legislative provisions aimed at assisting in the detection of money laundering and terrorist financing. These include search and seizure powers, customer information orders and account monitoring orders. The Transfer of Funds (Guernsey) Ordinance 2007 requires any parties that offer funds transfer services to provide verified identification information for any person transferring funds electronically.

Guernsey authorities have approved further measures to strengthen the existing AML/CTF regime that should be in force by the middle of 2008. These include a comprehensive civil forfeiture law, new

regulations for certain entities involved in high value transactions, and legislation governing charities and other nonprofit organizations.

Guernsey enacted the Prevention of Corruption (Bailiwick of Guernsey) Law of 2003 and the Regulation of Fiduciaries, Administration Businesses, and Company Directors, etc. (Bailiwick of Guernsey) Law of 2000 (“the Fiduciary Law”) to license, regulate and supervise company and trust service providers. Pursuant to Section 35 of the Fiduciary Law, the FSC must license all fiduciaries, corporate service providers and persons acting as company directors on behalf of any business. The FSC creates Codes of Practice for corporate service providers, trust service providers and company directors. To receive licenses, these agencies must follow strict standards, including client identification and “know your customer” (KYC) requirements. These entities are subject to regular inspection, and an entity’s failure to comply could result in prosecution and revocation of its license. The Bailiwick is fully compliant with the Offshore Group of Banking Supervisors (OGBS) Statement of Best Practice for Company and Trust Service Providers.

The FSC regulates the Bailiwick’s financial 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 KYC inquiry and the customer provides verification details. Regulations contain penalties to be applied when financial services businesses do not follow their obligations. Upon a company’s application for incorporation, the FSC evaluates the request. The Royal Court maintains the registry of incorporated companies. The Court will not permit incorporation unless the FSC and the Attorney General or Solicitor General have given 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, Directors General, and representatives of Police, Customs, the regulatory community and FIUs from the Crown Dependencies meet to coordinate AML/CTF policies and strategy.

The FIS operates as the Bailiwick’s FIU, and is comprised of Police and Customs Officers. The Service Authority, a committee of senior Police and Customs Officers who coordinate the Bailiwick’s financial crime strategy, directs the FIS. With a mandate to focus on money laundering and terrorist financing issues, the FIS serves as the central point within the Bailiwick for the receipt, collation, analysis, and dissemination of all financial crime intelligence. Much of this information comes from suspicious transaction report (STR) filings. In 2007, the FIS received 539 STRs.

The Bailiwick narcotics trafficking, money laundering, and terrorism laws designate the same foreign countries as the UK to enforce foreign restraint and confiscation orders.

In 2008, Guernsey will be the subject of an assessment regarding its compliance with internationally accepted standards and measures of good practice relative to its regulatory and supervisory arrangements for the financial sector. The International Monetary Fund (IMF) will conduct this assessment. The previous IMF assessment, conducted in 2002, determined that Guernsey had developed a legal and institutional AML/CTF framework and had a high level of compliance with what was then the Financial Action Task Force (FATF) Forty 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 Terrorism Law criminalizes the failure to report suspicion or knowledge of terrorist financing.

Guernsey cooperates with international law enforcement on money laundering cases. The FSC also cooperates with regulatory/supervisory and law enforcement bodies. 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. 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.

On September 19, 2002, the United States and Guernsey signed a Tax Information Exchange Agreement, which came fully into force in 2006. 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. Guernsey is negotiating similar agreements with other countries. 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.

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, upon their extension to the Bailiwick in 2002. 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.

Guernsey is a member of the Offshore Group of Insurance Supervisors and the Offshore Group of Banking Supervisors. The FIS has been a member of the Egmont Group since 1997 and represents the jurisdiction within The Camden Assets Recovery Inter-Agency Network (CARIN), an informal network of European Union (EU) member state contacts convened to work on asset recovery.

Guernsey continues to amend current legislation to stay current with international standards. Guernsey should ensure passage of its new 2008 legislation, and enact it, as soon as possible. It should integrate civil forfeiture into its legal framework. Guernsey should also work to ensure that the obliged entities uphold their legal obligations, and that the regulatory authorities have the tools they need to provide supervisory functions, especially with regard to nonfinancial businesses and professions. Guernsey should likewise ensure that all obliged entities receive the UN 1267 Sanctions Committee's consolidated list of suspected terrorists and terrorist organizations.

Guinea-Bissau

Guinea-Bissau is not a regional financial center. Guinea-Bissau's instability and tiny economy make it an unlikely site for major money laundering. Increased drug trafficking and the prospect of oil

production, however, increase its vulnerability to money laundering and financial crime. Drug traffickers transiting between Latin America and Europe have increased their use of the country. Often, Guinea-Bissau is the placement point for proceeds from drug payoffs, theft of foreign aid, and corrupt diversion of oil and other state resources headed for investment abroad. A recent boom in construction of luxury homes, hotels and businesses, and the proliferation of expensive vehicles stands in sharp contrast with the conditions in the poor local economy. It is likely that at least some of the new wealth derives from money laundered from drug trafficking. Banking officials also think the country is vulnerable to trade-based money laundering (TBML).

The Central Bank of West African States (BCEAO), based in Dakar, is the Central Bank for the eight countries in the West African Economic and Monetary Union (WAEMU or UEMOA), including Guinea-Bissau, and uses the CFA franc currency. The Commission Bancaire, the BCEAO division responsible for bank inspections, is based in Abidjan. However, it does not execute a full AML examination during its standard banking compliance examinations.

The legal basis for Guinea-Bissau's AML/CTF framework is the Loi Uniforme Relative a Lutte Contre le Blanchiment de Capiteaux No. 2004-09 of February 6, 2004, or the Anti-Money Laundering Uniform Law (Uniform Law). As the common law passed by the members of UEMOA/WAEMU, all member states are required to enact and implement the legislation. On November 2, 2004, Guinea-Bissau became the third WAEMU/UEMOA country to enact the Uniform Law. The new legislation largely meets international standards with respect to money laundering. Guinea-Bissau has an "all crimes" approach to money laundering. The law requires banks and other financial institutions to know their customers and record and report the identity of any person who engages in significant transactions, including the recording of large currency transactions. Covered institutions include financial institutions and nonbank financial institutions such as exchange houses, brokerages, cash couriers, casinos, insurance companies, charities, nongovernmental organizations (NGOs), and intermediaries such as lawyers, accountants, notaries and broker/dealers. All obliged entities must report all suspicious transactions to the financial intelligence unit (FIU). There is no threshold amount triggering a report. Safe harbor provisions give reporting individuals and their supervisors civil and criminal immunity and immunity from professional sanctions for providing information to the FIU in good faith. There is no exemption for "self laundering". It is not necessary to have a conviction for the predicate offense before prosecuting or obtaining a conviction for money laundering. Criminal liability applies to all legal persons as well as natural persons. The new legislation meets many international standards with respect to money laundering, and goes beyond, by covering the microfinance sector, but does not comply with all Financial Action Task Force (FATF) recommendations concerning politically-exposed persons (PEPs), and lacks certain compliance provisions for nonfinancial institutions. All three banks operating in the country report that they have anti-money laundering (AML) compliance programs in place. However, Article 26 of National Assembly Resolution No. 4 of 2004 stipulates that if a bank suspects money laundering, it must obtain a declaration of all properties and assets from the subject and notify the Attorney General, who must then appoint a judge to investigate. The bank solicitation of an asset list from its client could amount to "tipping off" the subject. The WAEMU/UEMOA Uniform Law does not deal with terrorist financing.

Western Union and MoneyGram function under the auspices of the banks. Unlicensed money remitters and currency exchangers, although prevalent, are illegal. Authorities report problems with porous borders and cash smuggling; reportedly, corruption in the Customs agency exacerbates this situation.

The Uniform Law provides for the establishment of an FIU, and a 2006 Directive to establish it is in place. However, no operational FIU exists in the country. Guinea-Bissau is working with external donors to establish a functioning FIU, which will be housed within the Ministry of Economy and Finance. A senior Ministry of Finance official will administer the FIU. The FIU's mandate will be to receive and analyze suspicious transaction reports (STRs) and, when it deems appropriate, to refer

files to the Prosecutor General. The FIU will rely on counterparts in law enforcement and other governmental institutions to provide information upon request for the FIU's investigations. Lack of capacity, corruption, instability, and distrust (particularly of the judicial sector), could significantly hamper progress in the FIU's development. Reportedly, banks are reluctant to file STRs because of the fear of "tipping off" by an allegedly indiscrete judiciary. The FIU, when operational, can legally share information with any other FIU in the WAEMU/UEMOA countries.

The Judicial Police and Prosecutors investigate money laundering as well as terrorist financing. The Attorney General's office houses a small unit to investigate corruption and economic crimes. In November 2007, Guinea-Bissau's government Audit Office created a commission to investigate illegal acquisition of wealth by present and former government officials. However, a lack of training and capacity, as well as endemic corruption and reported lack of cooperation from banks, impede investigations. Official statistics regarding the prosecution of financial crimes are unavailable. There are no known prosecutions of money laundering.

Although the current AML legislation obliges NGOs and nonprofits, including charities, to file STRs, the current regulatory regime is unknown.

Article 203, Title VI of Guinea-Bissau's penal code criminalizes terrorist financing. However, there are no reporting requirements or attendant regulations. In addition, because the penal code only criminalizes the financing of terrorist groups or organizations, it does not address financing of a single or individual terrorist. The penal code also does not criminalize the financing of terrorist organizations when the money is not used to commit terrorist acts. The BCEAO has released Directive No. 04/2007/CM/UEMOA, obliging member states to pass domestic counter-terrorist financing legislation. Member states must enact a law against terrorist financing, which will likely be a Uniform Law to be adopted by all WAEMU/UEMOA members in the same manner as the AML law. Each national assembly must then enact the law. In July 2007, UEMOA/WAEMU released attendant guidance on terrorist financing for member states. In addition, the FATF-style regional body for the Economic Community of Western African States (ECOWAS), the African Anti-Money Laundering Intergovernmental Group (GIABA) has drafted a uniform law, which it has recommended that all of its member states adopt and enact.

The Ministry of Finance and the BCEAO circulate the UN 1267 Sanctions Committee consolidated list to commercial financial institutions. To date, no entity has identified assets relating to terrorist entities. The WAEMU/UEMOA Council of Ministers has issued a directive requiring banks to freeze assets of entities designated by the Sanctions Committee.

Multilateral ECOWAS treaties deal with extradition and legal assistance. Under the Uniform Law, once established, the FIU may share information freely with other FIUs in the union. Guinea-Bissau is a party to the 1988 UN Drug Convention, and has signed but not ratified the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, or the African Union (AU) Anticorruption Convention. Guinea-Bissau is a member of ECOWAS and GIABA. It has not signed or ratified the UN Convention against Corruption. Transparency International's 2007 Corruption Perception Index ranks Guinea Bissau 147 out of 180 countries.

The Government of Guinea-Bissau (GOGB) should continue to work with its partners in GIABA, WAEMU/UEMOA and ECOWAS to establish and implement a comprehensive AML/CTF regime that comports with all international standards. GOGB should ensure that the sectors covered by its AML law have implementing regulations and supervisory authorities to ensure compliance with the law's requirements. The GOGB should clarify, amend or eliminate Article 26 of the 2004 National Assembly Resolution that appears to mandate actions resulting in the tipping off of suspects. It should also adopt and enact the uniform terrorist financing law when it is presented to the WAEMU/UEMOA states. Guinea-Bissau should amend the definitions in its penal code to comport with the international

standards regarding financing of individual terrorists and terrorist groups engaging in acts other than terrorism. It should establish, staff and train, its FIU, and ensure that resources are available to sustain its capacity. It should work to improve the training and capacity of its police and judiciary to combat financial crimes, and address any issues resulting from a lack of understanding of money laundering and terrorist financing. Guinea-Bissau should undertake efforts to eradicate systemic corruption and become a party to the UN International Convention for the Suppression of the Financing of Terrorism, the UN Conventions against Corruption and Transnational Organized Crime, and the African Union (AU) Anti-corruption Convention.

Guyana

Guyana is neither an important regional nor an offshore financial center, nor does it have any free trade zones. Money laundering is perceived as a serious problem, and has been linked to trafficking in drugs, firearms, and persons, as well as to corruption and fraud. The Government of Guyana (GOG) made no arrests or prosecutions for money laundering in 2007. Guyana currently has inadequate legal and enforcement mechanisms to combat money laundering, although legislation tabled in Parliament would enhance the GOG's anti-money laundering regime.

The Money Laundering Prevention Act (MLPA) of 2000 criminalizes money laundering related to narcotics trafficking, illicit trafficking of firearms, extortion, corruption, bribery, fraud, counterfeiting, and forgery. The MLPA does not specifically cover the financing of terrorism or all serious crimes in its list of offenses. Banks, finance companies, factoring companies, leasing companies, trust companies, and securities and loan brokers are required to report suspicious transactions to the GOG's financial intelligence unit (FIU), and records of suspicious transaction reports (STRs) must be kept for six years. However, the GOG does not release statistics on the number of STRs received by the FIU, despite the requirement to make these statistics available to relevant authorities as mandated by the Financial Action Task Force (FATF). The MLPA also requires that the cross-border transportation of currency exceeding U.S. \$10,000 be reported to the Customs Administration, but does not allow for the provision of this information to the FIU or other law enforcement bodies. The MLPA 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 crimes.

The GOG's anti-money laundering regime is rendered ineffective by other major structural weaknesses of the MLPA. While the MLPA provides for the seizure of assets derived as proceeds of crime, guidelines for implementing seizures and forfeitures have never been established. Conviction for a predicate offense is considered necessary before a money laundering conviction can be obtained, and the list of such predicate offenses is cursory. While the FIU may request additional information from obligated entities, it does not have access to law enforcement information or the authority to exchange information with its foreign counterparts. These limitations collectively stifle the analytical and investigative capabilities of the FIU and law enforcement agencies. As a result of these legislative weaknesses, there have been no money laundering prosecutions or convictions to date.

To augment the tools available to the GOG's anti-money laundering authorities, the FIU drafted legislation entitled the Anti-Money Laundering and Countering the Financing of Terrorism Bill 2007. The bill provides for the identification, freezing, and seizure of proceeds of crime and terrorism; establishes comprehensive powers for the prosecution of money laundering, terrorist financing, and other financial crimes; requires reporting entities to take preventive measures to help combat money laundering and terrorist financing; provides for the civil forfeiture of assets; expands the scope of the money laundering offense; and mandates the accessibility of all relevant data among law enforcement agencies. The legislation provides for oversight of export industries, the insurance industry, real estate, and alternative remittance systems, and sets forth the penalties for noncompliance. The bill also establishes the FIU as an independent body that answers only to the President, and defines in detail its

role and powers. The draft legislation was tabled in Parliament in late 2007, but its passage in the near future is uncertain.

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. No casinos have opened in Guyana to date.

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 is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. On September 12, 2007, the GOG became a party to the International Convention for the Suppression of the Financing of Terrorism, and on June 5, 2007, Guyana ratified the Inter-American Convention against Terrorism. The GOG has not signed the UN Convention against Corruption. Guyana's FIU is one of the few in the region that is not a member of the Egmont Group, and no change in that status is anticipated until Guyana's anti-money laundering laws have been modernized and the financing of terrorism is criminalized. Guyana does not have a Mutual Legal Assistance Treaty (MLAT) with the United States.

The Government of Guyana should pass the draft legislation on money laundering and terrorist financing that is currently before the Parliament. The passage of this legislation would extend preventive measures to a far wider range of reporting entities, including casinos and designated nonfinancial businesses and professions. The draft legislation would also provide greater resources and critical autonomy for the FIU, 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. In short, the passage of this legislation is essential in enhancing the GOG's compliance with international standards and ensuring that its anti-money laundering and counter-terrorist financing regime is operational and effective. In the interim, Guyana should provide appropriate resources and awareness training to its regulatory, law enforcement, and prosecutorial personnel, and establish procedures for asset seizure and forfeiture. The GOG should also become a party to the UN Convention against Corruption.

Haiti

Haiti is not a major financial center. Haiti's dire economic condition and unstable political situation inhibit the country from advancing its formal financial sector. Nevertheless, Haiti is a major drug-transit country with money laundering activity linked to the drug trade. Money laundering and other financial crimes are facilitated through the banks and casinos, and through 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. Suspected drug flights from Venezuela continue, where a permissive environment allows smuggling aircraft to operate with impunity. Travelers, predominantly Haitian citizens, usually hide large sums ranging from U.S. \$30,000 to \$100,000 on their persons. There is low confidence in the efforts of Haitian customs and narcotics personnel to interdict these outbound funds. Suspicions that clandestine fees are collected to facilitate the couriers continuing without arrest appear to be well-founded. In addition, those persons that are actually interdicted are frequently released by the courts and the funds are ordered to be returned.

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. Cash that is routinely transported to Haiti from Haitians and their relatives in the United States in the form of remittances represented over 21.2 percent of Haiti's gross domestic product in 2006, according to the World Bank. The Inter-American Development Bank estimated the flow of remittances through official channels to Haiti at \$1.65 billion in fiscal year 2006.

The Government of Haiti (GOH) has made progress in recent years to improve its legal framework, create and strengthen core public institutions, and enhance financial management processes and procedures. The constitutional government of President René Préval and Prime Minister Jacques Edouard Alexis continued the monetary, fiscal and foreign exchange policies initiated under the past Interim Government of Haiti with the assistance of the International Monetary Fund and the World Bank. Continued insecurity and a lack of personnel expertise, however, have reduced the impact of the Government's initiatives and hampered its ability to modernize its regulatory and legal framework.

Despite political instability, Haiti has taken steps to address its money laundering and financial crimes problems. President Préval has openly affirmed his commitment to fight corruption, drug trafficking, and money laundering. He is actively seeking technical assistance and cooperation with countries in the region to reinforce Haiti's institutional capacity to fight financial crime. In March 2007, the GOH participated in a Summit on Drug and Money Laundering in the Dominican Republic to identify synergies between countries in the region (Haiti, Dominican Republic, Jamaica and Colombia) to fight organized crime. Preparations are underway for a subsequent meeting to be held by the end of December 2007 in Cartagena, Colombia.

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. Although the government has publicly committed to combat corruption, the court system is slow to move forward with pending cases. None of the investigations initiated under the interim government have led to any prosecutions, and the Financial Crimes Task Force (FCTF), which is charged with conducting financial investigations, is currently inoperative.

The AML Law criminalizes money laundering and establishes a wide range of financial institutions as obligated entities, including banks, money remitters, exchange houses, casinos, and real estate agents. Insurance companies, which are only nominally represented in Haiti, are not covered. 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 U.S. \$5,550). It also requires exchange brokers and money remitters to compile information on the source of funds exceeding 200,000 gourdes or its equivalent in foreign currency. Microfinance institutions and credit unions, however, remain largely unregulated. A draft banking law, if passed by Parliament, will address this regulatory gap.

Money Laundering and Financial Crimes

The AML Law contains provisions for the forfeiture and seizure of assets; however, the government cannot seize and declare the assets forfeited until there is a conviction. Although the AML Law provides grounds for seizure, it does not contain procedures to handle the management and proceeds of seized assets. This deficiency in the law reduces the government's authority and resources to prosecute cases. Out of U.S. \$565,723 seized in 2007 at the airport in Port-au-Prince, courts ordered that U.S. \$367,417 be returned to the owners.

Implementation of the AML Law is compromised by weak enforcement mechanisms, poor understanding of the law on the part of legal and judicial personnel and an overall weak judicial system. From 2001 to 2007, 475 persons were arrested in connection with drug trafficking and money laundering. Fifteen individuals were sent to the United States to face prosecution. The remaining 460 individuals have yet to be prosecuted in Haitian courts. An amendment to the AML Law to redress weaknesses in the current law is being drafted for consideration by Parliament.

In 2002, Haiti formed a National Committee to Fight Money Laundering (CNLBA) under the supervision of the Ministry of Justice and Public Safety. 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. Haiti's financial intelligence unit (FIU), established in 2003, is the Unité Centrale de Renseignements Financiers (UCREF), which falls under the supervision of the CNLBA. The UCREF's mandate is to receive and analyze reports submitted by financial institutions in accordance with the law. The UCREF has 42 employees, including 23 analysts. Institutions, including banks, credit unions exchange brokers, insurance companies, lawyers, accountants, and casinos, are required to report to the UCREF transactions involving funds that may be derived from a crime, as well as transactions that exceed 200,000 gourdes (U.S. \$5,550). Failure to report such transactions is punishable by more than three years' imprisonment and a fine of 20 million gourdes (approximately U.S. \$550,000). Banks are required to maintain records for at least five years and 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.

In 2006, the UCREF assisted the U.S. in at least three major investigations. UCREF also assisted the interim government 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 lawsuit was dropped shortly after the new government took office. Despite recent achievements, the UCREF is still not fully functional, and the UCREF's analysts lack the experience and skills needed to independently analyze suspect financial activities, write adequate reports and expeditiously move cases to prosecutors. Due to the absence of an investigative institution tasked with conducting financial investigations in the justice system, the UCREF responded to fill the void. This has led to a perception of conflict of interest and has, in some high-profile cases, sparked controversy.

In November, in response to a request for assistance from President Préval, the U.S. Treasury and the GOH entered into an agreement to restructure UCREF into an administrative FIU, and to reconstitute the investigative functions of the FCTF into a new and separate Office of Financial and Economic Affairs (BAFE). The U.S. Treasury Department agreed to provide training and technical assistance to BAFE investigators as well as the UCREF analysts, prosecutors, and judges. The World Bank has also entered into an agreement with the GOH to assist with training. These steps were supported by President Préval, who has sent out a presidential mandate to his ministers to support these new efforts in combating money laundering and corruption. In addition, draft counter-terrorist financing legislation has been submitted to the USG for review and comment.

Corruption is an ongoing challenge to economic growth. Haiti is ranked one of the most corrupt countries in the world according to Transparency International's Corruption Perception Index for 2007. The GOH has made incremental progress in enforcing public accountability and transparency,

but substantive institutional reforms are still needed. In 2004, the government established the Specialized Unit to Combat Corruption (ULCC) in the Ministry of Economy and Finance. The ULCC is in the process of drafting a national strategy to combat corruption and has prepared a draft law for asset declaration by public sector employees and a code of ethics for the civil service. ULCC will submit the law to Parliament for consideration in the coming months.

Haiti has yet to pass legislation criminalizing the financing of terrorists and terrorism, and is not a party to the International Convention for the Suppression of the Financing of Terrorism. Haiti reportedly circulates the list of terrorists and terrorist organizations identified in UN Security Council Resolution 1267. The AML Law may provide sufficient grounds for freezing and seizing the assets of terrorists; however, given that there is currently no indication of the financing of terrorism in Haiti, this has not been tested.

Haiti is a party to the 1988 UN Drug Convention, and has signed, but not 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 (CFATF). In September 2007, the World Bank conducted an assessment of the GOH that will also serve as a CFATF mutual evaluation; the report will be released in the spring of 2008. The UCREF is not a member of the Egmont Group of financial intelligence units. The UCREF has memoranda of understanding with the FIUs of the Dominican Republic, Panama, Guatemala and Honduras.

The GOH appears cognizant of deficiencies in its anti-money laundering and counter-terrorist financing regime through its efforts to improve its legal framework to combat, drug trafficking, money laundering, and corruption, and its action to reform the judicial process. President Preval has made these improvements a key element of his national agenda. Areas in need of improvement include an ineffective court system, weak enforcement mechanisms and poor knowledge of current laws governing this area. The GOH should move quickly to prosecute cases of corruption, drug trafficking and money laundering. This could send a positive message that financial crimes will be punished to the fullest extent of the law and also help garner broader public support for the rule of law. The GOH should also reinforce the capacity of the Haitian justice system to prosecute financial crimes. Initiatives to enhance the UCREF's capacity to meet the Egmont Group membership standards and provide timely and accurate reports on suspicious financial activities are also needed. The GOH should finalize its draft legislation on terrorist financing to criminalize the financing of terrorism and become a party to the International Convention for the Suppression of the Financing of Terrorism.

Honduras

Money laundering in Honduras stems primarily from significant narcotics trafficking, particularly cocaine, throughout the region. Trafficking in persons also constitutes a growing source of laundered funds. Laundered proceeds typically pass directly through the formal banking system, but currency exchange houses and front companies may be used with increasing frequency. High remittance inflows, which reached more than \$2.6 billion in 2007, as well as a rapidly growing construction sector and smuggling of contraband goods, 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 majority of proceeds are suspected to be controlled by local drug trafficking organizations and organized crime syndicates. Honduras does not appear to be experiencing an increase in financial crimes such as bank fraud. Lack of resources for investigations and analysis, as well as corruption, remain serious problems, particularly within the judiciary and law enforcement sectors.

Honduras is not an important regional or offshore financial center. It does not have a significant black market for smuggled goods, although recent high-profile smuggling cases have involved gasoline and

illegal lobster. Honduras has established a number of free trade zones with special tax and customs benefits. The majority of companies with free trade zone status operate in the textile and apparel industry, mostly assembling piece goods that originated in the United States for re-export to the United States. Under Honduran legislation, companies may register for “free trade zone” status, and enjoy the associated tax benefits, regardless of their location in the country. In 2007, banks reported two abnormal transactions into the accounts of free-trade zone factory owners. Although prosecutors suspect money laundering, they were not able to build enough evidence to prosecute either case. There is no other evidence Honduran free trade zone companies are being used in trade-based money-laundering schemes or by financiers of terrorism.

Money laundering has been a criminal offense in Honduras since 1998. Law No. 27-98 criminalizes the laundering of narcotics-related proceeds and contains various record-keeping and reporting requirements for financial institutions. Decree No. 45-2002 strengthens the legal framework and available investigative and prosecutorial tools to fight money laundering. Decree 45-2002 expands the definition of money laundering to include 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 15 to 20 years. The law also requires all persons entering or leaving Honduras to declare (and, if asked, present) cash and convertible securities that they are carrying if the amount exceeds U.S. \$10,000 or its equivalent.

Decree 45-2002 also creates the financial intelligence unit (FIU), the Unidad de Información Financiera (UIF), within the National Banking and Insurance Commission (CNBS). Banks and financial institutions are required to report any suspicious transactions and all transactions over \$10,000, or its equivalent to the UIF. The UIF and reporting institutions must 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 deposits, and to keep adequate records of the information. Banker negligence provisions subject individual bankers to two- to five-year prison terms if, by carelessness, negligence, inexperience, or nonobservance 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 CNBS, 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. 129-2004 eliminates any ambiguity concerning the responsibility of banks to report information to the supervisory authorities, and the duty of these institutions to keep customer information confidential, by clarifying that the provision of information requested by regulatory, judicial, or other legal authorities shall not be regarded as an improper divulgence of confidential information. 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.

Congress is currently considering legislation that, if adopted, would bring the Government of Honduras (GOH) up to international legal standards for illicit financing, including money laundering and terrorist financing. In October 2007, the CNBS proposed to Congress major amendments to the money laundering law and proposed a new chapter to the penal code that would criminalize terrorist financing. The proposed amendments to the money laundering law would give the UIF oversight for collecting all suspicious transactions reports, and expand the scope of entities required to report suspicious transactions to the UIF beyond the financial scope of the CNBS. Such entities would include real estate agents, used car dealership, antique and jewelry dealers, remittance companies, armed car contractors, and nongovernmental organizations. The reforms would also give the UIF sole

oversight and responsibility not only for collecting suspicious transaction reports but for analyzing and presenting to prosecutors cases deemed appropriate for prosecution.

The Public Ministry (Attorney General's Office), UIF, and police all suffer from low funding, limited capacity, and a lack of personnel and training. For example, the police officers charged with investigations of money laundering crimes in Honduras must ride public buses to conduct investigations. The lack of capacity and coordination limits the scope of analysis and prosecutions, and prosecutors expend the bulk of their limited resources focusing on high-profile crimes related to money laundering, such as narcotics, trafficking in persons, and cash smuggling. Prior to 2004, there had been no successful prosecutions of crimes specifically labeled as money laundering in Honduras. Between 2004 and 2006, prosecutors obtained 11 convictions. Prosecutors initiated legal proceedings in eight cases in 2007, all of which are still ongoing, and obtained two additional convictions from prosecutions initiated in 2005. Only two of 54 ongoing investigations in 2007 originated from financial reports.

Attempts to improve coordination among the Public Ministry (Attorney General's Office), the UIF, and police have met with some degree of success; however there is still a need for additional improvement. An attempt in late 2004 to create a coordinating body, the Interagency Commission for the Prevention of Money Laundering and Financing of Terrorism (CIPLAFT), failed in early 2006, for political reasons. Although Decree 45-2002 requires that a public prosecutor be assigned to the UIF, the Special Prosecutor for Money Laundering himself acts as coordinator and contact is sporadic. Nevertheless, response times for information sharing between the UIF and the seized assets unit have improved due to a 2006 agreement between the Public Ministry, CNBS, and UIF to prioritize money laundering cases. These actions helped to streamline the number of cases for potential prosecution, and allowed many cases to be officially closed. Fewer active cases have allowed the overloaded prosecutors and under-funded police units to focus on the strongest and most important cases. Adoption of the new anti-money laundering amendments should improve coordination and clarify division of responsibilities for investigations and reporting.

Remittance inflows, mostly from the United States, are estimated at more than U.S. \$2.6 billion in 2007, which constitutes more than 25 percent of GDP. There has been no evidence to date linking these remittances to the financing of terrorism. However, it is estimated that up to half of cash flows labeled as remittances to Honduras may involve laundered money. Without the new money laundering amendment, the UIF lacks oversight capacity to properly investigate remittance companies, which are required to report suspicious transactions but currently not required to register under Honduran law. Remittances are increasingly sent through wire transfer or bank services, but the remittance companies themselves facilitate transactions that are carried out by separate financial institutions.

The GOH's asset seizure law has been in effect since 1993. The law allows for both civil and criminal forfeiture, and there are no significant legal loopholes that allow criminals to shield their assets. Decree No. 45-2002 strengthens the asset seizure provisions of the law, and establishes an Office of Seized Assets (OABI) under the Public Ministry. Decree 45-2002 also authorizes the OABI to guard and administer all goods, products, or instruments of a crime and requires money seized or money realized from the auctioning of seized goods to be transferred to the public entities that participated in the investigation and prosecution of the crime.

The 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. Equitable sharing of seized monies has been a continuing problem, controlled by political influence. Police entities involved in the original investigations rarely see an equitable share of the assets seized. Groups like OABI and the Public Ministry generally receive an inflated portion of the forfeiture

proceeds, leaving next to nothing for the police. In some cases, entities that have nothing to do with the investigation receive an unjustified portion of the funds

The OABI is currently a poorly administered organization, evident by the vast amounts of assets that are unaccounted for, especially after the initial seizure, as well as the number of assets rotting away in parking lots, boat yards, and airports. The processing of final forfeiture of assets is mostly motivated by the entities that “arm wrestle” over who will actually receive disbursement of monies from auctioned assets or bulk cash seizure. This is typically influenced by political will. 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.

Decree No. 45-2002 leaves ambiguous the question of whether legitimate businesses found to be laundering money derived from criminal activities can be seized. Although the chief prosecutor for organized crime believes that businesses laundering criminal assets cease to be “legitimate,” subjecting them to seizure and prosecution, this authority is not explicitly granted in the law. There has been no test case to date that would set an interpretation. There are currently no new laws being considered regarding seizure or forfeiture of assets of criminal activity.

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.

As of December 2006, the total value of assets seized since Decree 45-2002 came into effect was approximately U.S. \$5.7 million, including U.S. \$4.6 million in tangible assets such as cars, houses, and boats. The total for 2007 decreased compared to 2006, because the prosecutor was forced to return almost U.S. \$1 million this year, more than the sum collected. However, several high profile cases succeeded: U.S. \$750,000 collected from the sale of an abandoned plane in 2007, probably related to narcotics, was used to purchase several cars for police investigators, and U.S. \$500,000 collected from a high-profile lobster-smuggling case was awarded to the Ministry of Agriculture. Most of these seized assets have derived from crimes related to drug trafficking; none is suspected of being connected to terrorist activity.

Decree 45-2002 designates an asset transfer related to terrorism as a crime, but terrorist financing is not identified as a crime itself. However, in October 2007 the CNBS proposed adding a new chapter and five appendices to the Penal Code that would make financing of terrorism a crime. The crime would carry a 20 to 30 year prison sentence, along with a fine of up to \$265,000. Changes to the penal code may not be discussed by Congress until the Supreme Court issues an opinion on the penalties. The proposal was being considered by the Supreme Court as of November 2007. It is unlikely that the terrorist financing and money laundering amendments will be considered by Congress before April 2008.

Under separate authority, the Ministry of Foreign Affairs is responsible for instructing the CNBS to issue freeze orders for organizations and individuals named by the United Nations Security Council Resolution (UNSCR) 1267 and those organizations and individuals on the list of Specially Designated Global Terrorists by the United States pursuant to Executive Order 13224. The Commission directs Honduran financial institutions to search for, hold, and report on terrorist-linked accounts and transactions, which, if found, would be frozen. Both the Ministry of Foreign Affairs and CNBS have responded promptly to these requests. CNBS has reported that, to date, no accounts linked to the entities or individuals on the lists have been found in the Honduran financial system.

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. 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.

The Government of Honduras made progress in 2007 by continuing to implement existing anti-money laundering regulations, and proposing improvements to existing anti-money laundering legislation and amendments to the criminal code to criminalize terrorist financing. The GOH should ensure the passage and implementation of the proposed legislation in 2008 to bring its anti-money laundering and counter-terrorist financing regime into greater compliance with international standards. In the interim, the GOH should continue to support the developing law enforcement and regulatory entities responsible for combating money laundering and other financial crimes. It should hire and train more financial crimes investigators and analysts; improve cooperation between police, prosecutors, and the UIF; and ensure that resources are available to strengthen its anti-money laundering regime. The GOH should also resolve any ambiguity regarding the seizure of businesses used for criminal purposes.

Hong Kong

Hong Kong is a major international financial center. Its low taxes and simplified tax system, sophisticated banking system, 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 Hong Kong Special Administrative Region Government (HKSARG) considers the primary sources of laundered funds to be corruption (both foreign and domestic), tax evasion, fraud, illegal gambling and bookmaking, prostitution, loan sharking, commercial crimes, and intellectual property rights infringement. Laundering channels include Hong Kong's banking system, legitimate and underground remittance and money transfer networks, trade-based money laundering, and large-ticket consumer purchases—such as property, gold and jewelry. The proceeds from narcotics trafficking are believed to be only a small percentage of illicit proceeds laundered.

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 U.S. \$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, 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 have 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 (HKMA) 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 moneychangers must register their businesses with the police and keep customer identification and transaction records for cash transactions above a legal threshold for at least six years. A directive from Hong Kong's Monetary Authority (HKMA) reduced this threshold amount from HK \$20,000 (approximately U.S. \$2,565) to HK \$8,000 (approximately U.S. \$1,000), effective January 1, 2007.

Hong Kong does not require reporting of the movement of any amount of currency across its borders, or of large currency transactions above any threshold level. Hong Kong is examining the effectiveness of its existing regime in interdicting illicit cross border cash couriers activities. Reportedly, Hong Kong is deliberating ways of complying with FATF Special Recommendation Nine but does not intend to put in place a "declaration system" and is instead considering a disclosure-based system. Law enforcement agents in Hong Kong are already empowered to seize criminal proceeds anywhere in the jurisdiction, including at the border.

Hong Kong does not make a distinction between onshore and offshore entities, including banks. Its financial regulatory regimes are applicable to residents and nonresidents alike. No differential treatment is provided for nonresidents, including with respect to taxation and exchange controls. The 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. Many of the more than 500,000 international business companies (IBCs) created in Hong Kong are established with nominee directors; and many are owned by other IBCs registered in the British Virgin Islands. The concealment of the ownership of accounts and assets is ideal for laundering funds. Additionally, some banks permit shell companies to open bank accounts, based only on vouching by 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 Hong Kong officials seek to improve their reporting through regulatory requirements and oversight.

Hong Kong's open financial system has long made it the primary conduit for funds 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-based (renminbi or RMB) deposit, exchange, and remittance services. Later that 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 enrolled

in 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 clients. The new provisions raised daily limits and expanded services. 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. Banks in Hong Kong are still not permitted to make loans in RMB.

Despite Hong Kong's efforts to encourage capital shifts to the banking industry, Chinese capital controls impel entities in both Hong Kong and Mainland China to use underground financial systems to avoid restrictions on currency exchange. A well-publicized June 2007 raid by Chinese police on an underground bank in Shenzhen resulted in the detention of six suspects, including a Hong Kong-based businesswoman, accused of facilitating the transfer of RMB 4.3 billion (over U.S. \$570 million) out of China since the beginning of 2006—including transfers by Chinese state-owned enterprises. Authorities believe the majority of these funds were used to purchase properties and stocks in Hong Kong. Media reports indicate that such underground exchange houses are rampant in Guangdong province and have transferred more than RMB 200 billion (U.S. \$26.7 billion) out of China since 2006.

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. 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 a defendant. 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. 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. In July 2002, the legislature passed several amendments to the DTRoP and OSCO to strengthen restraint and confiscation provisions. These changes, effective January 1, 2003, lowered the evidentiary threshold for initiating confiscation and restraint orders against persons or properties suspected of drug trafficking, eliminated the requirement of actual notice to an absconded offender, eliminated the requirement that the court fix a period of time in which a defendant is required to pay a confiscation judgment, authorized courts to issue restraining orders against assets upon arrest rather than charging, required the holder of property to produce documents and otherwise assist the government in assessing the value of the property, and created an assumption under the DTRoP (to make it consistent with OSCO) that property held within six years of the violation by a person convicted of drug money laundering constitutes proceeds from that money laundering.

According to JFIU figures, as of September 30, 2007, the value of assets under restraint was \$199 million, and the value of assets under a court confiscation order but not yet paid to the government was \$9.85 million. JFIU also reported that, as of September 30, 2007, \$56.5 million had been confiscated and paid to the government since the enactment of DTRoP and OSCO. Hong Kong has shared confiscated assets with the United States.

Hong Kong Customs and Hong Kong Police are responsible for conducting financial investigations. The Hong Kong Police has a number of dedicated units responsible for investigating financial crime, but the primary units responsible for investigating money laundering and terrorist financing are the Commercial Crimes and Narcotics Bureaus in Police Headquarters. There were 157 prosecutions for money laundering during the first 6 months of 2007. Hong Kong Customs had a significant money

laundrying case in 2006 in which the mastermind of a local pirated optical disc syndicate was convicted of money laundrying involving HK \$27.4 million (U.S. \$3.5 million) accrued over a four-year period from piracy activities. This conviction was upheld on appeal in May 2007. The judge increased the sentence by 50 percent, in accordance with OSCO provisions. Hong Kong Customs arrested two individuals charged with copyright infringement and money laundrying in 2007.

The JFIU receives and analyzes STRs to develop information that could aid in prosecuting money laundrying cases and, in suitable cases, distributes reports to law enforcement investigating units. The JFIU can refer cases to all Hong Kong law enforcement agencies and, in certain circumstances, to regulatory bodies in Hong Kong as well as to overseas law enforcement bodies. The JFIU also conducts research on money laundrying trends and methods and provides case examples (typologies) to financial and nonfinancial institutions to assist them in identifying suspicious transactions. The JFIU has no regulatory responsibilities. Since 1994, when OSCO first mandated the filing of suspicious transaction reports (STRs), the number of STRs received by JFIU has generally increased. In the first nine months of 2007, 12,308 STRs were filed, of which 1798 were referred to law enforcement agencies. This compares with 10,782 STRs filed for the same period in 2006, 13,505 STRs filed during all of 2005, 14,029 filed during 2004, and 11,671 during 2003. The JFIU launched an electronic system for reporting STRs by registered users in late 2006

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 in place in July 2004. It extends the HKSARG's freezing power beyond funds to the property of terrorists and terrorist organizations. It also criminalizes 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. 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

To help deal with anti-money laundrying (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. The Group, which includes representatives of some 20 authorized institutions, has met twice. Three subgroups 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 subgroup on Customer Due Diligence (CDD) issued guidelines on issues related to PEPs in November 2007. The HKMA has also implemented 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 that 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 CDD and other issues, reflecting the new requirements in the Revised FATF Forty Recommendations on Money Laundrying and Special Recommendations on Terrorist Financing. 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 engaged in advancing 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 for their members.

Hong Kong is an active member of the Financial Action Task Force's FATF and Offshore Group of Banking Supervisors and was a founding member of the Asia Pacific Group on Money Laundering (APG).

In November 2007, the APG and FATF conducted a site visit as part of their joint mutual evaluation of Hong Kong. The mutual evaluation report will be discussed at FATF's June 2008 Plenary

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 (MLAA) with the United States that came into force in January 2000. Hong Kong has MLAA's with 22 other jurisdictions. Hong Kong has also signed surrender-of-fugitive-offenders (extradition) agreements with 17 countries, including the United States, and has signed agreements for the transfer of sentenced persons with ten countries, also including the United States. Hong Kong authorities exchange information on an informal basis with overseas counterparts and with Interpol.

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 IX, 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 address trade-based money laundering.

Hungary

With an advantageous and pivotal location in central Europe, a cash-based economy and a 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 illicit narcotics trafficking, prostitution, trafficking in persons, and organized crime. Other prevalent economic and financial crimes include real estate fraud and the copying/theft of bankcards. Financial crime reportedly has not increased in recent years though there have been some isolated, albeit well-publicized, cases.

Hungary has worked continuously to improve its money laundering enforcement regime following its 2003 removal from the Financial Action Task Force (FATF) list of Non-Cooperative 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 counter-terrorist financing (AML/CTF) regime. Of the FATF

49 Recommendations, Hungary received 38 ratings of “largely compliant” or better. Since the evaluation, Hungarian authorities have been committed to full implementation of the IMF/MONEYVAL recommendations to address deficiencies in its AML/CTF framework and implementation.

Hungary banned offshore financial centers, including casinos, by Act CXII of 1996 on Credit Institutions. Hungary discontinued its preferential tax treatment for offshore centers at the end of 2005; and in 2006 these companies automatically became 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.

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. 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.

The Government of Hungary (GOH) has prohibited the use of anonymous savings booklets since 2001. 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 are now subject to transparency requirements, and all owners and beneficiaries must be registered. By mid-2003, Hungary had successfully transferred 90 percent of anonymous savings accounts into identifiable accounts. Individuals with remaining anonymous passbook accounts now need written permission from the police to access their accounts. The total balance remaining in anonymous accounts is approximately 20 million euros (approximately U.S. \$29.5 million) for 2.5 million owners. This total is mainly comprised of accounts for which savings booklets were lost, accounts whose holders have not proceeded with the conversion nor tried to make a withdrawal, and accounts whose original owners have died and their heirs do not know how to access the funds.

The European Union’s Third Money Laundering Directive (Directive 2005/60/EC of the European Parliament and of the Council of October 26, 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing) entered into force in December 2005 with member states required to enact the laws, regulations and administrative provisions necessary to comply with this Directive by December 15, 2007. The EU’s Third Directive, which is consistent with the FATF 40 Recommendations and Nine Special Recommendations, necessitated that Hungary re-codify its original money laundering legislation, Act XV of 2003 on the Prevention and Impeding of Money Laundering. Hungary amended the legislation, and the implementing regulations entered into force in August 2006. These measures ensure the uniform implementation of the EU Directive with regard to the definition of “politically exposed persons” (PEPs), the technical criteria for simplified customer due diligence procedures, and exemptions for financial activity conducted on an occasional or very limited basis.

On November 19, 2007, the Parliament adopted Act CXXXVI on the Prevention and Combating of Money Laundering and Terrorist Financing (AML/CTF Act) and published the AML/CTF Act on November 28, 2007. The AML/CTF Act entered into force on December 15, 2007.

The AML/CTF Act establishes the legislative framework for the prevention and combat of terrorist financing and complies with international AML standards and requirements. The AML/CTF Act expands its scope to cover the following professions: financial services, investment services, insurance industry, commodity exchange services, postal money order and transfers, real estate agents, auditors, accountants, tax advisors, casinos, jewelry, lawyers, and notaries. The AML/CTF Act introduces more specific and detailed provisions relating to customer and beneficial owner identification and verification. The Act introduces a risk-sensitive approach regarding customer due diligence (CDD) and establishes detailed rules for CDD, including simplified as well as enhanced CDD for low or high-risk customers or business relationships, appropriate procedures to determine whether a person is a

PEP, and other requirements. Regulation (EC) No 1781/2006 of the European Parliament and of the Council of November 15, 2006 regarding originator information accompanying transfers of funds entered into force on the January 1, 2007. Hungary has implemented the regulation's requirements in the AML/CTF Act.

Obligated entities must send a suspicious transaction report (STR) to the financial intelligence unit (FIU) and suspend the transaction if there is suspicion of money laundering or terrorist financing. The AML/CTF Act sets out the requirements for disclosure of information, and mandates the keeping of statistics so that the effectiveness of the AML/CTF measures can be evaluated. The Act contains provisions on the internal procedures, training and internal communication, detailing special protocols for lawyers and notaries. Safe harbor provisions protect individuals when executing their AML/CTF reporting obligations.

Only banks or their authorized agents can operate currency exchange booths, of which there are approximately 300 in Hungary. These exchange houses are subject to "double supervision," because they are subject to both the banks' internal control mechanisms, as well as to supervision by the HFSA. In addition, the AML/CTF Act contains threshold-reporting requirements for currency exchange enterprises. Exchange booths must verify customer identity for currency exchange transactions totaling or exceeding 500,000 forints (approximately U.S. \$3,000), whether in single transaction or derived from consecutive separate transactions. Exchange booths must file STRs for suspicious transactions in any amount.

Regulation (EC) No. 1889/2005 of the European Parliament and of the Council of October 26, 2005 on controls of cash entering or leaving the Community addresses FATF Special Recommendation Nine regarding cash couriers. The regulation requires travelers to make a declaration to the competent authorities of all movement of cash reaching or exceeding 10,000 euros (approximately U.S. \$15,000). Act No. XLVIII of 2007 on the promotion of the Regulation states that based on the EC regulation, the Hungarian customs authorities should record the information obtained under Article 3 (Obligation to declare) as well as the data collected in connection with any inspection of the declaration. If the data suggests money laundering or terrorist financing, the Hungarian Customs and Finance Guard (HCFG) must immediately send an STR to the financial intelligence unit (FIU).

A new provision on the money laundering offence [Section 303 of the Hungarian Criminal Code (HCC) after the amendment by Act XXVII of 2007] brings Hungary into compliance with the Vienna and Palermo Conventions by enlarging the scope of the money laundering offence to cover the transfer of proceeds to a third party even if it is carried out through a nonbanking or nonfinancial transaction. Act XXVII of 2007 also addresses problems that have occurred with the AML reporting regime. Strict criminal penalties for nonreporting have resulted in over-filing by Hungarian financial institutions. This, in turn, has resulted in a high volume of STRs that are reportedly of low quality. Act XXVII of 2007 reduces the maximum punishment for intentional noncompliance with reporting obligations from three years imprisonment to two years imprisonment. Hungary has also abolished the negligent form of nonreporting as a criminal offence. Section 9 of Act XXVII of 2007 includes provisions punishing individual financing of terrorist acts. In January 2008, Act XIX of 1998 on the Hungarian Criminal Procedure was amended. This amendment transferred the authority to investigate money laundering crimes and noncompliance with the AML/CTF Act from the Hungarian National Police (HNP) to the HCFG.

Hungary's financial regulatory body, the Hungarian Financial Supervisory Authority (HFSA), supervises financial service providers with the exception of cash processors, which are supervised by the National Bank of Hungary. The Hungarian Tax and Financial Control Administration supervises casinos. The FIU supervises most designated nonfinancial businesses and professions (DNFBPs), such as real estate agents, accountants and tax advisors. Supervisory functions are performed by self-regulatory bodies in certain cases: the Hungarian Bar Association with respect to lawyers, the

Money Laundering and Financial Crimes

Hungarian Association of Notaries Public with respect to notaries public, and by the Chamber of Hungarian Auditors and Auditing Activities with respect to auditors. The Hungarian Trade Licensing Office is the supervisory authority with respect to the natural and legal persons trading in goods and allowing cash payments above the amount of 3.6 million forints (approximately U.S. \$20,000).

In 2006, the HFSA established a new division to deal with money laundering and financial crimes. The division coordinates supervisory tasks related to money laundering and terrorist financing and also assists other departments of the HFSA with on-site inspections. In 2007, the HFSA enlarged the staff of its Financial Forensic division. One of the HFSA's major undertakings in 2007 was its participation in the implementation of the Third EU Directive on AML/CTF. The HFSA established a standing AML/CTF working group with the participation of the representatives of financial institutions and their associations.

Hungary's FIU, the National Bureau of Investigation's Anti-Money Laundering Department (ORFK), was originally a unit under the HNP. The FIU serves as the national center for receiving and analyzing STRs and other information regarding potential money laundering or terrorist financing, and disseminating them to the competent authorities. As a law-enforcement style FIU, the ORFK has the authority to itself investigate money laundering cases. From January 1, 2007 until December 15, 2007 the FIU received 9,475 STRs, opened 40 cases, and confiscated 971,681,352 forints (approximately U.S. \$5.5 million). In 2006, the FIU received 9,999 STRs, and opened 193 cases based upon STRs received.

As of December 15, 2007, the ORFK has undergone substantial organizational changes. It has moved from its current position within the HNP to the Hungarian Customs Authority. Although the ORFK still exists and receives STR data, its future operational capacity under the Hungarian Customs Authority remains unclear. The FIU's move to the Customs Authority has caused a significant reduction in information exchange with international counterparts. The Egmont Group of FIUs has decided to temporarily suspend information exchange with the ORFK, pending further clarification of the structural changes within the FIU.

The Hungarian Criminal Code (HCC), Act IV of 1978 contains a provision on asset forfeiture. Under this provision, assets used to commit crimes, pose a danger to public safety, or derive from criminal activity, are subject to forfeiture. All property related to criminal activity during the interval when its owner was involved with a criminal organization can be confiscated, unless the owner proves it was acquired legally. For most crimes, the police or FIU first freeze the assets and inform the bank within 24 hours whether they will pursue an investigation. A court ruling determines forfeiture and seizure for all crimes, including terrorist financing. The banking community has cooperated fully with enforcement efforts to trace funds and seize and freeze bank accounts. If the owner of the assets requests it, and the FIU approves the request, the frozen assets may be released on the basis of financial need, such as health-related expenses or basic sustenance,

Act IV of 1978, Article 261, criminalizes terrorist acts. Hungary has criminalized terrorism and all forms of terrorist financing with Act II of 2003, which modifies Criminal Code Article 261. Section 261 of the HCC, amended by Act XXVII of 2007, states that any person sponsoring activities of a terrorist or a terrorist group by providing material assets or any other support faces two to ten years imprisonment. The HFSA provides access for supervised institutions as well as for the general public on its homepage to access updates to the UN 1373 Sanctions Committee Consolidated List and its equivalent EU list, as well as the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. Terrorist finance-related assets can be frozen. The Act XIX of 1998 on Criminal Procedures, Articles 151, 159, and 160, provide for the immediate seizure, sequestration, and precautionary measures against terrorist assets.

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 MONEYVAL Committee, a FATF-style regional body (FSRB). Hungary's FIU is a member of the Egmont Group; however, information exchanges within this body have been suspended pending the finalization of the FIU's reorganization and new functions. Hungary is a party to the UN International Convention for the Suppression of the Financing of Terrorism; the UN Convention against Transnational Organized Crime; the 1988 UN Drug Convention; and the UN Convention against Corruption.

Hungary has strengthened its legal and institutional background, and has made a significant progress regarding international communication and cooperation as well as training for the service providers who face money laundering and terrorist financing risks. Despite this progress, the GOH needs to continue its efforts with regard to implementation. An increased level of cooperation and coordination among the different law enforcement entities involved in fighting financial crime should be pursued. Prosecutors, judges, and police require enhanced knowledge to promote the successful prosecution of money laundering cases. The police and FIU should also have the option to extend their 24-hour time limit for the freezing of assets. The HFSA and other supervisory bodies should improve supervision and provide increased outreach and guidance to financial institutions with regard to reporting obligations. Hungary should re-criminalize negligent nonreporting of suspicious activities and transactions. The GOH should take steps to ensure that nonbank financial institutions file STRs. Increased AML/CTF training for the employees of financial institutions and other obliged entities is also necessary to improve the quality of STRs filed, in particular those which may be related to the financing of terrorism. The GOH should distribute the updates of the UN designated terrorist lists to the obliged entities, and not rely on posting updates online.

India

India's emerging 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, illegal trade in endangered wildlife, 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 continues to be 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 increasingly difficult for criminals to use formal channels like banks and money transfer companies to launder money. However, large portions of illegal proceeds are often laundered through "hawala" or "hundi" networks or other informal money transfer systems. Hawala is an alternative remittance system that is popular among not only immigrant workers, but all strata of Indian society. Hawala transaction costs are less than the formal sector; hawala is perceived to be efficient and reliable; the system is based on trust and it is part of the Indian culture. According to Indian observers, funds transferred through the hawala market are equal to between 30 to 40 percent of the formal market. The Reserve Bank of India (RBI), India's central bank, estimates that remittances to India sent through legal, formal channels in 2006-2007 amounted to U.S. \$28.2 billion. Due to the large number of expatriate Indians in North America and the Middle East, India continues to retain its position as the leading recipient of remittances in the world, followed by China and Mexico.

Many Indians, especially among the poor and illiterate, 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. Hawala is also used to avoid currency restrictions, assists in capital flight, facilitates tax evasion, and avoids government scrutiny in financial transactions. The Government of India (GOI) neither regulates hawala dealers nor requires them to register with the government. The RBI argues that hawala dealers cannot be regulated since they operate illegally and therefore cannot be registered. Indian analysts also note that hawala operators are often protected by some politicians.

However, the Indian government is attempting to regulate a broader swath of the financial sector. In December 2005, the RBI issued guidelines requiring financial institutions, including money changers, to follow “know your customer” (KYC) guidelines and maintain transaction records for the sale and purchase of foreign currency. Foreigners and Nonresident Indians are permitted to receive cash payments up to U.S. \$3,000 or its equivalent in other currencies from moneychangers. Recently, the RBI has been taking additional steps to crack down on unlicensed money transmitters and increase monitoring of nonbanking money transfer operations like currency exchange kiosks and wire transfer services. In September 2007, the RBI asked Western Union’s Indian-based subsidiary, Western Union Services India, to desist from appointing any more sub-agents until further instruction. Western Union officials have explained to U.S. government officials that this is due to a new policy the Ministry of Home Affairs (MHA) is formulating to require wire transfer businesses to perform due diligence on sub-agents and seek RBI and MHA approval before appointing new sub-agents.

Historically, in Indian hawala transactions, gold has been one of the most important commodities. There is a widespread cultural demand for gold in India and South Asia. Since the mid-1990s, India has liberalized its gold trade restrictions. In recent years, the growing Indian diamond trade has been considered an important factor in providing counter-valuation; a method of “balancing the books” in external hawala transactions. Invoice manipulation is also 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, the rise in foreign companies working and investing in India, and increased government monitoring, the business volume in smuggled goods has fallen significantly. In the last 10-15 years, most products previously sold in the black market are now traded through lawful channels.

With tax evasion a widespread problem in India, 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 central value added tax (VAT) in April 2005 which replaced numerous complicated state sales taxes and excise taxes with one national uniform VAT rate. As a result, the incentives and opportunities for entrepreneurs and businesses to conceal their sales or income levels have been reduced. Except for Uttar Pradesh, all Indian states have implemented the national VAT mandate. Uttar Pradesh announced in late October 2007 that it would also implement the VAT.

In the aftermath of September 11, India joined the global community in addressing concerns about money laundering and terrorist finance by implementing the Prevention of Money Laundering Act (PMLA) in January 2003. The PMLA criminalized money laundering, established fines and sentences for money laundering offenses, imposed reporting and record keeping requirements on financial institutions, provided for the seizure and confiscation of criminal proceeds, and established a financial

intelligence unit (FIU). In July 2005, the PMLA's implementing rules and regulations were promulgated. The legislation outlines predicate offenses for money laundering. Predicate offenses are listed in a schedule to the Act, but these do not include many of the predicate offenses listed as essential by the FATF Recommendations, including organized crime, fraud, smuggling and insider trading. Penalties for offenses under the PMLA are severe and may include imprisonment for three to seven years and fines as high as U.S. \$12,500. If the money laundering offense is related to a drug offense under the Narcotic Drugs and Psychotropic Substances Act (NDPSA), imprisonment can be extended to a maximum of ten years. The PMLA mandates that banks, financial institutions, and intermediaries of the securities market (such as stock market brokers) maintain records of all cash transactions (deposits/withdrawals, etc.) exceeding U.S. \$25,000 and keep a record of all transactions dating back 10 years.

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 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 (Forfeiture of Property) Act of 1976 (SAFEMA) also allows for the seizure and forfeiture of assets linked to Customs Act violations. The Competent Authority (CA), within the Ministry of Finance (MOF), administers both the NDPSA and the SAFEMA.

The 2001 amendments to the NDPSA allow the CA to seize any asset owned or used by an accused narcotics trafficker immediately upon arrest. Previously, assets could only be seized after a conviction. Even so, Indian law enforcement officers lack knowledge of 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 knowledge 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 (LOA) with India, the CA began training law enforcement officials on asset forfeiture laws and procedures. CA has since held ten asset seizure and forfeiture workshops in New Delhi, Himachal Pradesh, Uttar Pradesh, Rajasthan, Andhra Pradesh, Karnataka and Assam. CA reports that the workshops have led to increased seizures and forfeitures. In 2007, the joint U.S./GOI Project Implementation Committee provided additional funds so that the Competent Authority could expand its training.

One of the GOI's principal provisions in combating money laundering is the Foreign Exchange Management Act (FEMA) of 2000. 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. Related to the FEMA 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 the FEMA and COFEPOSA. The RBI also plays an active role in the regulation and supervision of foreign exchange transactions.

In April 2002, the Indian Parliament also passed the Prevention of Terrorism Act (POTA), which criminalizes terrorist financing, among other provisions. In March 2003, the GOI announced that it had charged 32 terrorist groups under the POTA. In July 2003, the GOI arrested 702 persons under the POTA. In November 2004, due to concerns that the overall law permitted overreaching police powers not related to the terrorist financing provisions, the Parliament repealed the POTA and amended the Unlawful Activities (Prevention) Act 1967 (UAPA) to include the POTA's salient elements such as criminalization of terrorist financing.

Money Laundering and Financial Crimes

As part of the PMLA mandate, India's FIU was established in January 2006 to combat money laundering and terrorist financing. The FIU is responsible for receiving, processing, analyzing, and disseminating cash and suspicious transaction reports from financial institutions, banking companies, and intermediaries of the securities market. Over the last two years, the FIU has become fully operational and disseminates report analysis to law enforcement, investigative, and intelligence officers to investigate and prevent money laundering and curb financial crimes. The FIU has a staff of forty-three officers, headed by an Indian Administrative Service Director of equal rank to a Joint Secretary in the GOI ministries.

As of September 2007, FIU received more than 1800 suspicious transaction reports (STRs), of which about 800 were shared with relevant enforcement agencies. According to FIU officials, income tax evasion has been readily detected in the STRs and has also led to the arrest of suspected terror operatives. Reporting entities have immunity from civil proceedings for disclosures to FIU. The FIU also receives threat information and leads from foreign intelligence agencies concerning terrorists, terrorist groups, and international financial crimes information. Cash smuggling reports, which are prepared by Customs and the Enforcement Directorate, are not disclosed to the FIU but are shared with them indirectly on a need to know basis.

The FIU is an independent body reporting directly to the Economic Intelligence Council (EIC), which is headed by the Finance Minister. For administrative purposes, the FIU's operations are supervised by the MOF's Department of Revenue. While the FIU receives processes, analyzes, and disseminates information relating to suspect financial transactions to enforcement agencies and foreign FIUs, the unit does not have criminal enforcement, investigative, or regulatory powers. In 2007, the FIU initiated a project to adopt industry best practices and appropriate technology for creating an Information Technology Integrator. The integrator will process financial intelligence and alert on suspicious transactions.

In June 2007, India's FIU was admitted as a member of the Egmont Group. Admission of India's FIU as a member of the Egmont Group is seen by Indian officials as a major step forward in India joining the international community in its fight against money laundering and terrorist financing. FIU officials have expressed an interest in signing bilateral MOUs with foreign FIUs to facilitate sharing of money laundering information.

Under the MOF, the Enforcement Directorate is responsible for investigations and prosecutions of money laundering cases. In 2006-2007, the Enforcement Directorate initiated investigations into 38 cases of money laundering, eight of which were related to terrorist financing. The directorate has made seven seizure cases of properties worth \$436,000. Headquartered in New Delhi, the directorate has seven zonal offices in Mumbai, Kolkata, Delhi, Jalandhar, Chennai, Ahmedabad, and Bangalore. In addition to the MOF, the Central Bureau of Investigation (CBI), the Directorate of Revenue Intelligence (DRI), Customs and Excise, RBI, and the CA are involved in GOI's anti-money laundering efforts.

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.

To assist in enhancing coordination among various enforcement agencies and directorates at the MOF, the GOI has established an Economic Intelligence Council (EIC). This provides a forum 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 central EIC, there are eighteen regional economic committees in India. The Central Economic Intelligence Bureau (CEIB) functions as the secretariat for the EIC in the MOF. The CEIB interacts with the National

Security Council, the Intelligence Bureau, and the Ministry of Home Affairs on matters concerning national security and terrorism.

In October 2006, the MOF started the process to reconcile its list of predicate crimes under the PMLA with that of international FATF recommendations. Having made some progress towards that commitment, India gained FATF observer status in February 2007 and has a two-year probationary period to adopt FATF core recommendations towards gaining full membership. As defined by FATF, this includes criminalization of money laundering, customer due diligence, record-keeping, suspicious transaction reporting, criminalization of terrorist financing, and suspicious transaction reporting relating to terrorist financing, as well as expressing a political commitment to international standards for anti-money laundering. India is a member of the Asia/Pacific Group (APG) on Money Laundering, a FATF-style regional body.

The MOF is leading an inter-ministerial effort to amend the PMLA to meet FATF requirements. At present, the PMLA does not include comprehensive provisions on terrorist financing, and the required legislative amendments to the PMLA are still awaiting Cabinet approval before moving to Parliament for enactment. MOF officials have stated that changes to the PMLA will include incorporating provisions of the UAPA that criminalize terrorist financing, adopt most FATF recommended categories for predicate offenses, and implement reporting requirements for money changers, money transfer service providers, and casinos.

The Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority and the National Housing Board have also adopted anti-money laundering policies. SEBI has also issued a circular to all registered intermediaries on their obligations as financial institutions to prevent money laundering. This includes guidelines on maintaining records, preserving sensitive information with respect to certain transactions, and reporting suspicious cash flows and financial transactions to the FIU.

Prompted by the RBI's 2002 notice to commercial banks to adopt due diligence rules, many of these institutions have taken steps to combat money laundering. For example, most private banks and several public banks have hired anti-money laundering compliance officers to design systems and training to ensure compliance with these regulations. The Indian Bankers Association has also established a working group to develop self-regulatory anti-money laundering procedures and assist banks in adopting the mandated rules.

The RBI and SEBI have worked together to tighten regulations, strengthen supervision, and ensure compliance with KYC norms, which were implemented in December 2005. This includes, for example, provisions that banks must identify politically involved account holders who reside outside of India and identify the source of these funds before accepting deposits of more than U.S. \$10,000. The RBI continues to update its due diligence guidelines based on FATF recommendations. For banks that are found noncompliant, the RBI has the power to order banks to freeze assets.

Banks are required to file STRs with FIU. Banks have installed software to enable their internal controllers to better monitor accounts for any unusual relationship between the size of the deposit and the turnover in the account and for matching names of terrorists and terrorist-associated countries. All banks have been advised by RBI that they should guard against establishing relationships with foreign financial institutions that permit their accounts to be used by shell companies. The UNSCR 1267 Sanctions Committee's consolidated list is routinely circulated to all financial institutions.

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, OBU's must be audited financially; however, the auditing firm is not required to obtain government approval.

GOI regulations governing charities remain antiquated and the process by which charities are governed at the provincial and regional levels is 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 are no guidelines or provisions governing the oversight of charities for anti-money laundering or counter-terrorist financing (AML/CTF) purposes, and there is insufficient integration and coordination between charities' regulators and law enforcement authorities regarding the threat of terrorist finance. The Foreign Contribution Regulation Act (FCRA) of 1976, supervised by the MHA, regulates the use of foreign funds received by charitable/nonprofit organizations.

The GOI is a party to the 1988 UN Drug Convention. It is a signatory to, but has not yet ratified, the UN Convention against Transnational Organized Crime or the UN Convention against Corruption. India is a party to the UN International Convention for the Suppression of the Financing of Terrorism. India has signed and ratified a number of mutual legal assistance treaties with many countries, including the United States.

The Government of India should move forward expeditiously with amendments to the PMLA that explicitly criminalize terrorist financing, and expand the list of predicate offenses so as to meet FATF's core recommendations. Further steps in tax reform will also assist in negating the popularity of hawala and in reducing money laundering, fraud, and financial crimes. The GOI should ratify the UN Conventions against Transnational Organized Crime and Corruption. The GOI needs to promulgate and implement new regulations for nongovernment organizations including charities. Given the number of terrorist attacks in India and the fact that in India hawala is directly linked to terrorist financing, the GOI should prioritize cooperation with international initiatives that provide increased transparency in alternative remittance systems. India should devote more law enforcement and customs resources to curb abuses in the diamond trade. It should also consider the establishment of a Trade Transparency Unit (TTU) that promotes trade transparency; in India, trade is the "back door" to underground financial systems. The GOI also needs to strengthen regulations and enforcement targeting illegal transactions in informal money transfer channels.

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, cash-based economy, 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, theft, credit card fraud, maritime piracy, sale of counterfeit of goods, illegal logging, and corruption. Indonesia also has a long history of smuggling, a practice facilitated by thousands of miles of unpatrolled coastline and law enforcement and customs infrastructure riddled with corruption. The proceeds of illicit activities are easily parked offshore and only repatriated as required for commercial and personal needs.

In June 2001, the Financial Action Task Force (FATF) added Indonesia to its list of Non-Cooperative Countries and Territories (NCCT). This designation was due to a number of serious deficiencies in Indonesia's Anti-Money Laundering (AML) framework including the lack of a basic set of AML provisions and the failure to criminalize money laundering. As a result of Indonesia's enactment of relevant AML legislation and its ongoing efforts to implement reforms to its AML regime, the FATF removed Indonesia from its NCCT list on February 11, 2005.

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 Financial Transactions Reports and Analysis Centre (PPATK), Indonesia's financial intelligence unit (FIU) to develop policy and regulations to combat money laundering and terrorist financing.

Law No. 15/2002 stipulated important provisions to enhance Indonesia's anti-money laundering regime, such as: obligating financial service providers to submit suspicious transactions reports and cash transaction reports; exempting reporting, investigation and prosecution of criminal offenses of money laundering from the provisions of bank secrecy that are stipulated in Indonesia's banking law; placing the burden of proof on the defendant; establishing the PPATK as an independent agency with the duty and the authority to prevent and eradicate money laundering; and establishing a clear legal basis for freezing and confiscating the proceeds of crime.

In September 2003, Parliament passed Law No. 25/2003, amending Law No. 15/2002, to further address FATF's concerns. Law No. 25/2003 provides a new definition for 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 origin of the assets. The amendment removes the threshold requirement for proceeds of crime. The amendment further expands the scope of regulations by expanding the definition of reportable suspicious transactions 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. However, there is no clear legal obligation to report STRs related to terrorist financing. The amendment makes it an offense to disclose information about the reported transactions to third parties, which carries a penalty of imprisonment for a maximum of five years and a maximum fine of one billion rupiah (approximately U.S. \$105,000).

Additionally, Articles 44 and 44A of Law 25/2003 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 expanded Indonesia's ability to provide mutual legal assistance by enacting the first Mutual Legal Assistance (MLA) Law (No. 1/2006), which establishes formal, binding procedures to facilitate MLA with other states.

A proposed second amendment to the AML law was submitted to the parliament in October 2006. If passed, it would require nonfinancial service businesses and professionals who potentially could be involved in money laundering, such as car dealers, real estate companies, jewelry traders, notaries and public accountants, to report suspicious transactions. The amendments also would include civil asset forfeiture and give more investigative powers to the PPATK, as well as the authority to block financial transactions suspected of being related to money laundering. Despite these provisions, the draft amendments appear to have remaining gaps when measured against current AML/CTF international standards.

Indonesia's FIU, PPATK, established in April 2002, became operational in October 2003 and continues to make progress in developing its human and institutional capacity. The PPATK is an independent agency that receives, analyzes, and evaluates currency and suspicious financial transaction reports, provides advice and assistance to relevant authorities, and issues publications. As of November 2007 the PPATK had received approximately 12,000 suspicious transactions reports (STRs) from 112 banks, seven rural banks, and 82 nonbank financial institutions. Approximately 5,000 of these STRs were received during 2007. The agency also reported that it had received a total of over four million cash transaction reports (CTRs) from 132 banks, 48 moneychangers, 35 rural

banks, five insurance companies, and two securities companies. PPATK have submitted a total of 521 cases to various law enforcement agencies based on their analysis of 882 STRs.

The PPATK actively pursues broader cooperation with relevant GOI agencies. The PPATK has signed a total of 16 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), the Corruption Eradication Committee, the Judicial Commission, the Directorate General of Immigration, the State Auditor, the Directorate General of the Administrative Legal Affairs Department of Law and Human Rights, the Anti-Narcotics National Board, and the Province of Aceh.

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. 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 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. Indonesia 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, and deposit of Indonesia Rupiah into or out of Indonesia.

The Decree provides implementing guidance for Ministry of Finance Regulation No.624/PMK. 2004 of December 31, 2004, and requires individuals who import or export more 100 million Rupiah in cash (approximately U.S. \$10,500) to declare such transactions to Customs. This information is to be declared on the Indonesian Customs Declaration (BC3.2). The cash declaration requirements do not cover bearer negotiable instruments as required by FATF's Special Recommendation IX. In addition, cash can only be restrained if the passenger fails to disclose or a false declaration is made. In most cases, the cash is returned to the traveler after a small administrative penalty is applied. There is no clear authority to stop, restrain or seize money that is suspected of promoting terrorism or crime or constitutes the proceeds of crime. As of December 2007, the PPATK has received more than 2,137 reports from Customs on cross border cash carrying issues. The reports were derived from two airports, Jakarta Cengkayang and Denpasar, the seaports of Batam and Tanjung Balai Karimun, Bandung, Batam and Denpasar. As of July 2007, the Indonesian National Police have conducted 20 investigations based on cross-border currency reports. Despite these investigations, detection capacity is very weak and criminal penalties are limited and are not being applied.

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 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. Providers of financial services, their officials, and employees are given protection from civil or criminal action for making required disclosures under Article 15 of the anti-money laundering legislation.

There is a mechanism to obtain access to confidential information from financial institutions through BI regulation number 2/19/PBI/2000. PPATK has the authority to conduct supervision and monitoring compliance of providers of financial services. PPATK may also advise and assist relevant authorities regarding information obtained by the PPATK in accordance with the provisions of this Law No. 15/2002.

The GOI has limited formal instruments to trace and forfeit illicit assets. Under the Indonesian legal system, confiscation against all types of assets must be effected through criminal justice proceedings and be based on a court order. The GOI has no clear legal mechanism to trace and freeze assets of individuals or entities on the UNSCR 1267 Sanctions Committee's consolidated list, and there is no clear administrative or judicial process to implement this resolution and UNSCR 1373. While the BI circulates the consolidated list to all banks operating in Indonesia, this interagency process is too complex and inefficient to send out asset-freezing instructions in a timely manner. In addition, no clear instructions are provided to financial institutions as to what will happen when assets are discovered. Banks also note that without very specific information, the preponderance of similar names and inexact addresses, along with lack of a unique identifier in Indonesia, make identifying the accounts very difficult. Attempts to use a criminal process are confusing and ad hoc at best, and rely on lengthy investigation processes before consideration can be given to freezing or forfeiting assets.

Article 32 of Law No. 15/2002, as amended by Law No. 25/2003, provides that investigators, public prosecutors and judges are authorized to freeze any assets that are reasonably suspected to be the proceeds of crime. Article 34 stipulates that if sufficient evidence is obtained during the examination of the defendant in court, the judge may order the sequestration of assets known or reasonably suspected to be the proceeds of crime. In addition, Article 37 provides for a confiscation mechanism if the defendant dies prior to the rendition of judgment.

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 provide protection to whistleblowers and witnesses.

The October 18, 2002 emergency counter-terrorism 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. However, the terrorist financing regulation appears to suffer from a number of deficiencies. For example, the terrorist financing offense must be linked to a specific act of terrorism and the prosecution must prove that the offender specifically intended that the funds be used 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. Terrorist financing is therefore not fully included as a predicate for the money laundering offence. 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 begun to take into account alternative remittance systems and charitable and nonprofit entities in its strategy to combat terrorist financing 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 currently serves as the co-chair. The APG conducted its second mutual evaluation of Indonesia in November 2007 and the report will be discussed and adopted at the APG Annual Meeting in July 2008. In June 2004, PPATK became a member of the Egmont Group. The PPATK has pursued broader cooperation through the MOU process and has concluded 23 MOUs with other Egmont 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. Indonesia joined other ASEAN nations in signing the ASEAN Treaty on Mutual Legal Assistance in Criminal Matters on November 29, 2004, though the GOI has not yet ratified the treaty. The Indonesian Regional Law Enforcement Cooperation Centre was formally opened in 2005 and was created to develop the operational law enforcement capacity needed to fight transnational crimes.

The GOI has enacted Law No. 7/2007 to implement the 1988 UN Drug Convention, to which it is a party. The GOI also has enacted Law No. 22/1997 Concerning Drugs and Psychotropic Substances, which makes the possession, purchase or cultivation of narcotic drugs or psychotropic substances for personal consumption a criminal offense. The GOI is a party to the UN International Convention for the Suppression of the Financing of Terrorism and a party to the UN Convention against Corruption. The GOI has signed but has yet to ratify the UN Convention against Transnational Organized Crime. Indonesia is ranked 143 of 180 countries ranked in Transparency International's 2007 Corruption Perception Index.

While The Government of Indonesia has made progress in constructing an AML regime, efforts to combat terrorist financing have been weak. Sustained public awareness campaigns, new bank and financial institution disclosure requirements, and the PPATK's support for Indonesia's first credible anti-corruption drive has led to increased public awareness about money laundering and, to a lesser degree, terrorist financing. However, weak human and technical capacity, poor interagency cooperation, and rampant corruption in business and government remain significant impediments to the continuing development of an effective anti-money laundering regime. 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. As part of this effort, Indonesia should review and streamline its process for reviewing UN designations and identifying, freezing and seizing terrorist assets, and 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 a bloated and inefficient state sector and 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. Iran earns about U.S. \$50 billion a year in oil exports. Private sector activity is typically small-scale; workshops, farming, and services. Reportedly, a prominent Iranian banking official estimates that money laundering encompasses an estimated 20 percent of Iran's economy. There are other reports

that approximately U.S. \$12 billion a year is laundered via smuggling commodities in Iran and over U.S. \$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 the following: 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 Karafarin, Parsian, Saman Eghtesad, Pasargad, Sarmayeh, 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. There are reports that Bank Sepah requested other financial institutions to remove its name from processing suspect transactions in the international financial system. Bank Sepah is the fifth largest Iranian state-owned bank and has international branches in Europe.

On October 11, 2007, FATF released a statement of concern stating that "Iran's lack of a comprehensive AML/CTF regime represents a significant vulnerability within the international financial system. FATF calls upon Iran to address on an urgent basis its AML/CTF deficiencies, including those identified in the 2006 International Monetary Fund Article IV Consultation Report for Iran. FATF members are advising their financial institutions to consider the risk arising from the deficiencies in Iran's AML/CTF regime and practice enhanced "due diligence." Iran is currently the only country for which FATF has publicly identified such significant AML/CTF vulnerabilities. On October 16, 2007, the Department of Treasury issued an advisory to financial institutions that they "should be aware that there may be an increased effort by Iranian entities to circumvent international sanctions and related financial community scrutiny through the use of deceptive practices involving shell companies and other intermediaries or requests that identifying information be removed from transactions. Such efforts may originate in Iran or Iranian free trade zones subject to separate

regulatory and supervisory controls, including Kish Island. Such efforts may also originate wholly outside of Iran at the request of Iranian controlled entities.”

On October 25, 2007, the Department of Treasury designated for proliferation activities under Executive Order 13382 Iran’s state-owned Banks Melli and Mellat. Bank Melli is Iran’s largest bank. Bank Melli provides banking services to entities involved in Iran’s nuclear and ballistic missile programs, including entities listed by the UN for their involvement in those programs. Bank Melli provides banking services to the Iranian Revolutionary Guards Corps (IRGC) and the Qods Force. When handling financial transactions on behalf of the IRGC, Bank Melli has employed deceptive banking practices to obscure its involvement in the international banking system. Bank Mellat provides banking services in support of Iran’s nuclear entities, including those designated by the United States and by the UN Security Council under UNSCRs 1737 and 1747. On October 25, Bank Saderat was also designated for its support for terrorism, specifically channeling funds to terrorist organizations including Hizballah and EU-designated terrorist groups Hamas, PFLP-GC, and Palestinian Islamic Jihad.

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. The IMF reports that Iran has the highest “brain drain” rate of 90 countries measured. Over 400,000 Iranians live in Dubai. 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. Counter valuation 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. Approximately 7,500 Iranian-owned companies operate out of Dubai.

Iran’s real estate market is often used to launder money. Frequently, 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. Iranian investments in Dubai may be in excess of U.S. \$350 billion.

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. The transit trade facilitates the laundering of Afghan narcotics proceeds via barter transactions, trade-based money laundering, and trade goods that provide counter valuation in the regional hawala markets. 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 three million drug users and the highest per capita 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. The United Nations Global Program against Money Laundering (GPML) also reports that illicit proceeds from narcotics trafficking are used to purchase goods in the domestic Iranian market and then the goods are often exported and sold in Dubai.

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. Bonyads have been involved in funding terrorist organizations and serving as fronts for the procurement of nuclear capacity and prohibited weapons and technology.

On October 25, 2007, the United States designated Iran's IRGC, the armed guardians of Iran's theocracy, as a proliferator of weapons of mass destruction. The elite Quds Force was included in the designation as a supporter of terrorism. The Revolutionary Guard's suspect financing is entwined with Iran's economy. The Revolutionary Guard is involved with more than 100 companies and manages billions of dollars in business. Similar to bonyads, the military/business conglomerate uses high-level political connections, no-bid contracts, and squeezes out competitors. Corruption is widespread throughout Iranian society; at the highest levels of government, favored individuals and families benefit from "baksheesh" deals. Iran is ranked 131 out of 179 countries listed in Transparency International's 2007 Corruption Perception Index. Despite some limited attempts at reforming bonyads and other entities, there has been little transparency or substantive progress.

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 engage with the FATF and 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 refrain from supporting terrorism or the funding of terrorism.

Iraq

Iraq's economy is primarily cash-based, and there is little data available on the extent of money laundering. 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 through 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. Large amounts of Iraqi oil are smuggled to Iran and other Gulf countries through routes established by Saddam Hussein when Iraq was under sanctions in the 1990s. The

organized smuggling rings siphon oil from pipelines, and load it onto tanker trucks that carry the oil to small boats in the Persian Gulf. Corrupt officials facilitate the smuggling by issuing certificates and permits that allow the smugglers to pass through security checkpoints. Moreover, it is reported 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 large public and private institutions. Transparency International's 2007 International Corruption Perception Index ranked Iraq 178 of 180 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 largest 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 nonaccount holders performing a transaction or series of potentially related transactions whose value is equal to or greater than five million Iraqi dinars (approximately U.S. \$4,125). Beneficial owners must be identified upon account opening or for transactions exceeding ten million Iraqi dinar (approximately U.S. \$8,250). 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 dinars (approximately U.S. \$3,300) 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 CBI has branches in Irbil, Sulimaniyah, Dahuk (which are located in the Northern Kurdistan Region of Iraq) and Basra. The CBI

also houses Iraq's financial intelligence unit, the Money Laundering Reporting Office (MLRO). The CBI branches are responsible for licensing and examining private and public banks, and money exchangers and transmitters. The CBI branches are required to conduct periodic examinations of the banks. For public banks this occurs every six months and every three months for private banks. Order No. 94 gives administrative enforcement authority to the CBI, up to and including the removal of institution management and revocation of bank licenses. While the banks are ostensibly providing traditional banking services such as lending to the community in practice, they collect funds and send excess reserves to the CBI in Baghdad where they receive an 18 to 20 per cent return. There is no time limit for reserves to be held in the CBI for accrual of interest. Outside of this relationship, there is poor communication with the CBI, particularly with respect to money laundering, terrorist financing and other potential risks.

One of the most significant challenges facing the CBI is the lack of communication both among its branches and between the branches and the CBI in Baghdad. There is a general lack of modern banking technology, in particular a lack of an electronic payment system and wire transfer capability. As the financial sector is relatively new, there is little institutional knowledge with respect to anti-money laundering/counterterrorist finance (AML/CTF) issues. Another challenge confronting the CBI, is the lack of trust, confidence, and modernization in the formal financial sector due to the history of misuse and abuses of the sector during the Saddam Hussein regime

Bulk cash smuggling is a major problem in Iraq. The CBI is considering issuance of regulations to require large currency transaction reports for the cross-border transport of currency of more than 15 million Iraqi dinars (approximately U.S. \$12,380). Neither Iraqis nor foreigners are permitted to transport more than U.S. \$10,000 in currency when exiting Iraq.

An additional vulnerability to Iraq's AML/CTF regime is that money exchanges and money transmitters are largely unregulated. Although they are required to be licensed, the level of supervision is nominal. Money exchanges are not subject to the same examination process as banks nor are they required to report suspicious transactions. The current training given to managers and operators of money exchanges and money transmitters on AML/CTF and banking examination practices is inadequate. The MLRO, which in other circumstances could assist in the training and monitoring for AML/CTF, is not developed enough yet to execute its core mission and also suffers from a lack of communication with CBI branches outside of Baghdad. Most transactions, foreign exchange operations, and money remittances take place through such money transmitter businesses and not through the banking sector. Most international remittances are done via related offices in Amman or Dubai. While simple funds transfers can take weeks to accomplish through the banking sector, the same transactions can be done very rapidly and far more effectively through money exchange and transfer services.

Although financial institutions are required to report suspicious transactions including potential money laundering and terrorist financing under the Anti-money Laundering Ordinance, in practice they do not do so, due to the isolation of the MLRO and a lack of training and technology. The MLRO was 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 operates 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 U.S. \$33,000) 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 with a fine of up to 20 million dinar (approximately U.S. \$16,510) or two years imprisonment or both and structuring transactions of up to 10 million dinar (approximately U.S. \$8,250) or 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 courts can order confiscation of property, but it appears they can only do so if the property is directly related to the crime, including drug proceeds. According to the Iraqi Penal Code, a person must pay the government back for any property stolen from the government. In other cases of theft, restitution is made to the victim(s). Any property forfeited to the state becomes state property and goes into the general treasury. Should the government confiscate perishables, it can sell them while the case is on-going and if the defendant is acquitted, the government returns the money it realized from the sale of the goods to the defendant. While the case is on going, the government appoints a judicial guardian to supervise and maintain the property pending the outcome of the case. 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.

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.

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, the UN Convention against Transnational Organized Crime, or the UN Convention against Corruption.

The Government of Iraq continues to lay the foundation for anti-money laundering and counterterrorist finance regimes. In these efforts, there is strong cooperation with the U.S. Government. However, there is much work ahead. While Iraq’s economy is primarily cash-based, this is likely to change as the expected development of the energy sector will increase the need for the development of a formal financial sector that is integrated into the international payment system. Concurrently, the financial sector must adopt AML/CTF standards and practices. Iraq should take a more active part in MENAFATF and in implementing its recommendations. As independent foreign banks become more interested in opening branches in Iraq, the CBI should be cautious in granting licenses to banks from jurisdictions of concern. 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. The Government of Iraq should also take concerted steps to combat the corruption that hinders development and impedes an effective anti-money laundering and counter-terrorist finance regime. Iraq should become a party to the UN Convention against Corruption, the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Ireland

Ireland is an increasingly significant European financial hub. 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 (TBML) schemes or by financiers of terrorism. The international banking and financial services sector is concentrated in Dublin’s International Financial Services Centre (IFSC). In 2007, there were approximately 440 international financial institutions and companies operating in the IFSC. Services offered include banking, fiscal management, re-insurance, fund administration, and foreign exchange dealing. Although there are no tax benefits for companies in the IFSC, Ireland offers the lowest corporate tax rate (12.5 percent) in the EU. 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. The law requires financial institutions (banks, building societies, the Post Office, stock brokers, credit unions, bureaux de change, life insurance companies, and insurance brokers) to report suspicious transactions. There is no monetary threshold for reporting suspicious transactions. The obliged entities submit suspicious transaction reports (STRs) to the Garda (Irish Police) Bureau of Fraud Investigation, Ireland’s financial intelligence unit (FIU), and to the Revenue (Tax) Department in addition to the FIU, as required by law. Reporting entities must submit the STR before the suspicious transaction is finalized. There are no other legal requirements governing the time period within which an STR must be filed. Financial institutions must implement customer identification procedures and retain records of financial transactions. Ireland has amended its Anti-Money Laundering (AML) law to extend customer identification and suspicious transaction reporting requirements to lawyers, accountants, auditors, real estate agents, auctioneers, and dealers in high-value goods. Ireland’s Customer Due Diligence procedure requires designated entities to take measures to identify customers when opening new accounts or conducting transactions exceeding 13,000 euros (approximately U.S. \$19,000). 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 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, a company must provide the names of its directors. The ODCE has the authority to uncover a company's beneficial ownership and control. The Company Act also creates a mandatory reporting obligation for auditors suspicious of breaches of company law to the ODCE. In 2006, the ODCE secured the conviction of 31 company directors and other individuals on 41 charges for breaching various requirements of the Company Act. An additional 17 company officers were disqualified from eligibility for a lead position in companies for periods ranging from one to 10 years.

EU Regulation 1889/2005, introduced in Ireland on June 15, 2007, requires travelers transporting more than 10,000 euros (approximately U.S. \$14,600) into or out of the EU to declare these funds. The declarations are automatically reported to the FIU. Customs authorities also require reports detailing movements of precious metals and stones into or out of the EU when Ireland is the initial entry or final exit point. The FIU will have access to these reports.

The Third EU Money Laundering Directive entered into force in December 2005 and was transposed into Irish law prior to the December 2007 deadline. 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), 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 AML 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 any suspected breaches of the Criminal Justice Act 1994 by the institutions it supervises to the FIU and the Revenue Commissioners. Reports cover suspicion of money laundering and terrorist 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 also regulates the IFSC companies that conduct banking, insurance, and fund transactions.

Ireland's FIU receives and analyzes financial disclosures, and disseminates them for investigation. The MER found that although Ireland's FIU met the requirements of the FATF methodology it had limited technical and human resources to manage and evaluate STRs effectively. In 2006, the FIU received 10,403 STRs. Three people were convicted for money laundering. Information regarding the number of STRs received in 2007 is not yet available. 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.

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 attacks the VAT system, 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. There is evidence in several fraud investigations that conduit traders involved in the supply chain have established themselves in Ireland.

The Criminal Assets Bureau (CAB), authorized to confiscate the proceeds of crime in cases where there is no criminal conviction, 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, authorities may freeze specified property valued in excess of 13,000 euros (approximately U.S. \$19,000) for seven

years, unless the court is satisfied that all or part of the property is not criminal proceeds. With the consent of the High Court and the parties concerned, the authorities have the power to dispose of assets without having to wait the seven years. As of November 2007, the authorities have executed 14 such consent orders. This Act also allows the authorities to take foreign criminality into account in assessing whether assets are the proceeds of criminal conduct. Under certain circumstances, the High Court can freeze, and, where appropriate, seize the proceeds of crimes.

In 2006, CAB obtained interim and disposal orders on assets valued at approximately 6.8 million euros (approximately U.S. \$10 million). The CAB has the authority to cooperate with agencies in other jurisdictions, which strengthens Irish cooperation with asset recovery agencies in the United Kingdom.

With the Criminal Justice (Terrorism Offenses) Act, Ireland's legislation comports with United Nations Conventions and European Union Framework decisions on combating terrorism. 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.

To date, there have been no prosecutions for terrorism offenses under the Criminal Justice Act. The FATF MER noted that the Act neglects to criminalize 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 (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 obstructing Ireland from fulfilling its UNSCR 1373 obligation 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 2007, Ireland had reported to the European Commission the names of five individuals who maintained a total of seven accounts that were frozen in accordance with the provisions of the European Union's (EU) Anti-Terrorist Legislation. No designated individuals or entities have surfaced in Ireland's system since 2004. The aggregate value of the funds frozen was approximately U.S. \$6,400.

In July 2005, the United States and Ireland signed instruments on extradition and mutual legal assistance as part of a sequence of bilateral agreements that the United States is concluding with all 25 EU Member States. The instruments supplement and update the 1983 U.S.-Ireland extradition treaty and the 2001 bilateral treaty on mutual legal assistance (MLAT). The 2005 instrument also provides for searches of suspect foreign located bank accounts, joint investigative teams, and testimony by video-link. The 1983 extradition treaty between Ireland and the U.S. is in force, but as of November 2007, the GOI has not completed the ratification process for the 2001 MLAT. In November 2006, for the first time in eighteen extradition requests, Ireland extradited a U.S. citizen.

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 and the 1988 UN Drug Convention. It has signed, but not ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

The GOI should enact legislation to prohibit 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 to manage and evaluate STRs effectively. The GOI should enact legislation that

covers both 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. Ireland should continue implementation of its new anti-terrorism legislation and its AML law amendments, and ensure stringent enforcement of all such initiatives. Ireland should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Isle of Man

The Isle of Man (IOM) is a Crown Dependency of the United Kingdom with its own parliament, government, and laws. Its large and sophisticated financial center is potentially vulnerable to money laundering at the layering and integration stages. Most of the illicit funds in the IOM are from fraud schemes and narcotics trafficking in other jurisdictions, including the United Kingdom. The U.S. dollar is the most common currency used for criminal activity in the IOM. Identity theft and Internet abuse are growing segments of financial crime activity.

No current data regarding the entities that comprise the IOM financial industry has been reported. As of September 30, 2004, the IOM's financial industry consisted of approximately 19 life insurance companies, 25 insurance managers, more than 177 captive insurance companies, 53 licensed banks and two licensed building societies, 82 investment business license holders, 30.1 billion pounds (approximately U.S. \$59 billion) in bank deposits, and 164 collective investment schemes with 6.5 billion pounds (approximately U.S. \$12.7 billion) of funds under management. There were also 171 licensed corporate service providers.

The IOM criminalized money laundering related to narcotics trafficking in 1987. The Criminal Justice (Money Laundering Offenses) Act 1998, extends the definition of money laundering to cover all serious crimes and led to the creation of the Anti-Money Laundering (AML) Code, which came into force in December 1998. The AML Code has subsequently been replaced by the Criminal Justice (Money Laundering) Code 2007 (the Code), enacted in September 2007. Requirements under the 2007 Code apply to banking, investment, and collective investment schemes, fiduciary services business, insurance, building societies, credit unions, local authorities authorized to raise or borrow money, bureaux de change, estate agents, bookmakers and casinos (excluding online gambling), accountants, notaries and legal practitioners, insurance intermediaries, retirement benefits schemes, administrators and trustees, auditors, the Post Office, and any activity involving money transmission services or check encashment facilities.

The Code requires that obligated entities implement AML policies, procedures, and practices, including employing them for countering terrorist financing. The Code mandates that obligated entities institute procedures to establish customer identification requirements; report suspicious transactions; maintain adequate records; adopt adequate internal controls and communication procedures; provide appropriate training for employees; and establish internal reporting protocols. There is no minimum threshold for obliged entities to file a suspicious transaction report (STR), and safe harbor provisions in the law protect reporting individuals when they file an STR. It is an offense to fail to disclose suspicion of money laundering for all predicate crimes. Failure to comply with the requirements of the Code may bring a fine, imprisonment of up to two years, or both.

The Financial Supervision Commission (FSC) and the Insurance and Pension Authority (IPA) regulate the IOM financial sector. The IPA regulates insurance companies, insurance management companies, general insurance intermediaries, and retirement benefit schemes and their administrators. 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 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.

As IOM's companion to the AML Code, the FSC has AML Guidance Notes (AMLGN), which the FSC rewrote in 2007. The new guidance reflects evolving international standards, new legislation on the Island, and the new licensee status of Corporate Service Providers and Trust Service Providers. In 2008, the FSC will release the new revised guidance as an "Anti-Money Laundering and the Financing of Terrorism Handbook."

The FSC has worked with its counterparts from the Crown Dependencies of Guernsey and Jersey. One of these initiatives was a consultation paper called Overriding Principles for a Revised Know Your Customer (KYC) Framework, to develop a more coordinated AML approach. Work between the Crown Dependencies is continuing, to develop a coordinated strategy on money laundering, and to ensure maximum compliance with the revised Financial Action Task Force (FATF) Forty Recommendations on Money Laundering.

Money service businesses (MSBs) not already regulated by the FSC or IPA must register with Customs and Excise. With this, the IOM implemented the first two EU Directives on Money Laundering, and provides for their supervision by Customs and Excise to ensure compliance with the AML Code. In December 2007, the FSC issued a Consultative Paper on the Proposed Regulation of MSBs, including electronic money (e-money) providers. This document will assist the Island in meeting the standards set by the Financial Action Task Force ("FATF") 40 Recommendations and Nine Special Recommendations on Terrorist Financing. The paper also airs proposals to bring money MSBs and e-money providers under some form of regulation, which would initially be limited.

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 "Overriding Principles" requiring all insurance businesses to check their businesses to determine that they have sufficient information available to prove customer identity. The current set of Standards became effective March 31, 2003. 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 guidance on the prevention of money laundering in the online gaming sector. The Online Gambling legislation, unique to the gaming industry when it passed, brought regulation to an unregulated gaming environment. The revised version of the Online Gambling and Peer to Peer Gambling AML Code came into force in 2006.

The Companies, Etc. (Amendment) Act 2003 provides for additional supervision for all licensable businesses, e.g., banking, investment, insurance, and corporate service providers. The act abolished future bearer shares after April 1, 2004, and mandates that all existing bearer shares be registered before the bearer can exercise any rights relating to the shares.

The Financial Crime Unit (FCU), under the Department of Home Affairs, the intelligence financial unit (FIU) of the Isle of Man, was formed in April 2000 and evolved from the police Fraud Squad. It is the central point for the collection, analysis, investigation, and dissemination of suspicious transaction reports (STRs) from obligated entities. The FCU's work is broadly split between financial intelligence, legal co-operation with other jurisdictions in terms of financial investigation, and local financial crime investigation involving serious or complex cases. It is comprised of Police and Customs Officers, Police Support Staff, and other government departments such as Internal Audit and HM Attorney General's Chambers. The FIU has access to Customs, police, and tax information. The FIU disseminates STRs to the Customs, Tax Administrators, FSC, and the IPA. The FCU is responsible for investigating financial crimes and terrorist financing cases. The FIU received approximately 1,574

suspicious transaction reports in 2007, and 1,653 STRs in 2006. Approximately 45 percent of the STRs are disseminated to the United Kingdom, five percent to other European countries, and seven percent to non-European countries (mainly the U.S.). IOM authorities charged eight people with money laundering offenses in 2007, and investigations are proceeding. Six of the eight have been charged in relation to narcotics, and two to fraud, including wire fraud. In 2006, IOM authorities obtained one conviction for money laundering.

IOM legislation 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 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 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. 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. Assistance by way of restraint and confiscation of a defendant's assets is available under the 1990 Act to all countries and territories designated by Order under the Act. 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. The availability of such assistance is not convention-based nor does it require reciprocity.

All charities operating within the IOM are registered and supervised by the Charities Commission.

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. The IOM Terrorism (United Nations Measure) Order 2001 implements UNSCR 1373 by providing for the freezing of terrorist funds, as well as by criminalizing the facilitating or financing of terrorism. The Government of the IOM enacted the Anti-Terrorism and Crime Act, 2003, which enhances reporting by making the failure to report suspicious transactions relating to money intended to finance terrorism an offense. 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. In December 2001, the FSC issued revised AML guidance notes that include information relevant to terrorism. IOM authorities are reviewing additional amendments that will incorporate the most recent FATF recommendations and EU directives.

The IOM has developed a legal and constitutional framework for combating money laundering and the financing of terrorism. In 2003, the International Monetary Fund (IMF) examined the regulation and supervision of the IOM's financial sector and found that "the financial regulatory and supervisory system of the Isle of Man complies well with the assessed international standards."

Application of the 1988 UN Drug Convention was extended to the IOM in 1993. In 2003, the U.S. and the UK agreed to extend to the Isle of Man the U.S.-UK Treaty on Mutual Legal Assistance in Criminal Matters.

The IOM cooperates with international anti-money laundering authorities on regulatory and criminal matters. Under the 1990 Criminal Justice 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.

In October 2007, the IOM signed tax information exchange agreements (TIEAs) with each member of the Nordic Council (Denmark, the Faroe Islands, Finland, Greenland, Iceland, Norway, and Sweden) and received commendation from the Organization for Economic Co-operation and Development for its commitment to international standards. The IOM has a fully operational TIEA with the United States and has established protocols with the Internal Revenue Service (IRS) to ensure that information exchange requests are handled smoothly.

Although not a member of the FATF, the Island fully endorses FATF 40 Recommendations and Nine Special Recommendations. The IOM's experts are assisting the FATF working group that considers matters relating to customer identification and companies' issues. The IOM is a member of the Offshore Group of Banking Supervisors (OGBS) and Offshore Group of Insurance Supervisors (OGIS). The FCU belongs to the Egmont Group.

Isle of Man officials should continue to support and educate the local financial sector to help it combat current trends in money laundering. The IOM should act on the 2007 Consultative paper with the MSB/e-money regulation proposals that authorities have discussed, and implement the most effective. The IOM should also ensure that the obliged entities understand and respond to their new and revised responsibilities as delineated by the 2007 AML Code. To this end, the FSC should work to release the Anti-Money Laundering and Terrorist Financing Handbook as soon as possible in 2008. The authorities also should continue to work with international AML authorities to deter financial crime and the financing of terrorism and terrorists.

Israel

Among its Mediterranean neighbors, Israel stands out economically in terms of its high GDP, per capita income, developed financial markets and diverse capital markets. Nevertheless, Israel is not regarded as 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. Israeli National Police (INP) intelligence identifies illicit drugs, gambling, extortion, and fraud as the predicate offenses most closely associated with organized criminal activity. Recent studies conducted by the INP Research Department estimate illegal gambling profits at U.S. \$2-3 billion per year and domestic narcotics profits at U.S. \$1.5 billion per year. Human trafficking is considered the crime-for-profit with the greatest human toll in Israel, and public corruption the crime with the greatest social toll. As such, these areas are the targets of the most vigorous anti-money laundering (AML) enforcement activity. 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 18 serious crimes, in addition to offenses described in the prevention of terrorism ordinance, as predicate offenses for money laundering even if committed in a foreign jurisdiction.

The PMLL also provided for the establishment of the Israeli Money Laundering Prohibition Authority (IMPA) under the Ministry of Justice, 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. Financial institutions must report all transactions that exceed a minimum threshold that varies based on the relevant sectors and the risks that may arise,

with more stringent requirements for transactions originating in a high-risk country or territory. IMPA has access to population registration databases, the Real-Estate Database, records of inspections at border crossings, court files, and Israel's Company Registrar.

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 in keeping with the recommendations of the Basel Committee on Banking Supervision. The Supervisor of Banks at the Bank of Israel monitors compliance among banking institutions. Bankers and others are protected by law with respect to their cooperation with law enforcement entities.

Subsequent regulations established the methods of reporting to the Customs Authority (a part of the Israel Tax Authority) monies brought in or out of Israel, and criteria for financial sanctions for violating the law, as well as for appeals. The regulations require 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 U.S. \$20,000). This applies to any person entering or leaving Israel, and to any person bringing or taking money into or out of Israel by mail or any other methods, including cash couriers. Failure to comply is punishable by up to six months imprisonment or a fine of NIS 202,000 (approximately \$50,500), or ten times the amount that was not declared, whichever is higher. Alternatively, an administrative sanction of NIS 101,000 (approximately U.S. \$25,250), or five times the amount that was not declared, may be imposed by the Committee for Imposition of Financial Sanctions. In 2003, the Government of Israel (GOI) lowered the threshold for reporting cash transaction reports (CTRs) to NIS 50,000 (approximately U.S. \$12,250), lowered the document retention threshold to NIS 10,000 (approximately U.S. \$2,500), and imposed more stringent reporting requirements.

Clarifications to the PMLL were approved in Orders 5761-2001 and 5762-2002 requiring that suspicious transactions be reported by 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. Portfolio managers and members of the stock exchange are supervised by the Chairman of the Israel Securities Authority; insurers and insurance agents are under the authority of the Superintendent of Insurance in the Ministry of Finance; provident funds and companies managed by a provident fund are overseen by the Commissioner of the Capital Market in the Ministry of Finance, and the Postal Bank is monitored by the Minister of Communications. The PMLL does not apply at this time to intermediaries, such as lawyers and accountants.

Other subsequent changes to the PMLL authorized: the issuance of regulations requiring financial service providers to identify, report, and keep records for specified transactions for seven years; 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; the creation of rules on safeguarding the IMPA database; and rules for requesting and transmitting information between IMPA, the INP and the Israel Security Agency (ISA, or Shin Bet). The PMLL also imposed an obligation on financial service providers to report any IMPA activities perceived as unusual.

Order 5762 added money services businesses (MSB) to the list of entities required to file cash transaction reports (CTRs) and suspicious transaction reports (STRs) by size and type, and required that they preserve transaction records for at least seven years. The PMLL mandates the registration of MSBs through the Providers of Currency Services Registrar at the Ministry of Finance. A person engaging in the provision of currency services without being registered is liable to one year of imprisonment or a fine of NIS 600,000 (U.S. \$150,000). In 2004, Israeli courts convicted several MSBs for failure to register with the Registrar of Currency Services, and a number of indictments are still pending. 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.

On July 11, 2007 a draft bill for PMLL (Amendment No. 7) 5776-2007 was published for the purpose of extending Israel's AML regime to the trade in precious stones (including Israel's substantial diamond trading industry). The bill passed the first vote in the Knesset on August 16, and has been submitted to committee for review. The amendment defines "dealers in precious stones" as those merchants whose annual transactions reach NIS 50,000 (approximately U.S. \$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 to maintain all transaction records and client identification for at least five years. The Customs Authority continues to intercept unreported diamond shipments, despite the fact that Israel imposes no tariffs on diamond imports.

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 (though they are not protected from civil liability). The Banking Order was expanded to cover the prohibition on financing terrorism and includes obligations to check the identification of parties to a transaction against declared terrorists and terrorist organizations, as well as obligations to report 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 U.S. \$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.

In 2007, Israel took steps to implement Cabinet Decision 4618, passed on January 1, 2006, by creating an interagency "fusion center" and six interagency task forces for pursuing financial crimes. The regulation explicitly instructs the INP and the Shin Bet to target illicit proceeds as a primary objective in the war on organized crime. 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 to avoid its abuse and to set guidelines for the police and security services.

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 and trafficking in persons. The law also allows for civil forfeiture when ordered by the District Court. The identification and tracing of such assets is part of the ongoing function of the Israeli intelligence authorities and IMPA. The INP has responsibility for seizing assets and the State Attorney's Office has authority to freeze assets. Banking institutions cooperate fully, and often freeze suspicious assets according to guidance from the INP and Ministry of Defense. Israel's International Legal Assistance Law enables Israel to offer full and effective cooperation to authorities in foreign states, including enforcement of foreign forfeiture orders in terror financing cases (both civil and criminal).

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, criminalizing the financing of terrorism as required by United Nations Security Council Resolution (UNSCR) 1373. 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.

In December 2007, the Knesset Law Committee approved new regulations enabling the declaration by a ministerial committee of foreign designated terrorists, and legally requiring financial institutions to comply with the foreign designations. The National Security Council legal counsel has responsibility for referring foreign designations to the committee for adoption under Israeli law, and is expected to include entities on the UNSCR 1267 Sanctions Committee consolidated list and entities on the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. Once designated, identifying information for the terrorist entity is to be published on the Ministry of Defense website, in two daily newspapers, the Official Gazette of the Israeli Government, and distributed by email to financial institutions. Israel already enforces UNSCR 1267 under its Trade with the Enemy Ordinance of 1939, and regularly notifies financial institutions of restricted entities.

The ISA is responsible for investigating terrorist financing offenses, while the Israel Tax Authority handles investigations originating in customs offenses. Under Israeli law, it is a felony to conceal cash transfers upon entry to the West Bank or Gaza, and the agencies coordinate closely to track funds that enter Israeli ports. Customs and the Ministry of Defense also cooperate in combating trade-based terrorist financing, including goods destined for terrorist entities in the West Bank or Gaza.

The INP reports no indications of an overall increase in financial crime relative to previous years. In 2007, IMPA reported 56 arrests and five prosecutions relating to money laundering and/or terrorist financing. In 2007, IMPA received 10,597 suspicious transaction reports. During this period IMPA disseminated 552 intelligence reports to law enforcement agencies and to foreign FIUs in response to requests, and on its own initiative. In addition, eight different investigations yielded indictments (some of them multiple indictments) and ten resulted in convictions or plea bargains. In 2007, the INP seized approximately U.S. \$9 million in suspected criminal assets, a decrease from U.S. \$12 million in 2006 and U.S. \$75 million seized in 2005.

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. The IMPA is a member of the Egmont Group, and Israel has been an active observer in MONEYVAL since 2006. Israel has signed but not yet ratified the UN Convention against Corruption. Israel is the only nonmember of the Council of Europe to become a party to the European Convention on Mutual Assistance in Criminal Matters (in 1967) and its Second Additional Protocol (in 2006), 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, as well as a bilateral mutual assistance agreement in customs matters. Customs, IMPA, the INP and the Israel Securities Agencies routinely exchange information with U.S. agencies through their regional liaison offices, as well as through the Israel Police Liaison Office in Washington. In 2007, Israel provided unprecedented assistance in sharing evidence critical to the prosecution of terrorist financing cases in the United States, allowing for the first time the testimony of intelligence agents in U.S. courts.

The Government of Israel continued to make progress in strengthening its anti-money laundering and terrorist financing regime in 2007. 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 by approving draft legislation. Under the new terrorist financing amendment, Israel should adopt appropriate foreign designations of terrorist entities in a timely manner.

Italy

Italy 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, Russia, China, and Nigeria.

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 a myriad of criminal activities, such as alien smuggling, pirated and counterfeited goods, extortion, and usury. Financial crimes not directly linked to money laundering, such as credit card and Internet fraud, are increasing. Italy is not an offshore financial center.

Money laundering occurs both in the regular banking sector and in the nonbank financial system, including 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. According to Italy's Central Institute of Statistics (ISTAT), Italy's "underground" economic activity may be as large as 18 percent of the GDP. Much of this "underground activity is not related to organized crime, but is instead part of efforts to avoid taxation."

According to a 2006 International Monetary Fund evaluation, Italy's anti-money laundering and counter-terrorist 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. In June of 2007, the Ministry of Finance issued a decree bringing Italy into compliance with EU regulation 1889/2005 on controls of cash entering or leaving the European Community. Banks must identify their customers and record any transaction that exceeds 5000 euros (approximately U.S. \$7,300). The previous threshold was 12,500 euros (approximately U.S. \$18,250). 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. Italian law prohibits the use of cash or negotiable bearer instruments for transferring money in amounts in excess of 5,000 euros (approximately U.S. \$7,300), 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 10,000 euros (U.S. \$14,700) 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. Financial institutions are required to maintain a uniform anti-money laundering database for all transactions (including wire transfers) over 5,000 euros (\$7,300) and to submit this data monthly to the Italian Foreign Exchange Office (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 2008, this operation will be handled by the newly created Financial Intelligence Unit.

In 2005, the UIC received 8,576 suspicious transaction reports (STRs) related to money laundering and 482 related to terrorist financing. 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 percent of all STRs. Money remittance operators submit 13.5 percent of the total number of STRs, and all other sectors together account for less than ten percent.

Until January 1, 2008, the UIC served as Italy's financial intelligence unit (FIU). An arm of the Bank of Italy (BoI), the UIC received and analyzed STRs filed by covered institutions, and then forwarded 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 that carry on activities that could be exposed to money laundering. The UIC has access to banks' customer databases. 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 performed 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. On January 1, 2008 Italy opened a Financial Intelligence Unit at the Bank of Italy that will assume the responsibilities of the UIC.

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 euros (approximately \$U.S. 233 million) 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 had been frozen belonging to 55 persons, totaling U.S. \$528,000 under United Nations (UN) resolutions relating to terrorist financing. Data for 2005 through 2007 has not been reported. 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 when authorities are investigating crimes linked to international terrorism or by applying administrative seizure 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 (Directive 2005/60/EC) and to issue provisions to make more effective the freezing of nonfinancial assets belonging to listed terrorist groups and individuals. Legislative Decree 231 of November 21, 2007 implements elements of the Third Money Laundering Directive.

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 as such. 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 terrorist 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 mutual 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, the UN Convention against Transnational Organized Crime, and the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Italy has also signed, but has not yet ratified, the UN Convention against Corruption.

Italy is an active member of the Financial Action Task Force (FATF). Italy co-chaired FATF's International Cooperation Working Group in 2007. Italy's FIU, the UIC, is a member of the Egmont Group. The UIC has been authorized to conclude information-sharing agreements concerning suspicious financial transactions with other countries. To date, the FIU has signed memoranda of understanding with 12 analogs, primarily in Europe and is negotiating agreements with 8 other FIUs, primarily in Asia. Italy has a number of bilateral agreements with foreign governments in the areas of investigative cooperation on narcotics trafficking and organized crime. Reportedly, 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 efforts 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. In addition to profits from domestic marijuana trafficking, payments for cocaine and weapons pass through Jamaica in the form of bulk cash shipments back to South America. These illegal drug flows must be legitimated and therefore make Jamaica susceptible to money laundering activities and other financial crimes. In 2007, 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, including unregulated "investment clubs." The Government of Jamaica (GOJ) is also becoming increasingly concerned by the high rate of trade-based money laundering and has plans to attack this problem in 2008.

Jamaica is neither an offshore financial center, nor is it a major money laundering country. Currently, Jamaican banking authorities do not license offshore banks or other forms of exempt or shell

companies, nor are nominee or anonymous directors and trustees allowed for companies registered in Jamaica. Financial institutions are prohibited from maintaining anonymous, numbered or fictitious accounts under the 2007 Proceeds of Crime Act. As part of its political campaign, the new government, which took office in September, promoted the idea of turning Kingston into an offshore financial center. If this plan were to come to fruition, it could increase Jamaica's vulnerability to money laundering. The 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. Public corruption, particularly in the Customs Service, provides opportunities for trade-based money laundering. 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. There is no evidence of terrorist financing 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. Over the last year a significant amount of assets have flowed into new, unregulated financial investment clubs and loan schemes, which are ripe for exploitation by criminal elements. 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.

There is a free trade zone in Montego Bay, which has a small cluster of information technology companies, and one gaming entity that focuses on international gambling. There is no indication that this free zone is being used for trade-based money laundering or terrorist financing. Domestic casino gambling, Para mutual wagering and lotteries are permitted in Jamaica, and are regulated by the Betting Gaming and Lotteries Commission.

The Proceeds of Crime Act (POCA), which became effective in May 2007, incorporates the existing provisions of its predecessor legislation (the Money Laundering Act and the Drug Offences Forfeiture of Proceeds Act), and now allows for both civil and criminal forfeiture of assets related to criminal activity. The POCA criminalizes money laundering related to narcotics offenses, fraud, firearms trafficking, human trafficking, terrorist financing and corruption, and applies 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. Bank secrecy laws exist; however, there are provisions under GOJ law to enable law enforcement access to banking information.

The POCA establishes a five-year record-keeping requirement for both transactions and client identification records, and requires financial institutions to report all currency transactions over U.S. \$15,000. Money transfer or remittance companies have a reporting threshold of U.S. \$5,000, while for exchange bureaus the threshold is U.S. \$8,000. The POCA requires banks, credit unions, merchant banks, wire-transfer companies, exchange bureaus, mortgage companies, insurance companies, brokers and other intermediaries, securities dealers, and investment advisors to report suspicious transactions of any amount to Jamaica's financial intelligence unit (FIU), which is a unit within the Ministry of Finance's Financial Investigations Division (FID). Based on its analysis of cash threshold reports and suspicious transaction reports (STRs), the FIU forwards cases to the Financial Crimes Unit of the FID for further investigation. There is also a Financial Crimes Division established within the Jamaica Constabulary Force, and it is unclear how its investigative responsibilities for financial crimes are shared with the Financial Crimes Unit of the FID.

Jamaica's central bank, the Bank of Jamaica, supervises the financial sector for compliance with anti-money laundering and counter-terrorist financing provisions. Although the POCA permits the Minister

of Finance to add nonbanking institutions to the list of obligated reporting entities, a court decision that has been pending for months has thus far tied the government's hands with respect to a growing number of currently unregulated "investment clubs, some of which are suspected to serve as covers for Ponzi schemes.

The FID was originally created by a merger, within the Ministry of Finance, the Revenue Protection Department, and the Financial Crimes Unit. The merger resulted in a division with seven distinct units. The FID currently consists of 14 forensic examiners, six police officers who have full arrest powers, a director and five administrative staff. The FID is working with the United Kingdom and Ireland to develop a comprehensive, in-house capacity for training the additional staff members it was authorized to meet its additional duties under POCA. The FID currently needs additional lawyers, forensic accountants, police officers and intelligence analysts. In the past, FID staff enjoyed a salary premium that made the positions more attractive. Recent changes have raised civil service salaries in line with current salary levels at the FID, and without revision to its pay scale, the FID's ability to recruit qualified and motivated staff will remain limited.

The FID has access to data from other government sources, which include the national vehicle registry, property tax rolls, duty and transfer rolls, various tax databases, national land register, and cross border currency declarations. Direct information access to these databases is limited to a small number of people within the FID. Indirect access is available through an internal mechanism that funnels requests to authorized users. Companion legislation to the POCA, the FID Act, which was supposed to have been enacted in 2007, remains stalled. The FID Act would bring Jamaica's regulations fully in line with the international standards of the Egmont Group, and allow for information exchange between the FID and other FIUs.

In mid-2007, the FID and the Tax Administrative Directorate (TAAD) signed a protocol for cooperation on investigations that have a nexus to criminal tax evasion. Because both entities suffer from a lack of adequate resources, it remains to be seen if the protocol can overcome competing priorities (such as revenue collection obligations, a main focus of the GOJ) and permit TAAD staff to assist the FID with money laundering investigations.

Jamaica has an ongoing education program to ensure compliance with the mandatory suspicious transaction reporting requirements. Reporting individuals are protected by law with respect to their cooperation with law enforcement entities. The FID reports that nonbank financial institutions have a 70 percent compliance rate with money laundering controls. There are currently no statistics available on the numbers of STRs, cases and convictions for 2007.

The Jamaican Parliament's 2004 amendments to the Bank of Jamaica Act, the Banking Act, the Financial Institutions Act, and the Building Societies Act improve the governance, examination and supervision of commercial banks and other financial institutions by the Bank of Jamaica. Amendments to the Financial Services Commission Act, which governs financial entities supervised by the Financial Services Commission, expand 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 a complementary foundation to the POCA. Guidelines issued by the Bank of Jamaica caution financial institutions against initiating or maintaining relationships with persons or businesses that do not meet the standards of the Financial Action Task Force.

The GOJ requires customs declaration of currency or monetary instruments over U.S. \$10,000 or its equivalent. The Kingston-based Airport Interdiction Task Force, a joint law enforcement effort by the United States, United Kingdom, Canada and Jamaica, began operations in mid-2007. The Task Force 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.

The POCA expands the confiscation powers of the GOJ and permits, upon conviction, the forfeiture of assets assessed to have been received by the convicted party within the six years preceding the conviction. Under the POCA, the Office of the Public Prosecutor and the FID have the authority to bring asset freezing and forfeiture orders before the court. However, both agencies are lacking in staff and resources, and few of the prosecutors have received substantive training on financial crimes.

Under the POCA, the proposed division of forfeited assets would distribute assets equally among the Ministry of National Security, the Ministry of Finance, and the Ministry of Justice. An Assets Recovery Agency (ARA) will be established within the FID to manage seized and forfeited assets. There is currently no data available on the amount of seizures and forfeitures of assets for 2007. In 2006, U.S. \$2 million was seized and U.S. \$1.5 million was forfeited. Nondrug related assets go to a consolidated or general fund, while drug related assets are placed into a forfeited asset fund, which benefits law enforcement.

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, nor has the GOJ encountered any misuse of charitable or nonprofit entities as conduits for the financing of terrorism.

Jamaica and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995, as well as an agreement for the sharing of forfeited assets, which became effective in 2001. 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. Until the FID Act is passed, the FID will not meet the membership requirements of the Egmont Group.

The Government of Jamaica has moved forward in its efforts to combat money laundering and terrorist financing with the passage of the Proceeds of Crime Act, and should now ensure that the Act is fully implemented. The GOJ should resolve whether the POCA and other financial regulations apply to "investment clubs" and other alternative schemes. The GOJ should ensure the swift passage of the FID Act to qualify the FIU within the Financial Investigations Division to meet the international standards of the Egmont Group and exchange information with other FIUs. In addition, the GOJ should grant the FID adequate resources to enable it to hire an appropriate number of staff to allow for the additional work it now faces with the implementation of the POCA. The GOJ should also ensure that a duality of functions does not exist in the investigative responsibilities of the Financial Crimes Unit of the FID and the Financial Crimes Division of the Jamaican Constabulary Force. The GOJ should also ratify the UN Convention against Corruption.

Japan

Japan is the world's second largest economy and an 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, which are 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.

On March 29, 2007, Japan's government enacted new money laundering "Law for Prevention of Transfer of Criminal Proceeds." Referred to in the press as the Gatekeeper Bill, after the Financial Action Task Force (FATF) Gatekeeper Initiative, and designed to bring Japan into closer compliance with the FATF Forty Recommendations, the bill's passage marked significant changes in Japan's anti-money laundering landscape. In addition to the financial institutions previously regulated, the new statutes expanded the types of nonfinancial businesses and professions under the law's purview, including real estate agents, private mail box agencies, dealers of precious metals and stones; and, certain types of trust and company service providers. They must conduct customer due diligence, confirm client identity, retain customer verification records, and report Suspicious Transaction Reports (STRs) to the authorities. Legal and accounting professionals such as judicial scriveners and certified public accounts are now subject to customer due diligence and record keeping, but not STR reporting. However, the bill stipulates that, "confirmation of the identity of the clients and retention of records (of transaction and identity verification) by lawyers shall be prescribed by the Japan Federation Bar Association's regulation," permitting lawyers to remain outside the law's new parameters. Accordingly, the bar association drafted and now enforces "Rules Regarding the Verification of Clients' Identity and Record-Keeping."

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, and enhances the suspicious transaction reporting system.

The AOCL was partially revised in June of 2002 by the "Act on Punishment of Financing to Offenses of Public Intimidation," which specifically added the financing of terrorism to the list of money laundering predicates. A further amendment to the AOCL submitted to the Diet for approval in 2004, designed to expand the predicate offenses for money laundering from approximately 200 offenses to nearly 350 offenses, with almost all offenses punishable by imprisonment, has yet to be approved.

Japan's Financial Services Agency (FSA) supervises all 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. Under the 2007 anti-money laundering law, on April 1, 2007, JAFIO relocated from the FSA to the National Police Agency, where it is known as the Japan Financial Intelligence Center (JAFIC). Correspondingly, JAFIC's staff grew from 17 to 43 personnel, with an emphasis on strengthened analytical functions. JAFIC receives STRs from specified business operators through the competent administrative authorities, analyzes them, and disseminates intelligence deemed useful to criminal investigations to the law enforcement community.

In 2006, JAFIC 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, JAFIC disseminated 71,241 STRs to law enforcement, up from 66,812 STRs disseminated in 2005. Of these, 143 money laundering cases went to prosecutors, up from 112 in 2005. The amount of money confiscated or forfeited in 2006 was 6.07 billion yen (U.S. \$52 million), up from 4.46 billion yen (U.S. \$39 million) in 2005.

As of 2007, JAFIC has concluded international cooperation agreements with numerous counterpart FIU's (Australia, Belgium, Brazil, Canada, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand, the United Kingdom, and the United States). These agreements establish cooperative frameworks for the exchange of financial intelligence related to money laundering and terrorist financing. 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, and is currently negotiating MLAT texts with China and Russia. In 2003, the United States and Japan concluded a Mutual Legal Assistance Treaty (MLAT), which took effect in July of 2006. In 2007 the U.S.-Japan MLAT was used for the first time in furtherance of two separate money laundering investigations where the predicate crimes (Nigerian bank fraud) first occurred overseas, then moved to the U.S., with the money subsequently laundered in Japan; the cases are still pending.

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 does not protect 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 revised in January 2007, so that financial institutions are required to make positive customer identification for both domestic transactions and transfers abroad in amounts of more than 100,000 yen (approximately \$900). Banks and financial institutions are required to maintain customer identification records for seven years. 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 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 U.S. \$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. Efforts by authorities to counter bulk cash smuggling in Japan are not yet matched by a commensurate commitment in necessary resources.

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 and the list of individuals and entities under UNSCR 1373.

Underground banking systems operate widely in Japan, especially in immigrant communities. Such systems violate the Banking 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 (now JAFIC) joined the Egmont Group of FIUs in 2000. Japan is also a member of the Asia/Pacific Group against Money Laundering, and is scheduled for a second round mutual evaluation in 2008.

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. Japan is a signatory

but not a party to the UN Convention against Corruption. Japan is listed 17 out of 179 countries surveyed in Transparency International's 2007 Corruption Perception Index.

The Government of Japan has many legal tools and agencies in place to successfully detect, investigate, and combat money laundering. However, there have been few successful money laundering prosecutions and convictions. To strengthen its money laundering regime, Japan should stringently enforce the Anti-Organized Crime Law, and amend the law with regard to charges of conspiracy. The narrow scope of the Anti-Drug Special Law has limited the law's effectiveness. Japan should also enact penalties for noncompliance with the customer identification provisions of 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 and value transfer schemes, 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 and the UN Convention against Corruption.

Jersey

The Bailiwick of Jersey (BOJ), one of the Channel Islands, is an international financial center offering a sophisticated array of offshore services. A Crown Dependency of the United Kingdom, it relies on the United Kingdom for its defense and international relations. Due to Jersey's investment services, most of the illicit money in Jersey is derived from foreign criminal activity. Domestically, local drug trafficking and corruption of politically exposed persons (PEPs) are sources of illicit proceeds found in the country. Money laundering mostly occurs within Jersey's banking system, investment companies, and local trust companies.

The financial services industry consists of 48 banks; 1,086 funds; 953 trust companies (2005 statistic), and 175 insurance companies (2006 statistic), which are largely captive insurance companies. The menu of services includes investment advice, dealing management companies, and mutual fund companies. In addition to 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 wealth management services. All regulated entities can sell their services to both residents and nonresidents. All financial businesses must have a presence in Jersey, and management must also be in Jersey. However, although Jersey does not provide offshore licenses, it administers a number of companies registered in other jurisdictions. These companies, known as "exempt companies," do not pay Jersey income tax and their services are only available to nonresidents.

The Jersey Finance and Economics Committee is the government body responsible for administering the law, regulating, supervising, promoting, and developing the Island's finance industry. The financial Services Commission (FSC) is the financial services regulator. In 2003, the International Monetary Fund (IMF) assessed Jersey's anti-money laundering (AML) regime. The IMF reported that it found the FSC to be in compliance with international standards. The IMF has scheduled a review and assessment of Jersey's financial frameworks for October 2008.

Jersey's main AML laws are the Drug Trafficking Offenses (Jersey) Law of 1988, which criminalizes money laundering related to narcotics trafficking, and the Proceeds of Crime (Jersey) Law, 1999, which extends the predicate offenses for money laundering to all offenses punishable by at least one year in prison. The FSC has recently formed a dedicated AML Unit to lead the Island's operational AML and counter-terrorist financing (CTF) strategy. The AML Unit will devise and implement a registration scheme for currently unregulated nonfinancial services businesses and professions entering an oversight regime for the first time. Under amendments being made to the Proceeds of Crime (Jersey) Law 1999, businesses such as estate agents and dealers in high value goods will, for

the first time, have AML regulation. The AML Unit has also taken specific responsibility regulating money service business such as bureaux de change, check cashers, and money transmitters.

In May and July 2007, in preparation for the upcoming IMF assessment and with Council of Ministers approval, the AML/CTF Strategy Group issued three consultation papers proposing to extend and update Jersey's AML framework to comply with the international standards. In October 2007, the FSC published a Consultation Paper proposing amendments to current legislation and introducing new secondary legislation. The Consultation Paper discusses the proposed legislative changes with regard to the Trust Company Business and Investment Business secondary legislation on accounts, audits, and reports. The paper also discusses requirements on Trust Company Business with respect to the safekeeping of customer money.

Financial institutions must report suspicious transactions under the narcotics trafficking, terrorism, and anti-money laundering laws. There is no threshold for filing a suspicious transaction report (STR), and the reporting individual is protected from criminal and civil charges by safe harbor provisions in the law. Banks and other financial service companies must maintain financial records of their customers for a minimum of 10 years after completion of business. The FSC has issued AML Guidance Notes that the courts take into account when considering whether or not an offense has been committed under the Money Laundering Order. Upon conviction of money laundering, a person could receive imprisonment of one year or more.

After consultation with the financial services industry, the FSC issued a position paper (jointly with Guernsey and Isle of Man counterparts) proposing to further tighten the essential due diligence requirements that financial institutions must meet regarding their customers. The position paper states the FSC's intention to insist on the responsibility of all financial institutions to verify the identity of their customers, regardless of the action of intermediaries. The paper also states an intention to require a progressive program to obtain verification documentation for customer relationships established before the Proceeds of Crime (Jersey) Law came into force in 1999. Each year working groups review specific portions of these principles and draft AML Guidance Notes to incorporate changes.

Following the extensive consultation with the Funds Sector, and approval by the State of Jersey in November 2007, the FSC published Codes of Practice for Fund Services Business. The Code consists of seven high level principles for the conduct of fund services business, together with more detailed requirements in relation to each principle.

Approximately 30,000 Jersey companies have registered with the Registrar of Companies, which is the Director General of the FSC. In addition to public filing requirements relating to shareholders, the FSC requires each company to provide the Commission with details of the ultimate individual beneficial owner of each Jersey-registered company. The Registrar keeps the information in confidence.

The Joint Financial Crime Unit (JFCU), Jersey's financial intelligence unit (FIU), is responsible for receiving, investigating, and disseminating STRs. The unit includes Jersey Police and Customs officers and a financial crime analyst. In 2006, the JFCU received 1,034 STRs. Approximately 25 percent of the STRs filed result in further police investigations. Reports filed in the first six months of 2007 indicate a 32 percent increase in the number of STRs submitted to the JFCU by financial institutions compared to the three-year average for this same period. In the first six months of 2007, Jersey has held more than 2.5 million pounds (approximately \$4.9 million) in bank or trust company accounts pending police investigation of suspicious activity. The FIU also responds to requests for financial information from other FIUs. In the first six months of 2007, the JFCU received 219 requests for assistance from counterparts in other jurisdictions.

The Enforcement Division of the Jersey's Financial Services Commission (FSC) responded to 10 requests for assistance from overseas regulators during 2006 and issued public statements concerning

nine illegal Internet based businesses that purported to have a Jersey connection. Jersey's law enforcement and regulatory agencies have extensive powers to cooperate with one another, and regularly do so. The FSC cooperates with regulatory authorities, for example, to ensure that financial institutions meet AML obligations.

The JFCU, in conjunction with the Attorney Generals Office, trace, seize and freeze assets. A confiscation order can be obtained if the link to a crime is proven. If the criminal has benefited from a crime, legitimate assets can be forfeited to meet a confiscation order. There is no period of time ascribed to the action of freezing until the assets are released. Frozen assets are confiscated by the Attorney Generals Office on application to the Court. Proceeds from asset seizures and forfeitures are placed in two funds. Drug-trafficking proceeds go to one fund, and the proceeds of other crimes go to the second fund. The drug-trafficking funds are used to support harm reduction programs, education initiatives, and to assist law enforcement in the fight against drug trafficking. Only limited civil forfeiture is allowed in relation to cash proceeds of drug trafficking located at the ports.

Alternate remittance systems do not appear to be prevalent in Jersey.

The Corruption (Jersey) Law 2005 was passed in alignment with the Council of Europe Criminal Law Convention on Corruption. The new corruption law came into force in February 2007. Articles 2, 3, and 4 of this law were amended in November 2007.

On July 1, 2005, the European Union Savings Tax Directive (ESD) came into force. The ESD is an agreement between the Member States of the European Union (EU) to automatically exchange information with other Member States about EU tax resident individuals who earn income in one EU Member State but reside in another. Although not part of the EU, the three UK Crown Dependencies (Jersey, Guernsey and Isle of Man) have voluntarily agreed to apply the same measures to those in the ESD and have elected to implement the withholding tax option (also known as the "retention tax option") within the Crown Dependencies.

Under the retention tax option, each financial services provider will automatically deduct tax from interest and other savings income paid to EU resident individuals. The tax will then be submitted to local and Member States tax authorities annually. The tax authorities receive a bulk payment but do not receive personal details of individual customers. If individuals elect the exchange of information option, then no tax is deducted from their interest payments, but details of the customer's identity, residence, paying agent, level and time period of savings, and 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.

Jersey signed the Tax Information Exchange Agreement (TIEA) with the United States in 2002, and plans to sign the same agreements with other countries, thus meeting international obligations to cooperate in financial investigations.

Jersey criminalized money laundering related to terrorist activity with the Prevention of Terrorism (Jersey) Law 1996. The Terrorism (Jersey) Law 2002, which entered into force in January 2003, enhances the powers of the Island authorities to investigate terrorist offenses, to cooperate with law enforcement agencies in other jurisdictions, and to seize assets. Jersey does not circulate the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, the EU designated list, or any other government's list. However, Jersey expects its institutions to gather information of designated entities from the Internet and other public sources. Jersey authorities have instituted sanction orders freezing accounts of individuals connected with terrorist activity.

The FSC has reached agreements on information exchange with securities regulators in Germany, France, and the United States. The FSC has a memorandum of understanding for information

exchange with Belgium. Registrar information is available, under appropriate circumstances and in accordance with the law, to U.S. and other investigators. In 2007, the FSC has signed a memorandum of understanding with British Virgin Islands Financial Services Commission that will further cooperation between the two regulatory bodies. Application of the 1988 UN Drug Convention was extended to Jersey on July 7, 1997.

Jersey is a member of the Offshore Group of Insurance Supervisors (OGIS) and the Offshore Group of Banking Supervisors (OGBS). It works with the Basel Committee on Banking Supervision and the Financial Action Task Force. The JFCU is a member of the Egmont Group.

The Bailiwick of Jersey should continue to enhance compliance with international standards. Jersey should ensure that all entities, within all sectors, are subject to reporting requirements. The FSC should work to ensure that the AML Unit has enough resources to function effectively, and to provide outreach and guidance to the sectors it regulates. This is especially true for the newest DNFBPs required to file reports. Jersey should mandate the same AML/CTF requirements over its “exempt” companies that it does over the rest of the obliged sectors. The FSC should distribute the UN, European Union and U.S. lists of designated suspected terrorist and terrorist-supporting entities to the obliged entities and not rely on the entities stay current through Internet research.

Jordan

Jordan is not a regional or offshore financial center and is not considered a major venue for international criminal activity. However, Jordan’s long and often remote desert borders and proximity to Iraq make it susceptible to smuggling bulk cash, fuel, narcotics, cigarettes, and other contraband. The influx of refugees has caused an increase in cross border criminal activity. Jordan boasts a thriving “import-export” community of brokers, traders, and entrepreneurs that regionally are involved with value transfer via trade and customs fraud.

In August 2001, the Central Bank of Jordan, which regulates banks and financial institutions, issued anti-money laundering regulations designed to meet some of the Financial Action Task Force (FATF) Forty Recommendations on Money Laundering. Since that time, money laundering has been considered an “unlawful activity” subject to criminal prosecution. After the lifting of Iraqi sanctions, there have been few reports of money laundering through Jordanian banks. On July 17, 2007, Jordan enacted a comprehensive anti-money laundering law (AML). The law, Law No. 46 for the Year 2007, created a committee known as the National Committee on Anti-Money Laundering (NCAML). The committee is chaired by the Governor of the Central Bank of Jordan and has as members: the Deputy Governor of the Central Bank named by the Governor of the Central Bank to serve as deputy chairman of the committee, the Secretary General of the Ministry of Justice, the Secretary General of the Ministry of the Interior, the Secretary General of the Ministry of Finance, the Secretary General of the Ministry of Social Development (which oversees charitable organizations), the Director of the Insurance Commission, the Controller General of Companies, a Commissioner of the Securities Commission, and the head of the Anti-Money Laundering Unit. The Anti-Money Laundering Unit (AMLU), formerly the Central Bank’s Suspicious Transaction Follow-Up Unit, was formed immediately on passage of the law and designated as the Government of Jordan’s (GOJ) financial intelligence unit (FIU). The AMLU is staffed with a director, outreach officer, chief counsel, and one analyst. It is anticipated that during 2008, the unit’s staff will be augmented to include a minimum of seven analysts and liaison personnel from the two national law enforcement agencies, public prosecutors, and other regulatory entities.

The AMLU is designated as an independent entity, but is housed at present in the Central Bank of Jordan. It is organized on a general administrative FIU model. It is responsible for receiving suspicious activity reports (SARs) from obligated entities designated in the law, analyzing them, requesting additional information related to the activity and reporting it to the prosecutor general for

further action. Involvement of the AMLU in assisting criminal investigations is dependent on public prosecutors. At the end of 2007, the AMLU was working to establish formal ties through memoranda of understanding with competent GOJ authorities possessing the necessary databases and resources pertinent to pursuing financial intelligence analysis and money laundering investigations.

The 2007 AML law criminalizes money laundering and stipulates as predicate offenses any felony crime or any crime stated in international agreements to which Jordan is a party, whether such crimes are committed inside or outside the Kingdom, provided that the act committed is subject to penalty in the country in which it occurs. The Central Bank of Jordan previously instructed financial institutions to be particularly careful when handling foreign currency transactions, especially if the amounts involved are large or if the source of funds is in question. The new law requires obligated entities to: undertake due diligence in identifying customers; refrain from dealing with anonymous persons or shell banks; report to the AMLU any suspicious transaction, completed or not; and comply with instructions issued by competent regulatory parties to implement provisions of the law. The Ministries of Justice, Interior, Finance, and Social Development, as well as the Insurance Commission, Controller General of Companies, and Securities Commission all have a part in regulating various other nonfinancial institutions through issued regulations and instructions. The AMLU is obligated to work with these entities to ensure that a comprehensive approach to AML/CTF is undertaken in keeping with international standards and best practices.

Financial institutions are required under the new law to report all suspicious transactions whether the transaction was completed or not. This includes banks, foreign exchange companies, money transfer companies, stock brokerages, insurance companies, credit companies, and any company whose articles of association state that their activities include debt collection and payment services, leasing services, investment and financial asset management, real estate trading and development, and trading in precious metals and stones. Lawyers and accountants are not considered to be obligated entities under the law.

All obligated entities are required to conduct due diligence to identify customers, their activities, legal status, and beneficiaries and follow-up on transactions that are conducted through an ongoing relationship. Business dealings with anonymous persons, persons using fictitious names or shell banks are prohibited. Obligated entities are required to comply with instructions issued by competent regulatory authorities as listed in the law. Disclosure to the customer or the customer's beneficiary of STRs and/or verifications or investigations by competent authorities is prohibited. They are also required to respond to any inquiry from the AMLU regarding STRs or requests for assistance from other competent judicial, regulatory, administrative, or security authorities needing information to perform their responsibilities.

Jordanian officials report that financial institutions file suspicious transaction reports and cooperate with prosecutors' requests for information related to narcotics trafficking and terrorism cases. The AMLU received over 30 SARs in 2007, two of which were forwarded for prosecution. There were no arrests or convictions for money laundering or terrorist financing in Jordan in 2007. The standard for forwarding SARs is potentially a problem in the existing law.

The Banking Law of 2000 (as amended in 2003) allows judges to waive bank secrecy provisions in any number of criminal cases, including suspected money laundering and terrorist financing. An October 8, 2001 revision to the Penal Code criminalized terrorist activities, specifically financing of terrorist organizations. Guidelines issued by the Central Bank state that banks should research all sanctions lists relating to terrorist financing including those issued by individual countries and other relevant authorities. The Central Bank may not circulate names on sanctions lists to banks unless the names are included on the UNSCR 1267 Sanctions Committee's consolidated list. No such assets have been identified to date. Banks and other financial institutions are required to maintain records for a period of five years.

One significant challenge facing the GOJ is determining which law enforcement entity will be tasked to conduct financial investigations relating to AML/CTF. Since the AML law was only implemented in July 2007, law enforcement agencies and public prosecutors are still deliberating the issue.

There are six public free trade zones in Jordan: the Zarqa Free Zone, the Sahab Free Zone, the Queen Alia International Airport Free Zone; the Al-Karak Free Zone, the Al-Karama Free Zone and the Aqaba Free Zone. All of the six list their investment activities as “industrial, commercial, service, and touristic.” There are 32 private free trade zones, a number of which are related to the aviation industry. Other free trade zones list their activities as industrial, agricultural, pharmaceutical, training of human capital, and multi-purpose. All free trade zones are regulated by the Jordan Free Zones Corporation in the Ministry of Finance and are guided by the Law of Free Zones Corporation No. 32 for 1984 (and amendments). Regulations state that companies and individuals using the zones must be identified and registered with the Corporation.

Although the 2007 AML law requires reporting of cross-border movement of money if the value exceeds a threshold amount set by the NCAML, no threshold amount was set by the end of 2007. The law also provides for the creation of cross-border currency and monetary instruments declaration forms, and the AMLU is working on the creation of the form. However, the declaration requirement applies only for the entry of money into the Kingdom and not outgoing. The Customs Department is responsible for archiving the declaration forms once implemented. 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. The AML law authorizes Customs “to seize or restrain” undeclared money crossing the border and report same to the AMLU which will decide whether the money should be returned or the case referred to the judiciary.

Jordan 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. Jordan has signed but has yet to ratify the UN Convention against Transnational Organized Crime. Jordan is a charter member of the Middle East and North Africa Financial Action Task Force (MENAFATF) and in 2007 Jordan held the presidency of MENAFATF. Jordan’s AMLU aspires to membership in the Egmont Group of Financial Intelligence Units.

The new AML law provides judicial authorities the legal basis to cooperate with foreign judicial authorities in providing assistance in foreign investigations, extradition, and freezing and seizing of funds related to money laundering in accordance with current legislation and bilateral or multilateral agreements to which Jordan is a part based on reciprocity. Judicial authorities may order implementation of requests by foreign judicial authorities to confiscate proceeds of crime relating to money laundering and to distribute such proceeds in accordance with bilateral or multilateral agreements. Jordan’s Anti-drugs Law allows the courts to seize proceeds of crime derived from acts proscribed by the law. The Economic Crimes Law gives both prosecutors and the courts the authority to seize the assets of any person who has committed a crime under that law for a period of three months while an investigation is underway. Jordan’s penal code further provides prosecutors the authority to confiscate “all things” derived from a felony or intended misdemeanor.

In light of the 2007 AML law, the Government of Jordan’s NCAML and the AMLU should conduct a comprehensive evaluation of Jordan’s capabilities in preventing money laundering and enforcing its new law in accordance with international standards and best practices. Jordanian law enforcement and customs should examine forms of bulk cash smuggling relating to terrorist financing and trade-based money laundering and incorporate prevention and investigative strategies that meet the requirements of complex financial investigations. The GOJ should ratify the UN Convention against Transnational Organized Crime.

Kenya

Kenya is developing into a major money laundering country. As a regional financial and trade center for Eastern, Central, and Southern Africa, Kenya's economy has large formal and informal sectors. 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. There is no significant black market for smuggled goods in Kenya. However, Kenya serves as the major transit country for Uganda, Tanzania, Rwanda, Burundi, northern Democratic Republic of Congo (DRC), and Southern Sudan. Goods marked for transit to these northern corridor countries avoid Kenyan customs duties, but have been known to be sold in Kenya.

Many entities in Kenya are involved in exporting and importing goods, including a reported 800 registered, international nongovernmental organizations (NGOs) managing over U.S. \$1 billion annually. International organizations operating in the conflict areas of the region—Southern Sudan, Somalia, Burundi and DRC—keep all their dollars in Kenyan banks.

Annual remittances from expatriate Kenyans are estimated at U.S. \$680-780 million. Individual Kenyans and foreign residents also transfer money in and out of Kenya. Nairobi's Eastleigh Estate has become an informal hub for remittances by the Somalia Diaspora, transmitting millions of dollars every day from Europe, Canada and the U.S. to Mogadishu. 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 that the Government of Kenya (GOK) cannot track. Expatriates primarily use this system to send and receive remittances internationally. The large Somali refugee population in Kenya uses a hawala system to send and receive remittances. The GOK has no means to monitor hawala transfers. Kenya does not have an effective legal regime to address money laundering. The 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).

Section 49 of the Narcotic Drugs and Psychotropic Substance Control Act of 1994 criminalizes money laundering related to narcotics trafficking. The offense is punishable by a maximum prison sentence of 14 years. However, Kenya has never seen a conviction for the laundering of proceeds from narcotics trafficking. Money laundering is a criminal offense, through a patchwork of laws and guidance that the GOK has cobbled together, including the 1994 Act, Legal Notice No. 4 of 2001, the Central Bank of Kenya (CBK) Guidelines on Prevention of Money Laundering, and enabling provisions of other laws. Kenya has not developed an effective anti-money laundering (AML) regime.

In November 2006, the GOK published a proposed Proceeds of Crime and Anti-Money Laundering Bill, a revised version of a 2004 law. The proposed law 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 criminal and civil restraint, seizure and forfeiture. In addition, the proposed bill authorizes the establishment of an FIU and requires 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 for the GOK to amend so that they will be consistent with the bill when it is passed.

This bill has deficiencies. It does not mention terrorism, nor does it specifically define "offense" or "crime." The proposed legislation does not explicitly authorize the seizure 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 GOK tabled the bill in Parliament in November 2007, but Parliament

never took the bill up, and it lapsed when Parliament recessed on December 8. The government will need to republish and resubmit the bill in the Tenth Parliament in 2008.

The CBK is the regulatory and supervisory authority for Kenya's deposit-taking institutions and has oversight for more than 50 such entities, as well as mortgage companies and other financial institutions. The Minister of Home Affairs supervises casinos, although its regulation of this sector is ineffective.

CBK regulations 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 the CBK to disclose financial information to any monetary 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. Under the regulations, banks must maintain records of transactions over U.S. \$100,000 and international transfers over U.S. \$50,000, and report them to the CBK. A law enforcement agency can demand information from any financial institution, if it has obtained a court order. Some commercial banks and foreign exchange bureaus 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 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. In a November 2007 decision that will likely further chill banks' willingness to report suspicious transactions, a judge ordered Barclays Bank to pay a customer Kenya Shillings (Sh) 400,000 (approximately U.S. \$6,107) for violating confidentiality by providing details on the customer's specimen signature to the British High Commission without her consent for processing a visa application.

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. Kenya lacks the institutional capacity, investigative skill and equipment to conduct complex investigations independently. There have been no arrests or prosecutions for money laundering or terrorist financing.

There are 95 foreign exchange bureaus under GOK supervision. The Central Bank of Kenya Act (Cap 491) regulates forex bureaus, which are authorized dealers of currency. The CBK subsequently recognized that several bureaus violated the Forex Bureau Guidelines, including dealing in third party checks and executing telegraphic transfers without CBK approval. The checks and transfers may have been used for fraud, tax evasion and money laundering. In response, the CBK's Banking Supervision Department issued Central Bank Circular No. 1 of 2005 instructing all forex bureaus to immediately cease dealing in telegraphic transfers and third party checks. These new guidelines, which fall under Section 33K of the Central Bank of Kenya Act, took effect on January 1, 2007.

Kenya has little in the way of cross-border currency controls. GOK regulations require that any amount of cash above U.S. \$5,000 be disclosed at the point of entry or exit for record-keeping purposes only, but this provision is rarely enforced, and authorities keep no record of cash smuggling attempts. The CBK guidelines call for currency exchange bureaus to furnish daily reports on any single foreign exchange transaction above U.S. \$10,000, and on cumulative daily foreign exchange inflows and outflows above U.S. \$100,000. Guidelines require that foreign exchange dealers ensure that cross-border payments have no connection to illegal financial transactions.

Recent investigations illustrate Kenya's vulnerability to money laundering. The Charterhouse Bank investigations in 2006 and 2007 revealed that 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 also been marketed through the normal wholesale and retail sectors. 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. 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 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, also indicate that bank officials were complicit in these suspicious transactions. The perpetrators demonstrated an understanding of AML controls, transferring funds to the United States and the United Kingdom in increments just below reporting thresholds of the receiving banks for large currency transactions. 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.) The courts rejected Charterhouse owners' legal challenges, and the bank remained closed.

This case illustrates that criminals have been taking advantage of Kenya's inadequate AML regime for years by evading oversight and/or by reportedly 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 U.S. \$100 million each year. However, in 2006 and 2007 there were 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 International 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 drafted the Anti-Terrorism Bill in 2006, which contains provisions that would strengthen the GOK's ability to combat terrorism. It also revises the controversial text, but Muslim and human rights groups remain convinced the government could use it to commit human rights violations. The GOK published the bill and submitted it to Parliament in 2007, but Parliament took no action and the bill will have to be resubmitted to the tenth Parliament in 2008.

The GOK requires all charitable and nonprofit organizations 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, the government rarely imposes such penalties. The GOK 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 observers suspect that charities and other nonprofit organizations handling millions of dollars are filing inaccurate or no annual reports. The Bureau made some progress towards strengthening its capacity to review NGO registrations and annual reports for suspicious activities in 2007.

Drug trafficking-related asset seizure and forfeiture laws and their enforcement are weak and disjointed. With the exception of intercepted drugs and narcotics, seizures of assets are rare. At present, the government entities responsible for tracing and seizing assets are the Central Bank of Kenya Banking Fraud Investigation Unit, the Kenya Police Anti-Narcotics and Anti-Terrorism Police

Units, the Kenya Revenue Authority (KRA), and the Kenya Anti-Corruption Commission (KACC). To demand bank account records or to seize an account, the police must present evidence linking the deposits to a criminal violation and obtain a court warrant. 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.

The CBK does not circulate the list of individuals and entities 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, the CBK uses its bank inspection process to search for names on the OFAC list of designated people and 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. 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. Kenya ranks 150 out of 180 countries on the 2007 Transparency International Corruption Perceptions Index. Kenya is a 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 relating to narcotics, terrorist financing, and other serious crime investigations. Kenya has cooperated with the United States and the United Kingdom.

The GOK should criminalize the financing of terrorism and pass a law authorizing the government to seize the financial assets of terrorists and convict individuals or groups that finance terrorist activity. Kenyan authorities should take steps to ensure that NGOs and suspect charities and nonprofit organizations follow internationally recognized transparency standards and file complete and accurate annual reports. The GOK should pass and enact the proposed Proceeds of Crime and Anti-Money Laundering bill, including the creation of an FIU. The CBK, law enforcement agencies, and the Ministry of Finance should improve coordination 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 should be more proactive in investigating money laundering and related crimes, and customs should exert control of Kenya's borders.

Korea, Democratic Peoples Republic of

For decades, citizens of the Democratic People's Republic of Korea (DPRK) have been apprehended in international investigations trafficking in narcotics and other forms of criminal behavior, including passing counterfeit U.S. currency (including U.S. \$100 "super notes") and trading in counterfeit products, such as cigarettes and pharmaceuticals. There is substantial evidence that North Korean governmental entities and officials have been involved in the laundering of the proceeds of narcotics trafficking and other illicit activities and that they continue to be engaged in counterfeiting and other illegal activities through a number of front companies. The illegal revenue provides desperately needed hard currency for the economy of the DPRK. On October 25, 2006 the Standing Committee of the Supreme People's Assembly of the DPRK adopted a law "On the Prevention of Money Laundering." The law states the DPRK has made it its "consistent policy to prohibit money laundering," but the law is significantly deficient in most important respects and there is no evidence that it has been implemented.

On September 15, 2005, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) designated Macau-based Banco Delta Asia (BDA) as a primary money laundering

concern under Section 311 of the USA PATRIOT Act and issued a proposed rule regarding the bank, citing the bank's systemic failures to safeguard against money laundering and other financial crimes. In its designation of BDA as a primary money laundering concern, FinCEN cited in the Federal Register that "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. Treasury finalized the Section 311 rule in March 2007, prohibiting U.S. financial institutions from opening or maintaining correspondent accounts for or on behalf of BDA. This rule remains in effect. Following the Section 311 designation of BDA, the Macau Monetary Authority (MMA) froze approximately U.S. \$25 million in North Korean-related accounts at the bank. The MMA subsequently lifted the freeze on these funds following the issuance of the final rule.

The DPRK became a party to the 1988 UN Drug Convention during 2007. It still is not a party to the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, or the UN International Convention for the Suppression of the Financing of Terrorism. North Korea is not a participant in any FATF-style regional body. The DPRK should develop a viable anti-money laundering/counter-terrorist financing regime that comports with international stands. The U.S. Department of State has designated North Korea as a State Sponsor of Terrorism.

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 that are gradually being phased out by 2009. Most money laundering appears to be associated with domestic criminal activity or corruption and official bribery. Laundering the proceeds from illegal game rooms, customs fraud, exploiting zero VAT rates applied to gold bars, trade-based money laundering, counterfeit goods and intellectual property rights violations are all areas of concern. Moreover, criminal groups based in South Korea maintain international associations with others involved in human trafficking, 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. The KoFIU was officially launched in November 2001, and is composed of 60 experts from various agencies, including the Ministry of Finance and Economy, the Justice Ministry, the Financial Supervisory Commission, the Bank of Korea, the National Tax Service, the National Police Agency, and the Korea Customs Service. KoFIU analyzes suspicious transaction reports (STRs) and forwards information deemed to require further investigation to the Public Prosecutor's office, and, as of 2007, also to the Korean police. The Financial Transaction Reporting Act Amendment Bill was submitted to the National Assembly in January 2007. If passed, this bill will expand the coverage of AML measures to nonfinancial businesses and professions, including casinos, and require financial institutions to file an STR when it is suspected that those funds are related to terrorism.

In 2007, the KoFIU upgraded its anti-money-laundering monitoring system by introducing the Korea Financial Intelligence System based on scoring and data mining methods, in addition to continued Suspicious Transaction Reports (STR), Currency Transaction Reports (CTR) and Customer Due Diligence (CDD) reports. Beginning in January 2006, financial institutions have been required to report within 24 hours all cash transactions of 50 million Korean won (approximately U.S. \$54,350) or more by individuals to KoFIU. That reporting threshold will be lowered to 30 million won (approximately U.S. \$32,610) in 2008 and to 20 million won (approximately U.S. \$21,740) in 2010.

Since January 2006, financial institutions have also been required to perform enhanced customer due diligence, thereby strengthening customer identification requirements set out in the Real Name Financial Transaction and Guarantee of Secrecy Act. Under the enhanced due diligence 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 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. Reporting entities may file STRs regarding transactions below this threshold. In addition, KoFIU announced that it would consider lowering or removing the threshold for obligatory STR reporting. Improper disclosure of financial reports is punishable by up to five years imprisonment and a fine of up to 30 million won. Between January 1, 2002, and September 30, 2007, KoFIU received a total of 80,417 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, 13,459 in 2005, and 24,149 in 2006. In the first nine months of 2007, there were 36,110 STRs submitted to KoFIU, a 120 percent increase over the same period in 2006. Since 2002 through the end of September 2007, KoFIU has analyzed 79,325 of these reports and provided 7,184 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 7,184 cases referred to law enforcement agencies, investigations have been completed in 3,661 cases, with 1,402 cases resulting in indictments and prosecutions 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 2007, KoFIU continued to strengthen advanced anti-money laundering measures (such as the STR and CTR systems), and became an observer to the Financial Action Task Force (FATF) in July 2006. The KoFIU also encouraged financial institutions including small-scale credit unions and cooperatives to adopt a differentiated risk-based due diligence 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 (U.S. \$8.17 million) to be used to bribe politicians and bureaucrats, the KoFIU in January 2007 submitted to the National Assembly a revision bill of the Financial Transaction Reports Act to impose anti-money laundering obligations on casinos. KoFIU plans to expand the obligation to intermediaries such as lawyers, accountants, or broker/dealers, currently not covered by Korea's money laundering controls. Any traveler carrying more than U.S. \$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 terrorist financing although, as noted above, the Suppression of the Financing of Terrorism Bill was submitted to the National Assembly in January 2007. As of December 2007, three versions of the new counter-terrorism bill were pending in Korea's unicameral legislature, the National Assembly. The proposed Suppression of the Financing of Terrorism bill is crafted to allow the Korean Government additional latitude in fighting terrorism. The Suppression of the Financing of Terrorism bill would also 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.

Previous attempts to pass similar CTF legislation 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 and other government agencies.

If passed, the new laws amending the Financial Transactions Reporting Act and the bill Suppression of the Financing of Terrorism would not be enforceable for 12 months. Moreover, the legislation would not correct some potential shortcomings regarding key elements on the criminalization of terrorist financing and suspicious transaction reporting-including excessively high thresholds for reporting all types of suspicious activity. In addition, they may leave some gaps on existing requirements to identify beneficial owners.

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 and there have been no cases of terrorist financing identified since 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 2007 report by the Korea Customs Service, there were 1,311 investigations into underground remittances amounting to 2.2 trillion won (approximately U.S. \$1.84 billion) in 2003, 1,917 cases totaling 3.66 trillion won (approximately U.S. \$3.2 billion) in 2004, 1,901 cases worth 3.56 trillion won (approximately U.S. \$3.47 billion) in 2005, 1,924 cases totaling 2.7 trillion (approximately U.S. \$2.8 billion) in 2006, and 1,199 cases totaling 1.2 trillion won (approximately U.S. \$1.3 billion) in the first half of 2007. The majority of early underground remittance cases were related to the U.S. through 2004; but between

2005 and June 2007, the bulk of cases involved China (35.4 percent, approximately U.S. \$2.87 billion), followed by Japan (34.9 percent, approximately U.S. \$2.83 billion) and the U.S. (18 percent, U.S. \$1.46 billion).

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 2007, there were 518 reported cases of counterfeit dollars worth U.S. \$1,052,050. Bank experts confirm that the amount of forged U.S. currency is on a decline.

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. In 2007 Korea had seven FEZs, as a result of the June 2004 re-categorization of the three port cities of Busan, Incheon, and Kwangyang as FEZs. They were re-categorized from their previous designation of "customs-free areas" 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). Korea also became a member of the Egmont Group in 2002. An extradition treaty between the United States and the ROK entered into force in December 1999. The United States and the ROK cooperate in judicial matters under a Mutual Legal Assistance Treaty, which entered into force in 1997. In addition, the FIU continues to actively pursue information-sharing agreements with a number of countries, and had signed memoranda of understanding with 34 countries-the latest being Malaysia-in April 2007.

The Government of Korea should continue to move forward to adopt and implement its pending counter-terrorism legislation and amendments to the Financial Transaction Reporting Act. Among other priorities, the government should extend its anti-money laundering regime to intermediaries such as lawyers, accountants, broker/dealers and informal lending widely recognized as potential blind spots. Korea should lower the high monetary threshold for reporting suspicious transactions and extend the reporting obligation to attempted transactions. 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, which may make the market susceptible to money laundering. However, 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. However, Kuwait-based terrorist financing, specifically the ongoing threat of charity misuse, continues to be a concern.

Kuwait has ten private local commercial banks, including three Islamic banks, all of which provide traditional banking services comparable to Western-style commercial banks. Kuwait also has one specialized bank, the government-owned Industrial Bank of Kuwait, which provides medium and long-term financing. The three Islamic banks are the Kuwait Finance House (KFH), Boubyan Islamic Bank, and the Kuwait Real Estate Bank (KREB).

The Kuwaiti banking sector was opened to foreign competition in 2001 under the Direct Foreign Investment Law. The Central Bank of Kuwait (CBK) has granted licenses to five foreign banks: BNP Paribas, HSBC, Citibank, the National Bank of Abu Dhabi, and Qatar National Bank. However, the National Bank of Abu Dhabi and Qatar National Bank have not opened offices. Although foreign banks may operate in Kuwait, they are limited to one branch each.

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 criminalize terrorist financing. 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 CBK 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 any national or foreign currency, gold bullion, or other precious materials in their possession valued in excess of 3,000 Kuwaiti dinars (approximately U.S. \$10,000) to customs authorities upon entering the country. 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 (AML/CTF) 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 CBK.

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 fully implement its anti-money laundering law stipulations due in part to structural inconsistencies within the law itself, and the unwillingness of government officials to undertake the necessary steps to rectify such shortfalls. Kuwait's financial intelligence unit (FIU) is not an independent body in accordance with international standards, but rather is under the direct supervision of the Central Bank of Kuwait. In addition, vague delineation of the roles and responsibilities of the government entities involved continues to hinder the overall effectiveness of Kuwait's anti-money laundering regime. Cognizant of these shortcomings, the National Committee continues to promise to revise Law No. 35 in a manner 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 CBK 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 terrorist financing, including the establishment of internal units to oversee compliance with relevant regulations (Article 14 and 15); and the requirement to report to the CBK all cash transactions in excess of the equivalent of \$10,000 (Article 20). In addition, the CBK distributed detailed instructions and guidelines to help bank employees identify suspicious transactions. At the Central Bank's instructions, in an effort to avoid "tipping off" suspected accountholders, banks are no longer required to block assets for 48 hours on suspected accounts. 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 UNSCR 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 CBK issued Resolution No. 1/191/2003, establishing the Kuwaiti Financial Inquiries Unit as the FIU within the Central Bank. The FIU is comprised of seven part-time Central Bank officials and headed by the Central Bank Governor. Among its responsibilities, the FIU is 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. 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 a memorandum of understanding 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. Kuwaiti officials agree that the current limits on information sharing by the FIU will be addressed by draft amendments to the law, which was revised by the National Committee in 2006 and is currently under governmental review.

There are about 148 money exchange businesses (MEBs) operating in Kuwait that are authorized to exchange foreign currency only. MEBs are not formal financial institutions, so they fall under the supervision of the Ministry of Commerce and Industry (MOCI) rather than the Central Bank. The CBK has reached an agreement that tasks the MOCI with the enforcement of all anti-money laundering (AML) laws and regulations in supervising such businesses. This agreement also stipulates that the MOCI must encourage MEBs to apply for and obtain company licenses, and to register with the CBK.

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 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, four exchange houses were closed in 2006 for violating MOCI's instructions, and one case was referred to the Public Prosecutor's Office for violation of customer contracts.

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 department are to receive applications for registration from charitable organizations, monitor their operations, and establish a new accounting system to ensure 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 in accordance with 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 CBK, which maintains a database of all transactions conducted by charities. Unauthorized public donations, including Zakat (alms) collections in mosques, are also prohibited.

In 2005, 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 and in 2007 implemented collection of donations through a voucher system and electronic bank transfers. Plans are underway to further 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). Kuwait is also a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body that was established in November 2004. 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

Kuwait is a party to the 1988 UN Drug Convention. In May 2006, Kuwait ratified the UN Convention against Transnational Organized Crime. In February 2007, Kuwait ratified the UN Convention against Corruption. Kuwait 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, especially in overseas operations; develop an independent FIU that meets international standards including the sharing of information with foreign FIUs, 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. As a result, there are few investigations or prosecutions. Instead, Kuwaiti law enforcement and customs authorities should be proactive in identifying suspect behavior that could be indicative of money laundering and/or terrorist financing, such as the use of underground financial systems. Kuwait should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Laos

Laos is neither an important regional financial center, nor an offshore financial center. Although the extent of the money laundering risks are unknown, illegal timber sales, corruption, cross-border smuggling of goods, illicit proceeds from the sale of methamphetamine (ATS) known locally as “ya ba” (crazy medicine), and domestic crime can be sources of laundered funds. There are continued reports of illicit funds being diverted into some hotel construction, resort development, and industrial tree cropping projects. Anecdotal evidence indicates that large cash deposits related to illicit activities are generally made across the border in Thailand.

The Lao banking sector is dominated by state-owned commercial banks in need of continued reform. Although some foreign banks have branches in Laos, the classic “offshore” banks are not permitted. 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 the existing small-scale, low-tech environment. Reportedly, there has been no notable increase in financial crimes. There have been no money laundering investigations initiated to date. There is smuggling of consumer goods across the Mekong and in areas near the Chinese border in the north, which could be associated with trade-based money laundering. This smuggling activity is an easy way to avoid paying customs duties and the inconvenience of undergoing weigh station inspections near the Lao and Chinese borders. There are two special economic zones in Savannakhet Province, one each near the Thai and Vietnamese borders on the recently opened Danang-Bangkok highway. Both are awaiting tenants and

there is no indication they are currently used to launder money or finance terrorism. China has leased a similar special economic zone in Luang Nam Tha Province on the China-Thailand Highway at Boten. Within the zone is a casino that potentially could be utilized to launder funds, though there is no evidence that the gaming facility is currently being employed for that purpose. All foreign investment in Laos must first be approved by the government's Ministry of Planning and Investment, which provides due diligence on companies seeking to invest in Laos. Due to general poverty, lack of human capacity, and weak governance, the ability to successfully discover companies bent on illicit transactions is suspect.

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. On March 27, 2006, the Prime Minister's Office issued a detailed decree, No. 55/PM, 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. However, it is unclear if the decrees have the same legal effect as provisions in the penal code. 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 GOL is considering drafting an AML/CTF law to create a comprehensive AML/CTF regime in line with the international standards as set out by the FATF.

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 U.S. \$10,000-\$50,000), prison sentences from 10 to 20 years, and the possibility of the death penalty. The Bank of Laos has circulated lists of individuals and entities on the UN 1267 Sanctions Committee's consolidated list.

A six-person Anti-Money Laundering Intelligence Unit (AMLIU) was formally established as an independent unit within the Bank of Laos on May 14, 2007, replacing the previous ad hoc Financial Intelligence Unit (FIU). According to the GOL report presented at the July 2007 Asia-Pacific Group plenary, the AMLIU Director and staff "have an action plan to develop full functionality of the AMLIU and to implement provisions of the Decree on Prevention of Money Laundering". The AMLIU acts as an FIU and supervises financial institutions for their compliance with anti-money laundering/counter-terrorist financing decrees and regulations. The AMLIU has no criminal investigative responsibilities, nor does it have any agreements with other FIUs. It is currently beginning a process to set up a National Coordinating Committee that will allow the AMLIU to interact with other relevant Lao governmental agencies such as the Ministry of Public Security. It does not yet have the technology to access the databases of local banks directly. The AMLIU created a five-part, 48-question suspicious transaction report (STR) form and distributed it to all banks along with guidance on October 15, 2007. While banks are required to report suspicious transactions, there have been no reports in 2007 to date, nor have there been any arrests for terrorist financing or money laundering.

The guidance issued by the AMLIU related to suspicious transactions, Bank of Lao No. 66/AMLIU, dated October 15, 2007, does not contain any thresholds for reporting STRs. Instead, it requires financial institutions to take into account a wide range of factors that could indicate an illegal transaction. However, any transaction over U.S. \$10,000 is in practice considered worthy of further investigation. Reporting officers are protected against any suit or action related to the reporting

process. While the 2006 decree on money laundering specifically applies to nonbank financial institutions (NBFIs), the AMLIU is currently working only with commercial banks as it implements the STR form. It will expand its oversight once the necessary agreements with other supervising agencies are in place. Effective adoption of the STR system is likely to take a number of years. Cultural norms are such that it is unlikely that banks and NBFIs will soon begin generating reports related to customers perceived as being either influential, politically powerful, or coming from prominent families.

Laos law restricts the export of the national currency, the kip, limiting residents and nonresidents to 5,000,000 kip per trip (approximately U.S. \$500). Larger amounts may be approved by the Bank of Laos. 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 U.S. \$5,000 when brought into the country and when being taken out. Failure to show a declaration of incoming cash when exporting it could lead to seizure of the money or a fine. As customs procedures in Laos are undeveloped and open to corruption, enforcing this decree will require political will, development of a professional customs service, compensation reform, further training, and increased capital investments. 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 Government of Laos continues to build a framework of law and institutions; however, at this stage of development, enforcement of enacted legislation and decrees is weak. No legal asset seizures related to narcotics trafficking or terrorism was reported in 2007. A considerable number of assets are reportedly seized by police counternarcotics units from suspected drug traffickers, but these assets usually remain in the custody of the police. Laos is currently drafting a law that will allow for the selling of such seized assets, but, until such a law is passed, most of these assets remain under police custody.

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 the exchange of information on money laundering. The Bank of Laos has coordinated with the Embassy on a number of cases related to counterfeit U.S. currency.

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 moved from observer status to membership in the Asia Pacific Anti-Money Laundering Group during the July 2007 Annual Meeting.

To comport with international standards, the Government of Laos should enact comprehensive anti-money laundering/counter-terrorist financing legislation, as decrees are not recognized by international organizations as having the force of law. Such legislation would include, but not be limited to, the promulgation of implementing regulations, the establishment of a viable financial intelligence unit, increasing the number and type of obligated entities, prohibition against "tipping-off", and safe harbor for those reporting suspicious financial transactions to the FIU. Laos should become a party to the UN International 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. Some proceeds of tax evasion appear to

originate from outside of Latvia. A portion of domestically obtained criminal proceeds is thought to derive 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. 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. However, U.S. law enforcement agencies think that there are ties between U.S. criminal elements and the Latvian financial sector, that involve the establishment of U.S.-based shell companies to launder narcotics money through the Latvian financial sector. U.S. law enforcement agencies continue to cooperate with Latvian counterparts on matters of money laundering and affiliated crimes. As Latvia's banking controls tighten, regulators report a pattern of certain accounts moving to Lithuania and Estonia. Regulators assert that alleged criminal activity is moving to these two countries as easier places to conduct business. However, there is insufficient data available for United States authorities to assess this claim.

Latvia is not an offshore financial center, although four special economic zones exist in Latvia providing a variety of significant tax incentives for the manufacturing, outsourcing, logistics centers, and transshipment 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 banking regulator, the Financial and Capital Market Commission (FCMC), 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 new anti-money laundering (AML) law, The Law on Prevention of Money Laundering and Terrorist Financing is before the Parliament, which is expected to enact it in 2008. Entities subject to the law include credit and financial institutions, tax advisors, external accountants, sworn auditors and lawyers, notaries, company service providers, real estate agents, and lottery and gambling organizers. This new law introduces a risk-based approach, where entities must assess the client's risk for anti-money laundering and terrorist financing, then choose between simplified and enhanced customer due diligence. The law includes compulsory identification of customers who pay cash for transactions of 15,000 euros (approximately U.S. \$21,600) or more.

The law requires financial institutions to gather customer identification and institutes record keeping requirements. Financial institutions must keep transaction and identification data for at least five years after ending a business relationship with a client. Institutions engaging in financial transactions must report both suspicious activities and unusual transactions, including large cash transactions, to the financial intelligence unit (FIU). Suspicious transactions must be reported immediately. Financial institutions receive a list of indicators that, when present, activate the reporting requirement for an unusual transaction. Obligated entities must also file an unusual activity report using the indicator list as a basis if there is suspicion regarding laundering or attempted laundering of the proceeds from crime or terrorist financing.

Obligated entities must also report cash transactions. This requirement applies regardless of whether there is one large transaction or several smaller transactions equal to or exceeding 40,000 lats (approximately U.S. \$80,000). The new Law on Prevention of Money Laundering and Terrorist Financing will reduce this amount to 15,000 euros (approximately U.S. \$21,600) if it passes the 2008 Parliament readings without modification. Financial institutions have the ability to freeze accounts if they suspect money laundering or terrorist financing. 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, and deliberately providing false information about a beneficial owner to a credit or financial institution is also illegal.

Additional amendments to the criminal law enhance the ability of Latvian law enforcement agencies to share information with one another and with Latvia's FCMC. Latvia's Criminal Procedures Law removes many procedural hurdles that had previously served as obstacles to law enforcement agencies aggressively investigating and prosecuting 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.

Council of Ministers Regulation 55, which was replaced by 233, created what is now the Council for Development of the Financial Sector, a coordinator of AML and counter-terrorist financing (CTF) issues on the state level. The Prime Minister chairs this body.

Latvia underwent a joint Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL)/ International Monetary Fund (IMF) evaluation in March 2006 which assessed the country's AML regulatory and legal framework. Approved as MONEYVAL's third-round evaluation of Latvia in September 2006, MONEYVAL published the mutual evaluation report (MER) report in June 2007. On the 49 recommendations, 47 of which were applicable, Latvia received 26 ratings of at least "largely compliant," and only five ratings of "noncompliant."

Latvian legislation instituting a cross-border currency declaration requirement took effect on July 1, 2006. The law obliges all persons transporting more than 10,000 euros (approximately U.S. \$14,700) in cash or monetary instruments into or out of Latvia, with the exception of into or out of other European Union (EU) member states, to declare the money to a customs officer, or, where there is no customs checkpoint, to a border guard. People moving within the EU are not required to declare. Latvian government agencies share these declarations amongst themselves.

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 information on incorporation and registration. Sanctions against banks for noncompliance provide for fines up to 100,000 lats (approximately U.S. \$200,000). Latvia does not have secrecy laws that prevent the disclosure of client and ownership information to bank supervisors or law enforcement officers. Safe harbor provisions protect reporting individuals.

The Bank of Latvia supervises the currency exchange sector. The FCMC serves as the GOL's unified public financial services regulator, overseeing commercial banks and nonbank financial institutions, the Riga Stock Exchange, and insurance companies. The FCMC conducts regular audits of credit institutions. It also applies sanctions to companies that fail to file mandatory reports of unusual transactions and to those that submit incomplete or deficient information on both the economic activities of businesses, and deficiencies in internal controls of banks. The FIU also works to ensure accurate reporting by determining if it has received corresponding suspicious transactions reports (STRs) when suspicious transactions occur between Latvian banks.

The FCMC has distributed regulations for customer identification and detecting unusual transactions, as well as regulations regarding internal control mechanisms that financial institutions should have in place. The FCMC has the authority to share information with Latvian law enforcement agencies and receive data on potential financial crime patterns uncovered by police or prosecutors. New regulations, drafted by FCMC, in accordance with the adopted Law on the Prevention of Money Laundering and Terrorist Financing should be finalized in early 2008. The Gambling and Lotteries Law states gaming and lottery organizers' rights and obligations in relation to the prevention of legalization of proceeds from criminal activities. Organizers are subject to restrictions and must submit suspicious or unusual transaction reports. They also perform other AML activities as required by Latvian law. The MONEYVAL MER found compliance with requirements of both the European Parliament Directives and the Financial Action Task Force (FATF) 40 Recommendations and Nine Special Recommendations on Terrorist Financing.

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. The ALCB has adopted the regulations on the “Prevention of Money Laundering” as guidance, as well as a “Declaration on Taking Aggressive Action against Money Laundering,” which all Latvian banks signed. The ALCB has also adopted a voluntary measure, which all of the banks observe, to limit cash withdrawals from automated teller machines to 1,000 lats (approximately U.S. \$2,000) per day. In October 2007, ALCB approved an “Action Plan to Enhance Transparency of Offshore Customers Serviced by Banks in Latvia on a Compliance Officers Level.” Latvia expects to have fully implemented the action plan by July 2008. In addition to acting as an industry representative to government and the regulator, the ALCB organizes regular education courses on AML/CTF issues for bank employees. In the year and a half since the training program began, more than 110 AML/CTF professionals successfully passed a five-day extensive training program and examination. A total of 360 professionals have passed examinations for all of the offered AML/CTF training courses.

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. The Control Service received approximately 27,000 reports in 2006. During the first 10 months of 2007 the Latvian FIU received 27,389 reports of suspicious and unusual financial transactions. The Control Service, between January and October, sent 126 cases, which include 1604 reports about suspicious and unusual financial transactions, to law enforcement authorities.

Latvia has taken steps to remedy the situation described by the MER, in which “The vast bulk of the suspicious transaction reports filed are based on the Cabinet of Ministers list of indicators of unusual transactions and the FIU list of indicators/examples. Only a very small minority of the reports are based on suspicions formed under other circumstances. The assessors were informed that the financial institutions follow the FIU list and automatically report transactions that meet at least one of the examples (although the indicators are only examples). This would suggest that the financial institutions may be relying too heavily on the lists provided and might not be exercising appropriate discretion on the circumstances that are not covered by the lists of indicators. This could result in overdependence on the indicators/examples results and submission to the Control Service of significant numbers of reports with little or no value for FIU analytical purposes. It was not possible for the assessors to determine whether or not financial institutions were giving sufficient attention to identifying and reporting real (as distinct from indicator-based) suspicious transactions, as there were some conflicting indications. The assessors were not provided by the Control Service with statistics separating indicator-based STRs from reports based on direct suspicion.” The new draft legislation defines a suspicious transaction, but does not list indicators for determining suspicious transactions, forcing the obliged entities to themselves execute transaction analyses.

Latvia has also taken steps to ensure effective implementation of the draft law by providing training to explain the intent and issues to the law’s subjects. Both individual financial institutions and entire sectors, such as tax consultants, have received this training. The ALCB organizes five-day seminars for this purpose, and certifies the attending staff. The ALCB provided two such trainings in 2007.

The Control Service conducts a preliminary investigation of the suspicious and unusual reports. It may then 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 Economic Police within the State 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, KNAB) for crimes committed by public officials; the Security Police (for cases concerning terrorism and terrorist financing); and other law enforcement authorities. According

to the draft law, the FIU will have to decide within 14 days of receiving a report whether there are grounds to open a case. If the FIU decides to open a case, it will have the authority to suspend the transaction for 30 days. During the 30 days, the FIU will gather information on the transaction and the parties involved. If the FIU determines grounds for starting a criminal procedure, the FIU can further suspend the transaction for up to 45 days.

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 sixteen countries. Latvia has also signed multilateral agreements with several EU countries to automatically exchange information with the EU financial intelligence units using FIU. The Control Service is a member of the Egmont Group of financial intelligence units.

In 2006, the Latvian FIU issued 125 orders to freeze assets, freezing a total of 12.6 million lats (approximately U.S. \$23.5 million). During the first 10 months of 2007 the Latvian FIU issued 80 freezing orders for the total amount of U.S. \$12.24 million. Latvia's FIU reports that cooperation from the banking community to trace and freeze assets has been excellent.

The adoption of Latvia's 2005 Criminal Procedures Law provides measures for the seizure and forfeiture of assets. The law enables law enforcement authorities to identify, trace, and confiscate criminal proceeds. Investigators can initiate an action for the seizure of assets recovered during a criminal investigation concurrently with the investigation itself—they do not need to wait until the investigation is complete. During the first 10 months of 2007, the courts returned 14 decisions, leading to the confiscation of approximately U.S. \$2.57 million worth of assets on behalf of the state. Proceeds from asset seizures and forfeitures go into the state treasury.

The Prosecutor General's Office maintains a specialized staff to prosecute cases linked to money laundering. The seven staff prosecutors have undergone a special clearance process. In 2006, the Prosecutor General's Office received ten money laundering cases for the prosecution of 47 individuals. In three of the cases, four individuals received convictions and sentences including time in jail. During the first 10 months of 2007 the Prosecutor's Office received 11 money laundering cases for the prosecution of 40 individuals, and reviewed eight money laundering cases resulting in the sentencing of 12 people.

The GOL has initiated measures aimed at combating the financing of terrorism. Article 88-1 of the Criminal Code criminalizes terrorist financing, and meets the United Nations Security Council Resolution (UNSCR) 1373 requirements. It has issued regulations to implement the sanctions imposed by UNSCR 1267. The regulations require that financial institutions report to the Control Service, transactions related to any individual or organization 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 distributes 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. Latvia employs the same freezing mechanism with regard to terrorist assets as it uses with those relating to other crimes but includes involvement by the Latvian Security Police. Authorities handle associated investigations, asset and property seizures, in accordance with the Criminal Procedures Law.

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. According to the IMF/MONEYVAL MER, "At one point in 2005, 13 of the

23 Latvian banks were subject by the FCMC to the legal status of intensified supervision due to deficiencies in their AML/CTF systems, as the FCMC pursued strong measures to clean up the banking system.” On August 14, 2006, the United States issued a final rule imposing a special measure against one of the two banks, VEF Banka, as a financial institution of primary money laundering concern. This measure, specific to VEF Banka, is still in effect.

Latvia permits only conventional money remitters (such as Western Union and Moneygram). The remitters work through the banks and not as separate entities. Alternative remittance services are prohibited in Latvia. The Control Service has not detected any cases of charitable or nonprofit entities used as conduits for terrorist financing in Latvia

Latvia is a party to the UN International Convention for the Suppression of the Financing of Terrorism and eleven other multilateral counter-terrorism 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. Latvia is a member of the Council of Europe’s Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL).

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 Criminal Procedures Law and upon enactment, actively implement and vigorously enforce the new AML law. Supervisory authorities should draft necessary implementing regulations in advance and perform outreach so that upon enactment of the legislation, the obliged entities will be able to comport with the law’s requirements. Latvia needs to strengthen its risk-based approach to AML/CTF and take steps to further enhance the preventative aspects of its AML/CTF regime, including improved customer due diligence requirements and increased scrutiny of higher risk categories of transactions, clients and countries. The GOL should continue to take steps to increase information sharing and cooperation between law enforcement agencies at the working level. The GOL should also strengthen its ability to aggressively prosecute and convict those involved in financial crimes.

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 October 2007, there were 65 banks (51 commercial banks, 11 investment banks, and three Islamic banks) operating in Lebanon with total deposits of U.S. \$70 billion. One U.S. bank (Citibank) and four U.S bank representative offices operate in Lebanon: American Express Bank, the Bank of New York, JP Morgan Chase Bank National Association, and Morgan Guarantee Trust Co. of New York.

The Central Bank of Lebanon, Banque du Liban, regulates all financial institutions and money exchange houses. 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 U.S. \$4 to 5 billion yearly. Such family ties are reportedly involved in underground finance and trade-based money laundering.

Laundered criminal proceeds come primarily from domestic criminal activity, which is largely controlled by organized crime. In May 2007, members of the terrorist group Fatah Al-Islam stole \$150,000 from a BankMed branch in Tripoli in northern Lebanon. 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, trust and insurance companies are not permitted in Lebanon. Legislative Decree No. 46 of 1983 restricts offshore companies' activity to negotiating and signing advisory and services agreements, in addition to sale and purchase contracts of products and goods, all 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 Registrar, and the owners of an offshore company must submit a copy of their identification. Moreover, the Beirut Commercial Registrar keeps a special register, in which all information about the offshore company is retained. A draft law amending legislation on offshore companies to comply with World Trade Organization's standards was still pending in Parliament as of early November 2007.

There are currently two free trade zones operating in Lebanon, at the Ports of Beirut and 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. Customs is required to report suspected trade-based money laundering or terrorist financing to the Special Investigation Commission (SIC), Lebanon's financial intelligence unit (FIU). 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 upon discovery of large amounts of cash.

In 2004, Lebanon passed a law requiring diamond traders to seek proper certification of origin for imported diamonds; the Ministry of Economy and Trade (MOET) is in charge of issuing certification for re-exported diamonds. This law was designed to prevent the trafficking of "conflict diamonds" and allowed Lebanon to join the Kimberley Process in September 2005. Prior to this, Lebanon passed a decree in August 2003 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. However, the Kimberley Process office in Lebanon stressed that importers or exporters of rough diamonds must submit an application to MOET to import or export rough diamonds according to the Kimberley Process procedure. The Beirut International Airport is the sole entry point for rough diamonds. The Kimberley Process office at the Beirut International Airport monitors and physically checks the quantities of rough diamonds imported, making sure that imports carry a Kimberley Process certification issued by the country of origin. It also checks on exports of rough diamonds from Lebanon to other member countries of the Kimberley Process. In 2007, Customs had two cases where they seized smuggled rough diamonds that were not carrying the Kimberley certification. Customs kept the rough diamonds in custody and notified the Kimberley Process office at MOET. The Kimberley Process Committee referred the two cases to the State Prosecutor, and both cases are now in the Lebanese court. Yet these safeguards do not address the issue of smuggled diamonds, the purchase of fraudulently obtained Kimberley Process certificates, the laundering of diamonds, or value transfer via the diamond trade.

Lebanon has a large expatriate community 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. 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. For example, expatriate Lebanese brokers are actively involved in the trade of counterfeit goods in the tri-border region of South America and the smuggling and laundering of diamonds in Africa. There are also reports that many in the Lebanese expatriate business community willingly or unwillingly give “charitable donations” to representatives of Hizballah (which is based in Lebanon). The funds are then repatriated or laundered back to Lebanon.

Lebanon has continued to make progress toward developing an effective money laundering and terrorist financing regime by incorporating the Financial Action Task Force (FATF) Recommendations. 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 20 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 Central Bank regulates private couriers who transport currency. Western Union and Money Gram are licensed by the Central Bank 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 Law No. 318 which clarifies the Central Bank’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 the Special Investigation Commission (SIC), Lebanon’s FIU. SIC is an independent entity with judicial status that can investigate money laundering operations and monitor compliance of banks and other financial institutions with the provisions of Law No. 318. The SIC serves as the key element of Lebanon’s anti-money laundering regime and has been the critical driving force behind the implementation process. The SIC is responsible for receiving and investigating reports of suspicious transactions. The SIC is the only entity with the authority to lift bank secrecy for administrative and judicial agencies, and it is the administrative body through which foreign FIU requests for assistance are processed

Since its inception, the SIC has been active in providing support to international criminal case referrals. From January through October 2007, the SIC investigated 182 cases involving allegations of money laundering, terrorism, and terrorist financing activities. Two of the 182 cases were related to terrorist financing. Bank secrecy regulations were lifted in 41 instances. Four cases were transmitted by the SIC to the general state prosecutor for further investigation. As of November 2007, no cases were transmitted by the general state prosecutor to the penal judge. The general state prosecutor reported seven cases to the SIC. Four cases were related to embezzlement and counterfeiting charges, one case to fraud, another to terrorism, and the last one to Interpol intelligence. From January to

Money Laundering and Financial Crimes

October 2007, the SIC froze the accounts of three individuals totaling approximately \$50,000 in three of the 182 cases investigated.

During 2003, Lebanon adopted additional measures to strengthen efforts to combat money laundering and terrorist 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 Police, as well as with the office of the general state prosecutor. In 2005, a SIC Remote Access Communication system was put in place for the exchange of information between the SIC, Customs, the Internal Security Forces (ISF) anti-money laundering and terrorist financing 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 2007.

To more effectively combat money laundering and terrorist financing, Lebanon also adopted two 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) and assumed its presidency through 2005. There is no information available on Lebanon’s mutual evaluation by MENAFATF.

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. As of early November 2007, SIC signed seventeen memoranda of understanding with counterpart FIUs concerning international cooperation.

In September 2007 the Lebanese Cabinet established a national committee that is chaired by the Ministry of Interior to examine the financing of terrorism. The Cabinet also expanded membership of The National Committee for coordinating AML policies to include representatives from five Ministries: Justice, Finance, Interior, Foreign Affairs, and Economy, in addition to a representative from Beirut Stock Exchange. 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.

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 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 FATF Special Recommendation Nine on bulk cash smuggling, 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.

Liechtenstein

The Principality of Liechtenstein has a well-developed offshore financial services sector, liberal incorporation and corporate governance rules, relatively low tax rates, and a tradition of strict bank secrecy. All of these conditions have contributed significantly to the ability of financial intermediaries in Liechtenstein to attract funds from abroad. These same conditions have historically made the country attractive to money launderers using the system to launder their proceeds from fraud. Although accusations of misuse of Liechtenstein's banking system persist, the principality has made substantial progress in its efforts against money laundering in recent years.

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 control 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 to further expand the list of predicate offenses. Article 165 criminalizes laundering one's own funds and imposes penalties for money laundering.

Liechtenstein enacted its first general anti-money laundering (AML) legislation in 1996. Although this law applied some money laundering controls to financial institutions and intermediaries operating in Liechtenstein, the AML 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 AML regime.

Liechtenstein's primary piece of AML legislation, the Due Diligence Act (DDA), applies to banks, e-money institutions, casinos, dealers in high-value goods, and a number of other entities. Along with the Due Diligence Ordinance, the DDA sets out the basic requirements of the AML regime in accordance with the Financial Action Task Force (FATF) 40 Recommendations and Nine Special Recommendations on Terrorist Financing in the areas of customer identification, suspicious transaction reporting, and record keeping. The DDA prohibits banks and postal institutions from engaging in business relationships with shell banks and from maintaining bearer-payable passbooks, accounts, and deposits. Legislation does not, however, address negligent money laundering. 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. The reporting requirement now uses the basis of a suspicion, rather than the previous standard of “a strong suspicion.”

The GOL announced in August 2007, that it would implement legislation enacting EU regulations requiring that money transfers above 15,000 euros (U.S. \$17,678) include information on the identity of the sender, including his or her name, address, and account number. The proposed measures, to take effect by early 2008, will ensure that this information will be immediately available to appropriate law enforcement authorities. The information will assist them in detecting, investigating, and prosecuting money launderers, terrorist financiers, and other criminals.

The Financial Market Authority (FMA) serves as Liechtenstein’s central financial supervisory authority. FMA has 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. The FMA supervises 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, analyzes and disseminates suspicious transaction reports (STRs) relating to money laundering and terrorist financing. The EFFI became operational in March 2001. The EFFI has its own database as well as access to various governmental databases. However, EFFI cannot seek additional financial information unrelated to a filed suspicious transaction reports (STR.)

In 2006, the FIU received 163 STRs. Of the total of 163 STRs, banks submitted 84, professional trustees submitted 65, lawyers submitted nine, and investment companies and the Postal Service submitted one apiece. Three STRs were submitted by Liechtenstein authorities or the FMA. U.S. nationals identified as subjects of STRs comprised four percent. In 2006, the FIU received 139 inquiries from 21 different FIUs and sent 158 inquiries to 23 different FIUs. Information regarding the number of STRs received in 2007 is not yet available.

STRs have generated several successful money laundering investigations. EFFI works closely with the prosecutor’s office and law enforcement authorities, in particular with a special economic and organized crime unit of the National Police known as EWOK. Police can use special investigative measures when authorized to do so by a Special Investigative Judge.

Liechtenstein has 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 Liechtenstein grants legal assistance on the basis of dual criminality. Article 235A provides for the sharing of confiscated assets. Liechtenstein has not adopted the EU-driven policy of reversing the burden of proof (i.e., forcing a defendant to prove assets were legally obtained instead of the state being required to prove their illicit nature.)

A series of amendments to Liechtenstein laws, along with amendments to the Criminal Code and the Code of Criminal Procedure, criminalize terrorist financing. Liechtenstein has implemented United Nations Security Council Resolutions (UNSCRs) 1267 and 1333. The GOL can freeze the accounts of individuals and entities that are designated pursuant to these UNSCRs. The GOL updates its implementing ordinances regularly.

The GOL has improved its international cooperation provisions in both administrative and judicial matters. A mutual legal assistance treaty (MLAT) between Liechtenstein and the United States entered into force on August 1, 2003. The U. S. Department of Justice has acknowledged Liechtenstein’s

cooperation in the Al-Taqwa Bank case and in other fraud and narcotics cases. The FIU has in place memoranda of understanding (MOUs) with nine FIUs, and seven others are under negotiation.

Liechtenstein is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), which discussed the most recent Liechtenstein assessment at its September 2007 plenary. However, the report is not yet available. EFFI is a member of the Egmont Group. 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. On March 9, 2007, Liechtenstein acceded to the 1988 UN Drug Convention. Liechtenstein has also signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Liechtenstein has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision" and has adopted the EU Convention on the Suppression of Terrorism.

The Government of Liechtenstein has made consistent progress in addressing the shortcomings in its AML regime. It should continue to build upon the foundation of its evolving anti-money laundering and counter-terrorist financing regime. Liechtenstein should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Liechtenstein should enact and implement legislation requiring the reporting of cross-border currency movements and ensure that trustees and other fiduciaries comply fully with all aspects of AML legislation and attendant regulations, including the obligation to report suspicious transactions. The GOL should prohibit the issuance and use of corporate bearer shares. The FIU should have 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. Liechtenstein should consider discarding its list of predicate offenses in favor of an all-crimes approach.

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. While Luxembourg is not a major hub for illicit narcotics distribution, the size and sophistication of its financial sector create opportunities for money laundering, tax evasion, and other financial crimes. Luxembourg is an offshore financial center. 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. A significant share of Luxembourg's suspicious transaction reports (STRs) are generated from transactions involving clients in these countries.

Luxembourg's strict bank secrecy laws allow international financial institutions to benefit from and operate a wide range of services and activities. With over U.S. \$3.1 trillion in domiciled assets, Luxembourg is the second largest mutual fund investment center in the world, after the United States. As of October 2007, 157 registered banks existed, with a collective balance sheet total reaching approximately U.S. \$1.38 trillion. In addition, as of January 2007, a total of 2,238 "undertakings for collective investment" (UCIs), or mutual fund companies, whose net assets had reached over approximately U.S. \$2.66 trillion operated from Luxembourg or traded on the Luxembourg stock exchange. Luxembourg has approximately 15,000 holding companies, 95 insurance companies, and 260 reinsurance companies. In January 2006, the Luxembourg Stock Exchange listed over 39,000 securities issued by nearly 4,100 entities from 105 countries. Luxembourg also has 116 registered venture capital funds (Societe d'investissement en capital a risqué, or "SICAR").

The Law of July 7, 1989, updated in 1998 and 2004, serves as Luxembourg's primary anti-money laundering (AML) and counter-terrorist financing (CTF) law, criminalizing the laundering of proceeds for an extensive list of predicate offenses, including narcotics trafficking. The laws implement the

Money Laundering and Financial Crimes

EU's money laundering directives and provide customer identification, recordkeeping, and suspicious transaction reporting requirements. Corruption, weapons offenses, fraud committed against the EU and organized crime are on Luxembourg's list of predicate offenses for money laundering. The entities subject to money laundering regulations include banks, pension funds, insurance brokers, UCIs, management companies, external auditors, accountants, notaries, lawyers, casinos, gaming establishments, real estate agents, tax and economic advisors, domiciliary agents, insurance providers, and dealers in high-value goods such as jewelry and vehicles. All obliged entities are required to file STRs with the financial intelligence unit (FIU). The current AML law does not cover SICAR entities.

The law also imposes strict "know your customer" (KYC) requirements on obliged entities for all customers, including beneficial owners, trading in goods worth at least 15,000 euros (U.S. \$21,900). If the transaction or business relationship is remotely based, the law details measures required for customer identification. Entities must proactively monitor their customers for potential risk. Luxembourg's laws also prohibit "tipping off". Financial institutions must also ensure adequate internal organization and employee training, and must cooperate with authorities. The banking community generally cooperates with enforcement efforts to trace funds and seize or freeze bank accounts.

Although Luxembourg is well known for its strict banking secrecy laws, banking secrecy laws do not apply in investigations and prosecutions of money laundering and other criminal cases. A court order is not necessary for the competent authorities to investigate account information in suspected money laundering cases or in response to an STR. Financial professionals have a legal obligation to cooperate with the public prosecutor in investigating such cases. To obtain a conviction for money laundering, prosecutors must prove criminal intent rather than negligence. Negligence, however, is subject to scrutiny by competent authority, with sanctions for noncompliance varying from 1,250 to 1,250,000 euros (U.S. \$1,825 to \$1,825,000) and, potentially, forfeiture of the professional license. Luxembourg's regulatory authorities believe these fines to be stiff enough so as to encourage strict compliance.

On November 9, 2007, the Council of Government approved Bill 5811 to implement the Third EU Money Laundering directive. However, by year's end, the bill had not gone to the full chamber for deliberation.

At the close of 2007, Parliament was considering Bill 5756, which would bring Luxembourg into conformity with the first recommendation of the Financial Action Task Force (FATF) 40 Recommendations and Nine Special Recommendations. This recommendation encourages countries to criminalize money laundering and "apply the crime of money laundering to all serious offenses, with a view to including the widest range of predicate offenses." Bill 5756, when enacted, will widen the scope of predicate offenses in Luxembourg law and set forth minimum sentence guidelines for money laundering offenses to comport with the FATF recommendations. This bill was introduced into Parliament in August 2007, but was not scheduled for a vote at the end of 2007.

The Financial Supervision Commission (Commission de Surveillance du Secteur Financier or CSSF) is an independent body under the Ministry of Finance that acts as the supervisory authority for banks, credit institutions, the securities market, some pension funds, financial sector professionals, and other financial sector entities covered by the country's AML/CTF laws. Banks must undergo audits under CSSF supervision. All entities involved in oversight functions, including registered independent auditors, in-house bank auditors, and the CSSF, can obtain the identities of the beneficial owners of accounts. The CSSF establishes the standards for and grants "financial sector professional" ("professionnel du secteur financier," or PSF) status to financial sector entities. Originally covering only individual financial sector professionals having access to customer information subject to bank secrecy laws, the CSSF recently established a sub-category for service providers with potential access to that information, such as transaction-clearing houses, information technology consultants, and data

warehousing services. With this status, banks have the flexibility to outsource some services while guaranteeing continued compliance with banking secrecy laws to their customers. The CSSF regulates the PSF status tightly, frequently issuing circulars and updating accreditation requirements. Accordingly, the PSF holds coveted status in the Luxembourg financial community.

The Luxembourg Central Bank oversees the payment and securities settlement system, and the Insurance Commissioner's Office (Commissariat aux Assurances or CAA), also under the Ministry of Finance, is the regulatory authority for the insurance sector.

Under the direction of the Ministry of the Treasury, the CSSF has established a committee, the Anti-Money Laundering Steering Committee (Comite de Pilotage Anti-Blanchiment or COPILAB), composed of supervisory and law enforcement authorities, the financial intelligence unit (FIU), and financial industry representatives. The committee meets monthly to develop a common public-private approach to strengthen Luxembourg's AML regime.

Luxembourg's laws and regulations do not distinguish 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. Nominee (anonymous) directors are not permitted. Companies must maintain a registered office in Luxembourg, and authorities perform background checks on all applicants. A government registry publicly lists company directors.

Luxembourg permits bearer shares. Officials contend that bearer shares do not pose a money laundering concern because of KYC laws that require banks to know the identities of beneficial owners. Banks must undergo annual audits under CSSF supervision.

Luxembourg's FIU, (Cellule de Renseignement Financier), is part of the State Prosecutor's Office and housed within Luxembourg's Ministry of Justice. The FIU consists of three State Prosecutors and one analyst. The FIU State Prosecutors pursue economic and financial crimes in Luxembourg, and spend significant portions of their time preparing for cases involving financial crimes. They are also occasionally called upon to prosecute cases not involving financial crimes.

The FIU receives and analyzes the STRs from all obliged entities. The FIU provides members of the financial community with access to updated information on money laundering and terrorist financing practices. The FIU issues circulars to all financial sector-related professionals who are not regulated under the CSSF as well as notifies the financial sector about terrorist financing designations promulgated by the EU and United Nations (UN).

By late November 2007, obliged institutions filed a total of 679 STRs, compared to a total of 754 in 2006. The number of individuals referenced in STRs has decreased dramatically from 2,471 in 2004 to 1,452 in 2006, which the FIU attributes to increased financial sector confidence in KYC practices. Among the individuals referenced in STRs in 2006, 28 resided in the United States. Of 255 confirmed cases of suspicious activity in 2006, 34 related to organized crime (including terrorist financing), 14 to narcotics-related money laundering, and 24 were related to corruption.

The FIU works with the AML Unit of the Judicial Police. Luxembourg prosecuted three money laundering cases in 2006 and four in 2007. Three were of particular note: In May 2006, two individuals were convicted of laundering narcotics-trafficking proceeds and received sentences of 72 months and 12 months of imprisonment respectively. In November 2006, five individuals were acquitted of money laundering charges when the court found that the State had not sufficiently established the linkage between the funds and either narcotics trafficking or an organized crime enterprise. The government seeks to close this legal vulnerability with Bill 5756, which expands the list of predicate offenses. Also in November 2006, a Dutch lawyer for a convicted drug trafficker was acquitted of attempted money laundering charges in November 2006, but an appellate court overturned the acquittal in May 2007. The defendant appealed his conviction to Luxembourg's Supreme Court, which should reach a judgment in 2008.

Money Laundering and Financial Crimes

Luxembourg law only allows for criminal forfeitures and public takings. Narcotics related proceeds are pooled in a special fund to invest in anti-drug abuse programs. Luxembourg can confiscate funds found to be the result of money laundering even if they are not the proceeds of a crime. The Government of Luxembourg (GOL) can, on a case-by-case basis, freeze and seize assets, including assets belonging to legitimate businesses used for money laundering. The FIU freezes assets and issues blocking orders when necessary. The government has adequate police powers and resources to trace, seize, and freeze assets without undue delay. Luxembourg has independently frozen several accounts. This has resulted in court challenges by the account holders, after which nearly all of the assets were subsequently released. 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. Bill 5019, of August 2007, allows Luxembourg to seize assets on the basis of a foreign criminal conviction, even when there is no specific treaty in place with that country.

The Ministry of Justice studies and reports on potential abuses of charitable and nonprofit entities. 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's authorities have not found evidence of the widespread use of alternative remittance systems or trade-based money laundering. Luxembourg government officials maintain that because AML rules would apply to such systems, they are not considering separate legislative or regulatory initiatives to address them.

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 Executive Order 13224. Luxembourg's authorities can and do take action against groups targeted through the EU designation process and the UN. 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 more than three years, but the legislation remains in the drafting process. Government prosecutors are confident that they could use existing judicial authority if any institution were to identify a terrorist financier. Although bilateral freeze requests have a limit of three months, designations under the EU, UN, or international investigation processes continue to be subject to freezes for an indefinite time period. .

Luxembourg's 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. Luxembourg expects to transpose this Directive into national law in 2008 with the passage of Bill 5811.

Luxembourg cooperates with, and provides assistance to foreign governments in their efforts to trace, freeze, seize and forfeit assets. During 2007, Luxembourg responded to four mutual legal assistance treaty requests from the U.S. and in return requested U.S. government assistance in three cases. Dialogue and other bilateral proceedings between Luxembourg and the United States have been extensive. Upon request from the United States, Luxembourg froze the bank accounts of individuals suspected of involvement in terrorism. Luxembourg also worked closely with the U.S. Department of Justice throughout 2007, on several drug-related money laundering cases as well as one possible terrorist financing case. In October 2006, the United States and Luxembourg announced a sharing

agreement in which they would divide equally 11,366,265 euros (then approximately \$14,548,820) of forfeited assets of two convicted American narcotics traffickers who had deposited the monies in Luxembourg bank accounts. Luxembourg has placed a priority on progressing with the legal instruments implementing the extradition and mutual legal assistance agreements the United States signed with the European Union in 2003. In December 2007, the Luxembourg Parliament gave final approval to both the bilateral U.S.-Luxembourg and multilateral U.S.-EU extradition and mutual legal assistance agreements.

Luxembourg is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism but has not yet ratified the UN Convention against Transnational Organized Crime. On November 6, 2007, Luxembourg ratified the UN Convention against Corruption.

Luxembourg is a member of the Financial Action Task Force (FATF), which, in a 2004 report, commented that Luxembourg was “broadly compliant with almost all of the FATF Recommendations.” The Luxembourg FIU is a member of the Egmont Group. Luxembourg and the United States have had a mutual legal assistance treaty (MLAT) since February 2001. Luxembourg has consistently provided training and assistance in money laundering matters to officials in countries whose regimes are in the development stage.

The Government of Luxembourg has enacted laws and adopted practices that help prevent the abuse of its bank secrecy laws and has enacted a comprehensive legal and supervisory anti-money laundering regime. Luxembourg has steadily enacted AML/CTF laws, policies, and procedures. However, the scarce number of financial crime cases is of concern, particularly for a country that has such a large financial sector. Luxembourg should take action to delineate in legislation regulatory, financial intelligence, and prosecutorial activities among governmental entities in the fight against money laundering and terrorist financing. The situation is most acute regarding the lack of a distinct legal framework for the FIU whose staff, activities, and authorities are divided among at least four different ministries. The State Prosecutors in the FIU should be exempt from nonfinancial crime duties and the FIU should increase the number of analytical staff to effectively analyze and disseminate the volume of STRs that the FIU receives. Luxembourg should pass legislation creating the authority for it to independently designate those who finance terrorism. Luxembourg would be well served to have the authority to designate suspected terrorists. Luxembourg should also enact legislation to address the continued use of bearer shares and consider specifically extending AML legislation to include SICAR entities. Luxembourg should become a party to the UN Convention against Transnational Organized Crime.

Macau

Under the one country/two systems principle that underlies Macau’s 1999 reversion to the People’s Republic of China, Macau has substantial autonomy in all areas of governance except defense and foreign affairs. Macau’s free port, a lack of foreign exchange controls, limited institutional capacity and a rapidly expanding economy based on gambling and tourism create an environment that can be exploited for money laundering purposes. 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’s economy is heavily dependent on gaming. The gaming sector continues to be a significant vulnerability. Macau’s offshore financial sector is not fully developed.

The primary money laundering methods in Macau’s financial system are wire transfers; currency exchange/cash conversion; bulk movement of cash; the use of casinos to remit or launder money; and the use of nominees, trusts, family members, or third parties to transfer cash. Most of these cases are related to financial fraud, bribery, embezzlement, organized crime, counterfeiting, and drug-related

crimes. There have been no reported instances of terrorism-related financial crimes. Crimes related to financial fraud appear to be increasing, while drug-related crimes are becoming less common.

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, includes provisions on due diligence, and broadens the definition of money laundering to include all serious predicate crimes. The AML law also authorizes the establishment of a financial intelligence unit (FIU), which began operations in November 2006. 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, increases the penalties by one-half. The new law also allows for fines to be added to the time served and eliminates a provision reducing time served for good behavior.

The 2006 law also extends 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, including casinos, to send suspicious transaction reports (STRs) to the relevant authorities and cooperate in any follow-up investigations.

On March 30, 2006, the MSAR also passed new counterterrorism legislation aimed at strengthening measures to counter terrorist financing (CTF). The law partially implements UNSCR 1373 by 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 stiff penalties. However, the legislation does not authorize the freezing of terrorist assets outside normal legal channels, nor does it discuss international cooperation on terrorist 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.

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 to receive suspicious transaction reports (STRs) in Macau and to undertake subsequent investigations. In 2006, the newly established Financial Intelligence Unit (FIU) assumed responsibility for receiving STRs and forwarding actionable reports to the Judiciary Police for investigation. 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.

On September 15, 2005, the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN) designated Macau-based Banco Delta Asia (BDA) as a primary money laundering concern under Section 311 of the USA PATRIOT Act and issued a proposed rule regarding the bank. In its designation of BDA as a primary money laundering concern, FinCEN cited in the Federal Register that "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. Following an investigation of BDA conducted with the cooperation of the Macanese authorities, Treasury finalized the Section 311 rule in March 2007, prohibiting U.S. financial institutions from opening or maintaining correspondent accounts for or on behalf of BDA. This rule remains in effect.

Shortly after the U.S. designation, The Monetary Authority took control of Banco Delta Asia and froze approximately U.S. \$25 million in accounts linked to North Korea. The Government of Macau announced in March 2007 that it would continue to maintain control over Banco Delta Asia for at least six more months to resolve the Banco Delta Asia situation. In April, 2007, the Macanese authorities released the \$25 million North Korean-related funds frozen at BDA. In September, 2007, The Treasury Department's Financial Crimes Enforcement Network denied two petitions filed on behalf of BDA and its owners to lift the Section 311 Final Rule designating BDA as a "primary money laundering concern." On September 30, 2007 Macau Monetary Authority announced that Banco Delta Asia would be returned immediately to its shareholders, but continued international restrictions on BDA and its subsidiaries outside of Macau that limit BDA to pataca currency business in Macau.

A Macau Monetary Authority official serves as the head of the FIU. As of October 2007, 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 works with the Macau Judicial Police on investigation of suspicious transaction reports (STRs) and with the Public Prosecutors Office on prosecution of offenders. The FIU moved into permanent office space in January 2007 and is accepting STRs from banks, financial institutions and the Gaming Inspectorate.

The gaming sector and related tourism are critical parts of Macau's economy. Taxes from gaming in the first eleven months of 2007 increased by 48.3 percent from the same period in 2006 and comprised 71 percent of government revenue in the first eleven months of 2007. Gaming revenue in the first nine months of 2007 exceeded the 2006 total and account for well over 50 percent of Macau's GDP. The MSAR ended a long-standing gaming monopoly early in 2002 when it awarded concessions to two additional operators, the U.S.-based Las Vegas Sands and Wynn Corporations. Macau now effectively has six separate casino licensees operating 28 casinos: three concession holders Sociedade de Jogos de Macau (SJM), Galaxy and Wynn; and three sub concession holders: Las Vegas Sands, MGM and PBL/Melco. Las Vegas Sands opened its first casino, the Sands, on May 18, 2004 and its second the Venetian-Macao in September 2007. MGM opened its first Macau casino in December 2007. Wynn opened its casino in September 2006. A consortium including Australia's PBL and Macau's Melco operates the Crown casino, which opened in May 2007 and runs several slot machine rooms in Macau. Rapid expansion of the gaming industry in Macau continues; several additional casinos are expected to open in the next few years.

Under the old monopoly framework, organized crime groups were closely 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 received minimal 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. VIP rooms continue to operate and are the primary revenue generators for Macau's

casinos. Although the arrival of international gaming companies has improved management and governance in all aspects of casino operations, concerns about organized crime groups and poorly regulated junket operators associations with VIP rooms remain. The MSAR's money laundering legislation aims to make money laundering by casinos more difficult by improving oversight, and tightening 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. The law requires both casinos and junket operators to register with the government.

The Macau criminal code (Decree Law 58/95/M of November 14, 1995, Articles 22, 26, 27, and 286) criminalizes terrorist financing. Macau does not have any provision or procedures for freezing terrorist related funds or assets to fully implement UNSCRs 1267 and 1373. However, although no special mechanism exists and a judicial order is required, the general framework of seizure and forfeiture of funds and assets under the Criminal Code and Criminal Procedure Code do provide the MSAR the authority to freeze terrorist assets. Macau financial authorities direct 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 terrorist assets were identified in 2007.

The Macau legislature passed a counter-terrorism law in April 2002 to facilitate Macau's compliance with UNSCR 1373. The legislation criminalizes violations of UN Security Council resolutions, including counterterrorism resolutions, and strengthens counter-terrorist financing provisions. When China ratified the UN International Convention for the Suppression of the Financing of Terrorism, China stipulated that the Convention would apply to the MSAR.

Increased attention 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 relatively low. Macau's Judiciary Police received 109 STRs in 2004, 194 in 2005, 396 STRs from January to September 2006, and 557 STRs from January to September 2007. In 2004 Macau opened ten money laundering cases but prosecuted none. In 2005 Macau opened nine money laundering cases and prosecuted two. Since the entry into force of the new AML law in April 2006, the Macau Public Prosecutions office has received 23 suspected cases of money laundering from the FIU. Of these, 14 have been referred for investigation by the Judicial Police or the Commission Against Corruption. Since 2005, the Judicial Police have referred three money laundering cases to the Public Prosecutions office.

In May 2002, the Macau Monetary Authority revised its anti-money laundering regulations for banks to bring them into greater conformity with international practices. Guidance also was issued for banks, moneychangers, and remittance agents, addressing record keeping and suspicious transaction reporting for cash transactions over U.S. \$2,500. For such transactions, banks, insurance companies, and moneychangers must perform customer due diligence. However for casinos, Macau requires customer due diligence only for transactions above U.S. \$62,500. In 2003, the Macau Monetary Authority examined all moneychangers 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. There is no requirement to report large sums of cash carried into Macau. The Macau Customs Service has the authority to conduct physical searches and detain suspicious persons and executes random checks on cross-border movement of cash, including record keeping when the amount of cash carried over the border exceeds US\$38,500. However, there is no central database for such reports. Mainland China does restrict the transport of RMB out of China. Persons may carry no more than RMB 20,000 (approximately U.S. \$2,750) per day out of China. According to the Macau Prosecutors Office, this Chinese requirement limits the number of people carrying large amounts of cash into Macau.

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. Macau's FIU has not yet established MOUs on information sharing with other jurisdictions but is currently negotiating with FIUs from Hong Kong, China, Portugal, Japan, Korea, and Sri Lanka.

The Monetary Authority of Macau also cooperates internationally with other financial authorities. It has signed memoranda of understanding with the People's Bank of China, China's Central Bank, the China Insurance Regulatory Commission, the China Banking Regulatory Commission, the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission, the Insurance Authority of Hong Kong, and Portuguese bodies including the Bank of Portugal, the Banco de Cabo Verde and the Instituto de Seguros de Portugal.

Macau participates in a number of regional and international organizations. It is a member of the Asia/Pacific Group on Money Laundering (APG), the Offshore Group of Banking Supervisors, the International Association of Insurance Supervisors, the Offshore Group of Insurance Supervisors, the Asian Association of Insurance Commissioners, the International Association of Insurance Fraud Agencies, and the South East Asia, New Zealand and Australia Forum of Banking Supervisors (SEAZA). In 2003, Macau hosted the annual meeting of the APG, which adopted the revised FATF Forty Recommendations and a strategic plan for anti-money laundering efforts in the region from 2003 to 2006. In ratifying the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption China in each case specified that the treaty would apply to the MSAR. Macau officials have taken a number of steps in the past three years to raise industry awareness of money laundering. The Macau Monetary Authority trains banks on anti-money laundering measures on a regular basis.

In December 2006, the Asia Pacific Group (APG) and Offshore Group of Banking Supervisors (OGBS) conducted a joint Mutual Evaluation of the anti-money laundering and combating the financing of terrorism measures in place in Macau. The Mutual Evaluation Report stated that Macau was noncompliant with FATF Special Recommendation IX, in that Macau should have measures in place to detect the physical cross border transport of currency and bearer-negotiable instruments. Macau 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. Macau's AML/CTF regime is also deficient in a number of other respects, including: the lack of a mechanism to confiscate, freeze, and forfeit proceeds of crime independent of criminal process; the lack of ability to freeze terrorist funds; failure to establish an independent FIU, which was established only as a special project entity with a term of three years; the lack of requirements for financial institutions to verify the identify of persons on whose behalf a customer is acting to understand the ownership and control structure of customers, or to examine the background and purpose of transactions with no economic or visible lawful purpose; the failure to develop a risk assessment of, and risk based approach to the gaming sector; and the lack of adequate legal framework for requiring Designated Non-Financial Business and Professions, including casinos and gaming concessionaires to report suspicious transactions.

Macau should continue to improve its ability to implement and enforce existing laws and regulations. Macau should ensure that regulations, structures, and training are adequate to prevent money laundering in the gaming industry, including implementing regulations to prevent money laundering in casinos, especially regulations to improve oversight of VIP rooms. The MSAR should take steps to

implement the new FATF Special Recommendation IX, 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 establish asset freezing mechanisms and procedures to fully implement UN Security Council Resolutions 1267 and 1373. This process should not be linked to the criminal process and should include the ability to freeze terrorist assets without delay. Macau should increase public awareness of the money laundering problem, improve interagency coordination and training, and boost cooperation between the MSAR and the private sector in combating money laundering. Macau should institutionalize its Financial Intelligence Unit by making it a permanent, statutory body and ensure the FIU meets Egmont Group standards for information sharing. Macau's Judicial Police have limited resources devoted to AML/CTF investigations. Additional manpower would allow for more investigations and enforcement action.

Malaysia

Malaysia is not a regional center for money laundering. A range of significant money laundering and terrorist financing risks in Malaysia are being addressed through the implementation of the country's Anti-Money Laundering Act and other AML/CTF measures. Malaysia has long porous land and sea borders and its open economy and strategic geographic position influence money laundering and terrorist finance in the region. Drug trafficking is the main source of illegal proceeds in Malaysia. Malaysia is primarily used as a transit country to transfer drugs originating from the Golden Triangle and Europe, including heroin, amphetamine type substances and ketamine. Authorities also highlight illegal proceeds from corruption as well as a wide range of predicate offenses including fraud, illegal gambling, credit card fraud, counterfeiting, forgery, human trafficking, extortion, and smuggling. Money laundering techniques include placing criminal proceeds into the banking system, using nominees, the use of front companies, purchasing insurance products and high value goods and real property, investment in capital markets, and the use of moneychangers. Smuggling of goods subject to high tariffs is a major source of illicit funds. Malaysia has a significant informal remittance sector.

The GOM has a well-developed AML/CTF framework. 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 of 2001 (AMLA). The NCC is responsible for the development of the national AML/CTF program, including the coordination of national-wide AML/CTF efforts.

In February 2007, the APG conducted its second Mutual Evaluation on Malaysia. The evaluation was based on all FATF recommendations; Malaysia received ratings of "compliant" or "largely compliant" on 33 of the 49 FATF Recommendations, 15 ratings of "partially compliant," and one rating of "noncompliant" with Special Recommendation on Terrorist Financing IX on cash couriers.

Subsequent to the mutual evaluation, the NCC established a task force comprised of the Royal Malaysian Customs, Immigration Department, Ministry of Internal Security, and Bank Negara Malaysia to formulate action plans to achieve full compliance with Special Recommendation IX. Malaysia's relatively lax customs inspection at ports of entry and its extensive coastlines, particularly along the east coast of Sabah in Borneo, serve to increase its vulnerability to smuggling, including cash smuggling.

On March 6, 2007, Malaysia enacted amendments to five different pieces of legislation: the AMLA, now called the Anti-Money Laundering and Anti-Terrorism Financing Act (AMLATF), the Penal Code, the Subordinate Courts Act, the Courts of Judicature Act, and the Criminal Procedure Code. These amendments impose 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.

In 2002, the AMLA provided for the establishment of a financial intelligence unit in Malaysia. The Unit Perisikan Kewangan (UPW), located in the Central Bank, Bank Negara Malaysia (BNM), is tasked with receiving and analyzing information, and sharing financial intelligence with the appropriate enforcement agencies for further investigations. The UPW 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 and its subsidiary legislation and relevant guidelines. Currently, BNM maintains 383 examiners who are responsible for money laundering inspections for both onshore and offshore financial institutions.

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 the UPW. If the reporting institution deems a transaction suspicious it must report that transaction to the UPW promptly regardless of the transaction size. In addition, cash threshold reporting (CTR) requirements above RM 50,000 (approximately U.S. \$14,900) were imposed upon banking institutions effective as of September 2006. UPW 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 overridden in the case of reporting of suspicious transactions or criminal investigations.

Malaysia has adopted banker negligence (due diligence) laws that make individual bankers responsible if their institutions launder money or finance terrorists. 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 or financing of terrorism is subject to criminal sanction. All reporting institutions are subject to review by the UPW. 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, notaries public, accountants, company secretaries, and Malaysia's one licensed casino. In 2005, reporting obligations were imposed upon 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. In 2007, the AMLA was further extended to insurance financial advisers, moneylenders in the state of Sabah, E-money issuers and leasing and factoring businesses.

In mid-2007, Islamic banking assets were RM 144 billion (approximately U.S. \$43 billion), accounting for 12 percent of the total assets in the banking sector, up from 11.8 percent in mid-2006 and 11.6 percent in mid-2005. Malaysia's growing Islamic finance sector is subject to the same supervision to combat financial crime as the commercial banks.

In 1998, Malaysia imposed foreign exchange controls that restricted the flow of the local currency from Malaysia. Onshore banks must record cross-border transfers over RM 10,000 (approximately U.S. \$3,000). An individual form is completed for each transfer above RM 200,000 (approximately U.S. \$60,000). The thresholds for the bulk register for transactions were raised in October 2007. Recording is now done in a bulk register for transactions between U.S. \$3,000 and \$60,000. 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 6,152 registered offshore companies as of September 30, 2007. 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." The Fund has since been terminated. Also in 2005, 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. Companies wishing to operate in an FTZ or FCZ must apply for a license and be approved. The time needed to obtain such licenses from the administrative authority to operate in a particular free trade zone depends on the type of activity. Clearance time ranges from two to eight weeks. There is no indication that Malaysia's free industrial and free commercial zones are being used for trade-based money laundering schemes or by the financiers of terrorism. Rather, these zones are dominated by large international manufacturers such as Dell and Intel, which are attracted to the zones because they offer preferential tax and tariff treatment.

The UPW has been a member of the Egmont Group since July 2003. Prior to 2007, UPW had signed memoranda of understanding (MOUs) on the sharing of financial intelligence with the FIUs of Australia, Indonesia, Thailand, the Philippines and China. In 2007, and early 2008, an additional seven MOUs were signed with the United Kingdom, United States, Japan, Republic of Korea, Sweden, Chile and Sri Lanka. Malaysia is a member of the Asia/Pacific Group (APG) on Money Laundering, a FATF-style regional body.

In April 2002, the GOM passed the Mutual Assistance in Criminal Matters Act (MACMA), 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.

Malaysia made its first money laundering arrest in 2004. As of October 2007, the Attorney General's Chambers had prosecuted 29 money laundering cases, involving a total of 829 charges with a cumulative total of RM 273.6 million (approximately U.S. \$83.7 million). Out of the 29 cases, there were three convictions.

Malaysia is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Malaysia has signed but has not yet ratified the UN Convention against Corruption. On May 29, 2007, the Government of Malaysia (GOM) became a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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 recently improved legislation enabling it to comprehensively freeze assets under the UNSCRs 1267 and 1373. The Ministry of International Security 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, whenever a new designee is added, the UPW issues immediate orders to all licensed financial institutions, both onshore and offshore, to do so. At the same time, the UPW also disseminates information on persons and entities designated unilaterally by other countries, including the United States, to these institutions. Since 2003 Bank Negara Malaysia has issued 43 circulars and nine accounts have been frozen amounting to approximately U.S. \$76,400.

Malaysian authorities have highlighted risks from terrorist groups and terrorist financing. A number of terrorist organizations have been active on Malaysian territory, and authorities have taken action against Jemaah Islamiah. Terrorist financing in Malaysia is predominantly carried out using cash and relies on trusted networks. While Malaysia has recently improved the legislative framework to criminalize terrorist financing, there have been no investigations, prosecutions or convictions relating to terrorist financing under this new scheme. The Ministry of Foreign Affairs opened the Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT) in August 2003. SEARCCT coordinates courses and seminars on combating terrorism and terrorist finance.

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 submit 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 60 cents and annual financial statements.

In March 2006, the UPW completed a review of the nonprofit sector with the Registrar, the IRB, and the CCM, in an effort to ensure that the laws and regulations were adequate to mitigate the risks of nonprofit organizations as conduits for terrorist 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, which encourages the reporting of contributions, for Zakat (alms) to mosques or registered Islamic charitable organizations. Islamic Zakat contributions can be taken as payroll deductions, which help prevent the abuse of charitable giving. There is no similar tax credit for non-Muslims.

The Government of Malaysia should continue to enhance its cooperation 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. Given that cash smuggling is a major method used by terrorist financiers to move money in support of their activities, as a priority matter, Malaysian authorities should establish and adhere to a cross border currency declaration system that meets purpose and intent of the FATF Special Recommendation IX on bulk cash smuggling. There is a significant informal remittance sector in Malaysia that is not subject to AML/CTF controls and which may be vulnerable to misuse for money laundering and terrorist financing. Law enforcement and customs authorities should examine trade based money laundering and invoice manipulation and their relationship to underground finance and informal remittance systems. Malaysia should ratify the UN Convention against Corruption.

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 the principal source of funds laundered through the Mexican financial system. Other major sources of illegal proceeds being laundered include corruption, kidnapping, trafficking in firearms and immigrants, and other crimes. 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.

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 and other transnational criminal activity. Sophisticated and well-organized drug trafficking organizations based in Mexico are able to take advantage of the extensive U.S.-Mexico border and the large flow of licit remittances. In addition, the combination of a sophisticated financial sector and relatively weak regulatory controls facilitates the concealment and movement of drug proceeds. U.S. officials estimate that since 2003, as much as U.S. \$22 billion may have been repatriated to Mexico from the United States by drug trafficking organizations. In April 2006, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) issued a warning to the U.S. financial sector on the potential use of certain Mexican financial institutions, including Mexican casas de cambio (licensed foreign exchange offices) and centros cambiarios (unlicensed foreign exchange offices), 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.

Currently, there are 39 commercial banks and 71 foreign financial representative offices operating in Mexico, as well as 94 insurance companies, 160 credit unions, and 25 casas de cambio. 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 criminal-driven segments of the economy. Beginning in 2005, permits were issued for casinos to operate in Mexico. National lotteries, horse races, and sport pools are also legal. Casinos, as well as offshore banks, lawyers, accountants, couriers, and brokers, are currently not subject to anti-money laundering reporting requirements.

From 2000 to 2006, remittances from the United State to Mexico grew from U.S. \$6.6 billion to nearly U.S. \$24 billion a year; in 2007, the increase is estimated at less than two percent. 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," 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 to execute a remittance, often without having to open a bank account. While this makes licit remittances more accessible, it also leaves the system open to potential money laundering and exploitation by organized crime groups. The U.S. Embassy estimates that in 2007, electronic transfers accounted for 90 percent of all remittances to Mexico. It is likely that few first-tier commercial banks will reach down to serve low-income clients who receive such remittances, with *cajas populares* and *cajas solidarias* (financial cooperatives that function as credit unions) being the likely candidates to fill this gap. This presents a new set of concerns over whether this system will present potential money laundering opportunities for bulk currency transactions.

The Tax Code and Article 400 bis of the Federal Penal Code criminalize money laundering related to any serious crime. Money laundering is punishable by imprisonment of five to fifteen years and a fine. Penalties are increased when a government official in charge of the prevention, investigation, or prosecution of money laundering commits the offense. Mexico's all-crimes approach to money laundering criminalizes the laundering of the proceeds of any intentional act or omission, regardless of whether or not that act or omission carries a prison term. Rather than applying to proceeds of criminal offenses, the statute applies to "the proceeds of an illicit activity", which is defined as resources, rights, or goods of any nature for which there exists well-founded certainty that they are derived directly or indirectly from or represent the earnings derived from the commission of any crime, and for which no legitimate origin can be established. This construction of the predicate offense allows prosecutors, upon demonstrating criminality, to shift the burden of proof to the defendant to establish the legitimate origin of the property. An offense committed outside of Mexico may also constitute a predicate for money laundering offense. Because criminal proceeds generated abroad would have an effect in Mexico when laundered in or through its national territory, the laundering of those proceeds could be prosecuted under Mexican law.

The Banking and Securities Commission (CNBV) regulates and supervises banks, limited scope financial companies, securities brokerage firms, foreign exchange firms, and mutual funds. The Tax Authority (SAT) supervises nonlicensed foreign exchange retail centers and money remitters. The CNBV has the remit to impose administrative sanctions for noncompliance, revoke licenses, and conduct on-site inspections and off-site monitoring of regulated entities. The CNBV is also responsible for issuing regulations. Regulations require banks and other financial institutions (including mutual savings companies, insurance companies, securities brokers, retirement and investment funds, financial leasing and factoring funds, *casas de cambio*, *centros cambiarios*, and money remittance businesses) to know and identify customers and maintain records of transactions.

In 2004, the Ministry of the Treasury (SHCP) reorganized and renamed its financial intelligence unit (FIU), the *Unidad de Inteligencia Financiera* (UIF). The UIF's personnel number approximately 50 and are comprised mostly of forensic accountants, lawyers, and analysts. Regulated entities must report to the UIF any suspicious transactions, currency transactions over U.S. \$10,000 (except for *centros cambiarios*, which are subject to a U.S. \$3,000 threshold), and transactions involving employees of financial institutions who engage in suspicious activity. Banks also require occasional customers performing transactions equivalent to or exceeding U.S. \$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). A 2005 provision of the tax law requires real estate brokerages, attorney, notaries, accountants, and dealers in precious metals and stones to report all transactions exceeding U.S. \$10,000 to the SAT, which shares that information with the UIF. In 2006, nonprofit organizations were made subject to reporting requirements for donations greater than U.S. \$10,000. Financial institutions have also implemented programs for screening new employees and verifying the character and qualifications of their board members and high-ranking officers.

Money Laundering and Financial Crimes

In 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 U.S. \$10,000 or more. These reports are received by the UIF and cover a wider range of monetary instruments (e.g. bank drafts) than those required by the United States. As a result of the cooperation between Mexican Customs, the Financial Crimes Unit of the Office of the Deputy Attorney General against Organized Crimes (SIEDO), and various U.S. agencies, Mexico has seized over U.S. \$60 million in bulk currency shipments leaving Mexico City's international airport since 2002.

The UIF is responsible for receiving, analyzing, and disseminating STRs and CTRs, as well as reports on the cross-border movements of currency. The UIF also reviews all crimes linked to Mexico's financial system and examines the financial activities of public officials. In 2007, the UIF received approximately 38,400 STRs and 5,607,000 CTRs. Following the analysis of CTRs, STRs, and reports on the cross-border movements of currency, the UIF sends reports that are deemed to merit further investigation, and have been approved by the SHCP's legal counsel, to the Office of the Attorney General (PGR). From 2004 to December 2007, the UIF sent 89 cases to the PGR for its consideration for prosecution. The PGR's special financial crimes unit (within SIEDO) works closely with the UIF in money laundering investigations. UIF personnel also have working-level relationships with other federal law enforcement entities, including the Federal Investigative Agency (AFI) and the Federal Police (PFP), to help it support the PGR's investigations of criminal activities with ties to money laundering. In 2006, the UIF signed Memoranda of Understanding (MOUs) with the Economy Secretariat and the Mexican immigration authorities that provide access to their databases. The UIF has also signed agreements with the CNBV and the National Commission of Insurance and Finance (CNSF) to coordinate to prevent money laundering and terrorist financing. The UIF is currently finalizing similar negotiations with the SHCP and the National Savings Commission (CONSAR).

In 2007, U.S. authorities observed a significant increase in the number of complex money laundering investigations by SIEDO, with support from the UIF and coordinated with U.S. officials. As of November 2007, SIEDO had initiated 142 criminal investigations into money laundering cases, 77 of which were brought to trial. One high profile case was the September 2007 arrest of

Sandra Avila Beltran (also known as the "Queen of the Pacific"), who was indicted in the United States in 2004 on separate drug smuggling charges. Avila Beltran is the niece of drug-kingpin Miguel Angel Felix Gallardo, who is serving a long sentence for drug smuggling and for the 1985 murder of DEA agent Enrique Camarena. She is also the niece of Juan José Quintero Payan, who was extradited to the United States on drug smuggling charges. Avila Beltran shielded her narcotics-related financial activities behind legitimate and successful businesses in Mexico, including a string of tanning and beauty salons and a real estate company with multiple locations. The Government of Mexico (GOM) demonstrated that she had forged cocaine trafficking and financial deals between Mexican and Colombian traffickers over the last decade. The Avila Beltran case highlighted the difficulty of prosecuting those involved in the financial aspects of the drug trade.

Another complex case was the GOM-initiated raids in December against Victor Emilio Cazares Salazar (also known as Victor Emilio Cazares Gastellum), at the same time as the U.S. Treasury's Office of Foreign Assets Control (OFAC) designated his sister, Mexican money launderer Blanca Margarita Cazares Salazar, as a specially designated narcotics traffickers subject to sanctions pursuant to the Foreign Narcotics Kingpin Designation Act. The sequencing represents Mexico's aggressive pursuit of an important money laundering function in conjunction with U.S. Government (USG) efforts, including the February 2007 U.S. indictment of Victor Cazares Salazar. Blanca Cazares Salazar and her widespread money laundering organization acted as fronts for her brother and Mexican drug kingpin Ismael Zambada Garcia (also known as "Mayo Zambada"), leaders of Mexico's Sinaloa Cartel. Victor Emilio Cazares Salazar's narcotics funds spawned a complex, interlocking

network of businesses located throughout Mexico, including three Tijuana-based money service businesses and a chain of approximately 20 jewelry and cosmetics boutiques located in eight Mexican states, as well as importation firms, restaurants, mobile phone services, and money service businesses in Sinaloa, Jalisco, Baja California, and Mexico City.

Although the United States and Mexico both have asset 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 rarely met with success. Currently, Mexico does not have a civil forfeiture regime and can only forfeit assets upon a final criminal conviction; it can also seize assets administratively if they are deemed to be “abandoned” or unclaimed. Draft legislation pending in the Mexican Congress includes constitutional changes that would enable a forfeiture regime similar to Colombia’s law of extinguishment of ownership (“extinción de dominio”). If passed, any asset seizure regime will require considerable implementation efforts.

In 2001, pursuant to a USG request, the GOM seized assets valued at millions of dollars in Mexico from Alyn Richard Wage, who was charged in the United States in a major fraud case (the “Tri-West” case). These assets were found by a U.S. court to be proceeds of the fraud and were the subject of a final order of forfeiture in the United States. For several years, the USG has sought the assistance of the Mexican courts to enforce the U.S. forfeiture order and repatriate the assets to the United States to compensate the victims of the fraud. In October 2007, the PGR filed a petition, with supporting documents from the USG, asking the court to recognize and enforce the U.S. forfeiture order, employing the argument of “abandoned funds.” The case remains without resolution.

Another significant case involves Zhenli Ye Gon. Approximately \$207 million was seized in March 2007 from his Mexico City residence. The funds seized reportedly included dollars, Mexican pesos, euros, Hong Kong dollars, and Mexican gold bullion coins. GOM authorities also seized two dwellings and seven vehicles. The Drug Enforcement Administration (DEA) has described the seizure as the largest ever of drug money anywhere in the world. These funds have been forfeited under the same argument of “abandoned funds”. Zhenli was arrested in the United States in July 2007 and is accused of trafficking tons of pseudoephedrine and other chemicals to supply Mexican methamphetamine labs.

In 2007, after nearly three years of consideration, Mexico criminalized terrorist financing, with punishments of up to 40 years in prison. The new law amends the Federal Penal Code to link terrorist financing to money laundering and establish international terrorism as a predicate crime when it is committed in Mexico to inflict damage on a foreign state. The GOM has responded positively to international and USG efforts to identify and block terrorist-related funds, and it continues to monitor suspicious financial transactions, although no such assets have been frozen to date.

Mexico has developed a broad network of bilateral agreements and regularly meets in bilateral law enforcement working groups with its counterparts within the U.S. law enforcement community. The U.S.-Mexico Mutual Legal Assistance Treaty (MLAT) 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.

Mexico is a member of the Financial Action Task Force (FATF) and the Financial Action Task Force for South America (GAFISUD). The GOM currently holds the GAFISUD presidency. In addition to its membership in the FATF and GAFISUD, Mexico participates in the Caribbean Financial Action Task Force (CFATF) as a cooperating and supporting nation. Mexico will undergo a FATF mutual evaluation in January 2008. The UIF is a member of the Egmont Group, and Mexico participates in the Organization of American States’ Inter-American Drug Abuse Control Commission’s (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 GOM has made fighting money laundering and drug trafficking one of its top priorities, and has made progress in combating these crimes over the course of 2007. However, Mexico continues to face challenges with respect to its anti-money laundering and counter-terrorist financing regime, particularly with its ability to prosecute and convict money launderers. To create a more effective regime, Mexico should fully implement and improve its mechanisms for asset forfeiture; increase personnel responsible for the initiation, investigation, and prosecution of money laundering cases; control the bulk smuggling of currency across its borders; monitor remittance systems for possible exploitation; and improve the regulation of centros cambiarios. The GOM should also ensure that its newly-adopted counter-terrorist financing law is fully implemented.

Moldova

Moldova is not considered an important regional financial center. The Government of Moldova (GOM) monitors money flows through right-bank Moldova (the territory it controls), but does not exercise control over the breakaway region of Transnistria. Transnistrian authorities do not submit to GOM financial controls and maintain an independent banking system not licensed by the National Bank of Moldova. Moldovan incomes are generally low. Criminal proceeds laundered in Moldova derive substantially from tax evasion, contraband smuggling, foreign criminal activity, and, to a lesser extent, domestic criminal activity and corruption. Money laundering proceeds are controlled by small, poorly-organized domestic criminal groups. These small groups are in turn supervised by larger and better-organized foreign crime syndicates from Russia, Ukraine, and Israel, among others.

Money laundering has occurred in the banking system and through exchange houses in Moldova, and in the offshore financial centers in Transnistria and throughout the region. The amount of money laundering occurring via alternative remittance systems is reportedly not significant. The number of financial crimes unrelated to money laundering, such as bank fraud, embezzlement, corruption, and forgery of bankcards, especially through international offshore zones, has decreased. During 2006, several cases involved bank fraud and the misuse of bankcards. Although the number of financial crimes has not increased, investigations have revealed a diversification of financial and economic-related crimes.

Although a significant black market exists in Moldova, especially smuggling of goods at the Moldovan-Ukrainian border alongside Transnistria, narcotics proceeds are not a significant funding source of this market. Contraband smuggling generates funds that are laundered through the banking system. Often funds are first laundered through Transnistrian banks, next transferred to Moldovan institutions, and then transferred to other countries.

Moldova is not considered an offshore financial center. The Moldovan financial system has 15 banks, including three foreign-owned banks that are regulated in the same manner as Moldovan commercial banks. Offshore banks are not permitted to operate in Moldova. Shell companies are not allowed by law, although they exist on a de facto basis. Nominee directors and trustees are not allowed. Internet gaming sites do exist, although no statistics are currently available on the number of sites in operation. Internet gaming is subject to the same regulations as domestic casinos. The Ministry of Finance currently licenses five casinos, although they are reportedly not well regulated or controlled.

Moldova currently has six free trade zones (FTZs). Certain free-trade zones are infrequently used. Goods from abroad are imported to the free economic zones and resold without payment of customs duties of the country of origin or of Moldova. The goods are then exported to other countries with documentation, indicating Moldovan origin. According to the Moldova's financial intelligence unit

(FIU), the Service for Preventing and Combating Money Laundering and Terrorism Financing, no reports have been filed alleging that the free zones have been used in trade-based money laundering schemes or for terrorist financing. Supervision of the FTZs is conducted by a GOM agency, the Free Trade Zone Administration (FTZA). Companies operating in free-trade zones are also subject to inspections, controls, and investigations by inspectors from the Customs Service and the Center for Combating Economic Crime and Corruption (CCECC).

Money laundering is a separate criminal offense in the Moldovan Criminal Code, Art. 243, and under the Law on Preventing and Combating Money Laundering and Terrorism, No.190-XVI, passed on July 26, 2007. The legislation takes an “all serious crimes” approach. Serious crimes are defined as those punishable by a fine of 500 to 1,000 conventional units (U.S. \$900 to \$1,800) or by imprisonment of up to five years. The fine or imprisonment may be accompanied by a prohibition to hold certain positions or to practice a certain activity for a period of two to five years.

On April 10, 2007, President Vladimir Voronin proposed to the Moldovan Parliament draft amendments to the tax code and other financial regulations aimed at “liberalizing the economy.” On April 27, the Parliament adopted these tax-code amendments intended to regulate Moldova’s informal economy, forgive tax debts and stimulate investments. Some provisions of the financial package raised concerns as they could facilitate money laundering and terrorist financing. Of particular concern was a capital-amnesty provision allowing individuals and legal entities (corporations, partnerships, etc.) to legalize previously undeclared cash and noncash assets, including real estate and stocks. According to the proposed legislation, the GOM would encourage asset declaration by ensuring the confidentiality of all transactions and protecting filers from any future fiscal investigations. Additionally, those taking advantage of the amnesty would be under no obligation to declare the origins of their declared assets. The law also stipulated that transaction information could not be shared with the CCECC or the Moldovan Tax Inspectorate. Most worrisome, the legislation exempted declared assets from Moldova’s fiscal, customs and current money laundering and terrorist financing legislation.

Following recommendations from the international community, on July 20, 2007, the Moldovan Parliament adopted Law 2298, a package of tax-code reforms, which included amendments to the capital-amnesty law. The amendment closed loopholes in the capital-amnesty law, eliminating explicitly the exemption of amnesty-related transactions from Moldova’s anti-money laundering law. A week later, Parliament separately adopted the new anti-money laundering bill, the Law on Preventing and Combating Money Laundering and Terrorism. Since their passage, GOM authorities have issued numerous regulations, decisions, and laws that are related to the tax-amnesty/capital-legalization law and the new money laundering law. On August 15, 2007, the National Bank of Moldova issued two decisions focusing on the activity of financial institutions related to capital legalization and the transfer or export from the Republic of Moldova of legalized funds by individuals.

Article 12 of the Law on Preventing and Combating Money Laundering and Terrorism regulates the limitations of bank secrecy. Thus, information obtained from reporting entities can be used only with the purpose of preventing money laundering and terrorist financing. The forwarding of information regarding clients or ownership information to the CCECC, criminal investigative authorities, prosecutorial entities, or to the courts in an effort to prevent or combat money laundering activities is not classified as disclosure of commercial bank or professional secrets, as long as the forwarding of information is carried out in accordance with legal provisions.

All banks and nonbanking financial institutions are supervised and examined for compliance with anti-money laundering/counter-terrorist financing (AML/CTF) laws and regulations by the CCECC, which has the authority to investigate money laundering and terrorist financing. Under the Law on Preventing and Combating Money Laundering and Terrorism, the National Bank of Moldova (NBM) supervises banks, exchange houses, and representatives of foreign banks. Moreover, based on the July 2007 amendment of Law No. 192 from December 11, 1998, on the Securities Commission, three

institutions dealing with oversight of financial markets—the National Commission on Securities, the Inspectorate for Supervision of Insurance Companies and Retirement Funds, and the National Service for Supervision of Citizen’s Savings and Lending Associations—were merged into one agency, the National Commission on Financial Markets (NCFM). The NCFM’s jurisdiction includes nonbanking financial entities, such as institutions issuing securities, investors, the National Bureau of Insurance of Vehicles of Moldova, members of saving and lending associations, and clients of micro-financing organizations. Additionally, the NCFM oversees professional participants in the nonbanking financial sector that have license to carry out activities in the following fields: securities market, insurance market, micro-financing, private pension funds, mortgage organizations, and credit-history bureaus. The Licensing Chamber checks the compliance of companies applying for business licenses, and specifically oversees casinos and gambling facilities.

Banks, exchange houses, stock brokerages, casinos, insurance companies, lawyers, notaries, accountants, and lotteries and institutions organizing or displaying lotteries are required to know, record, and report the identity of customers engaging in significant transactions. The reporting entities are obligated to report suspicious transactions to the FIU within 24 hours. In addition, single transactions or multiple transactions undertaken in 30 calendar days that exceed MDL 500,000 (approximately U.S. \$45,000) must be reported to the FIU. The Law on Preventing and Combating Money Laundering and Terrorism also requires that financial institutions maintain records and documentation of accounts account holders and basic documentation (including business correspondence) for a period of at least seven years after the termination of business relations or the closing of the account.

Moldova’s FIU is a quasi-independent unit within the CCECC. Decree No. 111 of September 15, 2003, establishes the FIU as an administrative and analytical body that collects, maintains, and analyzes reports from reporting institutions. It also conducts criminal investigations and has regulatory authority to develop draft laws. The FIU is staffed with 14 inspectors. Although housed within the CCECC building, a separate locked door separates its offices from other CCECC employees. The heads of the FIU and the CCECC maintain that other CCECC employees have no access to records collected by the FIU. However, the leadership of the FIU is ultimately under the supervision of the director of the CCECC. While the CCECC budget covers the financial needs of the FIU, the FIU is also supported technically and financially by international organizations. The head of the FIU reports that the unit is adequately staffed, with low turnover, good working conditions and newly renovated offices. However, its analytical functions are limited without a database, which it currently cannot afford.

The CCECC and the FIU are the lead agencies responsible for investigating financial crimes, including money laundering. Other agencies that share jurisdiction over the investigation of financial crimes include the Prosecutor General’s Office, the Ministry of Interior and the Customs Service. The Security and Intelligence Service (SIS) investigates terrorist financing. The FIU has formed a task force with the Prosecutor General’s Office, the Ministry of the Interior (MOI), the Customs Service, the NBM, the National Securities Commission, the SIS, and the Ministry of Information Development to share information and discuss investigations. The FIU has signed interagency agreements with other law enforcement agencies and ministries with databases to exchange law-enforcement information.

In 2007, the FIU received reports on approximately 9 million financial transactions, of which 165,199 were considered suspicious. This number of suspicious transactions is misleading, however, since GOM officials categorize all transactions involving Transnistria as suspicious.

In 2007, the FIU initiated eleven criminal cases related to financial fraud; four cases carried money laundering charges. The FIU identified two major types of criminal activity in 2006 and during the first six months of 2007. In the first instance, criminals used financial transactions that appeared to be legitimate to launder or clean criminal proceeds. In the second instance, criminals used the FTZs to

create illegal profits by reducing the value of imported goods. In 2007, the FIU imposed fines and sanctions totaling MDL 550,000 (approximately U.S. \$49,600). The FIU reports that no arrests of individuals were conducted in 2006 or during the first six months of 2007 for money laundering violations. Late in 2007, a Moldovan court tried a criminal case charging the defendant with money laundering violations. The defendant was found guilty and sentenced to 15 years imprisonment. The FIU and CCECC have made no arrests nor pursued prosecutions involving terrorist financing.

Law No. 1569 of December 2002 on the transportation of currency stipulates that persons are obliged to report in writing to Moldovan customs officials the amount of currency that they are transporting when that amount exceeds 10,000 euros. If the amount of outbound currency is more than 10,000 euros, the carrier of the currency will have to report the outbound currency in a special declaration form provided by customs officials at the border. In addition to the special declaration, the currency carrier must provide documents detailing the source of the money. The carrier also must present a special permission for outbound cash currency transportation issued by a duly authorized bank or by the NBM. The Customs Service operates a special database that includes all declarations. The Customs Service shares the information in the database with other governmental agencies, including the FIU.

The Moldovan Criminal Code provides for the seizure and confiscation of assets related to all serious crimes, including terrorist financing. The provisions may be applied to goods belonging to persons who knowingly accepted things acquired illegally, even when the state declines to prosecute. However, it remains unclear whether asset forfeiture may be invoked against those unwittingly involved in or tied to an illegal activity. If it can be shown that the assets were used in the commission of a crime or result from a crime, they can be confiscated. Legitimate businesses can be seized if they were used to launder drug money, support terrorist activity, or are otherwise related to other criminal proceeds. The Criminal Code allows for civil as well as criminal forfeiture.

The Prosecutor General's Office has expressed its willingness to pursue an initiative to amend the Constitution to allow a more effective use of asset forfeiture. The Constitution currently incorporates a presumption that any property owned by an individual was legally acquired. This presumption has acted to inhibit the use of the existing asset forfeiture laws. Subsequent to a constitutional amendment, the Prosecutor General's Office plans generally to update the laws governing the identification of criminal assets and the use of asset forfeiture.

The FIU, CCECC, Tax Inspectorate, Customs Service and prosecutor's offices to the extent of their jurisdiction are responsible for tracing, seizing and freezing assets. Assets seized by law enforcement are incorporated into the state budget, not a separate fund. In 2007, issued decisions freezing and seizing assets totaling MDL 14.8 million (approximately U.S. \$1.3 million).

The banking community generally cooperates with enforcement efforts of the FIU and the CCECC to trace funds and seize or freeze bank accounts. However, the GOM currently lacks adequate resources, training, and experience to trace and seize assets effectively. The GOM does not have a national system for freezing terrorist assets. The GOM has no separate law providing for the sharing with other countries of assets seized from narcotics and other serious crimes. However, nothing in the current legal structure would prohibit such activity.

Article 279 of the Moldovan Criminal Code criminalizes terrorist financing. It is defined as a "serious crime." Moldova regulates efforts to combat terrorist financing in the Law on Combating Terrorism, enacted on November 12, 2001. Article 2 defines terrorist financing, and Article 8/1 authorizes suspension of terrorist and related financial operations. This statute is separate from the aforementioned money laundering law, which contains other relevant provisions.

In 2007, the CCECC issued a decree on actions to be taken to enforce the provisions of the Law on Preventing and Combating Money Laundering and Terrorism. The CCECC decree listed groups

worthy of particular focus given possible money laundering or terrorist financing concerns. These groups included countries that may produce narcotics; countries that do not have legal provisions against money laundering and terrorist financing; countries with a high crime rate and corruption; countries operating offshore centers; and persons, groups, and entities identified as participating in terrorist activities. The decree was developed on the basis of Moldova's national interests and U.S. and UN lists of designated terrorists. Currently, the Moldovan authorities have not frozen, seized, or forfeited assets related to terrorism and terrorist financing. Reportedly, no indigenous alternative remittance systems exist in Moldova, although the use of cash couriers is common. No special measures have been taken to investigate misuse of charitable or nonprofit entities.

In December 2006, the GOM signed a \$24.7 million Threshold Country Program with the Millennium Challenge Corporation that focuses on anti-corruption measures. The GOM requested funding to address areas of persistent corruption including the judiciary, health care system, tax, customs and law enforcement. Moldova is listed as 111 out of 180 countries in Transparency International's 2007 Corruption Perception Index.

The GOM has no bilateral agreement with the United States for the exchange of information regarding money laundering, terrorism, or terrorist financing investigations and proceedings. However, Moldovan authorities continue to solicit USG assistance on individual cases and cooperate with U.S. law enforcement personnel when presented with requests for information or assistance. The FIU has entered into bilateral agreements to exchange information with financial intelligence units of Albania, Belarus, Bulgaria, Croatia, Estonia, Georgia, Indonesia, Korea, Lebanon, Lithuania, Macedonia, Romania, Russia, and Ukraine.

Moldova is a party to the 1988 UN Drug Convention, the International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. On October 1, 2007, the GOM ratified the UN Convention against Corruption. 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. Moldova is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The FIU is currently pursuing membership in the Egmont Group of financial intelligence units.

The Government of Moldova should continue to enhance its existing anti-money laundering and counter-terrorist financing regime. The GOM should ensure that the FIU and law enforcement agencies have sufficient resources, training, and tools to adequately analyze and investigate suspected cases of money laundering and terrorist financing. Moldova should improve the mechanisms for sharing information and forfeiting assets. Border enforcement and antismuggling enforcement should be priorities. The GOM should continue the momentum of its anticorruption efforts.

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 is also reported not to face the ordinary forms of organized crime. Existing crime does not seem to generate significant illegal proceeds, with the exception of fraud and offenses under the "Law on Checks." Monaco remains on an Organization for Economic Cooperation and Development (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 U.S. \$102.8 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 five 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 concentrate on portfolio management and private banking. Subsidiaries of foreign banks operating in Monaco may withhold customer information from their parent banks.

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. Article 8 of Sovereign Order 632 of August 2006 clarifies the circumstances under which pseudonyms can be used by banks.

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.

Although the French Banking Commission supervises Monegasque credit institutions, Monaco shoulders the responsibility for legislating and enforcing measures to counter money laundering and terrorist financing. The Finance Counselor, located within the Government Council, is responsible for anti-money laundering and counter-terrorist financing (AML/CTF) implementation and policy.

Money laundering in Monaco is a crime under 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 to money laundering.

Monaco's anti-money laundering legislation, as amended, requires banks, insurance companies, stockbrokers, corporate service providers, portfolio managers, some trustees, and institutions within the offshore sector to report suspicious transactions to Monaco's financial intelligence unit (FIU), 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. Act 1.162, as amended, institutes procedural requirements regarding internal compliance, client identification, and retention and maintenance of records. Sovereign Order 16.615 of January 2005 and Sovereign Order 631 of August 2006 mandate additional customer identification measures. Designated nonfinancial businesses and professions, such as lawyers, notaries, accountants, real estate brokers, and dealers in precious metals and stones, are not subject to reporting or record-keeping requirements.

Offshore companies are subject to the same due diligence and suspicious reporting obligations as banking institutions, and Monegasque authorities conduct on-site audits. Act 1.253 strengthens the "know your client" obligations for casinos and obliges companies responsible for the management and

administration of foreign entities not only to report suspicions to Monaco's FIU, but also to implement internal AML/CTF procedures. The FIU monitors these activities.

Monaco's FIU, the Service d'Information et de Controle 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 Article 4 of Law 1.162, 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 2006. In 2006, SICCFIN received 395 STRs, about 50 percent of which were submitted by banks and other financial institutions. SICCFIN received 60 requests for financial information from other FIUs in 2006. No statistics are currently available on the number of reports or requests received by SICCFIN in 2007.

Investigations and prosecutions 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 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 U.S. \$17 million) in value as of year-end 2006. Monaco and the United States signed a seized asset sharing agreement in March 2007.

In July and August 2002, the Government of Monaco (GOM) passed Act 1.253 and promulgated two Sovereign Orders intended to implement United Nations Security Council Resolution 1373 by outlawing terrorism and its financing. Monaco passed additional Sovereign Orders in April and August of that year, importing into Monegasque law the obligations of the UN International 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) in March 2002 on the sharing of information between the two bodies. The GOM considers this MOU an important tool to combat financial crime, particularly money laundering. SICCFIN has signed information exchange agreements with over 20 foreign FIUs. In March 2007, Monaco ratified the European Convention on Mutual Assistance in Criminal Matters. Monaco has neither signed nor ratified the European Convention on Extradition, although it has concluded 15 extradition treaties with various countries. To date, there have been no extraditions on the grounds of money laundering, although the GOM has extradited criminals guilty of other offenses, mainly to Russia.

Monaco is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). SICCFIN is a member of the Egmont Group of financial intelligence units. 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. The GOM has neither signed nor ratified the UN Convention against Corruption.

The Government of 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 fully applying its AML/CTF reporting, customer identification, and record-keeping

requirements to all trustees and gaming houses. The GOM should also consider extending AML/CTF regulations to designated nonfinancial businesses and professions. 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. Monaco should become a party to the UN Convention against Corruption.

Morocco

Morocco is not a regional financial center, but money laundering is a concern due to its narcotics trade, vast informal sector, trafficking in persons, and large level of remittances from Moroccans living abroad. According to the 2007 World Drug Report by the United Nations Office on Drugs and Crime (UNODC), Morocco remains a principal producer and exporter of cannabis, while credible estimates of Morocco's informal sector range between 17 and 40 percent of GDP. In 2006, remittances from Moroccans living abroad valued \$5.4 billion, approximately nine percent of GDP. Although the true extent of the money laundering problem in the country is unknown, conditions exist for it to occur. In the past few years, the Kingdom of Morocco has taken a series of steps to address the problem, most notably the enactment of a comprehensive anti-money laundering (AML) bill in May 2007 and the establishment of a Financial Intelligence Unit, expected to become operational in Rabat in early 2008.

The predominant use of cash, informal value transfer systems and remittances from abroad all help fuel Morocco's informal sector. Bulk cash smuggling is also a problem. There are unverified reports of trade-based money laundering, including under-and over-invoicing and the purchase of smuggled goods. Most businesses are cash-based with little invoicing or paper trail. Cash-based transactions in connection with cannabis trafficking are of particular concern. According to the UNODC, Morocco remains the world's principal producer of cannabis, with revenues estimated at over \$13 billion annually. While some of the narcotics proceeds are laundered in Morocco, most proceeds are thought to be laundered in Europe.

Unregulated money exchanges remain a problem in Morocco and were a prime impetus for Morocco's recent AML legislation. Although the legislation targets previously unregulated cash transfers, the country's vast informal sector creates conditions for this practice to continue. The Moroccan financial sector is underdeveloped, consisting 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—that monitors and regulates the banking system. A separate Foreign Exchange Office regulates international transactions.

Since 2003, Morocco has taken a series of steps to tighten its AML controls. In December 2003, the Central Bank issued Memorandum No. 36, in advance of pending AML legislation that 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, retention of suspicious activity reports, and mandated "know your customer" procedures. In 2007, Morocco's AML efforts took a significant step forward with parliamentary passage and promulgation of a comprehensive AML law, which draws heavily from Financial Action Task Force (FATF) recommendations. The law requires the reporting of suspicious financial transactions by all responsible parties, both 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. There were no prosecutions for money laundering in Morocco in 2007.

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, investigations into the Ansar Al Mahdi and Al Qaeda in the Islamic Maghreb (AQIM) terrorist organizations are ongoing. At least two suspects arrested as part of the Ansar Al Mahdi cell 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. On May 9, 2007, Morocco ratified the UN Convention against Corruption. Morocco is ranked 72 out of 179 countries surveyed in Transparency International's 2007 International Corruption Perception Index. 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).

In June 2003, Morocco adopted a comprehensive counterterrorism bill. This 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 counterterrorism law brought Morocco into compliance with UNSCR 1373 requirements for the criminalization of the financing of terrorism. Other AML controls include legislation prohibiting anonymous bank accounts and foreign currency controls that require declarations to be filed when transporting currency across the border.

The Government of Morocco should continue to implement anti-money laundering/counter-terrorist financing (AML/CTF) programs and policies that adhere to world standards, including a viable FIU that receives, analyzes, and disseminates financial intelligence. The informal economy is very significant in Morocco and authorities are likely to face major challenges as the new AML regime is implemented. Police and customs authorities, in particular, should receive training on recognizing money laundering methodologies, including trade-based laundering and informal value transfer 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 originates 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 national borders within the EU, the Dutch authorities run special operations in its border areas with Germany and Belgium to keep smuggling to a minimum. Reportedly, money laundering amounts to 18.5 billion euros (approximately U.S. \$27.14 billion) 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 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 broad application of the money laundering provisions by stating that the public prosecutor does not need to prove the exact origin of laundered proceeds for conviction, and that the general criminal origin as well as the knowledge of the perpetrator may be deduced 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 U.S. \$66,000), while "liable acts" of money laundering (by 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 U.S. \$66,000). Habitual money launderers may be punished with a maximum imprisonment of six years and a maximum fine of 45,000 euros (approximately U.S. \$66,000), 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 (AML) 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 certain thresholds (varying from 2,500 to 15,000 euros or approximately U.S. \$3,670 to \$21,000), as well as any less substantial transaction that appears unusual (applying a broader standard than "suspicious" transactions) to the Netherlands' financial intelligence unit (FIU-the Netherlands). Reporting requirements have been expanded to include financing companies, commercial dealers of high-value goods, notaries, lawyers, real estate agents/intermediaries, accountants, business economic consultants, independent legal advisers, tax advisors, trust companies and other providers of trust-related services. In 2007, the notary sector supervisor, BFT, reported that seven notaries allegedly violated AML rules but due to client confidentiality, the names of the notary firms were not released. . Reportedly, the agencies received cash payments above the reporting threshold and failed to report, and facilitated quick transfers of ownership for property. BFT investigators found 192 suspicious cases in 2004 and 2005, and a similar number in 2006 and 2007. The BFT has requested amended legislation.

Since 2005, the GON has implemented measures to enhance the effectiveness of its AML regime. A November 2005 National Directive on money laundering crimes mandates a financial investigation in every serious crime case, sets guidelines for determining when to prosecute for money laundering and provides technical explanations of money laundering offenses, case law, and the use of financial

intelligence. Revised indicators determine when an unusual transaction report must be filed. The indicators reflect a partial shift from a rule-based to a risk-based system and are aimed at reducing the administrative costs of reporting unusual transactions without limiting the preventive nature of the reporting system. Amendments to the Services Identification Act and Disclosure Act expand supervision authority and institute punitive damages. The revised legislation, which became effective on May 1, 2006, also incorporates a terrorist-financing indicator in the reporting system.

Financial institutions are required by law to maintain records necessary to reconstruct financial transactions for 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. All 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. The Money Transfer and Exchange Offices Act, 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 must be identified and all transactions totaling more than 2,000 euros (approximately U.S. \$2,935) must be reported to the FIU. Sharing of information by Dutch supervisors does not require formal agreements or memoranda of understanding (MOUs).

The FIU for the Netherlands is a hybrid administrative-law enforcement unit that in 2006 combined the original, administrative FIU MOT (Meldpunt Ongebruikelijke Transacties, or 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 BLOM merged, the resulting entity was integrated within the National Police (KLPD). The new unit, FIU-the Netherlands, not only provides an administrative function that receives, analyzes, and disseminates the unusual and currency transaction reports filed by banks, financial institutions and other reporting entities, but it also provides a police function that serves as a point of contact for law enforcement. It forwards suspicious transaction reports (STRs) with preliminary investigative information to the Police Investigation Service. Over the last five years, the MOT and the BLOM have responded to international requests for financial and law enforcement information, including those from counterpart FIUs, so this merger has not changed the nature of the Dutch reporting system with respect to international cooperation. FIU-the Netherlands is a member of the Egmont Group.

Obligated entities that fail to file reports with the FIU-the Netherlands can be prosecuted in two ways. One of the four supervisory bodies, depending on the entity, may impose an administrative fine of up to 32,670 euros (approximately U.S. \$47,905), depending on the size of the entity. The Dutch Tax Administration supervises commercial dealers; the Bureau Financieel Toezicht (BFT or Office for Financial Oversight) supervises notaries, lawyers, real estate agents, and accountants; de Nederlandsche Bank (Dutch Central Bank) supervises trust companies, casinos, banks, bureaux de change, and insurance companies; and the Authority for Financial Markets supervises clearinghouses, brokers, and securities firms. The public prosecutor may fine nonreporting entities 11,250 euros (approximately \$16,495), or charge individuals failing to report with prison terms of up to two years. Under the Services Identification Act, those subject to reporting obligations must identify their clients, including the identity of beneficial owners, either at the time of the transaction or prior to the transaction, before providing financial services.

The FIU receives every unusual transaction report electronically through its secure website. In 2005, the FIU-the Netherlands received 181,623 reports and forwarded 38,481, totaling over 1.1 billion euros (approximately U.S. \$1.6 billion), to enforcement agencies such as the police, fiscal police, and public prosecutor. In 2006, the FIU-the Netherlands received 172,865 unusual transaction reports and forwarded 34,531, totaling over 9.2 billion euros (approximately U.S. \$13.5 billion) to enforcement agencies as suspicious transactions for further investigation. The average amount reported was 26,870 euros (approximately U.S. \$39,400) in 2006, a decrease from the 28,945 euros (approximately U.S.

\$42,440) average reported in 2005. Approximately 89 percent of the transactions are in euros, 8 percent are in other European currency (of which 5 percent are in English Pounds) and finally 3 percent of the transactions are in U.S. dollars.

To facilitate the forwarding of STRs, the FIU 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 enforcement agencies. On January 1, 2003, the former MOT and BLOM organizations together created a special unit (the MBA unit) to analyze data generated from the IST. Under the new FIU-the Netherlands structure, the MBA continues to analyze IST data and 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. The FIU-the Netherlands provides the AML division of Europol with suspicious transaction reports, and Europol applies the same analysis tools as the FIU.

Current legislation requires Customs authorities to report unusual transactions to the FIU-the Netherlands. On June 15, 2007, EU regulation 1889/2005 on Liquid Assets Control introduced a currency declaration requirement for amounts valued over 10,000 euros for travelers entering and leaving Schengen-agreement countries. Travelers crossing Dutch borders must complete a declaration form. The Dutch use specially trained dogs at ports and airports to identify cash smugglers in 2006 finding four million euros (approximately \$5.9 million) in passenger luggage at Schiphol airport.

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 proceeds tracked to illegal activities. Both moveable property and claims are subject to confiscation. Assets can be seized as a value-based confiscation. Legislation defines property for the purpose of confiscation as “any object and any property right” and provides for the seizure of additional assets controlled by a drug trafficker. Proceeds from narcotics asset seizures and forfeitures are deposited in the general fund of the Ministry of Finance.

To facilitate the confiscation of criminal assets, the GON has instituted special court procedures that enable law enforcement to continue financial investigations 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, BOOM played a leading role in the creation of an informal international network of asset recovery specialists aiming to exchange information and share expertise. Known as the Camden Asset Recovery Network (CARIN), this network was established in The Hague in September 2004. .

Statistics provided by the Office of the Public Prosecutor show that the assets seized in 2006 amounted to 17 million euros (approximately U.S. \$24.9 million). This compares with 11 million euros in 2005 and 11 million euros in 2004 (approximately U.S. \$14.5 million and U.S. \$13 million respectively, based on the exchange rates at the time). 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 authorities 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 designed a centralized approach for large confiscation cases and a more flexible approach for handling smaller cases. The improvements took effect in 2006 and have significantly increased 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 jihad, and conspiracy to commit a terrorist act, 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," passed in 1977, was 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 EU Clearinghouse process. 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 FIU all transactions (actually carried out or intended) involving persons, groups, and entities that have been linked, either domestically or internationally, with terrorism. Any terrorist crime automatically qualifies 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. 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 Dutch have taken steps to freeze the assets of individuals and groups included on the UNSCR 1267 Sanctions Committee's consolidated list.

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 a target is identified. 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 thus included in the list that circulated pursuant to 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 2004 Act on Terrorist Offenses introduced Article 140A of the Criminal Code, which criminalizes participation in a terrorist organization, 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. Nine individuals were convicted in March 2006 on charges of membership in a terrorist organization. Legislation expanding the use of special investigative techniques was enacted in February 2007.

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 client 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 with 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 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 improve Dutch efforts to fight fraud, money laundering, and terrorist financing by replacing the current initial screening of founders of private and public-limited partnerships and foundations with an ongoing screening system. The GON aimed to introduce the new system in 2007.

Certain groups of immigrants use informal banks to send money to their relatives in their countries of origin. However, indicators point to the misuse of these informal banks for criminal purposes, including a small number of informal bankers deliberately engaging in money laundering transactions and cross-border transfers of criminal money. 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 has initiated 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 EU Money Laundering Directive and plans to implement the Third EU Money Laundering Directive through the adoption of a new act on combating money laundering and terrorist financing that will enter into force in 2008.

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 bilateral implementing instruments for the U.S.-EU mutual legal assistance and extradition treaties; the agreements have not yet been ratified. One provision of the U.S.-EU legal assistance agreement would facilitate the exchange of information on bank accounts. In 2007, the Dutch Ministry of Justice and the Dutch National Police began working two operational money laundering initiatives with U.S. law enforcement authorities in the Netherlands. This is the first time that such operations have been attempted in the Netherlands.

The FIU supervised the PHARE Project for the European Union. The PHARE Project was the European Commission's Anti-Money Laundering Project for Economic Reconstruction Assistance and provided support to Central and Eastern European countries in the development and/or improvement of AML regulations. When the PHARE project concluded in December 2003, the FIU 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), which the FIU continues to use.

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 was a founding member of the CARIN asset-recovery network, and participates in the Caribbean Financial Action Task Force as a Cooperating and Supporting Nation. As a member of the

Egmont Group, the FIU 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, 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 Netherlands should continue its shift to the risk-based approach throughout its regulatory and AML/CTF regime, as well as proceed with enacting its new AML/CTF legislation. The GON should continue with its plans implementing a screening system for private and public-limited partnerships, including attendant requirements for all charities to register with a supervisory state or state-sanctioned body. The Netherlands should obtain statistics and examine the progress that has been achieved since the improvements in the asset forfeiture regime have been implemented. The GON should devote more resources toward getting better data and a better understanding of alternate remittance systems in the Netherlands, and channel more investigative resources toward tracing informal bank systems.

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 Netherlands Antilles' banking sector consists of seven local general banks, 14 investment institutions, one subsidiary of a foreign general banks, two branches of foreign general banks, 12 credit unions, six specialized credit unions, one savings bank, four savings and credit funds, 15 consolidated international banks, 18 nonconsolidated international banks, and 22 pension funds. The laws and regulations on bank supervision provide that international banks must have a physical presence and maintain records on the island. There are multiple insurance companies, including three subsidiaries of foreign life insurance companies, seven branches of foreign life insurance companies, six subsidiaries of foreign nonlife insurance companies, six branches of foreign insurance companies, and six independent insurance companies. In addition, there are two captive life insurance companies, 13 captive nonlife insurance companies, four professional reinsurance companies, and one other health insurance company.

The Netherlands Antilles has an offshore financial sector with 84 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 2007, there were a total of 14,191 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 four-operator member and nine-nonoperator member licensed Internet gaming companies.

In February 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 offense in the Netherlands Antilles under the 1993 National Ordinance on the penalization of money laundering (O.G. 1993, no. 52), as amended by a 2001 National Ordinance (O.G. 2001, no. 77). This legislation establishes that prosecutors do not need to prove that a suspected money launderer also committed an underlying crime to obtain a money laundering conviction. 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. 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 required by law to report suspicious transactions to the financial intelligence unit (FIU), the Meldpunt Ongebruikelijke Transacties (MOT NA). Obligated entities are also required to report all transactions over NAF 250,000 (approximately U.S. \$142,000). Banks are required to maintain records for ten years and all other financial intermediaries must maintain records for five years. The GONA is currently amending its legislation to add designated nonfinancial businesses and professions as reporting entities, including lawyers, accountants, notaries, jewelers and real estate agents. It is expected that the legislation will be passed in 2008. Obligated entities are required to report suspected terrorist financing activity to the MOT NA as well, although terrorist financing is not a criminal offense in the Netherlands Antilles.

The MOT NA was established under the Ministry of Finance in 1997. Through October 2006, the MOT NA received 10,788 suspicious transaction reports totaling U.S. \$1.3 billion. Of these, 283 were reported to the relevant law enforcement authorities. No statistics are currently available for 2007. The MOT NA currently has a staff of nine, and is engaged in increasing the effectiveness and efficiency of its reporting system. Progress has been reported in automating suspicious 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 MOT NA hosted a Kingdom of the Netherlands seminar in October 2007. The Government of the Netherlands plans to provide technical support to the MOT NA to improve their analytical capabilities with regard to terrorist financing.

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 Central Bank also supervises insurance companies, insurance brokers, mutual funds and administrators of these funds, and company service providers, all of which must be licensed by the Central Bank. The Central Bank has issued anti-money laundering guidelines for banks, insurance companies, pension funds, money transfer services, financial administrators, and company service providers. The guidelines also specifically include terrorist 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 must report of the transportation of NAF 20,000 (approximately U.S. \$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 U.S. \$142,000) and/or face one year in prison.

In 2000, the GONA enacted the National Ordinance on Freezing, Seizing and Forfeiture of Assets Derived from Crime. The law allows the prosecutor to seize the proceeds of any crime proven in court. Civil forfeiture is not permitted.

Terrorist financing is not a separate crime in the Netherlands Antilles, although acts that can be considered to support terrorism are criminalized in Articles 49 and 50 of the Criminal Code. Although terrorist financing is not per se a crime, the GONA enacted legislation in 2002 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) between the Netherlands and the United States with regard to the Netherlands Antilles, signed in 2002, entered into force in March 2007. The Mutual Legal Assistance Treaty between the Netherlands and the United States applies to the Netherlands Antilles; however, the treaty is not applicable to requests for assistance relating to fiscal offenses addressed 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 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). The Netherlands Antilles is also a member of the Offshore Group of Banking Supervisors. The Kingdom of the Netherlands has extended its ratification 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 enable the Netherlands to extend ratification of the Convention to the Netherlands Antilles. Likewise, the Kingdom of the Netherlands has not yet extended ratification of the UN Convention against Transnational Organized Crime or the UN Convention against Corruption to the Netherlands Antilles.

The Government of the Netherlands Antilles has demonstrated a commitment to combating money laundering. However, 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. The Netherlands Antilles should also 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 ensure that anti-money laundering regulations and reporting requirements are extended to designated nonfinancial businesses and professions.

Nicaragua

Nicaragua is not a regional financial center or a major drug producing country. However, it 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 the rule of law, judicial corruption, the politicization of the public prosecutor's office and the Supreme Court, and insufficient funding for law enforcement institutions, makes Nicaragua's financial system an attractive target for money laundering. Nicaragua's geographical position—with access to both the Atlantic and the Pacific Oceans, porous border crossings to its north and south, and a lightly inhabited and underdeveloped Atlantic Coast area—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, human trafficking, and the financing of terrorism. 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.

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 regulation 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.

A number of foreign institutions own significant shares of the Nicaraguan financial sector. In 2008, GE Consumer Finance, one of the largest financial service firms in the world, will become the owner of Banco de America Central (BAC), which operates in several Central American countries, including Nicaragua. In 2007, HSBC purchased Banistmo, a Panamanian bank, and now operates under that name in Nicaragua. Most large Nicaraguan banks already maintain correspondent relationships with Panamanian institutions.

The entry into force of the Central America/Dominican Republic Free Trade Agreement (CAFTA-DR) in 2006 and the increased pace of regional integration suggest growing involvement of Nicaraguan financial institutions with international partners and clients. A new free trade agreement (FTA) with Taiwan will go into effect in 2008, which should expand Nicaragua's financial relationships with Asia. Nicaragua also just concluded FTA negotiations with Panama and, along with its Central American neighbors, is expected to begin negotiating an FTA with the EU.

As of January 2007, a total of 109 companies operate in 38 designated free trade zones (FTZs) in Nicaragua. As of December 2006, an estimated 80,000 persons were employed by companies operating in FTZs, producing a total of \$900 million in export sales. The National Free Trade Zone Commission (CNZF), a state-owned corporation, regulates all FTZs and the companies located in them. The Nicaraguan Customs Agency also monitors all imports and exports of FTZ companies. While there is no indication that these FTZs are being used in trade-based money laundering schemes or by the financiers of terrorism, a June 2007 inspection by U.S. Customs agents uncovered evidence of transshipments of Chinese-made apparel.

On November 13, 2007, Nicaragua's National Assembly passed a new penal code that criminalizes terrorist financing, bulk cash smuggling, and money laundering beyond drug-related offenses. The penal code also expands legal protection for the financial sector, and defines crimes against the banking and financial system. When implemented, the new penal code should bring Nicaragua's anti-money laundering and counter-terrorist financing regime into greater compliance with the international standards of the Financial Action Task Force. However, the penalty for committing money laundering is still relatively low by international standards, with a sentence of five to seven years. The new penal code does not provide for the creation of an FIU.

While the adoption of the new penal code demonstrates the Government of Nicaragua's (GON) commitment to fight the financing of terrorism, money laundering, and other financial crimes, limited resources, corruption (including 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. Although the current Prosecutor General once advocated a narrow interpretation of money laundering law that only would penalize the laundering of proceeds from narcotics trafficking and not from other illegal activities, he now supports the formation of an FIU and by extension the prosecution of a wider range of money laundering-related offenses. However, the National Prosecutor's Office has still failed to prosecute a single money laundering case. This enforcement problem is exacerbated by the fact that the country does not have an operational FIU. The National Prosecutor's Office has prosecuted at least four cases of cash smuggling, although these crimes are currently considered only customs violations.

Law 285 of 1999 requires all financial institutions (including stock exchanges and insurance companies) 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 and to keep records for five years. 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 U.S. \$10,000 or its equivalent in foreign currency. All financial institutions not supervised by SIBOIF are required to report suspicious transactions directly to the CAF. Bank officials are held responsible for all of their institution's actions, including failure to report money laundering, and sanctions may be imposed on 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.

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. Officers in financial institutions charged with reporting suspicious transactions to the SIBOIF are also unprotected legally with regard to their cooperation. Given the corruption in the judicial system, this exposure can limit the willingness of SIBOIF to make "unpopular" decisions; however, the institution's financial experts have reached out to the Nicaraguan National Police (NNP) to work with them. The SIBOIF has regularly fined banks for not reporting suspicious transactions. 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, has resulted in a greater adherence by banks to the reporting requirements contained in Law 285.

On paper, the CAF is comprised 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 fully dedicated, trained personnel, equipment and strategic goals. All of its members have primary responsibilities in their parent institutions, which take precedence over CAF duties. The CAF is headed by the National Prosecutor, who receives the reports from banks and decides whether to refer them to the NNP for further investigation.

The NNP's Economics Crimes Unit and the Office of the National Prosecutor are in charge of investigating financial crimes, including money laundering and terrorist financing. The Office of the National Prosecutor is in the process of creating its Economic Crimes Unit to work in tandem with the NNP. The United States has successfully supported the creation of a vetted unit within the NNP. The

unit has been conducting investigations into money laundering and drug related crimes since March 2007 and is expected to work closely with the Attorney General's office.

In October 2007, following publicity that highlighted the consequences of Nicaragua's being one of the few countries in Latin America without an FIU, the National Assembly renewed debate on a 2004 bill creating an independent FIU. The 2004 bill creates a central, independent FIU that would replace and enhance the functions of the CAF and establish more stringent reporting requirements. In August 2007, the SIBIOF suggested amendments to the bill before the National Assembly that would bring the proposed FIU into compliance with all Egmont Group of FIUs requirements.

Under the new penal code adopted by the National Assembly in November 2007, terrorism and its financing are now crimes in Nicaragua. Through five SIBIOF administrative decrees, the GON also has the authority to identify, freeze, and seize terrorist-related assets, but has not as yet identified any such active cases. Reportedly, there are no hawala or other similar alternative remittance systems operating in Nicaragua, and the GON 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.

There are over 300 micro-finance institutions (MFI) in Nicaragua, serving over 300,000 clients and handling over U.S. \$400 million. MFIs in Nicaragua dominate the informal economy and manage a significant portion of the remittances. Over half of this market is handled by five institutions that have now converted to become formal banks. One institution, Banco Pro-Credit, is a branch of a German MFI institution that also has branches in Eastern Europe and Africa. The MFI sector has grown steadily at about 25 percent per year since 1999. While the five MFIs that are now formal banks are regulated by the SIBIOF, all the others are currently unregulated. These institutions are, however, still subject to the reporting requirements in Law 285 and to financial crimes listed in the current Penal Code. Any crimes committed fall under the jurisdiction of the Economic Crimes unit of the National Police and the National Prosecutor's Office.

Nicaragua is a party to the 1988 United Nations Drug Convention, the UN International Convention on the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The GON 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). 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 Americas that does not have an FIU and is not a member of the Egmont Group of FIUs. Due to corruption in the Nicaraguan judiciary, the United States has cut off direct assistance to the Nicaraguan Supreme Court.

The Government of Nicaragua has made progress in its efforts to combat financial crime by expanding the predicate crimes for money laundering beyond narcotics trafficking and criminalizing terrorist financing. However, the GON also needs to allocate the necessary resources to develop an effective financial intelligence unit, and combat 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 counter-terrorist financing standards and controls.

Nigeria

Although the Federal Republic of Nigeria is not an offshore financial center, Nigeria's 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, reportedly 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 socioeconomic conditions to strengthen their ability to perpetrate 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, and identity theft. In addition, advance fee fraud, also referred to internationally as "419" fraud, in reference to the fraud section in Nigeria's criminal code, is a lucrative financial crime that generates hundreds of millions of illicit dollars annually for criminals. 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 2006 and 2007.

In June 2001, the Financial Action Task Force (FATF) placed Nigeria on its list of noncooperative countries and territories (NCCT). In December 2002, Nigeria enacted two pieces of legislation to remedy the deficiencies. It passed an amendment to the 1995 Money Laundering Act extending the scope of the law to cover the proceeds of all crimes. The Government of Nigeria (GON) also passed an amendment to the 1991 Banking and Other Financial Institutions (BOFI) Act expanding coverage of the law to stock brokerage firms and foreign currency exchange facilities, giving the Central Bank of Nigeria (CBN) greater power to deny bank licenses, and allowing the CBN to freeze suspicious accounts. The third piece of legislation, the 2004 Economic and Financial Crimes Commission (Establishment) Act, established the Economic and Financial Crimes Commission (EFCC), the body that investigates and prosecutes money laundering and other financial crimes, and coordinates 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 AML regime. FATF recognized that the GON had remedied the major deficiencies in its anti-money laundering (AML) regime and removed Nigeria from the NCCT list.

Since its inception in April 2004, the EFCC has had the mandate to investigate and prosecute financial crime. It has recovered or seized assets from people guilty of fraud both 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. EFCC members also embarked upon a campaign to identify and prosecute former officials. Some EFCC members have been killed for their efforts to expose and enforce the laws against corruption and financial crime.

The National Assembly passed the Money Laundering (Prohibition) Act (2004), which applies to the proceeds of all financial crimes. Nigeria also employs the 1995 Foreign Exchange (Monetary and Miscellaneous Provisions) Act. 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. Money laundering controls apply to banks and other financial institutions, including stock brokerages and currency exchange house, as well as designated nonfinancial businesses and professions (DNFBPs). 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 businesses that the Federal Ministry of Commerce designates as obliged. The EFCC Act provides safe-harbor provisions to

obliged entities. 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 Special Control Unit Against Money Laundering (SCUML), is a special unit in the Ministry of Commerce which monitors, supervises, and regulates the activities of all DNFBPs. Oversight, however, has reportedly not been very rigorous or effective. Amendments to the 2004 EFCC Act gave the EFCC the authority to investigate and prosecute money laundering, 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 Nigerian Financial Intelligence Unit (NFIU), established in 2005, derives its powers from the Money Laundering (Prohibition) Act of 2004 and the Economic and Financial Crimes Commission Act of 2004. Housed within the EFCC, it is the central agency for the collection, analysis and dissemination of information on money laundering and terrorist financing. The NFIU is a significant component of the EFCC, complementing the EFCC's directorate of investigations. It does not carry out its own investigations. Legal provisions give the NFIU power to receive suspicious transaction reports (STRs) submitted by financial institutions and designated nonfinancial businesses and professions. The NFIU also receives reports involving the transfer to or from a foreign country of funds or securities exceeding U.S. \$10,000 in value. All financial institutions and designated nonfinancial institutions are required by law to furnish the NFIU with details of these financial transactions.

The NFIU fulfills a crucial role in receiving and analyzing STRs. As a result of the NFIU's activities, banks have improved both their timeliness and quality in filing STRs reported to the NFIU. The NFIU has access to records and databanks of all government and financial institutions, and it has entered into memoranda of understandings (MOUs) on information sharing with several other FIUs. In 2006, the NFIU received 3,772,843 currency transaction reports (CTRs). Out of the 47 cases the NFIU developed, 12 investigations are ongoing, and the NFIU disseminated 18 and placed 10 under monitoring. The NFIU closed seven in-house cases. Because the disseminated cases are still under investigation, no formal feedback came from stakeholders in either 2006 or 2007. There were 73 money laundering convictions from January 2005 through October 2006. The trial court process has improved after several experienced judges received assignments specifically to handle EFCC cases; encouraged, EFCC officials have brought more cases to court. Additional information for 2007 is not available.

Due to the EFCC's activities, the enactment of new laws, and a public enlightenment campaign, crimes such as bank fraud and counterfeiting have been reported and prosecuted, sometimes for the first time. The EFCC is the agency with the most capacity to effectively investigate and prosecute financial crimes, including money laundering and terrorist financing. The EFCC coordinates agencies' efforts in pursuing financial crime investigations. 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. Reportedly, the Nigerian Police Force is incapable of handling financial crimes because of alleged corruption and poor institutional capacity.

In 2007, the EFCC marked significant successes in combating financial crime. Through EFCC efforts, a former inspector general of police was arrested and prosecuted for financial crimes valued at over U.S. \$13 million. The GON seized his assets and froze his bank accounts. Currently serving a prison sentence, he still faces 92 charges of money laundering and official corruption. Five former state governors are under investigation for money laundering. The EFCC is working with the FBI on a case involving a group of money brokers laundering money through banks in the United States. In 2006, the EFCC received a surge of petitions and leads provided by whistleblowers. Reportedly, many of

these alleged abuses of office involved politically exposed persons (PEPs) and/or their collaborators. As the period coincided with preparations for the general elections in 2007, some of the investigations were politically charged. The Legal and Prosecution Unit, responsible for the prosecution of all cases, is examining 437 of these cases for possible prosecution.

The Unit prosecuted several high profile cases involving powerful and well connected persons and their associates. The EFCC filed 588 cases between 2006 and mid-2007. In 2007, the Legal Unit had obtained 53 convictions by mid-year. Investigations led to the recovery of approximately 30 billion naira (approximately U.S. \$259 million). Suspects returned several other billions of naira when it became apparent that the Commission was about to expose the abuses. Some governors were arrested for laundering their state government funds. The Executive Chairman, appearing before the Senate to present a report of the Commission's activities, revealed allegations of corrupt practices and abuse of office reportedly associated with 31 out of the 36 then serving Governors. Some of the Governors had constitutional immunity that expired in May 2007. They are now standing trial in various courts for various offenses including money laundering.

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. Depending on the nature of the case, the tracing, seizing, and freezing of assets may be executed by the EFCC, NDLEA, NPF, or the ICPC. The proceeds from seizures and forfeitures pass to the federal government, and the GON uses a portion of the recovered sums to provide restitution to the victims of the criminal acts. The banking community is cooperating with law enforcement to trace funds and seize or freeze bank accounts. Since its establishment the EFCC has reportedly seized assets worth \$5 billion.

Section 20 of the 2004 EFCC Act provides for the forfeiture of assets and properties to the federal government after a money laundering conviction. Foreign assets are also subject to forfeiture. The properties subject to forfeiture are set forth in EFCC Act Sections 24-26, and include any real or personal property representing the gross receipts a person obtains directly as a result of the violation of the act, or traceable to such receipts. They also include any property representing the proceeds of an offense under the laws of a foreign country within which the offense or activity would be punishable for more than one year. All means of conveyance, including aircraft, vehicles, or vessels used or intended to be used to transport or facilitate the transportation, sale, receipt, possession or concealment of the economic or financial crimes is likewise subject to forfeiture. Forfeiture is possible only as part of a criminal prosecution. There is no comparable law providing for civil forfeiture independent of a criminal prosecution, but the EFCC has established a committee addressing this deficiency by drafting legislation.

The EFCC has the authority to prevent the use of charitable and nonprofit entities as money laundering vehicles, although it has not reported any cases involving these entities.

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. 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. Perpetrators use the Internet to target businesses and individuals around the world.

The Government of Nigeria continued throughout 2007 with its efforts to eradicate 419 crimes. GON efforts previously led to the successful prosecution and conviction of a number of them, but the problem is far from over. Following the promulgation of the Advance Fee Fraud Act 2006 the EFCC held an interactive session with stakeholders. The EFCC also briefed cyber cafe operators, business

centers, Internet service providers, telecommunication companies and banks on their responsibilities under the new law. One of their requirements is to register their businesses with the EFCC. To keep pace with the sophistication with which the fraudsters operate, the EFCC deployed interception technology to enhance the investigation of crimes, particularly those committed through cyberspace. The Advance Fee Fraud Unit burst several employment, credit card, and e-payment scams, shut down several domains and cloned websites, raided residential houses, seized computers, and blocked fraudulent e-mail addresses, telephone lines and faxes associated with cybercrimes. Despite the progress the EFCC has made, there have been few recorded successes as a result of the EFCC's cybercrime initiatives.

The EFCC's success in investigating and prosecuting financial crime, especially high-level corruption, has brought it both the support of the international community and the ire of corrupt officials. In December 2007, the Government of Nigeria reassigned the EFCC Chairman, the country's highest ranking and most publicly visible anti-corruption official, Nuhu Ribadu, to a year-long training course. This reassignment coincides with the high-profile trials of several officials, including seven former governors. Ribadu has served as the face of Nigerian AML/CTF efforts, and his removal could undermine the perception of the GON's commitment to fighting corruption. The reassignment of Ribadu may also impact the NFIU's autonomy and its ability to act independently.

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. Nigerian financial institutions periodically receive the UNSCR 1267 Sanctions Committee's consolidated list, but have not yet detected a case of terrorist financing within the banking system.

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 has also ratified the African Union Convention on the Prevention and Combating of Terrorism and the African Union Convention on Preventing and Combating Corruption. Nigeria ranks 147 out of 180 countries in Transparency International's 2007 Corruption Perceptions 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. The EFCC worked with foreign partners to raid notorious cyber cafes to curtail the activities of the 419 fraudsters. The EFCC collaborated with the United States Postal Service and the UK Serious and Organized Crime Agency (SOCA) to intercept over 15,000 counterfeit checks. A collaboration scheme between the EFCC, the United States, the UK and the Dutch was constituted to more effectively address the problem of international fraud, including identity theft and e-marketing fraud. Nigeria is a member of the Intergovernmental Task Force against Money Laundering in West Africa (GIABA), a FATF-style regional body. During 2007, Nigeria held the Directorship General of GIABA. The NFIU is a member of the Egmont Group.

The Government of Nigeria continued to pursue money laundering both within and outside the country in 2007. Nigeria should continue to pursue its anti-corruption program and support both the ICPC and EFCC in their mandates to investigate and prosecute corrupt government officials and individuals. Nigeria should take steps to ensure the autonomy and independence of those entities. GON should strengthen the authority of the SCUML to supervise designated nonfinancial businesses and professions by moving the Special Control Unit out from under the Ministry of Commerce. The GON should continue to engage with the FATF and other relevant international organizations to identify and

eliminate remaining anti-money laundering deficiencies. Nigeria should ensure that the Police Force has the capacity to function as an investigative partner in financial crime cases, as well as work to eradicate any corruption that might exist within that and other law enforcement bodies. Nigeria should continue to support the EFCC's efforts, including drafting a law for civil forfeiture provisions to the AML/CTF framework, and pursuing those who commit financial crime, regardless of political status. Nigeria should continue towards implementation of a comprehensive AML 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, corruption and fraud are significant problems. Pakistan is a major drug-transit country. The abuse of the charitable 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 does not have firm control of its borders with Afghanistan, Iran and China, facilitating the flow of smuggled goods to the Federally Administered Tribal Areas (FATA) and Baluchistan. Some goods such as foodstuffs, electronics, building materials, and other products transiting Pakistan duty-free under the Afghan Transit Trade Agreement are sold illegally in Pakistan. Counterfeit goods generate substantial illicit proceeds that are laundered. Private unregulated charities are also a major source of illicit funds for international terrorist networks. Madrassas have been used as training grounds for terrorists and for terrorist funding. The lack of control of madrassas, similar to the lack of control of Islamic charities, allows terrorist and jihadist 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 purposes, although controls have been significantly tightened since 2002. In June 2004, the State Bank of Pakistan required all hawaladars to register as authorized foreign exchange dealers and to meet minimum capital requirements. Despite the State Bank of Pakistan's efforts, unlicensed hawaladars still operate illegally in parts of the country (particularly Peshawar and Karachi), and authorities have taken little action to identify and enforce the regulations prohibiting nonregistered hawaladars. Most illicit funds are transacted through these unlicensed operators. Fraudulent invoicing is typical in hundi/hawala counter valuation schemes. However, legitimate remittances from the roughly five million Pakistani expatriates residing abroad, sent via the hawala system prior to 2001, now flow mostly through the formal banking sector and have increased significantly to U.S. \$5.5 billion in 2006-2007.

Pakistan has established a number of Export Processing Zones (EPZs) in all four of the country's provinces. Although no evidence has emerged of EPZs being used in money laundering, inaccurate invoicing is common in the region and could be used by entities operating out of these zones. In 2007, the Directorate General of Customs Intelligence (DGCI) investigated a well-known Pakistani business group involved with trade-based money laundering. The business over-invoiced the value and quantity of the exports of garments and textiles to Dubai and Saudi Arabia. The chairman of the business group and his partners held 49 percent shares in the Dubai-based company that imported many of the goods. The investigation also revealed that the business group used hawala to transfer large amounts of money and value through a prominent foreign exchange company based in Karachi. From 2001-2007, the value of the trade consignments totaled U.S. \$330 million.

Pakistan has adopted measures to strengthen its financial regulations and enhance the reporting requirements for the banking sector to reduce its susceptibility to money laundering and terrorist financing. For example, financial institutions are required to follow “know your customer” provisions and must report within three days any funds or transactions they believe are proceeds of criminal activity.

Pakistan became a member of the Asia/Pacific Group on Money Laundering (APG) in 2000, therefore accepting the APG requirement that members develop, pass and implement anti-money laundering and counter-terrorist financing legislation and other measures based on accepted international standards. A high-level APG delegation visited Pakistan in early July 2007 to discuss Pakistan’s long-delayed passage of comprehensive anti-money legislation. At its July plenary, APG members agreed that unless Pakistan enacts and proclaims into force consolidated AML legislation or issues a Presidential Ordinance prior to December 31, 2007, Pakistan’s membership could be suspended.

On September 8, President Musharraf signed an ordinance to implement the long-awaited AML bill through a presidential ordinance. While creating this ordinance averted suspension of membership in the APG, Pakistan still has work ahead to meet international standards, especially the core FATF Recommendations related to the criminalization of money laundering and suspicious transaction reporting.

Some of the weaknesses identified in the new AML Ordinance include the following: Not all of the FATF designated categories of offenses (e.g., smuggling, racketeering, trafficking in persons, sexual exploitation, arms trafficking, and environmental crime) are covered as predicate offenses. The intent and knowledge requirement required to prove the offense of money laundering is not consistent with the standards set out in the Vienna and Palermo Conventions. Only the concealment of criminal proceeds is an offense, not the transfer of legitimate money to promote criminal activity. The definition of what constitutes a suspicious transaction is not adequate as it does not cover cases where an individual “suspects” or “has reason to suspect” that funds are the proceeds of criminal activity. The Ordinance also does not contain any specific requirement to report transactions in relation to terrorist financing. The forfeiture procedures set forth in the law are cumbersome and will inhibit the successful seizure and confiscation of property involved in offenses. Lastly, the reporting structure of the Financial Monitoring Unit may affect its independence and effectiveness.

The AML ordinance formally establishes a Financial Monitoring Unit (FMU) to monitor suspicious transactions. However, it is subject to the supervision and control of the General Committee, comprised of several Government of Pakistan (GOP) cabinet secretaries, thus limiting its independence. Because Pakistan has lacked a central repository for the reporting of suspicious transactions and the lack of protection from liability for reporting, very few suspicious transactions have been reported or utilized. From July 2006 through June 2007, 22 suspicious transactions were reported to the State Bank of Pakistan by various banks and five referred to law enforcement agencies for investigation. Currently, the FMU has yet to be fully staffed and investigators have not been adequately trained.

Several law enforcement agencies are responsible for enforcing financial crimes laws. The National Accountability Bureau (NAB), the Anti-Narcotics Force (ANF), the Federal Investigative Agency (FIA), and the Directorate of Customs Intelligence and Investigations (CII) all oversee Pakistan’s financial enforcement efforts. In addition to the 2007 Anti-Money Laundering Ordinance, 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 criminalizes acts of money laundering associated with drug offenses and requires the reporting of narcotics related suspicious transactions. The NAB, FIA, ANF and customs have the ability to seize

assets whereas the State Bank of Pakistan has the ability to freeze assets. The ANF shares information about seized narcotics assets and the number of arrests with the USG.

Pakistan has also adopted measures to strengthen its financial regulations and enhance the reporting requirements for the financial sector to reduce its susceptibility to money laundering and terrorist financing. The State Bank of Pakistan and the Securities and Exchange Commission of Pakistan (SECP) are the country's primary financial regulators. They have established AML units to enhance financial sector oversight. However, these units often lack defined jurisdiction and adequate resources to effectively supervise the financial sector on AML/CTF controls. The State Bank of Pakistan has introduced regulations on AML that are generally consistent with the FATF recommendations in the areas of "know your customer" and enhanced due diligence procedures, record retention, the prohibition of shell banks, and the reporting of suspicious transactions. The Securities and Exchange Commission of Pakistan, which has regulatory oversight for nonbank financial institutions, has also applied "know your customer" regulations to stock exchanges, trusts, and other nonbank financial institutions.

Pakistan has specifically criminalized various forms of terrorist financing under the Anti-Terrorism Act (ATA) of 1997. Sections 11H-K provide that a person commits an offence if he is involved in fund raising, uses and possesses property, or is involved in a funding arrangement intending that such money or other property should be used, or has reasonable cause to suspect that they may be used, for the purpose of terrorism. Pakistan has the ability to freeze bank accounts and property held by terrorist individuals and entities. Pakistan has issued freezing orders for terrorists' funds and property in accordance with UN Security Council Resolutions 1267 and 1373. The State Bank of Pakistan circulates to its financial institutions the list of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list. The ATA of 1997 also allows the government to proscribe a fund, entity or individual on the grounds that it is involved with terrorism. This done, the government may order the freezing of its accounts. Section 11B of the ATA specifies that an organization is proscribed or listed if the GOP has reason to believe that it is involved with terrorism. In 1997, 16 names were listed in annex to the ATA; none have been added since. As of 2006, bank accounts of 43 individuals and entities had been frozen under various UNSCRs. However, there have been some deficiencies concerning the timeliness and thoroughness of the asset freezing.

A Charities Registration Act has been under consideration by the Ministry of Welfare for some time. Currently, the Economic Affairs Division of the Ministry of Finance is reviewing the draft text and will then forward the bill to the Ministry of Law for review. The bill will then require approval by the cabinet and National Assembly, unless issued as a Presidential Ordinance by the President. 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 of Social Welfare 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.

Current efforts to crack down on the flow of illicit funds via charitable organizations are limited to closure of the charity. There is little follow-up on suspect individuals associated with charities in question, thus allowing them to operate freely under alternate names. The court system has also failed to affirm Pakistan's international obligations and maintain closure of UN-proscribed charitable organization. In one such case, a provincial court in Karachi permitted a charity to continue operating in the face of a closure order, provided the charity in question only engaged in humanitarian operations. The GOP failed to aggressively appeal this court decision.

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. The State Bank of Pakistan legally allows individuals to carry up to U.S. \$10,000 in dollars or

the foreign currency equivalent. In tracking the cross border movement of currency Pakistan currently has reporting requirements only for the exportation of currency not the importation of currency. Although there is no requirement for the inbound reporting of currency, Pakistan is in compliance with FATF's Special Recommendation IX as they have the ability to ask anyone entering Pakistan if they are bringing in any currency. There are joint counters at international airports staffed by the State Bank of Pakistan and Customs to monitor the transportation of foreign currency. As a result of cash courier training received by Pakistan in 2006, their efforts to stop and seize the illicit cross-border movement of cash have increased. For example, during 2007 authorities made a number of significant cash seizures at the international airports in Karachi, Lahore and Peshawar as well as land border crossings.

Pakistan is party to the 1988 UN Drug Convention and the UN Convention against Corruption and has signed, but not ratified, the UN Convention against Transnational Crime. Pakistan is not a signatory to the UN International Convention for the Suppression of the Financing of Terrorism. Pakistan is ranked 138 out of 180 countries monitored in Transparency International's 2007 Corruption Perception Index.

Although the Government of Pakistan has adopted a long-awaited AML ordinance by presidential decree after years of delay and stall tactics, the GOP needs to amend the current AML Ordinance or pass additional legislation to remedy the number of deficiencies which exist, ensure that the legal provisions are made permanent, and make it fully compliant with international standards. The Presidential Ordinance was valid for only four months and was due to expire in early January 2008. At expiry, the AML Ordinance must be "re-enacted" or ratified by the National Assembly. Pakistan's Financial Monitoring Unit (FMU) needs to be further staffed and strengthened and should be given operational autonomy rather than subject to the supervision and control of the General Committee, comprised of political ministers. The GOP should also issue implementing regulations to consolidate and de-conflict the reporting obligations of suspicious transactions contained in various laws and regulations. Since few suspicious transaction reports are filed, Pakistan should not become dependent on these reports to initiate investigations but rather law enforcement authorities should be proactive in pursuing money laundering in their field investigations. In light of the role that private charities have played in terrorist financing, Pakistan must work quickly to conduct outreach, supervise and monitor charitable organizations and activities, and close those that finance terrorism. In accordance with FATF Special Recommendation IX, Pakistan should implement and enforce cross-border currency reporting requirements and focus greater efforts in identifying and targeting illicit cash couriers. Pakistan should also become a party to the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of Terrorist Financing.

Palau

Palau is an archipelago of more than 300 islands in the Western Pacific with a population of 20,900 (approximately 5,000 of which are foreign guest workers) and per capita GDP of about U.S. \$7,000 (a large percentage of which comes from international financial assistance).

Upon its independence in 1994, the Republic of Palau entered the Compact of Free Association with the United States. The U.S. dollar is the legal tender used by the country, though it is not the official currency of Palau. 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. Palauan authorities 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, human 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 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. Two years after the introduction of proposed amendments, an amended MLPCA was signed into law on December 19, 2007.

The original act did not establish requirements for the recording of cash and bearer securities transactions of U.S. \$10,000 and above, and only required the reportage of suspicious transactions in excess of U.S. \$10,000. The MLPCA did mandate that records be kept for five years from the date of the transaction. All such transactions (domestic and international) are required to go through a credit or financial institution licensed under the laws of the Republic of Palau. Credit and financial institutions are required to verify customers' identity and address. In addition, these institutions are required to check for information by "any legal and reasonable means" to obtain the true identity of the principal/party upon whose behalf the customer is acting. If identification cannot be confirmed, the transaction must cease immediately.

The amended MLPCA, in addition to generally tightening up the original law, now sets higher standards for record keeping, requires the recording of cash and bearer securities transactions in excess of U.S. \$10,000, removes the dollar threshold on suspicious transactions and requires "alternative remittance systems" to be licensed and maintain records of all transactions in excess of U.S. \$1,000. The amendment also requires currency transactions over U.S. \$5,000 to be effected by wire transfer and also authorizes the Financial Institutions Commission (FIC) to conduct random compliance audits on credit or financial institutions. Palau also monitors cross border transportation of currency through a declaration form requiring travelers to declare U.S. \$10,000 or more.

The MLPCA defined offenses of money laundering as: 1) conversion or transfer of property for the purpose of concealing its illegal origin; 2) concealing or disguising the illegal nature, source, location, disposition, or ownership of property; and 3) acquisition, possession, or control of property by any person who knows that the property constitutes the proceeds of crime as defined in the law. The law provides for penalties of a fine not less than U.S. \$5,000, nor more than double the amount the convicted individual laundered or attempted to launder, whichever is greater, or imprisonment of not more than 10 years, or both. Corporate entities or their agents are subject to a fine double that specified for individuals. The law protects individuals who report suspicious transactions.

The Financial Institutions Act of 2001 established the Financial Institutions Commission (FIC), an independent regulatory agency, which is responsible for licensing, supervising and regulating financial institutions, defined as banks and security brokers and dealers in Palau. An amendment intended to strengthen the supervisory powers of the FIC and promote greater financial stability within Palau's banking sector passed its first reading in the Senate in January 2005. The Senate Committee on Ways and Means and Financial Matters did not report out the bill until December 2006 when it merely referred it back to the Committee for further study. This amendment still has not become law. The insurance industry is not currently regulated by the FIC. Most insurance companies in Palau are companies registered in the U.S. or the U.S. Territory of Guam.

The Free Trade Zone Act of 2003 created the Ngardmau Free Trade Zone (NFTZ). A public corporation, Ngardmau Free Trade Zone Authority, was established to oversee the development of the NFTZ. The Authority also issues licenses for businesses to operate within the free trade zone. Businesses licensed to operate within the free trade zone will not be subject to the requirements of the Foreign Investment Act and will be exempt from certain import and export taxes. No development has taken place within the area designated for the free trade zone and the NFTZ directors continue to search for developers and investors.

Currently there are seven licensed banks in Palau, the majority ownership of which is primarily foreign. The three largest retail banks—Bank of Hawaii, Bank of Guam and BankPacific are all branches of American banks. In addition there are three banks chartered in Palau (Asia Pacific Commercial Bank, First Fidelity Bank and Palau Construction Bank) and one chartered in Taiwan (First Commercial Bank.)

On November 7, 2006, the FIC closed the second largest and the only locally owned bank, Pacific Savings Bank (PSB), for illiquidity and insolvency. The Receiver and a Special Prosecutor hired specifically for the purpose of developing cases related to the failure of PSB have filed a number of civil and criminal actions against former bank managers and insiders. An additional five to ten cases are currently being prepared. Investigations and litigation, though hampered by lack of resources, continue.

With the legal framework now being made more robust, the weakest link in Palau's money laundering prevention regime is the paucity of human and fiscal resources. The operations of the government's Financial Intelligence Unit (FIU) are severely restricted by a lack of dedicated human resources and no dedicated budget. The FIU works under the Office of the Attorney General and is responsible for receiving, analyzing, and processing suspicious transaction reports, and disseminating the reports as necessary. In addition, the FIU is responsible for tracing, seizing, and freezing assets.

Another impediment to enforcement is the lack of implementing regulations to ensure compliance with the amended MLPCA. With the passage of the 2007 amendment, however, these can now be developed.

The will of the Executive branch to comply with international standards 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 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 Taiwan and the Philippines for mutual sharing of information and interagency cooperation in relation to financial crimes and money laundering.

In 2004 The President also sent the Cash Courier Act, drafted by the Palau Anti-Money Laundering Working Group, to the legislature. 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, like the bill intended to strengthen the FIC, it remains.

The Counter-Terrorism Act of 2007 includes 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 Counter-Terrorism Act specifically addresses Palau's obligation under UN Security Council Resolution 1373. Palau is a party to the UN International Convention for the Suppression of the Financing of Terrorism. Under the Act, acts of terrorism that cause loss of life are punishable by a prison term of 20 years to life and a maximum fine of U.S. \$1,000,000. All other acts of terrorism are punishable by a prison term of 10 years to life and a maximum fine of U.S. \$1,000,000.

Donations over U.S. \$5,000 to any nonprofit organization are to be recorded. The organization must maintain the record for 3 years and must provide it to the FIU upon request. Donations over U.S. \$10,000 are to be reported to the Office of the Attorney General and FIU. Any suspicious donations are also to be reported to the Office of the Attorney General and FIU. Penalties for violations are: 1) a fine not to exceed U.S. \$10,000; 2) a temporary ban on operations for up to 2 years; or 3) the dissolution of the organization.

The Government of Palau (GOP) has taken several steps toward enacting a legal framework by which to combat money laundering. The GOP should circulate the UNSCR 1267 Sanctions Committee Consolidated list of terrorist entities. The GOP should provide more resources to its FIU, and provide more assistance to and proactively support the work of the Pacific Savings Bank Special Prosecutor. The GOP should enact the Cash Courier Act and carefully monitor its border points of entry and exit to protect against the smuggling of bulk cash, narcotics and other contraband. The GOP should also implement all aspects of the legal reforms already 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. Panama is also an important regional financial center. Panama's economy is 77 percent service-based, 15 percent industry and 8 percent agriculture. The maritime sector, construction, tourism, and banking are among Panama's most important and fastest growing sectors. Panama has had one of the fastest growing economies in the Western Hemisphere over the last 15 years, and is estimated to have the fastest growing economy in the region during 2007, with GDP growth approaching 10 percent. The funds generated from illegal activity are susceptible of being laundered through a wide variety of methods in Panama, including the banking system, casinos, bulk cash shipments, pre-paid telephone cards, debit cards, ATM machines, insurance companies, and real estate projects and agents.

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 is the world's second largest free zone after Hong Kong, and 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. The CFZ has over 2,600 business, 25 bank branches, and employs approximately 25,000 personnel. The CFZ is estimated to have imported and re-exported over U.S. \$15 billion in goods during 2007. The ports of Panama handle over 4 million twenty-foot equivalent units (TEUs) of container traffic per year. The CFZ has limited resources to conduct supervisory programs and monitor for illegal activities, with a legal staff of approximately five people who, among other things, oversee efforts to detect money laundering, transshipment, goods smuggling, counterfeit products and intellectual property rights violations.

Panama is one of the world's largest offshore financial centers. Panama's offshore financial sector includes international business companies, offshore banks, captive insurance companies and fiduciary companies. Approximately 34,800 new offshore corporations were registered in Panama in 2007, as of October 2007. As of June 2007, Panamas had 85 commercial banks: 2 official banks, 14 local banks of general license, 26 foreign banks of general license, 34 banks of international license, and nine representative offices. Shell companies are permitted and have been used by a wide range of criminal groups around the world. Bearer shares are permitted for corporations and nominee directors and trustees as are allowed by law. The Government of Panama (GOP) regulates casinos, but does not regulate Internet gaming sites.

Law No. 42 of 2000 requires Panamanian trust companies to identify to the Superintendence of Banks the real and ultimate beneficial owners of trusts. Executive Decree 213 of 2000, amending Executive Order 16 of 1984, provides for the dissemination of information related to trusts to appropriate administrative and judicial authorities. Both the onshore and offshore financial entities are subject to similar regulation by the Superintendence of Banks. The onshore and offshore registration of corporations is also handled by the Public Registry. There are no differing regulations governing onshore and offshore corporations. The application process for a banking license in favor of a bank to be constituted in Panama and a banking license in favor of a foreign bank are substantially the same.

Panama's construction sector, which is growing at double-digit rates, is also susceptible to money laundering activities. In Panama City alone, there is either in process or approved the construction of over 150 buildings of twenty stories or greater. It is estimated that approximately 20,000 high-end condominium units will enter the Panamanian real estate market within the next five years. The bulk of these units are for purchase by foreigners. The developer of one residential project (Resort Paraiso Las Perlas on Isla Chapera in the Gulf of Panama), Jose Nelson Urrego Cardenas, was arrested in 2007 on drug money laundering charges.

Money laundering is a criminal offense in Panama under Law No. 41 of October 2000. Law 41 amends the Penal Code by expanding the predicate offenses for money laundering beyond narcotics trafficking to include criminal fraud, arms trafficking, trafficking in humans, kidnapping, extortion, embezzlement, corruption of public officials, terrorism and international theft or trafficking of motor vehicles. Law No. 1 of 2004 also adds crimes against intellectual property as a predicate offense for money laundering. In May 2007, Law No. 14 was adopted, establishing terrorist financing as a predicate offense for money laundering. Law 41 establishes a 5 to 12 year prison sentence, plus possible fines. Law No. 45 of 2003 also establishes criminal penalties of up to ten years in prison and fines of up to one million dollars for financial crimes that undermine public trust in the banking system, the financial services sector, or the stock market. This law criminalizes a wide range of activities related to financial intermediation, including the following: illicit transfers of monies, accounting fraud, insider trading, and the submission of fraudulent data to supervisory authorities.

Law No. 42 of 2000 requires financial institutions (banks, trust companies, money exchangers, credit unions, savings and loans associations, stock exchanges and brokerage firms, and investment administrators) to report currency transactions in excess of U.S. \$10,000 and suspicious financial transactions to Panama's financial intelligence unit, the Unidad de Análisis Financiero (UAF). Law 42 also mandates casinos, CFZ businesses, the national lottery, real estate agencies and developers, and insurance and reinsurance companies report to the UAF currency transactions that exceed U.S. \$10,000. Furthermore, Law 42 requires Panamanian trust companies to identify to the Superintendent of Banks the beneficial owners of trusts. Additionally, Law 16 of 2005, which regulates the activities of pawnshops, requires such enterprises to report suspicious transactions to the UAF. Financial institutions are prohibited from informing their client or third parties that they have transmitted any information regarding such transactions to the UAF. Law 42 protects reporting entities from civil and criminal suits with respect to providing the information required by the law and otherwise cooperating with law enforcement entities.

Money Laundering and Financial Crimes

The Superintendent of Banks is responsible for supervising both onshore and offshore financial institutions with regard to their anti-money laundering and counter-terrorist financing (AML/CTF) requirements. In 2000, Panama's Superintendence of Banks issued Agreement No. 9 of 2000 that defines requirements that banks must follow for identification of customers, exercise of due diligence, and retention of transaction records and increased the number of finance company inspections. In 2005, the Superintendence of Banks modified that Agreement, to include fiduciary companies within the prevention measures and to bring the banking center into line with international standards and Financial Action Task Force (FATF) recommendations. Financial institutions must have sufficient information to adequately identify their customers. They must examine every cash (or cash equivalent) transaction in excess of \$10,000 or a series of transactions that in the aggregate exceed U.S. \$10,000 in any given week. Additionally, they must examine with special attention, any transaction, regardless of amount, which could be related to money laundering activity. Financial institutions must also establish procedures and mechanisms for internal controls to prevent money laundering related activities. Financial institutions must also insure that their employees are aware of these laws and regulations.

A number of other supervisory bodies have regulatory responsibility for AML/CTF compliance purposes. The Ministry of Commerce and Industry is responsible for supervising money remittance houses, financing companies, real estate promoters and agents, pawnshops, and companies located in enterprise processing zones. The Panamanian Autonomous Cooperative Institute supervises savings and loan cooperatives, and has established a specialized unit for the supervision of loans and credit cooperatives regarding compliance with Law 42. The National Securities Commission supervises securities firms, stockbrokers, stock exchanges and investment managers, and carries out various training sessions and workshops for its personnel and related entities. The Gaming Commission supervises casinos and other establishments dedicated to betting and games of chance. The Colon Free Zone Authority supervises the companies and activity within the CFZ, and has issued a procedures manual for all CFZ businesses, outlining their responsibilities regarding the prevention of money laundering and the requirements of Law 42. The Superintendence of Insurance supervises insurance companies, reinsurance companies, and insurance brokers.

Executive Decree No. 136 of 1995 establishes the UAF. The UAF falls under the jurisdiction of the GOP's Council for Security and National Defense within the Ministry of the Presidency. The UAF currently has approximately 25 employees. During 2007, the UAF reinforced the analysis department by hiring two new accountants, a financial analyst, and a lawyer. Also, the statistics and typology departments have newly trained personnel. Despite these additions, the UAF is overworked and understaffed, lacks adequate resources, and suffered the loss of experienced personnel in 2007.

The UAF works with other GOP agencies to identify new methods of money laundering and terrorist financing, and participates in the training of financial and nonfinancial sector employees in detecting and preventing money laundering and terrorist financing. During the first six months of 2007, the UAF trained 1,476 individuals, 59 percent of which were banking employees, 29 percent of which were government employees, and 12 percent of which were financial service employees.

The UAF has access to the records or databases of other government entities that have public websites or public investigative offices. The UAF has online access with other GOP entities to access information from the public registry, traffic department, electoral tribunal, as well as information on immigration movements and travelers' declarations of the cross-border transportation of currency. The UAF may also request additional information from financial institutions in writing.

Once the UAF has reviewed all cash transaction reports (CTRs) or suspicious transaction reports (STRs) and gathered any other relevant information from reporting institutions and other government agencies, the UAF provides information related to possible money laundering or terrorist financing to the Office of the Attorney General for investigation. Money laundering cases involving narcotics are

handled by the Drug Prosecutor's Office within the Office of the Attorney General. The Judicial Technical Police (Sección de Investigaciones Financieras, or SIF, similar in function to the Federal Bureau of Investigation) provides expert assistance to the prosecutors. The UAF routinely transfers cases to the financial investigations unit of the SIF for investigation.

As of November, the UAF received 1,012 STRs in 2007, of which 170 were sent to the Attorney General's Office for further action. During all of 2006, the UAF investigated 935 suspicious transaction reports (843 from banks), of which 158 were sent to the Attorney General's Office. During the second quarter of 2007, the UAF received 63,752 CTRs, a 3.8 percent increase from the same period in 2006. The total amount reported via CTRs during the first six months of 2007 was \$2.7 billion, a 46.9 percent increase from the same period in 2006. Approximately 91 percent of the reports came from banks, and 4.5 percent from exchange houses. The UAF attributes the increase in CTRs to the growth in the Panamanian economy. As of October, the Drug Prosecutor's Office reported 43 drug-related money laundering arrests in 2007.

Under Panamanian customs regulations, any individual bringing cash in excess of \$10,000 into Panama must declare such monies at the point of entry. If such monies are not declared, they are confiscated and are presumed to relate to money laundering. Some GOP officials have expressed concern at the millions of dollars in cash they have seen brought into Panama from Colombia. The actual movement/transfer of this cash is legal insofar that it was declared to both Colombian and Panamanian customs. However, the GOP maintains that it cannot vouch for the legitimate origins of said cash. All instances of cash smuggling are required to be reported into a database maintained by Panamanian customs.

On August 10, 2007, Law 38 entered into force. Law 38 provides for the seizure of assets derived from criminal activity. Upon an arrest, assets are frozen and seized. The assets are released upon a judge's order to the defendant in the event of a dismissal of charges or acquittal. In the event of a conviction, assets derived from money laundering activity related to narcotics trafficking are delivered to the National Commission for the Study and Prevention of Narcotics Related Crimes (CONAPRED) for administration and distribution among various GOP agencies. Seized perishable assets may be sold and the proceeds deposited in a custodial account with the National Bank. Responsibility for tracing, seizing and freezing assets lies principally with the Drug Prosecutor's Office of the Attorney General's Office. The GOP has not enacted legislation allowing for civil forfeiture or the sharing of seized assets with other governments.

Law 50 of 2003 criminalizes the financing of terrorism. Under Law 14 of May 2007, terrorist financing and terrorist acts, among other offenses, are now predicate offenses for money laundering. Panama circulates to its financial institutions the list of individuals and entities included on the United Nations Security Council Resolution 1267 Sanctions Committee list. The Ministry of Foreign Relations sends the UAF and the Superintendence of Banks a copy of a diplomatic note or letter with the names of terrorist organizations or financiers designated by the U.S. Government or the UN. The UAF in turn sends it to the appropriate regulators, who in turn send it to the regulated entities. The GOP does not have an independent national system or mechanism for freezing terrorist assets.

Executive Decree 524 of 2005, as amended by Executive Decree 627 of 2006, establishes procedures to regulate, supervise, and control nongovernmental organizations and charities, including regulatory procedures to combat terrorism and prevent terrorist financing. Press reports, however, have questioned the degree to which the nongovernmental organizations are complying with their reporting and registration requirements.

Decree No. 22 of June 2003, gave the Presidential High Level Commission against Narcotics Related Money Laundering responsibility for combating terrorist financing. The Panama Public Force (PPF) and the judicial system have limited resources to deter terrorists, due to insufficient personnel and lack of expertise in handling complex international investigations. The GOP has a border security

cooperation agreement with Colombia, and has also increased funds to the PPF to help secure the frontier. The GOP also created within the Ministry of Foreign Affairs the Department of Analysis and Study of Terrorist Activities. This department is tasked with working with the United Nations and the Organization of American States to investigate transnational issues, including money laundering. Panama has an implementation plan for compliance with the FATF Forty Recommendations on Money Laundering and its Nine Special Recommendations on Terrorist Financing.

Panama and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995. The GOP has also assisted numerous countries needing help in strengthening their anti-money laundering programs, including Guatemala, Costa Rica, Russia, Honduras, and Nicaragua. Executive Decree No. 163 authorizes the UAF to share information with FIUs of other countries, subject to entering into a memorandum of understanding or other information exchange agreement. The UAF has signed more than 43 memoranda of understanding with foreign FIUs, including the Financial Crimes Enforcement Network (FinCEN), the U.S. FIU.

Panama is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD), and the Caribbean Financial Action Task Force. Panama is also a member of the Offshore Group of Banking Supervisors, and the UAF is a member of the Egmont Group. Panama is a party to the 1988 UN Drug Convention, 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.

The Government of Panama has a comprehensive legal framework to detect, prevent, and combat money laundering and terrorist financing, and cooperates with the United States and other countries with criminal investigations of drug trafficking, money laundering, and financial crimes. Panama nonetheless remains vulnerable to money laundering owing to its lack of adequate enforcement, personnel and resources, the sheer volume of economic transactions, its location as a major drug transit country, and corruption. The GOP should consider adopting legislation that allows for civil forfeiture and the freezing of terrorist assets, and enhance law enforcement efforts to address such vulnerabilities as smuggling, abuse of the real estate sector, trade-based money laundering, and the proliferation of nontransparent offshore companies. The GOP should also ensure that the UAF and other law enforcement and regulatory entities have sufficient personnel and resources.

Paraguay

Paraguay is a principal money laundering center involving the banking and nonbanking financial sectors. The multi-billion dollar contraband trade that occurs on the borders shared with Argentina and Brazil, the Tri-Border Area, facilitates much of the money laundering in Paraguay. Paraguay is a major drug-transit country. The Government of Paraguay (GOP) suspects 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, open borders, and minimal enforcement activity for financial crimes allow money launderers and terrorist financiers to take advantage of Paraguay's financial system.

Ciudad del Este (CDE), on Paraguay's border with Brazil and Argentina, represents the heart of Paraguay's informal economy. The area is well known for arms and narcotics trafficking and violations of 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, computer software, and games, are imported from Asia and transported across the border into Brazil, with a 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 involved in smuggling contraband or pirated goods.

Paraguay is particularly vulnerable to money laundering, as little personal background information is required to open a bank account or to conduct financial transactions. 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. Offshore banking in Paraguay is illegal. While casinos exist, offshore casinos do not, and Internet gambling is marginal, largely due to limited Internet connectivity throughout the country. Shell companies and trust funds structures are legal but are seldom used and uncommon in the financial system. At present, the financial sector seems to lack the depth and sophistication to use these structures. The nonbank financial sector operates in a weak regulatory environment with limited supervision. Credit unions or “cooperatives” are one of the main nonbank agents in the economy, rapidly growing in membership and representing over 20 percent of deposits and 33 percent of loans in the financial system. The organization responsible for regulating and supervising credit unions, the National Institute of Cooperatives (INCOOP), is an independent body that provides regulatory and supervisory guidelines, but lacks the capacity to enforce compliance. Exchange houses are another nonbank sector where enforcement of compliance requirements remains limited.

On December 20, 2007, Paraguay’s Congress approved a new penal code that includes enhanced legislation on money laundering. In January 2008, the President of Paraguay signed the law and it entered into force. Under the new penal code, money laundering is an autonomous crime, punishable by a prison term of up to five years. The new code establishes predicate offenses for money laundering, but does not require a conviction for the predicate offense before initiating money laundering charges. The law also allows the state to charge financial sector officials who negligently permit money laundering to occur. Under Paraguayan law, the implementation of the new penal code will be delayed for one year to allow for the training of judges and prosecutors.

Another bill amending Paraguay’s criminal procedure code is expected in early 2008, and terrorist finance legislation is also expected as a separate bill in 2008, after efforts to include it in the proposed penal code reforms failed in 2007. The proposed amendments to the criminal procedure code would move Paraguay towards a more accusatory system. The reforms would allow criminal investigations to occur without advance notice of the investigation to the subject or the defense attorney, it would lengthen statutes of limitation, and it would allow for confrontation and cross examination of witnesses.

There are other challenges, however, that the proposed money laundering legislation will not address, including limited resources and training. Paraguay added three financial crimes prosecutors in 2007, bringing the total number to 11, but prosecutors still face resource constraints that limit their ability 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 judicial system to its advantage. Now that the new anti-money laundering legislation has been passed as part of the new penal code, training for judges and prosecutors is key to Paraguay’s future prosecutorial successes.

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 forms issued by airlines at the time of entry into Paraguay. Persons transporting U.S. \$10,000 into or out of Paraguay are required to file a customs report, but these reports are not collected or checked. Customs operations at the airports or land ports of entry provide no control of cross-border cash movements. The nonbank financial sector (particularly exchange houses) is used to move illegal proceeds both from within and outside of Paraguay into the U.S. banking system. 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 beginning to recognize and address the problem of the international transportation of currency and monetary instruments derived from illegal sources.

Bank secrecy laws in Paraguay do not prevent banks and financial institutions from disclosing information to bank supervisors and law enforcement entities. Bankers and others are protected under the anti-money laundering law with respect to their cooperation with law enforcement agencies. 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 are required to know and record the identity of customers engaging in significant currency transactions. These entities must also report suspicious activities to Paraguay's financial intelligence unit (FIU), the Unidad de Análisis Financiera (UAF) within the Secretariat to Combat Money Laundering (SEPRELAD) of the Ministry of Industry and Commerce (MIC). The Superintendence of Banks enforces these reporting obligations for banks, but they are not enforced for other financial institutions. In November 2007, the MIC issued new regulations that define reporting requirements and sanctions for noncompliance for the insurance industry and credit unions.

In recent years, the GOP has made significant efforts to strengthen SEPRELAD, but weak leadership and suspicious activity caused SEPRELAD to falter in the first half of 2007, resulting in a halt in information sharing and the departure of several analysts. The GOP dismissed SEPRELAD's director and appointed a new director, former Central Bank president Gabriel Gonzalez, in August 2007. SEPRELAD received over 3,600 suspicious activity reports (SARs) in 2007, but its former director left a backlog of over 3,000 SARs not entered into its system. Director Gonzalez has now updated the system by entering the entire backlog of SARs. He has hired new analysts, who have been vetted and are being trained. SEPRELAD has drafted a bill, not yet pending before Congress, which would make it an independent secretariat reporting directly to the president. SEPRELAD is also hampered by a lack of effective inter-agency cooperation, as there is no formal mechanism for sharing sensitive information. Director Gonzalez is working on creating information sharing mechanisms within the Paraguayan government law enforcement agencies.

SEPRELAD is seeking to strengthen its relationship with other financial intelligence units and has signed agreements for information exchange with regional FIUs. However, its relationship with international and regional anti-money laundering groups, including the Egmont Group and the Financial Action Task Force for South America (GAFISUD), is tenuous. As a result of the GOP's failure to pay any of its dues dating back to 2002 (totaling approximately U.S. \$76,000), GAFISUD placed sanctions on Paraguay in July and suspended its membership on December 1. However, the GOP made a partial payment of its dues after the December 1 deadline, and GAFISUD agreed to reinstate its membership on the condition that the remainder of its arrears will be paid by July 2008. Likewise, while SEPRELAD has been a member of the Egmont Group since 1998, it may be suspended from the Egmont Group in May 2008 if the GOP fails to approve terrorist financing legislation.

Paraguay has taken some measures to tackle illicit commerce and trade in the informal economy and to develop strategies to implement a formal, diversified economy. Transparency International Corruption Perceptions Index ranks Paraguay at number 138 of the 180 countries ranked. The GOP has signed an agreement with the Millennium Challenge Corporation for a \$34.9 million Threshold Program to address corruption problems of impunity and informality, both of which hamper law enforcement efforts and contribute to money laundering. Paraguay's 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. The MIC's Specialized Technical Unit (UTE), working in close coordination with the Attorney General's Trademarks and Intellectual

Property Unit, seized U.S. \$51 million worth of pirated goods during the first ten months of 2007. The Attorney General's Trademarks and Intellectual Property Unit initiated criminal proceedings in 110 cases, but most offenders paid a fine instead of serving jail time. In cooperation with the U.S. Department of Homeland Security's Agency of Immigration and Customs Enforcement (ICE), the GOP established a Trade Transparency Unit (TTU) that examines discrepancies in trade data that could be indicative of customs or tax fraud, trade-based money laundering, or the financing of terrorism. ICE estimates that U.S. \$20 million left Paraguay for the U.S. on a daily basis in 2006, but less than U.S. \$1 million was reported coming in.

Under its current 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 defendant is convicted. 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 the suspect's liability to the government. In the past few years, the anti-narcotics agency, SENAD, has been permitted on a temporary basis to use assets seized in pending cases, but SENAD cannot fully use such assets because the law does not permit the assets to be maintained or repaired. New asset forfeiture legislation is required to make improvements in this regard.

The GOP has no authority to freeze, seize, or forfeit assets related to the financing of terrorism, which is not a criminal offense under Paraguayan law. However, the Ministry of Foreign Affairs often provides the Central Bank and other government entities with the names of suspected terrorists on the UNSCR 1267 Sanctions Committee list. To date, the GOP has not identified, seized, or forfeited any 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.

The GOP has been slow to recognize terrorist financing within its borders. In December 2006, the U.S. Department of Treasury designated nine individuals and two companies operating in the Tri-Border Area as entities that provide financial and logistical support to Hezbollah. The nine individuals have all provided financial support and other services for Specially Designated Global Terrorist Assad Ahmad Barakat, who was designated by the U.S. Treasury in June 2004 for his support to Hizballah leadership. Two companies, Galeria Page and Casa Hamze, are located in Ciudad del Este and are used to generate or move terrorist funds. The GOP publicly disagreed with the designations, stating that the U.S. has not provided any new information that would prove terrorist financing activity occurs in the Tri-Border Area.

In spite of limitations in prosecuting suspected terrorist financiers such as Assad Ahmad Barakat and Kassem Hijazi, who were charged with tax evasion rather than terrorist financing or money laundering, the GOP is making improvements in its ability to successfully investigate and prosecute some money laundering cases. Leoncio Mareco was sentenced to 20 years in prison on August 14, 2007, for drug trafficking and money laundering. His wife, Zulma Rios de Mareco, was sentenced to 10 years in prison for money laundering. According to GOP authorities, the General Attorney's office has eight other active cases pending. These cases reinforce the fact that convictions are possible, although difficult, under the current legal framework.

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 the "3

Plus 1” Security Group between the United States and the Tri-Border Area countries. The GOP is a member of GAFISUD, and SEPRELAD is a member of the Egmont Group.

The Government of Paraguay took a number of positive steps in 2007 to combat money laundering, particularly with the passage of the new penal code and the GOP’s money laundering convictions. However, it should continue to pursue other initiatives to increase its effectiveness in combating 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. The GOP should take steps to ensure that the penal and procedural code reforms are approved and implemented, allowing for a more effective anti-money laundering regime. 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 and counter-terrorist financing legislation is introduced again and adopted. Paraguay also should continue its efforts to combat corruption and increase information sharing among concerned agencies. It should also take the necessary steps to ensure that its Trade Transparency Unit is comprised of vetted employees from all relevant agencies, including SEPRELAD. Further reforms in the selection of judges, prosecutors and public defenders are needed, as well as reforms to the customs agency to allow for increased inspections and interdictions at ports of entry and to develop strategies targeting the physical movement of bulk cash. The GOP should also ensure that its GAFISUD dues are paid, preventing suspension of its membership. It is essential that SEPRELAD continues to receive the financial and human resources necessary to operate as an effective, fully functioning financial intelligence unit capable of combating money laundering, terrorist financing, and other financial crimes.

Peru

Peru is not a major regional financial center, nor is it an offshore financial center. 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. 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 annually, or up to 2.5 percent of Peru’s GDP. As a result, money laundering is believed to occur on a significant scale 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. Approximately 60 percent of the economy is informal and approximately 65 percent 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. There have not been any official studies to establish an approximate percentage of the relationship between money laundering and drug trafficking. However, reports sent from Peru’s financial intelligence unit (FIU), the Unidad de Inteligencia Financiera (UIF), to the Public Ministry (Attorney General’s office) indicate that approximately 45 percent of the money laundering cases have connections to criminal activity stemming from the drug trade.

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 and Insurance, and the Peruvian Congress have conducted numerous investigations, some of which are ongoing, involving dozens of former GOP officials.

Law 27.765 of 2002 criminalizes money laundering in Peru. Prior to its passage, money laundering was only a crime when directly linked to narcotics trafficking, “narcoterrorism,” and nine specific predicate offenses that did not include corruption, bribery, or fraud. Law 27.765 expands the predicate offenses for money laundering to include the laundering of assets related to all serious crimes, such as narcotics trafficking, terrorism, corruption, trafficking of persons, and kidnapping. However, there remains confusion on the part of some GOP officials and prosecutors 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.

Law 27.765 also revises the penalties for money laundering in Peru. 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.

The UIF began operations in June 2003 and today has approximately 48 personnel. In June 2007, the UIF was incorporated into the Office of the Superintendent of Banks and Insurance and a new director was appointed. 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 1,179 STRs in 2006, and 1,007 from January through September 2007.

Obligated entities must also maintain reports on large cash transactions. Individual cash transactions exceeding U.S. \$10,000 or transactions totaling U.S. \$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. Nonfinancial institutions, such as exchange houses, casinos, lotteries or others, must report individual transactions over U.S. \$2,500 or monthly transactions over U.S. \$10,000. Individuals or entities transporting more than U.S. \$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. Any cash transactions that appear suspicious must be reported to the UIF. These reporting requirements are not being strictly enforced by the responsible GOP entities. However, the UIF is able to sanction persons and entities for failure to report suspicious transactions, large cash transactions, or the transportation of currency or monetary instruments.

The UIF does not automatically 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 U.S. \$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.

Law 28.306 of 2004 mandates that obligated entities also report suspicious transactions related to terrorist financing, and expanded the UIF's functions to include the ability to analyze reports related to terrorist financing. In July 2006, the GOP issued Supreme Decree 018-2006-JUS to better implement Law 28.306. The decree also introduces the specific legal framework for the supervision of obligated entities with regard to combating terrorist financing.

Law 28.306 establishes regulatory responsibilities for the UIF. Most obligated 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. Under Supreme Decree 018-2006-JUS, the UIF may participate in the on-site inspections of obligated entities performed by the supervisory body. 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 UIF can also request that a supervisor review an obligated entity that is not under its supervision. 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.

In spite of the expanded regulatory responsibilities of the UIF, some obligated 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 U.S. \$200,000) in transfers per year, and remittances conducted through postal or courier services are supervised by the Ministry of Transportation and Communications. As a result, informal remittance businesses, including travel agencies and small wire transfer 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.

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. The UIF disseminates STRs and other reports that require further investigation or prosecution to the Public Ministry.

Within the counternarcotics section of the Public Ministry, two specialized prosecutors are responsible for dealing with money laundering cases. As of September, the UIF had sent 6 suspected cases of

money laundering stemming from STRs to the Public Ministry for investigation in 2007. To date, there has not been a money laundering conviction in Peru.

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 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 Financial Investigative Office of DINANDRO has seized numerous properties over the last several years, but few were turned over to the police to support counternarcotics efforts. While Peruvian law does provide for asset forfeiture in money laundering cases, and these funds can be used in part to finance the UIF, no clear mechanism exists to distribute seized assets among government agencies. The Garcia Administration included an asset forfeiture law in a package of organized crime legislation presented to the Peruvian Congress in July 2007. The law went into force in November 2007.

Legislative Decree No. 992, published on July 22, 2007, established the procedure for loss of dominion, which refers to the extinction of the rights and/or titles of assets derived from illicit sources, in favor of the GOP, without any compensation of any nature. Likewise, through Legislative Decree No. 635, the penal code was modified to provide more comprehensively for seizure of assets, money, earnings, or other products or proceeds of crime.

Terrorism is considered a particular and long-standing 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 known actions to thwart the misuse of charitable or nonprofit entities that can be used as conduits for the financing of terrorism. Nongovernmental organizations are obliged to report the origins of their funds, according to UIF regulations.

Peru is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the Inter-American Convention against 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 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 a member of the Financial Action Task Force for South America (GAFISUD) and is scheduled to undergo its third GAFISUD mutual evaluation in April 2008. The UIF is a member of 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 and counter-terrorist financing regime in recent years. However, some progress is still required to better comply

with international standards. Although there is an Executive Order criminalizing terrorist financing, Peru should pass legislation that criminalizes terrorist financing. The GOP should also enact legislation that allows for administrative as well as judicial blocking of terrorist assets. There are still a number of weaknesses in Peru's anti-money laundering system: bank secrecy must be lifted to allow the UIF 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. 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 and the GOP should ensure their expedient passage. Anti-corruption efforts in Peru should be a priority. The GOP should address these issues to strengthen its ability to combat money laundering and terrorist financing.

Philippines

Although the Philippines is not a regional financial center, the illegal drug trade in the Philippines has evolved into a billion dollar industry. The Philippines continues to experience an increase in foreign organized criminal activity from China, Hong Kong, and Taiwan. Insurgency groups operating in the Philippines partially fund their activities through local crime, the trafficking of narcotics and arms, and engage in money laundering through ties to organized crime. The proceeds of corrupt activities by government officials are also a source of laundered funds. Smuggling continues to be a major problem. The Federation of Philippine Industries estimates that lost government revenue from uncollected taxes on smuggled items could be over U.S. \$2 billion annually, including substantial losses from illegal imported fuel and automobiles. Remittances and bulk cash smuggling are also channels of money laundering. The Philippines has a large expatriate community.

The Government of the Republic of the Philippines (GOP) initially established its AML/CTF regime by passing the Anti-Money Laundering Act (AMLA) of 2001. The GOP enacted Implementing Rules and Regulations 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 U.S. \$70,000) but no more than twice the value of proceeds 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, as well as insurance companies, securities dealers, foreign exchange dealers, money remitters, and dealers in valuable objects or cash substitutes regulated by the Securities and Exchange Commission (SEC). The GOP amended the AMLA in 2003 to correct certain inadequacies identified by the Financial Action Task Force. The amendments included lowering the threshold amount for covered transactions (cash or other equivalent monetary instrument) from 4,000,000 pesos to 500,000 pesos (approximately U.S. \$100,000 to \$12,000) 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 financial institution in the course of a periodic or special examination (in accordance with the rules of examination of the Central Bank); 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 original 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 “covered transaction reports” (CTRs) filed by regulated institutions. By the end of 2007, the AMLC had received more than 10,469 suspicious transaction reports (STRs) involving 18,269 suspicious transactions, and 103,714,619 CTRs. The AMLC has begun the second phase of its information technology upgrades by installing 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.

On February 28, 2007, the AMLC entered into a Memorandum of Understanding with the Central Bank setting forth the procedures for improved information exchange, compliance and enforcement policies. AMLC’s role goes beyond traditional FIU responsibilities and includes the investigation and prosecution of money laundering cases. AMLC has the ability to seize assets involved in money laundering on behalf of the GOP after a money laundering offense has been proven beyond a reasonable doubt. 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 AMCL is required to obtain a court order to examine bank records for activities not listed in the Act, except for certain serious offenses such as kidnapping for ransom, drugs, and terrorism-related crimes. The AMLC and the courts are working to shorten the time needed so funds are not withdrawn before the freeze order is obtained. The AMLC has frozen funds at the request of the UN Security Council, the United States, and other foreign governments. Through the end of 2007, the AMLC had frozen funds in excess of 1.4 billion Philippine pesos (approximately U.S. \$32 million) and had received 67 official requests for anti-terrorism action, many concerning groups on the UNSCR 1267 Sanction Committee’s consolidated list.

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 be forfeited after conviction, even if the assets constitute a legitimate business. In December 2005, the Supreme Court issued a 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, eliminating confusion arising from the amendment to the AMLA in 2003. As of December 2007, there have been 107 money laundering, civil forfeiture, and related cases in Philippines court system that involved AMLC investigations or prosecutions, including 37 for money laundering, 20 for civil forfeiture, and the rest pertaining to freeze orders and bank inquiries. 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 and the Central Bank jointly and closely monitor compliance by banks and other financial institutions with AMLA provisions. Both have full mechanisms in place to ensure that the financial community is adhering to reporting and other AMLA requirements. Commercial banks, whose assets account for 88 percent of the Philippine banking industry, adopted on October 15, 2007 an electronic money laundering transaction monitoring system which generates transaction reports and suspicious transactions reports in compliance with Central Bank rules. During regular bank examinations, Central

Bank examiners test the capabilities of the banks' electronic money laundering transaction monitoring system. The remaining 12 percent of the banking industry (without electronic monitoring systems) are still required to establish a system for flagging and monitoring suspicious transactions, regardless of the amount.

The AMLC continues to work to bring the numerous foreign exchange offices in the country under its purview. The Monetary Board issued a circular on January 24, 2005 to bring the registration and operations of foreign exchange dealers and remittance agents under the AMLA. To obtain a license, dealers must attend an AML/CTF training course conducted by the AMLC. To date, only about 5,000 of the estimated 15,000 exchange dealers/remittance agents have registered. There are still several sectors operating outside of AMLC control. Although the revised AMLA specifically covers exchange houses, insurance companies, and securities brokers, it does not cover accountants. The AMLC requires car dealers and vendors of construction equipment, which are emerging as money laundering methodologies, to report suspicious transactions to the AMLC. On March 15, 2007 the Central Bank issued Circular 564 establishing guidelines governing the acceptance of valid identification cards including the AMLA's "two-ID requirement" for conducting financial transactions with banks and nonbank financial institutions.

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. All nonstock and nonprofit organizations registered with the Securities and Exchange Commission (SEC) are required to annually submit General Information Sheets and Audited Financial Statements. 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 with the SEC to bring charitable and not-for-profit entities under regulations for covered institutions. To promote transparency, SEC Circular 8 issued in June 2006 revised regulations on the registration, operations, and audit of foundations which are nonstock, nonprofit corporations.

There are seven offshore banking units (OBUs) established since 1976. OBUs account for less than two percent of total banking system assets in the country. The Central Bank regulates onshore banking and exercises regulatory supervision over OBUs, and requires OBUs 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 Central Bank 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 Philippine 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 U.S. \$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 18 percent during the first ten months of 2007, and should exceed \$14 billion for the year, equal to 11 percent of GDP. The Central Bank 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 Philippines 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. OFWs also use underground remittance systems such as hawala.

The Philippines is a founding member of the Asia/Pacific Group on Money Laundering (APG). The AMLC became the 101st member of the Egmont Group of FIUs in July 2005. The GOP 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 GOP is a party to the UN Convention against Corruption. The Philippines is listed 131 out of 180 countries surveyed by Transparency International's 2007 International Corruption Perception Index.

On June 20, 2007 the ALMC filed 165 counts of money laundering against a retired Philippine Army Major General and family members charging them with amassing more than U.S. \$6.5 million in ill-gotten wealth.

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. In 2007, the GOP enacted an anti-terrorism law that defines and criminalizes terrorism and terrorist financing. The Human Security Act which went into effect in July 15, 2007 criminalizes terrorism and conspiracy to commit terrorism; penalizes an offender on the basis of his participation; empowers Philippine law enforcement to use special investigative techniques, inquire into bank accounts, and freeze and forfeit terrorist related funds and assets; creates an Anti-Terrorism Council comprised of cabinet members and support agencies.

The Financial Action Task Force removed the Government of the Republic of the Philippines from its list of Non-Cooperative Countries and Territories in 2005 due to the progress the GOP had made in remedying the deficiencies that resulted in its being placed on the list in 2001. The GOP has continued to make progress enhancing and implementing its amended anti-money laundering regime, including the enactment in 2007 of new legislation that criminalizes terrorism and terrorist financing. The Central Bank should be empowered to levy administrative penalties against covered entities in the financial community that do not comply with reporting requirements. Accountants should be required to report CTRs and STRs. Casinos should be fully regulated and supervised for AML/CTF procedures and required to file STRs. The Philippines 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 GOP should also consider establishing a civil forfeiture regime. 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 lies directly along one of the main routes between the former Soviet Union republics and Western Europe that narcotics traffickers and organized crime groups use. 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 U.S. \$3 to \$5 billion each year. According to the Government of Poland (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. With regard to economic offenses, the largest illegal income is connected with lost customs duties and taxes. Money laundering through trade in scrap metal and recyclable material is a fast developing trend. It is also believed that some money laundering in Poland originates in Russia or other countries of the former Soviet Union. The GOP estimates that the unregistered or gray economy, used primarily for tax evasion, may be as high as 13 percent of Poland's U.S. \$460 billion gross domestic product (GDP). The GOP believes the black economy comprises only one percent of GDP.

Reportedly, some of Poland's banks serve as transit points for the transfer of criminal proceeds. As of June 2007, 51 commercial banks and 584 "cooperative banks" primarily serving the rural and agricultural community had licenses to operate. The GOP considers the nation's banks, insurance companies, brokerage houses, and casinos to be important venues of money laundering. The Finance Ministry maintains that the effectiveness of actions against money laundering involving transfer of money to so-called tax havens is limited. 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 anti-money laundering (AML) regime began in November 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 1997 Banking Act and 1998 Resolution of the Banking Supervisory Commission, add customer identification requirements and institute a threshold reporting requirement.

The November 2000 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, further improves Poland's ability to combat money laundering. This law, which the GOP has updated to conform to EU standards and to improve its operational effectiveness, increased penalties for money laundering and contains safe harbor provisions that exempt financial institution employees from normal restrictions on the disclosure of confidential banking information. Parliament has further amended the law to broaden the definition of money laundering to include assets originating from illegal or undisclosed sources. Poland's initial money laundering regime neglected to address many nonbank financial institutions that had traditionally been used for money laundering. To remedy this deficiency, 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. Entities subject to the reporting requirements include 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, notaries public, 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. Lawyers strongly opposed the amendments, claiming that the law violates attorney-client confidentiality privileges. The Polish Bar 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.

The law also requires casinos to report the purchase of chips worth 1,000 euros (approximately U.S. \$1,400) or more. In addition to requiring that obliged entities notify the financial intelligence unit (FIU) of all financial deals exceeding 15,000 euros (approximately U.S. \$21,000), covered institutions must also file reports of suspicious transactions, regardless of the size of the transaction. Polish law also requires financial institutions to put internal AML procedures into effect, a process that is overseen by the FIU.

The Criminal Code criminalizes money laundering for all serious crimes. Article 299 of the Criminal Code addresses self-laundering and criminalizes tipping off. The Polish Code of Criminal Procedure, Article 237, allows for certain Special Investigative Measures (SIM). Although money laundering investigations are not specifically discussed in relation to SIM, the organized crime provisions might apply in some cases. Poland's National Security Strategy rates the AML effort as a top priority.

The "Act on Counteracting Money Laundering and Terrorism Financing" is undergoing revisions. The revised legislation will implement the EU's Third Money Laundering Directive (Directive 2005/60/EC of the European Parliament and of the Council, on preventing usage of the financial system for money laundering and terrorist financing). The Directive was to be transposed into Polish legislation by 15 December 2007, but October 2007 parliamentary elections and the recent change of government delayed the implementation process.

As of June 15, 2007, travelers entering Poland from a nonEU country or traveling to a nonEU country with 10,000 euros (approximately \$14,500) or more in cash must declare their cash or monetary instruments in writing. To comply with EU standards, Poland's customs law requires travelers to complete and present a customs and currency declaration if they are transporting more than 10,000 euros (approximately U.S. \$14,700) in currency or financial instruments upon entry. In December 2007 the new Schengen countries, including Poland, were enveloped within EU borders. Land border controls between EU member states disappeared on December 20, 2007.

The 2000 AML law provides for the creation of a financial intelligence unit (FIU), the General Inspectorate of Financial Information (GIIF) within the Ministry of Finance, to collect and analyze large cash and suspicious transactions. The vast majority of required notifications to the GIIF come through the electronic reporting system. Only some small institutions lacking the equipment to use the electronic system submit notifications on paper. Although the new system is an important tool for Poland's AML regime, the efficient processing and analyzing of the large number of reports that are sent to the GIIF is 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 continues 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.

In 2006, the GIIF received over 26 million reports from obliged institutions, including 26.7 million cash transaction reports and 48,229 suspicious transaction reports (STRs), the majority of which were cash transaction reports and 90 percent of which came from the banking community. Of these, 47,817 related to money laundering and 412 related to terrorist financing. However, upon completion of preliminary analysis, it was determined that 68 percent of these STRs were erroneous due to a technical error by the filing institution or incomplete information provided on the STR. As a result, only 15,061 of the STRs were accurate and subject to further analysis by the GIIF. The FIU's analysis resulted in the production of 1,139 analytical reports. As a result of these 1,139 reports, GIIF sent 198 notifications to the Prosecutor's Office. At a minimum, all reports submitted by the GIIF to the Prosecutor's Office result in initial investigative proceedings. From 198 notifications sent to the prosecutor's office by the GIIF in 2006, two cases reached the court. As of September 2007, the courts are still investigating 175 notifications. In the past, many of the GIIF-instigated investigations have resulted in convictions for other nonfinancial offenses. The GIIF receives approximately 2.3 million reports per month on transactions exceeding the threshold level.

In addition to the Prosecutor's Office, the GIIF also cooperates with several domestic law enforcement agencies, including the General Investigative Bureau (a police unit), the Internal Security Agency (which investigates the most serious money laundering cases), and the Central Anti-Corruption Office. 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, has improved. The GIIF and the National Prosecutor's Office have signed a cooperation agreement that 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.

In 2006, GIIF conducted an assessment of the effectiveness of Poland's anti-money laundering reporting system. According to the GIIF's 2006 annual report, the analysis identified three main threats to efficiency of the system: disproportionate reporting among Poland's 16 provinces (three provinces had extremely high reporting rates); delays in prosecutorial handling of GIIF notifications; and inadequate use of the GIIF by domestic agencies in Poland (76 percent of all queries to the GIIF were from the Prosecutor's office).

The GIIF also conducts training for specified target groups as well as e-learning, which is available to all obligated institutions and cooperating entities. In 2006, the GIIF re-introduced the electronic learning course designed to familiarize obliged institutions with Poland's AML regulations. Over 1,800 individuals (mainly from obligated institutions) participated in the GIIF's electronic learning course.

The GIIF exchanges information with its foreign counterparts. The United States, along with the United Kingdom and Ukraine, is among its most active information-sharing partners. In 2006, GIIF sent official requests to foreign financial intelligence units on 158 cases concerning 287 national and foreign entities suspected of money laundering. Foreign FIUs sent 62 information requests concerning 154 national and foreign entities to the GIIF.

The GIIF has the authority 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. Article 45 of the criminal code reverses the burden of proof so that an alleged perpetrator must prove that his assets have a legal source; otherwise, the assets are presumed to be related to the crime and the government can seize them. Both the Ministry of Justice and the GIIF reportedly desire more aggressive asset forfeiture regulations. However, lingering political sensitivities reportedly hamper approval of stringent asset seizure laws. In the first half of 2007, funds totaling U.S. \$46 million have been frozen and 39 notifications of possible crimes committed have been sent to the prosecutor's office, with the GIIF suspending one transaction worth U.S. \$92,000 and blocking 59 accounts worth U.S. \$5.1 million. In 2006, the GIIF suspended four transactions worth U.S. \$2.6 million and blocked 92 accounts worth U.S. \$16.6 million.

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 has prepared a draft of amendments to the criminal code that would criminalize terrorist financing as well as elements of all terrorism-related activity, but withdrew the draft in 2007 before it had been approved by the Council of Ministers.

The GOP has created an office of counter-terrorist operations within the National Police, which coordinates and supervises regional counter-terrorism units and trains local police in counter-terrorism measures. In December 2006, the GOP established the Intra-ministerial Unit for Terrorist Threats. Poland has also created its own 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 obliged institutions must 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. In 2006, the GIIF worked on eight terrorist financing cases involving 89 subjects. Upon completion of its analysis, the GIIF forwarded three reports to the Internal Security Agency (ABW) for further analysis. The cases involved transactions related to large amounts of cash being sent to Poland as well as numerous noncash transfers involving terrorist groups or transactors from a country supporting terrorism.

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 36 MOUs. 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 six additional FIUs.

Poland is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), which in 2006 conducted its third round mutual evaluation of Poland. The report is not yet available. The GIIF is a member of the Egmont Group and is enrolled 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.

Poland 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. Poland is also a party to 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.

Over the past several years, the Government of Poland has worked to implement a comprehensive AML regime that meets international standards. However, work remains, as Poland's AML regime remains noncompliant with various Financial Action Task Force (FATF) standards. Most significantly, Poland must criminalize terrorist financing. No terrorist financing prosecutions have yet been undertaken or cases brought before the court. Under current provisions, it is unclear how Poland could prosecute the funding of a terrorist or terrorist organization. Poland must also strengthen AML regulations pertaining to customer due diligence obligations, DNFBPs, nonprofit organizations, politically exposed persons, cross-border correspondent banking, and suspicious transaction reporting as it pertains to terrorist financing. The GOP should promote additional training at the private sector level and 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 specifically allow the use of Special Investigative Measures in money laundering investigations, which would assist law enforcement attain a better record of prosecutions and convictions.

Portugal

Portugal is an entry point for narcotics transiting into Europe, and officials of the Government of Portugal (GOP) indicate that most of the money laundered in Portugal is narcotics-related. The GOP also reports that criminals use currency exchanges, wire transfers, and real estate purchases to launder their proceeds.

The Portuguese Madeira Islands International Business Center (MIBC) has a free trade zone, an international shipping register, offshore banking, trusts, holding companies, stock corporations, and private limited companies. The latter two business groups, of which there are approximately 6,500 companies registered in Madeira, are similar to international business corporations. All entities established in the MIBC will remain tax exempt until 2011. Twenty-seven offshore banks have licenses to operate within the MIBC. Decree-Law 10/94 permits existing banks and insurance companies to establish offshore branches. Institutions submit applications to the Central Bank of Portugal. Institutions already in the European Union have a notification process, while nonEU or new entities receive authorization. The law allows establishment of “external branches” that conduct operations exclusively with nonresidents or other Madeira 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. The Madeira Development Company supervises offshore banks. 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.

Accessing Internet gambling sites is illegal in Portugal. There are no known cases of casinos or Internet gaming sites whose Internet service provider (ISP) is headquartered in Portugal. However, Internet gaming is still widely available.

Portugal has a comprehensive anti-money laundering and counter-terrorist financing (AML/CTF) regime that criminalizes the laundering of proceeds of serious offenses, including terrorism, arms trafficking, kidnapping, and corruption. Article 11 of Law No. 59/2007, dated September 4, 2007, defines money laundering and expands the list of crimes related to money laundering, and makes legal entities criminally accountable.

Act 11/2004, which implements the European Union’s (EU’s) Second Money Laundering Directive, defines the legal framework for the prevention and suppression of money laundering. The law also mandates suspicious transaction reporting by financial and nonfinancial institutions, including credit institutions, investment companies, life insurance companies, traders in high-value goods (e.g., precious metals and stones, aircraft), regardless of transaction amount. Suspicious transaction reports (STRs) go to the Public Prosecutor’s Office. If a regulated entity has knowledge of a transaction likely to be related to a money laundering offense, it must inform the Portuguese financial intelligence unit (FIU). The GOP may order the entity not to complete the transaction. If stopping the transaction is impossible or likely to frustrate efforts to pursue the beneficiaries of a suspected money laundering operation, the government may also allow the entity to proceed with the transaction but require the entity to provide the authorities with complete details. “Tipping off” is prohibited and safe harbor provisions protect regulated entities making disclosures in good faith from liability.

All financial institutions, including insurance companies, must identify their customers, maintain records for a minimum of ten years, and demand written proof from customers regarding the origin and beneficiary of transactions that exceed 12,500 euros (approximately U.S. \$18,250). 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. Beyond the requirements to report large transactions, foreign exchange bureaus are not subject to any special requirements to report suspicious transactions. Portuguese law gives the GOP the authority to investigate suspicious transactions without notifying the targets of the investigation.

In 2007, through Decree-Law No. 61/2007, Portugal implemented EU regulation EC 1889/2005, on cash entering or leaving the European Community. The law requires all individuals to declare currency valued at 10,000 euros (approximately U.S. \$14,600) or greater when entering or exiting the European Community. The law also stipulates that authorities gather and exchange information at the national

and international levels. Portugal is in the process of transposing the EU's Third Money Laundering Directive (Directive 2005/60/EC) into Portuguese law.

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 and Food Safety Authority, the Economic Activities Inspectorate General, the Registries and Notaries General Directorate, the National Association for Certified Public Accountants and the Association for Assistant Accountants, the Bar Association, and the Chamber of Solicitors also monitor and enforce the reporting requirements of the obliged entities.

Tax authorities can lift secrecy rules without authorization from the target of an investigation. Rules require companies to have at least one bank account and, for companies with more than 20 employees, to conduct their business through bank transfers, checks, and direct debits rather than cash. These rules are mainly designed to help the GOP investigate possible cases of tax evasion but may ease enforcement of other financial crimes as well.

Portuguese Securities Market Commission Regulation 7/2005 requires financial intermediaries to submit detailed annual Control and Supervision Reports to the Commission every June. The regulation entered into force on January 1, 2006.

There is no single body that oversees charitable organizations or their possible terrorist finance-related activities. The Intelligence Security Service, the Judicial Police, and the Public Prosecutor's office share supervisory authority. International financial transactions that may involve terrorist financing require the same monitoring protocol as those involving possible money laundering.

Decree-Law 304/2002 established Portugal's FIU, known as the Financial Information Unit, or Unidade de Informação Financeira (UIF), which operates independently as a department of the Portuguese Judicial Police (Policia Judiciária). At the national level, the UIF is responsible for gathering, centralizing, processing, and publishing information pertaining to investigations of money laundering, tax crimes, and terrorism. It also facilitates cooperation and coordination with other judicial and supervising authorities. At the international level, the UIF coordinates with other FIUs. The UIF has policing duties but no regulatory authority.

In 2006, the UIF received 584 STRs. The FIU also received over 15,000 other reports, primarily from the General Inspectorate for Gaming. The UIF sent 272 cases for further investigation to the Judicial Police and other police departments. 2007 STR information is not yet available. Between January and September of 2007, the UIF seized or confiscated approximately 32.4 million euros (approximately U.S. \$47.3 million).

Police may request files of individuals under investigation and, with a court order, can obtain and use audio and video recordings as evidence in court. 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). The Judicial Police can do this even if the predicate crime is committed outside of Portugal. Act 5/2002 defines criminal assets as those owned by an individual at the time of indictment and thereafter. Act 5/2002 also shifted the burden of proof in cases of criminal asset forfeiture from the government to the defendant; an individual must prove that his or her assets were not obtained as a result of his illegal activities. The law also presumes that assets transferred by an individual to a third party within the previous five years still belong to the individual in question, unless proven otherwise. GOP law enforcement agencies have seized a total of 20.7 million euros (approximately U.S. \$30.2 million) in nonmonetary goods in association with drug and money laundering investigations. The law allows the Public Prosecutor to request that a lien be placed on the assets of individuals being prosecuted, to facilitate asset seizures related to narcotics and weapons trafficking, terrorism, and money laundering. Portugal

has comprehensive legal procedures that enable it to cooperate with foreign jurisdictions and share seized assets.

Act 52/2003 specifically defines terrorist acts and organizations and criminalizes the transfer of funds related to the commission of terrorist acts. Portugal has created a Terrorist Financing Task Force that includes the Ministries of Finance and Justice, the Judicial Police, the Security and Intelligence Service, the Bank of Portugal, and the Portuguese Insurance Institution. Names of individuals and entities included on the UN Security Council Resolution 1267 Committee's consolidated list or that the United States and EU have linked to terrorism are passed to private sector organizations. The Bank of Portugal, the Stock Exchange Commission, and the Portuguese Insurance Institution circulate the lists to the obliged entities. In practice, while the government has the authority to immediately freeze funds, an actual seizure of assets would only occur once the EU's clearinghouse process resulted in agreement to the EU-wide seizure of assets of terrorists and terrorist-linked groups. Portugal is actively cooperating in the search and identification of assets used for terrorist financing. To date, no significant assets have been identified or seized.

Portugal is a member of the Financial Action Task Force (FATF), and underwent a mutual evaluation by that body in 2006. Portugal's FIU is a member of the Egmont Group. Portugal 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. Portugal is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. The U.S. and Portugal signed a mutual legal assistance agreement (MLAT) and an extradition agreement in 2005, designed to complement and implement the U.S.-European Union Mutual Legal Assistance and Extradition Treaties of 2003. These agreements are pending U.S. ratification.

Portugal should collect and maintain more information and data regarding the number of money laundering and terrorist 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 terrorist 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 terrorist financing law covers financing to individuals. The FIU should be the competent authority to receive and analyze all STRs. Portugal should strengthen its legal requirements relating to politically exposed persons. The GOP should also improve its implementation of AML/CTF rules for obliged nonfinancial businesses and professions.

Qatar

Qatar has fewer than one million residents with a low rate of general and financial crime. Historically, Qatar has not been an important regional financial center, though with the country's remarkable energy-driven growth in recent years it aims to become an increasingly important banking and financial services center in the Gulf.

The Qatar Central Bank (QCB) exercises regulatory authority over the financial sector. There are 17 licensed banks, including three Islamic banks and a specialized bank, the Qatar Industrial Development Bank. There is a separate Qatar Financial Center (QFC) that allows major international financial institutions and corporations to set up offices with 100 percent foreign ownership, unlike most business sectors in Qatar. There are currently 18 banks, 6 investment banks, 5 asset management companies, and 7 insurance companies authorized to operate in the QFC. QFC firms are limited to providing services to wholesale clients, except for insurance companies who can provide services to both wholesale and retail clients. The QFC has a separate, independent regulatory authority, the QFC Regulatory Authority, with a regulatory regime based on international standards. There are plans underway to create a unified regulatory authority for the country within the next two years. Qatar has

20 exchange houses, three investment companies and two commercial finance companies. 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.

Qatar has a clear legal framework for financial crimes that is based on a 2002 law on money laundering and a 2004 law on terrorist financing. The judicial system has yet to be tested as there have been no arrests or prosecutions for money laundering or terrorist financing crimes since enactment of the laws.

On September 11, 2002, the Amir (Head of State) 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 to the Financial Information Unit 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 QFC law provides that Qatari criminal laws apply in the QFC, including those Qatari laws criminalizing money laundering and the financing of terrorism. In addition, the QFC has implemented its own anti-money laundering regulations and corresponding rules. The QFC Regulatory Authority is responsible for supervising QFC firms’ compliance with QFC AML requirements.

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 Qatar Central Bank, FIU, Ministries of Interior, Labor and Social Affairs, 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 separate from the NAMLC to review the consolidated UN 1267 terrorist designation lists and to recommend any necessary actions against individuals or entities found in Qatar. The committee is chaired by the Minister of State for Interior Affairs and includes the FIU and various law enforcement representatives. The committee and the Central Bank circulate to financial institutions the individuals and entities included on the UN 1267 Sanctions Committee’s consolidated list, but have thus far not identified or frozen any related assets.

The QCB updates regulations regarding money laundering and financing of terrorism on a regular basis, in accordance with international requirements. The QCB 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. Suspicious transaction reports (STRs) are now sent to the FIU by hardcopy or electronically, but the FIU is developing an all-electronic system with bank compliance offices that should speed the reporting process. 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 FIU also works closely with the QFC Regulatory Authority to ensure that QFC firms, and specifically their Money Laundering Reporting Officers, understand and implement appropriate AML and counter-terrorist finance policies and procedures. The Qatari FIU became a member of the Egmont Group in 2005.

In December 2004, the 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.

Law No. 13 from 2004 established The Qatar Authority for Charitable Works, which 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 reports to the Ministry of Labor and Social Affairs and 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. Article 13 of the law provides penalties of up to a year in prison, a fine of 50,000 Qatari riyals (approximately U.S. \$13,750), and confiscation of the money involved for "anyone who collects donations, or transfers money outside the country, bestows or accepts loans or grants or donations or bequests or endowments" outside of The Authority's purview.

Qatar does not have mandatory cross-border currency reporting requirements. Customs officials are given authority under the law to, in suspicious cases, require travelers to fill out forms declaring cash currency or other negotiable financial instruments in their possession. Officials then forward the traveler's information to the FIU for evaluation. The FIU has received about 60 reports from Customs for evaluation. Immigration and customs authorities are reviewing their policies to expand their ability to enforce money declarations and detect trade-based money laundering.

The Government of Qatar is a party to the 1988 UN Drug Convention. Qatar has not signed the UN Convention for the Suppression of the Financing of Terrorism or the UN Convention against Corruption. The Ministerial Council approved Qatar's accession to the UN Convention against Transnational Organized Crime in fall 2007, but final approval is still pending. Qatar is ranked 32 out of 179 countries surveyed in Transparency International's 2007 Corruption Perception Index. Qatar is one of the original signatories of the 2004 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 should continue to implement AML/CTF policies and procedures that adhere to world standards. 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 become a party to the UN International Convention for the Suppression of the Financing of Terrorism, and complete its accession to the UN Convention against Transnational Organized Crime.

Romania

Romania's geographical 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. According to law enforcement entities, estimates of crimes involving money laundering amount to approximately \$15 million per year. Trans-border smuggling of counterfeit goods, 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 cybercrime and online credit card fraud in the world, with the vast majority of victims residing in the United States.

Laundered money comes primarily from international crime syndicates who conduct their criminal activity in Romania and subsequently launder their illicit proceeds through illegitimate front companies. Another source of laundered money is the proceeds of illegally smuggled goods such as cigarettes, alcohol, gasoline, and other dutiable commodities. Corruption in Romania's customs and border control and as well in several neighboring Eastern European countries also facilitates money laundering. In 2003, Romania instituted an anti-corruption plan and passed a law criminalizing organized crime.

Romania's Law No. 21/99, On the Prevention and Punishment of Money Laundering, criminalizes money laundering and requires customer identification, record keeping, suspicious transaction reporting, and currency transaction reporting for transactions (including wire transfers) over 10,000 euros (approximately U.S. \$14,700). The list of entities covered by Law No. 21/99 includes banks, nonbank financial institutions, attorneys, accountants, and notaries. Romania has also criminalized tipping off suspected money launderers. Romanian law permits the disclosure of client and ownership information to bank supervisors and law enforcement authorities, and safe harbor provisions protect banking officials when they cooperate with law enforcement.

The Law on the Prevention and Sanctioning of Money Laundering (Law 656/2002) expands the list of predicate offenses to include all crimes and expands the number and types of entities subject to anti-money laundering (AML) regulations. The additional entities include art dealers, travel agents, privatization agents, postal officials, money service businesses, and real estate agents. Although nonbank financial institutions are covered under Romania's AML law, regulatory supervision of this sector is weak and not as rigorous as that imposed on banks.

In keeping with international standards, Romania has taken steps to strengthen its know-your-customer (KYC) identification requirements. The National Bank of Romania's (BNR) 2003 Norm No. 3, "Know Your Customer," strengthens information disclosure requirements 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 measures 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. The Insurance Supervision Commission has instituted similar regulations for the insurance industry.

Law 230/2005 provides for a uniform approach to combating and preventing money laundering and terrorist financing. With this law, Romania meets the requirements of two European Union (EU) Money Laundering Directives, 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 a suspicious transactions reporting requirement for transactions linked to terrorist financing.

In 2006, Romania made further changes to its laws to bring the country into harmony with FATF recommendations and EU Directives. Romania amended its laws to increase the amount of fines corresponding to the inflation rate; to allow the use of undercover investigators; and to send reports from the financial intelligence unit (FIU) to the General Prosecutor's Office in an unclassified manner for use in operational investigations. The law also provides for confiscation of goods used in or resulting from money laundering activities; and an increase in the length of time that bank accounts may be frozen from ten days up to one month.

The FIU Board has 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. As a member of the EU, Romania was required to fully adopt the EU's Third Money Laundering Directive, known as European Commission Directive 2005/60/EC, on preventing the use of the financial system for the purpose of money laundering and terrorist financing by December 15, 2007.

Romania's FIU, the National Office for the Prevention and Control of Money Laundering (NOPCML), was established in 1999. All obliged entities must submit their currency transaction reports and suspicious transaction reports (STRs) to the FIU. The FIU oversees the implementation of AML guidelines for the financial sector and works to ensure that all domestic financial institutions covered by the law receive adequate training. The FIU is also authorized to participate in inspections and controls in conjunction with supervisory authorities. In the first ten months of 2007, the FIU carried out 189 on-site inspections in cooperation with the Financial Guard or other supervision authorities—an increase from the 109 inspections for the same period in 2006.

Since its establishment, the FIU has faced numerous challenges, including charges against a former director for the destruction of public records and corruption. Under its current President, the FIU has worked to improve the quality of cases forwarded to prosecutors for judicial action. The FIU believes that the number of indictments, and eventual convictions, will increase over time as the FIU places greater emphasis on the quality of reports produced as opposed to the quantity of reports forwarded to the Prosecutor's Office.

During the first ten months of 2007, the FIU received 10,747 currency transaction reports for transactions exceeding the 10,000 euros (approximately U.S. \$14,700) threshold, an increase from 9,110 in the same period in 2006. During the first nine months of 2007, the FIU received 6,511 reports of cross-border transfers, compared with 6,735 reports in 2006. During the same period, the total number of STRs received was 1,542, down from 2,218 reports in 2006. Of this figure, banks submitted 1,435 reports and individuals submitted 25 reports. Money transfer agents substantially increased their submissions, sending 18 reports compared with 10 reports last year; as did independent legal professionals, who submitted seven reports, up from three reports in 2006. The remainder came from various other entities, including: financial investment services; insurance/re-insurance firms; real

estate brokers; leasing companies; foreign exchange houses; consulting; and fiscal/accounting service providers.

During the first ten months of 2007, the FIU suspended one suspicious transaction (down from three suspensions in 2006). The total amount of fines levied by the FIU in the first ten months of 2007 amounted to U.S. \$129,098 (up from \$98,940).

Upon completion of its analysis, the FIU forwards its findings to the appropriate government agency for follow-up investigation. During the first nine months of 2007, the FIU sent 256 files on suspicion of money laundering to the General Prosecutor's Office; the Police General Inspectorate; the National Agency for Fiscal Administration; the Financial Guard; the National Anti-Corruption Department; and the Romanian Intelligence Service. In the same interval in 2006, the FIU forwarded 127 cases onward.

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. In the first half of 2007, the Directorate for the Investigation of Organized Crime and Terrorism Offenses (DIICOT), the agency primarily responsible for the prosecution of money laundering cases, indicted 70 defendants in 27 cases involving money laundering totaling approximately U.S. \$7 million. Of the 70 indicted, 15 defendants have been placed under preventive arrest. During this same period, DIICOT opened criminal investigations on 236 cases involving suspicion of money laundering.

In response to the events of September 11, 2001, Romania passed a number of legislative measures designed to criminalize 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. The Supreme Defense Council of the Country (CSAT) has adopted a National Security Strategy, which includes the 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 Government of Romania (GOR) has also set up an inter-ministerial committee to investigate the potential use of the Romanian financial system by terrorist organizations. A revised Criminal Procedure Code entered into force in July 2003, containing 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 strengthens 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 authorized 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 working days.

Law 535/2004 on preventing and combating terrorism 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 reported.

The FIU is aware of the potential misuse of charitable or nonprofit entities as conduits for terrorist financing. In 2007, the FIU conducted two training events with charitable foundations and associations on preventing and combating money laundering and terrorist financing. The FIU has drafted guidelines concerning reporting entities' obligations in this respect, and has published them on its website.

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 the South East Europe Security Cooperation Steering Group (SEEGROUP) a working body of the NATO initiative for southeast Europe to coordinate counter-terrorist measures undertaken by the states of southeastern Europe. The Romanian and Bulgarian Interior Ministers have signed an inter-governmental agreement 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). The most recent mutual evaluation of Romania was conducted in May 2007 by MONEYVAL and is scheduled to be discussed and adopted by that body in 2008.

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 anti-crime initiatives by participating in regional and global anti-crime efforts. Romania is a party to the 1988 UN Drug Convention, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime. Romania also is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The FIU has signed bilateral memoranda with fifteen countries and in 2007, concluded bilateral memoranda of understanding with FIUs from the United States, United Kingdom, Hungary, Israel, and Russia.

While Romania's AML legislation and regulations will soon be compliant with many FATF and EU standards, implementation has moved at a slower pace. The FIU has improved the timeliness and quality of its analysis and case 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 nonbank entities has been on the rise. 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 communication between reporting and monitoring entities, as well as between prosecutors and the FIU. The General Prosecutor's Office should continue to place a high priority on money laundering cases. Romania should improve implementation of existing procedures for the timely freezing, seizure, and forfeiture of criminal or terrorist-related assets. Romania should continue to make progress in combating corruption in commerce and government. Romania should enact and implement legislation to subject nongovernmental organizations (NGOs) and charitable organizations to reporting requirements.

Russia

Russia is a regional center. Its financial system does not attract a significant number of depositors, although due to rapid economic growth in various sectors, the number of depositors has steadily been increasing. 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 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, reportedly, a high level of corruption. Other vulnerabilities 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. Russia's financial intelligence unit (FIU) estimates that Russian citizens may have laundered as much as U.S. \$11 billion in 2007.

Russia has recently changed its laws to allow direct foreign ownership and investment in Russian financial institutions. Net private capital inflows for 2007 reached U.S. \$82.3 billion according to the Russian Central Bank, an increase from U.S. \$41.6 billion in 2006.

The Russian Federation has a legislative and regulatory framework in place to pursue and prosecute financial crimes, including money laundering and terrorism finance. Federal Law No. 115-FZ "On Combating Legalization (Laundering) of Criminally Gained Income and Financing of Terrorism," introduced in 2001, obliges banking and nonbanking financial institutions to monitor and report certain types of transactions, maintain records, and identify their customers. According to 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. Other obliged entities include real estate agents, lawyers and notaries, and to persons rendering legal or accounting services that involve certain transactions.

Various regulatory bodies ensure compliance with Russia's anti-money laundering and counterterrorism finance (AML/CTF) 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; the Federal Service for Financial Monitoring (FSFM) regulates real estate and leasing companies, pawnshops, and participants in the gaming industry; and the Assay Chamber (under the Ministry of Finance) supervises entities buying and selling precious metals or stones.

The CBR has issued guidelines regarding AML practices within credit institutions, including "know your customer" (KYC) and bank due diligence programs. Banks must obtain, and retain for a minimum of five years from the date of the termination of the business relationship, information regarding individuals, legal entities and the beneficial owners of corporate entities. Banks must also adopt internal compliance rules and procedures and appoint compliance officers. The AML Law (Law 115-FZ) requires banks to identify their customers before providing natural or legal persons with financial services. Banks are required to report all transactions subject to mandatory or suspicious transaction requirement to the to the financial intelligence unit (FIU). Credit institutions that fail to meet mandatory or suspicious reporting requirements face revocation of their licenses, limits on certain banking operations, and possible criminal or administrative penalties. The CBR can levy administrative fines on credit institutions and officials of credit institutions for violations of Russia's AML/CTF law. Criminal liability does not apply to legal persons under Russian law. The maximum

criminal penalty for natural persons convicted of money laundering or financing terrorism is 10 years in prison in addition to applicable fines.

All obligated financial institutions must monitor and report to the government any transaction that equals or exceeds 600,000 rubles (approximately U.S. \$22,700) and involves or relates to cash payments, remittances, bank deposits, gaming, pawn shop operations, precious stones and metals transactions, payments under life insurance policies, or persons domiciled in countries determined by the Russian Government to be deficient in AML/CTF. Obligated institutions must also report real estate transactions valued at 3,000,000 rubles (approximately U.S. \$115,400) or more. Financial institutions must develop criteria for determining suspicious transactions and report such transactions to the FIU in a timely fashion. All transactions involving an entity or person included on the Russian government's list of those involved in extremist activities or terrorism must be reported to the FIU an

Under Order 1317-U, Russian financial institutions must inform the CBR when it establishes correspondent relationships with nonresident banks in operating in offshore zones (as defined by the Russian Federation in Annex 1 of this Order). The CBR recommends that financial institutions apply enhanced due diligence to transactions with nonresident institutions. Foreign banks may only open subsidiary operations on the territory of Russia. The CBR must authorize the establishment of a subsidiary operation, and these subsidiaries must be subject to domestic Russian supervisory authorities. Foreign banks are not permitted to open branches in Russia. Russian banks must also obtain CBR approval to open operations abroad.

According to the Law No. 395-I "On Banks and Banking Activities," credit institutions must identify and inform the CBR of all appointments of individuals to senior management positions and to the managing and supervisory boards. Russian law prohibits the appointment of anonymous parties or proxy individuals to a credit institution's managing or supervisory board. The CBR has the authority to deny the appointment of a senior official if the official does not meet "fit and proper" requirements established by the CBR.

Russia has established a Deposit Insurance System (DIS) for banks. To gain admission to the DIS, a bank must verifiably demonstrate to the CBR that it complies with applicable banking and AML/CTF laws. Currently, 911 of Russia's 1,145 banks participate in the DIS.

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 that was administratively subordinated to the Ministry of Finance until September 2007, but which is now subordinated to the Prime Minister. The FSFM is responsible for receiving, analyzing, and disseminating reports from those entities obligated to file mandatory and suspicious reports. Nearly all financial institutions submit reports to the FSFM via encrypted software provided by the FSFM. According to the FSFM's annual report for 2006, Russia's national database contains 6.3 million reports on operations with monetary funds or other assets, with a total value of approximately \$900 billion. The FSFM receives approximately 30,000 transaction reports daily. The FSFM is also the regulator for real estate and leasing companies, pawnshops, and gaming outlets. The FSFM is authorized to provide information to relevant 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. As an administrative unit, it has no law enforcement or investigative powers.

The head of the FSFM chairs an Interagency Commission on Money Laundering, which is responsible for monitoring and coordinating the government's activity on money laundering and terrorist financing. Twelve ministries and government departments sit on the Commission.

Each of the seven federal districts comprising the Russian Federation contains an FSFM territorial office. 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 counter-terrorist financing (AML/CTF) legislation by the institutions that the FSFM supervises. Additionally, the territorial offices must identify and register at the regional level all pawnshops, leasing companies, real estate firms, and gaming entities under their jurisdiction. The regional offices also coordinate the efforts of the CBR and other supervisory agencies to implement AML/CTF regulations. Russia's AML legislation 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 or accounting services, and sellers of precious metals and stones.

During the first half of 2007, the FSFM registered 5,603 crimes involving money laundering, compared to 7,957 reports for all of 2006. Interior Ministry officials reported that 4,535 of the 2007 cases went to trial. Both the FSFM and MVD report that the number of suspicious transaction reports (STRs) for the year roughly equaled those of 2006 and credit increased cooperation among law enforcement agencies for the number of cases brought to trial.

With its legislative and enforcement mechanisms in place, Russia has begun to prosecute high-level money laundering cases. During 2007, the CBR revoked the licenses of 44 banks for failing to observe banking regulations. Of these, 30 banks lost their licenses for violating Russia's AML laws. The CBR's initiative to prohibit individuals convicted of money laundering from serving in leadership positions in the banking community—a cause championed by Andrey Kozlov, the First Deputy Chairman of the CBR who was assassinated in 2006—remains pending.

Russian legislation provides for the tracking, seizure and forfeiture of all criminal proceeds, not just those linked to narcotics trafficking. Russian law also provides law enforcement bodies the authority to use investigative techniques such as search, seizure, and the identification, freezing, seizing, and confiscation of funds or other assets. Authorities can compel individuals to produce documents related to criminal activity, including money laundering. Investigators and prosecutors can apply to the court to freeze or seize property obtained as the result of crime, although there are some exceptions in the law restricting seizure of property identified as a primary residence. 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. According to the AML/CTF law, financial institutions must freeze transactions suspected of involvement in terrorism finance for up to two days and report the transaction to the FIU. The FSFM may extend the freeze by an additional five days. A court order is required to extend the freeze beyond seven 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. Authorities can seize businesses only if they can demonstrate that the businesses 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.

Russia's Presidential Administration as well as law enforcement agencies have, however, expressed concern about ineffective implementation of Russia's confiscation laws. The government has proposed amendments that are currently under review by the Duma. These amendments would facilitate the identification and seizure of criminal instrumentalities and proceeds. Russian law enforcement has adequate police powers to trace assets, and the law permits confiscation of assets. However, most Russian law enforcement personnel reportedly 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. The decree entitled "On Measures to Implement the UN

Security Council Resolution (UNSCR) No. 1373 of September 28, 2001” introduces criminal liability for intentionally providing or collecting assets for terrorist use and instructs relevant agencies to seize assets of terrorist groups. Article 205.1 of the criminal code, enacted in October 2002, criminalizes terrorist financing. Banks can freeze assets suspected of involvement in terrorism finance immediately pursuant to UNSCR 1373.

The FSFM reports that it is monitoring 1,300 entities suspected of financing terrorism, including over 900 Russian citizens, 170 Russian organizations, and over 200 foreign entities. The Russian Government maintains a list of domestic and international organizations and individuals involved in extremist activities or terrorism. This list is distributed to all institutions subject to the AML/CTF law and is used by law enforcement agencies to target and seize assets. Russian authorities rely on five sources of information to compile the designated entities list: a) international organizations, such as the UN 1267 Sanctions Committee lists; b) Russian court decisions; c) designations made by the Prosecutor General; d) Ministry of Interior investigations (provided that subsequent court decisions do not reverse or dismiss the investigation’s findings); and e) bilateral agreements to designate entities mutually determined to be involved in extremist or terrorist activity. At the request of the General Procuracy, the Russian Supreme Court has, to date, authorized an official list of 17 terrorist organizations.

The United States and Russia signed a Mutual Legal Assistance Treaty in 1999, which entered into force on January 31, 2002. Although Russia has assisted the U.S. in investigating cases involving terrorist financing, Russia and the U.S. continue to differ about the purpose of the UN 1267 Sanctions Committee’s designation process. These political differences have hampered bilateral cooperation in this forum. U.S. law enforcement agencies exchange operational information with their Russian counterparts on a regular basis. The close cooperation between Russian and U.S. agencies has continued and strengthened in 2007.

Russia is a member of the Financial Action Task Force (FATF) and underwent its third mutual evaluation during the fourth quarter of 2007. The FATF’s mutual evaluation report (MER) is expected to be released in June 2008. Russia is also a member of two FATF-style regional bodies (FSRBs). It is a member of the Council of Europe’s Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and the Eurasian Group on Combating Legalization of Proceeds from Crime and Terrorist Financing (EAG), of which it was a co-founder. The EAG Secretariat is located in Moscow. The FSFM has established the International Training and Methodological Center of Financial Monitoring (ITMCFM) that exists to provide technical assistance, primarily in the form of staff training for FIUs and other interested ministries and agencies involved in AML/CTF efforts. The ITMCFM also conducts research on AML/CTF issues. As Chair of the EAG, Russia’s FIU continues to play a strong leadership role in the region. The FSFM is a member of the Egmont Group. The FSFM has signed cooperation agreements with the Financial Intelligence Units (FIUs) of 24 countries, including the United States.

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, 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.

Through aggressive enactment and implementation of comprehensive AML/CTF legislation, Russia has established legal and enforcement frameworks to deal with money laundering and terrorist financing. Russia has also contributed to improving the region’s capacity for countering money laundering and terrorist financing. Nevertheless, serious vulnerabilities remain. Russia is home to some of the world’s most sophisticated perpetrators of fraud and money laundering, who rely heavily on electronic and Internet-related means. Russia should improve federal oversight of shell companies and scrutinize more closely those banks that do not carry out traditional banking activities. To prevent

endemic corruption and deficiencies in the business environment from undermining Russia's efforts to establish a well-functioning anti-money laundering and counter-terrorism finance regime, Russia should strive to stamp out official corruption, 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 to enable them to fulfill their responsibilities. Russia should work to increase the effectiveness of its asset forfeiture 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 through sustained involvement in the regional and international bodies focusing on AML/CTF 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. However, according to law enforcement intelligence sources, criminal organizations based in Hawaii and California are involved in the trafficking of cocaine, MDMA and crystal methamphetamine into the island nations including Samoa. Additionally, South American and Australian based organizations use the South Pacific islands as transshipment locations for cocaine being shipped from South America into Australia and New Zealand.

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) initially enacted the Money Laundering Prevention Act (the Act) in 2000 that was repealed and replaced by the new Money Laundering Prevention Act 2007. This law criminalizes money laundering associated with numerous crimes sets measures for the prevention of money laundering and requires related financial supervision. 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 U.S. \$354,000), a term of imprisonment not to exceed seven years, or both. This penalty is not found in the 2007 Act itself but derives from the separate Proceeds of Crime Act of 2007, which includes specific penalties for money laundering.

The Act requires financial institutions to report transactions considered suspicious to the Samoa Financial Intelligence Unit (FIU) established by the Money Laundering Prevention Authority presently under the auspices of the Governor of the Central Bank. The FIU receives and analyses disclosures from either a local financial or government institution or agency (either domestic or of a foreign state). If it establishes reasonable grounds to suspect that a transaction is suspicious, it may disclose the report to an appropriate local or foreign government or law enforcement agency. A Money Laundering Prevention Task Force (MLPTF) is established under the new Act to advise or make recommendations to the MLPA. More importantly, the MLPTF is tasked to ensure close liaison and cooperation and coordination between various GOS departments and corporations. In 2003, Samoa established under the authority of the Ministry of the Prime Minister an independent and permanent Transnational Crime Unit (TCU). The TCU is staffed by personnel from the Samoa Police Service, Immigration Division of the Ministry of the Prime Minister and Division of Customs. The TCU is responsible for intelligence gathering and analysis and investigating transnational crimes, including money laundering, terrorist financing and the smuggling of narcotics and people.

The Act requires financial institutions to establish and maintain with appropriate backup or recovery all business transactions records and correspondence records for a minimum of five years, and to identify and verify a customer's identity when establishing a business relationship; when there is a suspicion of a Money Laundering offense or terrorist financing; or when there is doubt about the veracity or adequacy of the customer identification, or verification, documentation, or information previously obtained.

Section 31 of the Act requires that all financial institutions have an obligation to appoint a compliance officer responsible for ensuring compliance with the Act, and to establish and maintain procedures and systems to implement customer identification requirements, implement record keeping, retention, and reporting requirements and to make its officers and employees aware of procedures, policies and audit systems. Each financial institution is also required to train its officers, employees and agents to recognize suspicious transactions. A financial institution required to be audited must incorporate compliance with the MLPA 2007 as part of its audit to be confirmed by the auditor. Currency reporting at the border requires any person leaving or entering Samoa with more than \$20,000 or other prescribed amount in cash or negotiable bearer instruments (in Samoan currency or equivalent foreign currency) either on their person or in their personal luggage to report this to the Financial Intelligence Unit.

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 (SIFA) and the MLPA regulate the financial system. There are four locally incorporated commercial banks, supervised by the Central Bank. The SIFA has responsibility for regulation and administration of the offshore sector. There are no casinos, but two local lotteries are in operation.

Samoa is an offshore financial jurisdiction with six offshore banks licensed. For entities registered or licensed under the various Offshore Finance Centre Acts, there are no currency or exchange controls or regulations, and no foreign exchange levies payable on foreign currency transactions. No income tax or other duties, nor any other direct or indirect tax or stamp duty is payable by registered/licensed entities. In addition to the six offshore banks, Samoa currently has 25,383 international business corporations (IBCs) three international insurance companies, seven trustee companies, and 182 international trusts. Section 19 of the International Banking Act requires the directors and Chief Executive to be “fit and proper” and 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, which is defined in section 3 of the Act.

International cooperation can occur in several ways under the provisions of three pieces of legislation: the Money Laundering Prevention Act 2007, the Proceeds of Crime Act 2007, and Mutual Assistance in Criminal Matters Act 2007. All cooperation under the MLPA is through the Financial Intelligence Unit (FIU) under the new Money Laundering Prevention Act 2007, which allows exchange of information not only on a national but also on an international basis between the FIU and other domestic law enforcement and regulatory agencies. Under the Proceeds of Crime Act 2007, a foreign State can request assistance to issue a restraining order in respect of a foreign serious offense. The Attorney General under the Mutual Assistance in Criminal Matters Act 2007 can authorize the giving of assistance to a foreign state. Assistance to a foreign state can be in the form of locating or identifying persons or providing evidence or producing documents or other articles in Samoa. In 2002, Samoa enacted the Prevention and Suppression of Terrorism Act. The Act defines and criminalizes terrorist offenses, including offenses dealing specifically with the financing of terrorist activities. The combined effect of the Money Laundering Prevention Act of 2007 and the Prevention and Suppression

of Terrorism Act of 2002 is to make it an offense for any person to provide assistance to a criminal to obtain, conceal, retain or invest funds or to finance or facilitate the financing of terrorism.

Samoa is a member of the Asia/Pacific Group on Money Laundering and the Pacific Islands Forum. Samoa hosted the annual plenary of the Pacific Islands Forum in August 2004. Samoa has not signed the 1988 UN Drug Convention or the UN Convention against Transnational Organized Crime. Samoa became a party to the UN International Convention for the Suppression of the Financing of Terrorism in 2002. However there is no information to indicate whether Samoa circulates either the UNSCR 1267 or the U.S. lists of designated terrorist entities.

The Financial Intelligence Unit (FIU) within the Central Bank has continued to strengthen its anti-money laundering regime as evident in the new Money Laundering Prevention Act 2007. The new Act is explicitly mandates that all financial institutions conduct customer due diligence and prohibit any transactions where there is no satisfactory evidence of a customers identity. A financial institution is obliged to keep records of all business transaction records and related correspondence, records of a customer's identity, and of all reports made to the FIU, and any enquiries made to it by the FIU on money laundering and terrorist financing matters. Anonymous accounts are strictly prohibited, and transactions are required to be monitored by financial institutions. The scope of record keeping by financial institutions (like banks and money transmission service providers) is extended to include accurate originator information and other related messages made via electronic fund transfers.

The Government of Samoa (GOS) has made progress in developing its anti-money laundering/counter-terrorist finance regime in 2007 by enacting the Money Laundering Prevention Act. The GOS should ensure that financial institutions submit suspicious transaction reports (STRs) to the FIU and that the FIU forwards any STR worthy of investigation to law enforcement for possible prosecution. The GOS should effectively regulate its offshore financial sector by ensuring that the names of the actual beneficial owners of international business companies and banks are on a registry accessible to law enforcement. The GOS should ensure that the UNSCR 1267 Sanctions Committee Consolidated and U.S. lists are circulated and an effective asset forfeiture regime is established and implemented. The GOS should adhere to the FATF's 9 Special Recommendations on Terrorist Financing. In particular, Samoa should take steps to implement Special Recommendation IX on cash couriers and ensure that its entry and exit points are not used for either the transshipment of narcotics, the sale of imported narcotics, or the funds derived from either illicit activity.

Saudi Arabia

Saudi Arabia is a growing financial center in the Gulf Region of the Middle East. There is little known narcotics related money laundering in the Kingdom. Saudi officials acknowledge difficulty in detecting terrorist financing due to the abundance of cash funds in the country. 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, 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 trans-shipment of goods not entering the country. There was no significant increase in financial crimes during 2007, although the proceeds of crime from stolen cars and counterfeit goods are substantial. A definitive determination is hard to make because of the absence of official criminal statistics.

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 Government officials individually, funded al-Qaida. Following the al-Qaida bombings in Riyadh on May 12, 2003, the Saudi Arabian government (SAG) has taken significant steps to counteract terrorist financing.

Money Laundering and Financial Crimes

In 2003, Saudi Arabia approved a new Anti-Money Laundering Law that for the first time contains criminal penalties for money laundering and terrorist financing. The law bans conducting commercial or financial transactions with persons or entities using pseudonyms or acting anonymously; requires financial institutions to maintain records of transactions for a minimum of ten years and adopt precautionary measures to uncover and prevent money laundering operations; requires banks and financial institutions to report suspicious transactions; authorizes government prosecutors to investigate money laundering and terrorist financing; and allows for the exchange of information and judicial actions against money laundering operations with countries with which Saudi Arabia has official agreements.

SAMA guidelines generally correspond to the Financial Action Task Force (FATF) 40 Recommendations and the Nine Special Recommendations on Terrorist Financing. On May 27, 2003, SAMA issued updated anti-money laundering and counter-terrorist finance guidelines for the Saudi banking system. The guidelines require that banks have mechanisms to monitor all types of “Specially Designated Nationals” as listed by SAMA; that fund transfer systems be capable of detecting specially designated nationals; banks strictly adhere to SAMA circulars on opening accounts and dealing with charity and donation collection; and the banks be able to provide the remitter’s identifying information for all outgoing transfers. The guidelines also require banks to use software to profile customers to detect unusual transaction patterns; establish a monitoring threshold of 100,000 Saudi Riyals (U.S. \$26,667); 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 SAG provides anti-money laundering training for bank employees, prosecutors, judges, customs officers and other government officials.

In 2003, the SAG established an anti-money laundering unit in SAMA, and in 2005 the SAG established the Saudi Arabia Financial Investigation Unit (SAFIU), which acts as the country’s financial intelligence unit (FIU) within the Ministry of Interior. Saudi banks are required to have anti-money laundering units with specialized staff to work with SAMA, the SAFIU and law enforcement authorities. All banks are also required to file suspicious transaction reports (STR) with the SAFIU. The SAFIU collects and analyzes STRs and other available information and makes referrals to the Bureau of Investigation and Prosecution, the Mabathith (the Saudi Security Service), and the Public Security Agency for further investigation and prosecution. The SAFIU is staffed by officers from the Mabathith and SAMA. The SAFIU is not yet a member of the Egmont Group of FIUs.

Hawala transactions outside banks and licensed moneychangers are illegal in Saudi Arabia. Some instances of money laundering and terrorist finance in Saudi Arabia have involved hawala. 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 an effort to further regulate the more than \$16 billion in annual remittances that leave Saudi Arabia, SAMA consolidated the eight largest moneychangers into a single bank, Bank Al-Bilad, in 2005.

In June 2007 the SAG enacted stricter regulations on the cross-border movement of money, precious metals, and jewels. Money and gold in excess of U.S. \$16,000 must be declared upon entry and exit from the country using official Customs forms.

Contributions to charities in Saudi Arabia usually consist of Zakat, which refers to an Islamic religious duty with specified humanitarian purposes. In 2002, Saudi Arabia announced its intention to establish a National Commission for Relief and Charitable Work Abroad (aka the Charities Commission), a mechanism that would oversee all private charitable activities abroad. Until the Charities Commission is established, no Saudi charity can send funds abroad. As of October 2007, the proposal was still under review by Saudi officials. 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' financial records and has established an electronic database to track the operations of such charities. New banking rules implemented in 2003 that apply to all charities include stipulations that they can be only opened in Saudi Riyals; must adhere to enhanced identification requirements; must utilize one main consolidated account; and must make payments only by checks payable to the first beneficiary, which then must be 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 SAG officials, these regulations apply to international charities as well and are 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) in November 2004 and was one of MENAFATF's original charter signatories.

It is the policy and practice of the SAG to comply with obligations under UN Security Council resolutions (UNSCR) 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.

The SAG is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The SAG has signed but has not yet ratified the UN Convention against Corruption. In August 2007, Saudi Arabia ratified the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Saudi Arabia is taking steps towards enforcing its anti-money laundering/counter-terrorist finance laws, regulations, and guidelines. However, it needs to take concrete steps to establish the Charities Commission and to enhance its oversight and control of Saudi charities with overseas operations. Charitable donations in the form of gold, precious stones and other gifts should be scrutinized. 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. The public dissemination of statistics regarding predicate offenses and money laundering prosecutions would facilitate the evaluation and design of enhancements to the judicial aspects of its AML system. The SAG should ratify the UN Convention against Corruption.

Senegal

A regional financial center with a largely cash-based economy, Senegal is vulnerable to money laundering. Reportedly, most money laundering involves domestically generated proceeds from corruption and embezzlement. Recent arrests of opposition politicians, journalists, and a corruption scandal that resulted in the early retirement, rather than prosecution of the implicated judges, illustrate these vulnerabilities. There is also concern that criminal figures launder and invest their own and their organization's proceeds from the growing West Africa narcotics trade. There is also evidence of

increasing criminal activity by foreigners, such as narcotics trafficking by Latin American groups and illegal immigrant trafficking involving Pakistanis.

Dakar's active real estate market is largely financed by cash and property ownership and transfer is nontransparent. The building boom and high property prices suggest that an increasing amount of funds with an uncertain origin circulates in Senegal. Trade-based money laundering (TBML) is centered in the region of Touba, a largely autonomous and unregulated free-trade zone under the jurisdiction of the Mouride religious authority. Touba reportedly receives between U.S. \$550 and \$800 million per year in funds repatriated by networks of Senegalese traders and vendors abroad. Other areas of concern include cash, gold and gems transiting Senegal's airport and porous borders, as well as real estate investment in the Petite Cote south of Dakar.

Seventeen commercial banks operate alongside thriving micro credit and informal sectors. The Government of Senegal (GOS) is attempting to discourage its civil servants from using cash by depositing salaries into formal bank accounts, and the Banking Association has begun a publicity campaign to encourage the populace to use the formal banking system. Western Union, Money Gram and Money Express, associated with banks, compete with Senegal's widespread informal remittance systems, including hawala networks and the use of cash couriers. Small-scale, unregulated and nonlicensed currency exchange operations are also common, especially outside urban centers. The Banque de l'Habitat du Senegal (BHS), a Senegalese bank, has affiliates licensed as money remitters in the United States. New York State authorities have brought an enforcement action against BHS New York for failing to comply with anti-money laundering (AML) regulations.

The Central Bank of West African States (BCEAO), based in Dakar, is the Central Bank for the eight countries in the West African Economic and Monetary Union (WAEMU or UEMOA), including Senegal, and uses the CFA franc currency. The Commission Bancaire, the BCEAO division responsible for bank inspections, is based in Abidjan. However, it does not execute a full AML examination during its standard banking compliance examinations. Senegal has no offshore banking sector.

Senegal's currency control and reporting requirements are not uniform and are reportedly laxly enforced. There is no publicity about currency declaration requirements at major points of entry. Nonresidents on entry must declare any currency they are transporting from outside the "zone franc" greater than one million CFA (approximately U.S. \$2,000). They must also declare monetary instruments denominated in cash in any amount. When departing Senegal, nonresidents must declare any currency from outside the franc zone greater than approximately U.S. \$1,000 as well as all monetary instruments from foreign entities. The law does not require residents to declare currency on entry; on exit, they must declare amounts any foreign currency and any monetary instruments greater than approximately U.S. \$4,000. All declarations must be in writing. Customs authorities are primarily concerned with the importation of dutiable goods. Because land border crossings are patrolled by other authorities with differing mandates, currency control is not a priority.

The legal basis for Senegal's anti-money laundering/counter-terrorist financing (AML/CTF) framework is Loi Uniforme Relative a Lutte Contre le Blanchiment de Capiteaux No. 2004-09 of February 6, 2004, or the Anti-Money Laundering Uniform Law (Uniform Law). As the common law passed by the members of l'UEMOA/WAEMU, all member states are bound to enact and implement the legislation. Among the union, Senegal is the first country to have the legal framework in place. Senegal has an "all crimes" approach to money laundering. Self launderers may be prosecuted and it is not necessary to have a conviction for the predicate offense. Intent may be inferred from objective factual circumstances. Criminal liability applies to all legal persons as well as natural persons.

The new legislation meets many international standards with respect to money laundering, and eclipses them in some areas such as with regard to the microfinance sector, but does not comply with all Financial Action Task Force (FATF) 40 Recommendations and Nine Special Recommendations.

The legislation also lacks certain compliance provisions for nonfinancial institutions. Although Senegal has not passed a CTF law, the penal code was amended in March 2007 to incorporate the United National Security Council Resolution (UNSCR) requirements for terrorist financing. In July 2007, l'UEMOA/WAEMU released guidance on terrorist financing for the sub-region alongside Directive No. 04/2007/CM/UEMOA, obliging member states to pass domestic CTF legislation.

The law requires banks and other financial institutions to know their customers and record and report the identity of any engaged in significant transactions, including the recording of large currency transactions. Banks monitor and record the origin of any deposit higher than 5 million CFA (approximately U.S. \$10,000) for a single individual account and 20 to 50 million CFA (approximately U.S. \$40,000 to 100,000) for any business account. Commercial banks in Senegal are improving their internal controls and enhancing their “know your customer” (KYC) requirements. The law also contains safe harbor provisions for individuals who file reports.

Cellule Nationale de Traitement des Informations Financiers (CENTIF), Senegal’s financial intelligence unit (FIU) became operational in August 2005. The FIU currently has a staff of 27, 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 Ministry of Justice. Senegal’s FIU is working to improve its operational abilities and is raising the awareness of the threat of money laundering in Senegal. CENTIF has provided outreach and training for obliged entities to familiarize them with their requirements and to improve the quality and variety of STRs that the FIU receives. Senegal’s FIU has applied for membership in the Egmont Group.

The police, gendarmerie and Ministry of Justice’s judicial police are technically responsible for investigating money laundering and terrorist financing. However, in reality, CENTIF reportedly retains its information and tasks law enforcement entities to investigate or retrieve information for its cases. CENTIF reportedly does not share or disseminate its information or financial intelligence to law enforcement. In 2007, CENTIF received 71 suspicious transaction reports (STRs), mostly from banks, and referred 11 cases to the Prosecutor General who, in turn, passed the cases directly to the investigating judge. No cases have concluded, although authorities have made one arrest. Official statistics regarding the prosecution of financial crimes are unavailable. There is one known conviction for money laundering since 2005. The conviction led to the confiscation of a private villa.

The Uniform Law provides for the freezing, seizing, and confiscation of property by judicial order. In addition, the FIU can order the suspension of the execution of a financial transaction for 48 hours. The BCEAO can also order the freezing of funds held by banks. The Uniform Law allows explicitly for criminal forfeiture. There is no provision for civil forfeiture.

The BCEAO has released a Directive against Terrorist Financing. Member states must enact a law against terrorist financing, which is a Uniform Law to be adopted by all WAEMU/UEMOA members parallel to the AML law. Like the AML law, the terrorist financing law is a penal law. Each national assembly must enact enabling legislation to adopt the new terrorist finance law. The FATF-style regional body (FSRB) for the 15 members of the Economic Community of Western African States (ECOWAS) known as the Intergovernmental Action Group Against Money Laundering in West Africa (GIABA) has also drafted a uniform law, which it hopes that all of its member states will enact. Senegal is a member of this body, which evaluated Senegal in 2007.

The BCEAO and the FIU circulate the UN 1267 Sanctions Committee consolidated list to commercial financial institutions. To date, no entity has been identified. The WAEMU/UEMOA Council of Ministers issued a directive in September 2002 requiring banks to freeze the assets of any 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 address extradition and legal assistance among the member countries. Under the Uniform Law, the FIU may share information freely with other WAEMU/UEMOA FIUs. However, Senegal has the only operational FIU within this community. CENTIF has signed a Memorandum of Understanding (MOU) for information exchange with the FIUs of Belgium, Nigeria, Algeria and Lebanon, and is working on other accords. CENTIF is open to information exchange on a reciprocity basis and shares information with FIUs of the Egmont group even without signed MOUs. The Senegalese government and law enforcement agencies are generally willing to cooperate with United States law enforcement agencies. The Government of Senegal (GOS) has also worked with INTERPOL, Spanish, and Italian authorities on international anti-crime operations.

Senegal is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the 1999 UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. In 2007, Senegal was ranked 71 out of 180 countries in Transparency International's Corruption Perceptions Index.

The Government of Senegal should continue to work with its partners in WAEMU/UEMOA and ECOWAS to establish a comprehensive anti-money laundering and counter-terrorist financing regime. Senegal should work on achieving transparency in its financial and real estate sectors, and continue to encourage the populace to use the formal banking system, steering them away from cash transactions. Senegal should increase the frequency and effectiveness of financial reviews and audits and continue to battle corruption. Senegal should lead its regional partners and establish better uniform control of cross-border flow of currency and other bearer-negotiable instruments for both residents and nonresidents. Senegalese law enforcement and customs authorities need to develop their expertise in identifying and investigating both traditional money laundering and money laundering within the informal economy. CENTIF should perform more outreach for obliged nonbank financial institutions to ensure a better understanding of STRs, when to file them and the information they should contain. CENTIF, law enforcement and Ministry of Justice authorities should work together to coordinate roles and responsibilities with regard to case investigation and assembly, and develop a deeper interagency understanding of money laundering and terrorist financing. Senegal should amend its AML legislation to address the remaining shortcomings, and criminalize terrorist financing.

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, 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 (TBML), 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 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. Serbia has 14 designated free trade zones, three of which are in operation. Serbia established the free trade zones 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. 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's expanded definition of money laundering in the Penal Code broadens the scope of money laundering and aims to conform to international standards. This legislation also gives police and prosecutors more flexibility to pursue money laundering charges. 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.

Under Serbia's 2005 revised anti-money laundering law (AMLL) obliged entities must report suspicious transactions in any amount to the FIU. The law expands those sectors subject to reporting and record keeping requirements, adding attorneys, auditors, tax advisors and accountants, currency exchanges, insurance companies, casinos, securities brokers, dealers in high value goods, real estate agencies, and travel agents to those already required to comply with the AMLL provisions. The AMLL also expands the number of entities required to collect certain information and file currency transaction reports (CTRs) with the financial intelligence unit (FIU) on all cash transactions exceeding 15,000 euros (approximately U.S. \$22,000), or the dinar equivalent. These entities must also retain records for five years. Financial institutions have realized significant improvement in their compliance, i.e., gathering and keeping records on customers and transactions. 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. Safe harbor provisions protect the entities with respect to their cooperation with law enforcement entities. The flow of information to the FIU has been steadily increasing, but not all entities are yet subject to implementing bylaws. The AMLL also eliminates a previous provision limiting prosecution to crimes committed within Serbian territory.

The Law on Foreign Exchange Operations, adopted in 2006, criminalizes the use of false or inflated invoices or documents to conceal the illicit transfer of funds out of the country. Serbia enacted this law in part to counter the perceived problem of import-export fraud and TBML. The Foreign Currency Inspectorate, part of the Ministry of Finance, is responsible for supervising import/export companies for compliance. The law also requires residents and nonresidents declare to Customs authorities all currency (foreign or dinars), or securities in amounts exceeding 5,000 euros (approximately U.S. \$7,000) 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. The NBS is developing similar regulations 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, but the NBS has not yet used this revocation authority. Although the legal framework is in place, 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 and monitors its obligors' compliance with the AML Laws. The SC is developing regulations to implement this authority. 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.

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 has created 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 Administration for the Prevention of Money Laundering (APML) 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. This provides more autonomy for the agency to carry out its mandate, as well as additional resources. APML has its own line item operating budget. The FIU has developed listings of suspicious activity red flags for banks, currency exchange offices, insurance companies, securities brokers and leasing companies. APML also has the authority to freeze transactions for 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.

From January 1, 2007 through November 19, 2007, the FIU received 1,572 suspicious transaction reports (STRs). Nearly all of the STRs received by the FIU have been filed by commercial banks. In 2007, the FIU opened 46 cases and referred 119 cases to law enforcement, investigative agencies, or the prosecutor's office for further investigation. A total of six criminal charges were submitted for money laundering charges in 2007. The most common predicate crime is "abuse of office".

In Serbia, it is difficult to convict a suspect of money laundering without a conviction for the predicate crime. In addition, courts are unwilling to accept circumstantial evidence to support money laundering or tax evasion charges. This hampers law enforcement and prosecutorial authorities from 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 counter these challenges and better focus financial investigations.

The GOS has established the Permanent Coordinating Group (PCG), an interagency working group originally tasked with developing an implementation plan for the recommendations from the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures' (MONEYVAL), first-round evaluation. Subgroups have since worked to draft amendments to the AMLL that will bring the country's laws into compliance with the European Union's Third Directive on money laundering. The PCG and the working groups meet intermittently as required for completing specific tasks. However, the GOS still lacks consistent interagency coordination.

Under the law, the GOS can, upon conviction for an offense, confiscate assets derived from criminal activity or suspected of involvement in terrorist financing. The FIU enforces the United Nations Security Council Resolution (UNSCR) 1267 provisions regarding suspected terrorist lists. Although the FIU routinely provides the UN list of suspected terrorist organizations to the banking community, examinations for suspect accounts have revealed no evidence of terrorist financing within the banking system. The SOCS, the Special Anti-Terrorist Unit (SAJ), and Gendarmarie, 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 draft anti-terrorism finance legislation. This draft law on terrorist financing, now pending Parliamentary approval, will apply all provisions of the AMLL to terrorist financing, require reporting to the FIU of transactions suspected to be terrorist financing and will create mechanisms for freezing, seizing and confiscation of suspected terrorist assets based on UNSCR provisions.

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.

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 Republic 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 MONEYVAL, Serbia will undergo a mutual evaluation in 2009. The FIU is a member of the Egmont Group and participates in information exchanges with counterpart FIUs including FinCEN. APMML has also signed information sharing memoranda of understanding (MOUs) with eleven counterpart FIUs.

Serbia is a party to the 1988 UN Drug Convention, the UN Convention against Corruption, and the UN Convention Against Transnational Organized Crime. The GOS also 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. Domestic implementation procedures, however, do not provide the framework for full application of Convention provisions.

Serbia should continue to work toward eliminating the abuses of office and the culture of corruption that enables money laundering and financial crimes. The GOS should take action to realize and implement the pending legislative initiatives necessary for Serbia to fully comply with international standards. These include the laws providing for the liability of legal persons and regulations applying all requirements of the AMLL to covered nonbank financial institutions. The GOS should enforce anti-money laundering regulations pertaining to money service businesses and obligated nonfinancial business and professions. Serbia should complete its supervisory scheme, and enact binding implementing regulations for the insurance and securities sectors. The GOS should also enact 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 legislation needed to comply with UN Security Council resolutions regarding the freezing, seizing and confiscation of suspected terrorist assets and to require suspicions of terrorist financing to be reported to the FIU. The National Bank and other supervisory bodies need to enhance their knowledge and receive additional staff. On an operational level, law enforcement needs audit and investigative capacity to investigate the STRs that the FIU disseminates. Prosecutors and judges also need a better understanding of money laundering and terrorist financing to ensure successful prosecutions. 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 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 2007, there were 34,000 registered international business companies (IBCs) and 160 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, registers, licenses and regulates offshore activities. The SIBA licenses and registers agents who carry out due diligence tests when registering new companies in the Seychelles offshore sector. The SIBA also regulates activities of the Seychelles International Trade Zone.

Money Laundering and Financial Crimes

In addition to IBCs and trusts, Seychelles permits offshore insurance companies, mutual funds, and offshore banking. In November 2006, the GOS established the Non-Bank Financial Services Authority, which is 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: 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 its 2007-2017 Strategic Plan, the Seychelles Government proposes to facilitate the development of the financial services sector as a third pillar of the economy. It plans to achieve this through actively promoting Seychelles as an internationally recognized offshore jurisdiction, with emphasis on IBCs, mutual funds, special license companies and insurance companies.

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 suspicious transactions to the Central Bank, which now houses the financial intelligence unit (FIU), 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 its implementation, 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 nonbank financial institutions, such as exchange houses, stock brokerages, insurance agencies, lawyers, notaries, accountants, and estate agents. Offshore banks are also explicitly covered. The gaming sector is also obliged to report. However, although Internet gaming is also obligated, the law does not state explicitly that offshore gaming is covered in an identical manner. 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 an STR, criminalizes tipping off, and sets safe harbor provisions. The new law also requires reporting entities to take “reasonable measures” to ascertain the purpose of any transaction in excess of Seychelles rupees 100,000 (approximately U.S. \$12,500), or of rupees 50,000 (approximately U.S. \$6,250) in the case of cash transactions, and the origin and destination of the funds involved in the transaction. However, it 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 rupees 50,000” (approximately U.S. \$6,250); 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 rupees 3,000,000 (approximately U.S. \$375,000) in penalties. While there have been 49 investigations, there have been no arrests or prosecutions for money laundering or terrorist financing since January 1,

2003. Of the 49 cases, eight were closed due to lack of evidence. In three cases, the suspects had left Seychelles, and in one case, the suspect had died. The remaining cases are still pending investigation.

The Financial Institutions Act of 2004 imposes more stringent rules on banking operations and brings the Seychelles' regulatory framework closer to compliance with international standards. The law aims to ensure greater transparency in financial transactions by regulating the financial activities of both domestic and offshore banks. Among other provisions, 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 Financial Intelligence Unit (FIU) was established under Section 16 of the 2006 AMLA. The FIU operates within the Central Bank of Seychelles. Prior to the establishment of the FIU, the Bank Supervision Division of the Central Bank of Seychelles performed the duties of the FIU. The FIU is the focal point for receiving, analyzing, and disseminating reports of transactions related to money laundering or the financing of terrorism to the appropriate law enforcement and supervisory agencies in Seychelles. To support these core functions, the FIU is authorized to collect information that it considers pertinent and is also empowered to request additional information from reporting entities, law enforcement and supervisory agencies. The law provides for the FIU to have a proactive targeting section to research trends and developments in money laundering and terrorist financing. The FIU also performs examinations of the reporting entities and, in concert with regulators, issues guidance related to customer identification, identification of suspicious transactions, and record keeping and reporting obligations. The FIU is currently in the process of updating a set of guidelines on anti-money laundering/counter-terrorist financing (AML/CTF), which dates back to 1998, for the reporting entities in accordance with the requirements of the AMLA 2006. In December 2006, the Seychelles Government established a National Anti-Money Laundering Committee to better coordinate the efforts of the various law enforcement agencies in combating financial crimes. The Committee is chaired by the FIU, and comprises representatives of the Police, the Attorney General's Office, Customs, Immigration, the Seychelles Licensing Authority, and the Seychelles International Business Authority.

The FIU 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. 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; however, the report has not been presented to the plenary body or finalized. The Seychelles is a party to the 1988 UN Drug Convention, the UN Convention Against Corruption, 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 with its FIU to ensure it has the training and resources needed for outreach, analysis and dissemination, and comports with the membership criteria of the Egmont Group of FIUs. 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 participate more actively in ESAAMLG, and when the mutual evaluation report is finalized, address any further identified deficiencies.

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.

Former President Kabbah 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 for obliged entities. There is a currency reporting requirement for deposits larger than 25 million leones (approximately U.S. \$8,330) and no minimum for suspicious transaction reporting. The law requires that international financial transfers over U.S. \$10,000 use formal financial channels. The AMLA also institutes cross-border currency reporting requirements for cash or securities in excess of U.S. \$10,000. The law designates the Governor of the Bank of Sierra Leone as the national Anti-Money Laundering Authority.

Subject to the AMLA reporting requirements are 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. The AMLA also imposes reporting requirements on designated nonfinancial businesses and professions such as casinos, realtors, dealers in precious metals and stones, notaries, legal practitioners, and accountants.

A financial intelligence unit (FIU) exists but lacks the capacity to effectively monitor and regulate financial institution operations, and in particular lacks the technological capability necessary to maintain databases, track actors and patterns, and monitor online transactions. Law enforcement and customs authorities 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 training workshop with the United Nations Office on Drugs and Crime and Intergovernmental Group for Action Against Money Laundering (GIABA) on strategy development for anti-money laundering and combating financing of terrorism. Workshop participants recommended that the Bank of Sierra Leone draft a national anti-money laundering strategy and regulatory regime for reporting suspicious transactions to the FIU. Other recommendations focused on the FIU itself, including developing regulations for the operations of the FIU and establishing a system for the receipt, analysis, and dissemination of financial disclosures. Preparation of Sierra Leone's strategy paper has been delayed because new individuals are now involved with implementing the AMLA following the August 2007 parliamentary elections. As of late 2007, the Bank of Sierra Leone prepared the draft and recommended improving governance, setting up robust AMLA enforcement, reforming the financial sector and improving cooperation among local and regional institutions with regard to monitoring and reporting money laundering activities

Workshop participants also recommended creating a special unit comprised of four staff from the police—two from the organized crime unit and two from the counterterrorism unit—to work specifically on anti-money laundering issues. They also recommended creating protocols to improve the exchange of information between the government offices involved, including the Attorney General's Office, Sierra Leone Police, National Revenue Authority, and Anti-Corruption Commission.

Sierra Leone is member of the Inter-Governmental Action Group against Money Laundering and Terrorist Financing in West Africa (GIABA), a FATF-style regional body (FSRB). The mutual evaluation report for Sierra Leone was conducted by the World Bank and discussed at the GIABA Plenary in June 2007. The GOSL is a party to the 1988 UN Drug Convention, the UN Convention against Corruption, and the UN International Convention for the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Sierra Leone is number 150 of 180 countries listed in Transparency International's 2007 Corruption Perception Index.

President Ernest Bai Koroma was elected in September 2007 and came into office pledging to fight corruption. If the President succeeds in creating an environment and legal framework to combat corruption, there will be a positive impact on the enforcement of laws against money laundering. Although the Government of Sierra Leone has passed anti-money laundering legislation, it remains to be effectively 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 must increase the level of awareness of money laundering issues throughout the country and allocate the necessary resources to facilitate the development of its anti-money laundering and counter-terrorist financing regime. Sierra Leone needs to develop implementing regulations for its legislation, institute a reporting regime, and strengthen its FIU through both training and technical assistance. The Sierra Leonean FIU should work toward membership in the Egmont Group. The GOSL should ensure that its counter-terrorist financing measures adhere to international standards. The GOSL should work to ensure that the UNSCR 1267 Sanctions Committee's consolidated list is distributed to financial institutions regularly. It needs to ratify the UN Convention against Transnational Organized Crime. Sierra Leone should also continue its efforts to counter the smuggling of diamonds and take steps to combat corruption at all levels of commerce and government.

Singapore

As a significant international financial and investment center and, in particular, as a major offshore financial center, Singapore is vulnerable to money launderers. Stringent bank secrecy laws and the lack of routine currency reporting requirements make Singapore a potentially 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 regulations that may hamper efforts to control these crimes. To address some of these deficiencies, Singapore is implementing legal and regulatory changes to better align itself with the Financial Action Task Force's (FATF) revised recommendations on anti-money laundering (AML) and counter-terrorist financing (CTF). FATF will conclude a Mutual Evaluation of Singapore's AML/CTF regime in February 2008.

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 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 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 October 2007, there were 112 commercial banks in operation, including six local and 24 foreign-owned full banks, 42 offshore banks, and 40 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/CTF 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 24 percent between 2005 and 2006 to Singapore \$891 billion (U.S. \$581 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 individual customers to verify names, permanent contact addresses, dates of births and nationalities. Banks must also 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/CTF regulations for banks and other financial institutions. MAS issued new or revised AML/CTF regulations (in the form of "Notices" and "Guidelines") for banks and other financial institutions, most of which took effect March 1, 2007.

Affected institutions include banks, finance companies, merchant banks, moneychangers and remitters, life insurers, capital market intermediaries, and financial advisers. New reporting requirements for originator information on cross-border wire transfers took effect July 1. The relevant regulations further align certain parts of Singapore's AML/CTF regime more closely with FATF recommendations and specifically address CTF concerns for the first time. Among the recently implemented regulations are new provisions that would proscribe banks from entering into, or continuing, correspondent banking relationships with shell banks; clarify and strengthen procedures for customer due diligence (CDD), including adoption of a risk-based approach; mandate enhanced CDD for foreign politically exposed persons; and additional suspicious transaction reporting requirements. Effective November 1, 2007, Singapore increased the maximum penalty for financial institutions that fail to comply with AML/CTF regulations from Singapore \$100,000 (U.S. \$71,000) to Singapore \$1 million (U.S. \$714,000). The Act also empowers MAS to prosecute financial institution managers in cases where noncompliance is attributable to their consent, connivance or neglect. MAS is considering new regulations for holders of stored value facilities (SVF) to limit the risk of their use for illicit purposes.

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. MAS issued revised regulations that took effect April 1, 2007 that require approved trustees and trust companies to complete all mandated CDD procedures before they can 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. Singapore is considering further amendments to strengthen the Act's AML/CTF provisions.

Singapore has issued additional regulations and guidelines governing designated nonfinancial businesses and professions. The Internal Revenue Authority of Singapore issued AML/CTF guidelines for real estate agents in July 2007. The Law Society of Singapore in August 2007 amended its Legal Profession (Professional Conduct) Rules to strengthen its AML guidelines. Among its provisions, the new rules prohibit attorneys from acting on the behalf of anonymous clients to open or maintain bank accounts or to hold cash or cash instruments.

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 U.S. \$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.

A 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 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. Since November 1, 2007,

Money Laundering and Financial Crimes

Singapore has begun requiring in-bound and out-bound travelers to report cash and bearer-negotiable instruments in excess of Singapore \$30,000 (U.S. \$20,675), in accordance with FATF Special Recommendation Nine. Violators are subject to a fine of up to Singapore \$50,000 (U.S. \$34,459) and/or a maximum prison sentence of three years.

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/CTF 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 in January 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 terrorist 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 Singapore 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. 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 757,000 foreign guest workers are the main users of alternative remittance systems. As of October 2007, there were 380 moneychangers and 92 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/CTF regulations to remittance licensees and moneychangers 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 Singapore \$100,000 (approximately U.S. \$60,000). In July 2007, MAS issued regulations that require licensees to establish the identity of all customers. MAS must 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 1,900 registered charities as at end 2006. All charities must register with the Commissioner of Charities that reports to the Minister for Community Development, Youth and Sports. 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.

Changes to the Charities (Registration of Charities) Regulations that came into effect in May 2007 authorize the Commissioner to deregister charities deemed to be engaged in activities that run counter to the public interest. Singapore has also implemented tighter rules under the Charities Act that govern public fund-raising by charities, effective May 1, 2007. Charities authorized to receive tax-deductible donations are required to disclose the amount of funds raised in excess of Singapore \$1 million (approximately U.S. \$690,000), 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 26 permits in 2006 and 18 permits as of November 2007 related to fundraising 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 nonnarcotics-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 terrorist financing offenses. Singapore concluded mutual legal assistance agreements

with Hong Kong in 2003, India in 2005, and Laos in 2007. 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, Laos, 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. In August 2007, Singapore also ratified the UN Convention against Transnational Organized Crime. Singapore has signed, but has not yet ratified, the UN Convention against Corruption. In addition to FATF, Singapore is a member of the Asia/Pacific Group (APG) on Money Laundering, the Egmont Group, and the Offshore Group of Banking Supervisors.

Singapore should continue close monitoring of its domestic and offshore financial sectors. The government 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. Singapore should ratify the UN Convention against Corruption.

Slovak Republic

The geographic, economic, and legal conditions related to money laundering in Slovakia are typical of Central European economies in transition. While not a regional financial center, Slovakia's location makes it an attractive transit country for smuggling and trafficking in narcotics, mineral oils, and people. Organized criminal activity and opportunities to use gray market channels also lead to a favorable money laundering environment. According to the Financial Police, auto theft is the most commonly prosecuted predicate offense to money laundering.

Since 2000, Slovakia has strengthened the financial provisions of its criminal and civil codes through a series of amendments, which have resulted in an increased number of money laundering prosecutions. Slovakia replaced its original anti-money laundering (AML) legislation, Act No. 249/1994, with Act No. 367/2000, On Protection against the Legalization of Proceeds from Criminal Activities, which entered into force in January 2001. The Act defines money laundering, stating that "legalization of incomes derived from illegal activities," is "the use or other disposal of income or other property acquired or reasonably suspected of being acquired from illegal activity with the knowledge or suspicion that it was acquired through criminal activity in Slovakia or a third country." The Act defines "Use or disposal of property" as "ownership, possession or use of real estate, movable property, securities, monies or other liquid assets," and "disposal of income" as a "transfer of ownership, possession or use of such property with the purpose of concealing or disguising ownership." One of the most significant concepts defined in the Act is "unusual transaction" which the Act defines as "a legal action or other action which suggests that execution may enable legalization or the financing of terrorism." In practice, both unusual and suspicious transactions need to be reported, and Slovak authorities use the terms interchangeably. The Act sets forth the powers of the financial police and defines basic responsibilities of obliged entities, imposing customer identification, record keeping, and suspicious transaction reporting requirements on financial institutions.

Act No. 367/2000 expanded the list of entities subject to reporting requirements from banks and depository institutions 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. Nonprofit organizations are generally exempt from reporting requirements.

The Government of Slovakia (GOS) amended Act No. 367/2000 to address deficiencies in the original legislation and to harmonize Slovak legislation with the Second European Union (EU) Money Laundering Directive. Amendments to Act No. 367/2000 in 2002 extend reporting requirements to include dealers of antiques, art and collectibles; precious metals and stones, and other high-value goods; legal advisors; consultants; securities dealers; foundations; financial managers and consultants; and accounting services. The failure to report an unusual transaction is a criminal offense, punishable by 2-8 years imprisonment. Tipping off is also a criminal offense. The 2005 Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) evaluation report (MER) reported a lack of reporting on the part of designated nonfinancial business and professions (DNFBPs), and that casinos and exchange houses had not reported at all. The Slovak financial intelligence unit (FIU) estimated that of approximately 100,000 obliged entities, only banks and insurance companies had reported regularly, and the securities sector infrequently. It is unclear whether the obliged entities understand their reporting obligations. Slovakia has no requirement to give special attention to business relationships or transactions with legal or actual persons from countries not applying, or insufficiently applying, FATF recommendations.

Obliged entities must identify all customers, including legal entities, if they find the customers prepared or conducted suspect transactions, or if a sum of multiple transactions exceeding 15,000 euros (approximately U.S. \$19,000) within a 12-month period is involved. Insurance brokers must identify all clients whose premiums exceed approximately 1,000 euros (approximately U.S. \$1,400) in a year or whose one-time premium exceeds approximately 2,500 euros (approximately U.S. \$3,600). Casinos have enhanced customer identification requirements.

Each competent authority has the discretion to delay a suspect transaction for up to 48 hours. The entity may, upon request, further delay a transaction for an additional 24 hours if the financial police notify the institution that the case has been submitted to law enforcement authorities. If the suspicion turns out to be unfounded, the state assumes the burden of compensation for losses stemming from the delay.

Article 233 of the Criminal Code defines "Legalization of Proceeds from Criminal Activity" as a criminal offense. A money laundering conviction does not require a conviction for the predicate offense, and a predicate offense need not occur within the Slovak Republic to be considered as such. Slovakia amended its Criminal Procedure Code and Criminal Code in 2003 and 2005. The amendments enhance law enforcement powers by granting investigators the authority to conduct sting operations, and introduce limited provisions regarding corporate criminal liability. The revised codes contain sentencing guidelines, including 2 to 20 years for laundering illicit proceeds. Corporate liability for money laundering still does not exist in Slovakia.

As a result of amendments to the Slovak Civil Code in 2001, the Government of Slovakia (GOS) ordered all banks to stop offering passbook, or anonymous, accounts. All existing owners of anonymous accounts were required to disclose their identity to the bank and close the anonymous account by December 31, 2003. Owners of accounts that were still open could withdraw money for a three-year noninterest bearing grace period. The GOS confiscated all funds from accounts remaining after January 1, 2007, and deposited them in a fund administered by the Ministry of Finance, where they will be available for collection by the account holder until January 1, 2012. As of January 1, 2007, bearer passbook accounts ceased to exist.

Slovak law reportedly lacks effectiveness with regard to the beneficial ownership of legal persons. According to the 2005 MONEYVAL MER, "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.

Slovak authorities have been preparing to implement 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 drafted new legislation to comply with the Third Directive. The new Anti-Money Laundering Act, which will fully implement the Third Money Laundering Directive and upgrade many requirements regarding money laundering and terrorist financing, will come into force in February 2008. The new AML Act, when enacted, will replace Act No. 367/2000.

The Bureau of Organized Crime (BOC) focuses on all forms of organized crime, including narcotics, money laundering, human trafficking, and prostitution. The BOC has four regional units, each responsible for a different part of Slovakia (Bratislava, Eastern Slovakia, Western Slovakia, and Central Slovakia). The FIU is a fifth unit of this agency, but works at a national level.

Established in November 1996 as a department within the Financial Police, Slovakia's FIU, "Spravodajská Jednotka Finančnej Policie" in Slovak, was downgraded in 2005 to one of eight divisions of the BOC. The FIU has four departments: the Unusual Transactions Department, the Obligated Entities Supervision Department, the International Cooperation Department, and the Property Checks Department. The FIU receives unusual transaction reports. Despite a slight decline in staff and resources, the FIU and regional financial police increased filings, inspections, and the number of cases forwarded for prosecution.

As the organization responsible for combating money laundering, the FIU receives and evaluates unusual (suspicious) transaction reports (STRs) and collects additional information pursuant to suspicions 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 may take appropriate measures, including asking the obliged entity to delay business or financial transactions for 48 hours. The FIU then submits cases of reasonable suspicion of a criminal offence to police investigators.

In 2006, the FIU received 1,571 STRs with a total value of U.S. \$568 million. The FIU submitted fourteen cases for prosecution, including two cases outstanding from 2005. The regional units of the Financial Police submitted an additional 177 cases for prosecution. A growing number of these cases involve organized crime groups transferring funds from neighboring countries (primarily Ukraine and Hungary) to Slovakia. Most criminal prosecutions involved credit fraud. Most tax prosecutions and on-site inspections violations related to abuses of Slovakia's value added tax system. Money laundering convictions (under Article 252 of the previous Criminal Code) have gradually increased. Detailed statistics on money laundering convictions are not available. However, there were no autonomous cases of money laundering convictions, since the FIU and regional financial police tend to forward for prosecution only money laundering cases that are tied to broader organized criminal activities. No information for 2007 is available.

Section 10 of Act No. 367/2000 assigns the FIU a supervisory role, embodied by the Obligated Entities Supervision Department, over the implementation of AML measures in financial institutions. In this capacity, the FIU inspects these institutions. It also has sole supervisory authority over DNFBPs. The seven officers in the supervision department carried out 92 on-site inspections in 2006, resulting in fines with a total value of U.S. \$62,000.

Slovak law mandates forfeiture of the proceeds of crime. It does not, however, allow for forfeiture from third-party beneficiaries. The Public Prosecutor Service may order the seizure of accounts during the pre-trial proceedings stage, and can order the use of information technology for enhanced investigations under Articles 79c, 88 and 88e of the Criminal Procedure Code. In 2006, a new

Confiscation Law became effective, strengthening the government's ability to seize assets gained through criminal activity.

The Law on Proving the Origin of Property 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 must be scrutinized and could be considered illegal. The police must investigate allegations of illegally acquired property, and report their findings to the Office of the Public Prosecutor. The Public Prosecutor's Office may then order the property confiscated. However, the new law was controversial, and a provisional decision of the Constitutional Court froze its implementation on October 6, 2005. A year later, the Constitutional Court suspended the Act. The Constitutional Court has not yet reached a final decision on this law.

Supporting a terrorist group is an offense under the Criminal Code. Act No. 445/2002 amended the money laundering law to criminalize terrorist financing and require obliged entities to report transactions possibly linked to terrorist financing. Although authorities have acknowledged the ability to prosecute "aiding and abetting an offense of terrorism or the establishment of a terrorist group," no case has gone before the courts.

As Slovakia itself reported in its 2004 self-assessment questionnaire on its AML efforts, its counter-terrorist financing (CTF) regime is not fully compliant with the FATF's Special Recommendations on Terrorist Financing. MONEYVAL gave Slovakia a rating of "partial compliance" in 2004 with regard to Special Recommendation I (Implementation of UNSCR 1373), as the criminalization of terrorist financing solely based on aiding and abetting does not meet the FATF standard; and Special Recommendation VII (enhanced scrutiny of transfers lacking originator information). The MER also stated that Slovakia's provisions are not broad enough to clearly criminalize the collection of funds with the intent to carry out terrorist acts, support terrorist organizations regardless of whether the donation is for the commission of a terrorist act, or for the use of any individual terrorist.

All competent authorities in the Slovak Republic have full authority to freeze or confiscate terrorist assets consistent with UNSCR 1373. The GOS has agreed to immediately freeze all accounts owned by entities listed by the UNSCR 1267 Sanctions Committee Consolidated List of terrorist entities, the EU's consolidated lists, and those provided by the United States under Executive Order 13224. The GOS posts the lists online, but does not distribute them. Obligated entities must check the website and report any matches they find. In the event an obliged entity were to identify a terrorism-related account, the financial police could suspend any related financial transaction for up to 48 hours, and then gather evidence to freeze the account and seize assets. However, the reporting obligation with respect to terrorist financing remains insufficiently clear. Obligated entities and other covered institutions have not received any guidance and no reports involving terrorist financing have been filed. Guidance and communication with financial intermediaries and DNFBPs is reportedly weak. No terrorist finance-related accounts have been frozen or seized in Slovakia.

Slovakia 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. Slovakia is also a party to 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.

Slovakia is a member of the MONEYVAL Committee. Its FIU is a member of the Egmont Group and has signed memoranda of understanding (MOUs) with seven counterpart FIUs and with the Royal Canadian Mounted Police (RCMP).

The Government of Slovakia should continue to improve its AML/CTF regime. Authorities should ensure that property and proceeds are equivalent in Article 252 and that this definition is codified to avoid confusion on this issue. Slovakia should also provide guidance and outreach to, and improve

supervision of, its DNFBPs to ensure that they follow their AML and CTF reporting requirements. Slovakia should implement formal AML supervision for exchange houses. Slovak authorities should encourage and enable police to pursue money laundering and financial crime even when it does not involve organized crime activities. Slovakia should provide adequate resources to ensure that the FIU, law enforcement, and prosecutorial agencies receive adequate funding and training, as well as maintain adequate staff, to effectively perform their various responsibilities. The FIU in particular needs staffing commensurate with its responsibilities. The GOS should work to enhance cooperation and coordination among these agencies and other competent authorities. Slovakia should take steps to include in its legislative framework the international standard for definition and treatment of beneficial owners. Authorities should also consider requiring enhanced due diligence or reporting requirements for transactions involving countries not in conformance with FATF standards, and consider adopting criminal, civil or administrative sanctions for money laundering in relation to legal persons. The GOS should consider amending its confiscation and forfeiture regime to provide for asset forfeiture from third-party beneficiaries.

The Government of Slovakia should hone its legal framework to clarify the reporting obligation with respect to terrorist financing and issue formal guidance to covered institutions. The GOS should ensure proactive circulation of the UN, EU and U.S. lists of terrorist entities to obliged entities, thus tightening the CTF regime. The GOS should also codify reporting requirements for charitable and nonprofit organizations. Authorities should amend the Criminal Code to ensure that the criminalization of terrorist financing parallels international standards, including broad parameters that criminalize the collection of funds for carrying out terrorist acts, for any activities undertaken by terrorist organizations, and for use by any individual terrorist.

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, make it a very vulnerable 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 vulnerable to all-source money laundering. 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 and theft of 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 (SARS) 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) criminalized money laundering for all serious crimes. This act was repealed and replaced 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 100 million rand (approximately U.S. \$14.8 million) or imprisonment for up to 30 years.

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. Regulations require suspicious transaction reports to be sent to the South African financial intelligence unit (FIU), the Financial Intelligence Centre (FIC). Both the Prevention of Organized Crime Act and the FICA contain criminal and civil forfeiture provisions.

The FIC began operating in February 2003. The mandate of the FIC is to gather and analyze financial intelligence for use against money laundering and other financial crimes; to coordinate policy and efforts to counter money laundering activities; and to act 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.

From March 2006 through March 2007, the FIC received 21,466 suspicious transaction reports (STRs), an increase of nine percent from the previous year's 19,793 STRs. Eighty-eight percent of the reports came from financial institutions, with the balance coming from casinos, coin dealers, accountants, attorneys, and other reporting entities. FIC referred 549 STRs to law enforcement and/or intelligence agencies for further investigation, with a value in excess of 1.4 billion rand (approximately U.S. \$200 million). FIC and banking officials report that the quality of STRs is steadily improving, as bank personnel receive AML training and as AML software and other detection systems are installed and refined.

Precise information is not available on how many of the STRs led to criminal investigations. However, the number of money laundering and terrorist finance investigations, prosecutions, and convictions is thought to be very low. Two of the corporate defendants in the high-profile 2005 Schabir Shaik corruption trial were convicted of money laundering. However, the small number of actual cases prosecuted in South Africa indicates problems in reporting, analysis, and investigations. Many investigators and prosecutors seem to focus on the underlying "predicate" crimes, and may be unfamiliar with money laundering offenses or see no reason to add money laundering charges to cases.

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 (UN) 1267 Sanctions Committee's consolidated list.

Conforming to the new money laundering regime has been expensive for banks, which have re-registered customers, given AML training to thousands of employees, expanded their internal compliance offices, and taken other steps to meet global best practices and comply with the law. 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 and are used largely by the Islamic and Indian communities. 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.

SARS requires all visitors with cash in their possession to declare the amount upon arrival in South Africa. In addition, all South Africans and residents leaving the country with cash must declare amounts in excess of 175,000 rand (approximately U.S. \$24,600) for individuals, or 250,000 rand (approximately U.S. \$35,280) for families. Although bulk-cashing smuggling is not illegal per se, failure to make the required declarations carries a penalty. 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 fully implement FATF Special Recommendation Nine and establish control over cross-border currency movement. 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 also regulate and investigate the country's alternative remittance systems. There is an over-reliance on STR reporting to initiate money laundering investigations. Law enforcement and customs officials should follow the money and value trails during the course of their investigations. South Africa should continue to enforce anti-money laundering regulations within the casino industry. 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 a major European center of money laundering activities as well as a major gateway for illicit narcotics. Drug proceeds from other regions enter Spain as well, particularly proceeds from hashish entering from Morocco and heroin entering from Turkey. There are no known currency transactions of significance involving large amounts of U.S. currency and/or direct narcotics proceeds from U.S. sales.

Tax evasion in internal markets and the smuggling of goods along the coastline also continue to be sources of illicit funds in Spain. The smuggling of electronics and tobacco from Gibraltar remains an ongoing problem. Airline personnel traveling from Spain to Latin America reportedly smuggle sizeable sums of bulk cash. Additional money laundering activities found in Spain include Colombian companies purchasing goods in Asia and selling them legally at stores run by drug cartels 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 drug-trafficking proceeds are invested in Spanish real estate, particularly in the booming coastal areas in the south and east of the country. Up to thirty percent of the 500 euro notes in use in Europe are reported to be in circulation in Spain, directly linked to the purchase of real estate to launder money. Given the burgeoning profitability of the construction sector over the past several years, many coastal municipalities have ignored the illegality of various construction projects in their localities. In 2006, the prosecutor's office in the southern province of Malaga processed more than 200 reports of abuse and systemic corruption related to the real estate and construction industries, resulting in judicial action against 20 out of 100 mayors in that province.

Throughout 2007, Spanish authorities conducted numerous anti-money laundering (AML) and counter-terrorist financing (CTF) operations that resulted in arrests. On July 25, Spanish authorities arrested two Syrian nationals accused of funneling donations from Muslim extremists living in Spain to foreign Islamic terrorist organizations. The network reportedly also funneled donations into the booming Spanish real estate market, selling the properties at a later date for profit. On July 27, Spanish police in cooperation with Colombian authorities dismantled a drug trafficking and money laundering network. The operation led to nine arrests in Barcelona and 18 in Colombia, along with the seizure of funds and illicit narcotics. There was little legislative activity regarding anti-money laundering and terrorism finance in 2007, though regulations clarifying financial reporting requirements were passed.

The most recent mutual evaluation of Spain was conducted by the Financial Action Task Force (FATF) in 2005, with the mutual evaluation report (MER) released in June 2006. The MER noted areas where Spain is not in full compliance with the 40 Recommendations and Nine Special Recommendations. Of the 49 recommendations, of which 47 were applicable, Spain was rated "largely compliant" or better in 32 and compliant in the five core FATF recommendations (Recommendations 1, 5, 10, 13, and Special Recommendations II and IV).

Spanish authorities recognize the presence of alternative remittance systems. Informal nonbank outlets such as "locutorios" (communication centers that often offer wire transfer services) are used to move money in and out of Spain by making small international transfers for members of the immigrant community. 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, but there are no shell banks in Spain. Financial institutions have no requirement to determine whether a correspondent financial institution in a foreign country allows accounts used by shell banks. The Government of Spain (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, but online casinos often run from servers located outside of Spanish territory. Spanish politicians have been critical of Gibraltar's role in this regard. In this instance, regulation can only occur through mutual judicial assistance or international agreements.

Money laundering is criminalized by Article 301 of the Penal Code, added in 1988 when laundering the proceeds from narcotics trafficking was made a criminal offense. Individuals in fiduciary

institutions can be held liable if their institutions have been used to commit financial crimes; a 1991 amendment made such persons culpable for both fraudulent acts and negligence connected with money laundering. 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 offense, and a conviction or a prosecution for a predicate offense is not necessary to prosecute or obtain a conviction for money laundering. Spanish authorities can also prosecute money laundering based on a predicate offense in another country, if the predicate offense would be illegal in Spain.

Law 19/2003 obliges financial institutions to make monthly reports on large transactions. Banks are required to report all international transfers greater than 30,000 euros (approximately \$43,800). The law also requires the declaration and reporting of internal transfers of funds greater than 80,500 euros (approximately U.S. \$117,520). Individuals traveling internationally are required to report the importation or exportation of currency greater than 6,000 euros (approximately U.S. \$8,760). Foreign exchange and money remittance entities must report on transactions above 3,000 euros (approximately U.S. \$4,380). Authorities also require reporting transactions exceeding 30,000 euros (approximately U.S. \$43,800) from or with persons in countries or territories considered to be tax havens. 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. When the money has not been declared and cannot be connected to criminal activity, authorities may seize it until the origin of the funds is proven. On October 26, 2005, the European Parliament and the Council passed Regulation 1889/2005 on Controls of Cash Entering or Leaving the Community, which requires all travelers entering or leaving the EU with €10000 or more in cash to declare the sum to Customs. As of June 15, 2007, all Member States were required to implement the regulation.

The financial sector is required to identify customers, keep records of transactions, and report suspicious financial transactions. Spanish financial institutions 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, and individuals and unofficial financial institutions exchanging or transmitting money. Most categories of designated nonfinancial businesses and professions (DNFBPs) are subject to the same core obligations as the financial sector. The list of DNFBPs includes realty agents, dealers in precious metals and stones, as well as in antiques and art, legal advisors, accountants, auditors, lawyers, notaries and casinos

Reporting entities are required to 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 each suspicious transaction to the financial intelligence unit (FIU). Financial institutions also have an obligation to undertake systematic reporting of unusual transactions and those exceeding the currency threshold, including physical movements of cash, travelers' checks, and other bearer instruments/checks drawn on credit institutions above 30,000 euros (approximately U.S. \$43,795). 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. Nonbank 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 Royal Decree (RD) 925/1995 contain safe harbor provisions. Financial institutions and their staff are legally protected from any breach of restrictions 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 (STRs).

The FATF MER noted 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 they are not as prevalent as they have been 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 the MER cited the requirements to determine the beneficial owner as “inadequate.”

Law 19/1993 and RD 925/1995 established the Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC) as Spain’s FIU. Its primary mission is to receive, analyze, and disseminate suspicious and unusual transaction reports from financial institutions and DNFBPs. SEPBLAC coordinates the fight against money laundering in Spain and has primary responsibility for any investigation in money laundering cases. SEPBLAC also has supervisory and inspection functions and is directly responsible for the supervision of a large number of regulated institutions; for example, it directly supervises the AML procedures of banks and financial institutions. SEPBLAC thus has memoranda of understanding with the Bank of Spain, the National Securities Market Commission, and the Director General of Insurance and Pension Funds, to coordinate with the regulators that supervise their respective sectors. 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 U.S. Securities and Exchange Commission), Treasury, Bank of Spain, and the Director General of Insurance and Pension Funds.

The FATF MER described the FIU’s supervisory capabilities as ineffective because of its limited resources; the MER also expressed concern regarding SEPBLAC’s independence from the Bank of Spain. In SEPBLAC’s annual report, the organization acknowledged the weaknesses highlighted by the FATF report and expressed a desire to work to address these issues.

SEPBLAC has access to the records and databases of other government entities and financial institutions. It also has formal mechanisms in place to share information domestically and with other FIUs. SEPBLAC has been a member of the Egmont Group since 1995. In 2006, SEPBLAC received 2,251 STRs, down from 2,502 in 2005. SEPBLAC received 539 requests for information from other FIUs in 2006 and made 231 requests to Egmont members.

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 a secretariat in the Treasury to carry out penalties following investigation and a guilty verdict by a court. 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 a 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 offenses (Article 374). Article 127 of the Penal Code allows for broad confiscation authority by applying it to all crimes or summary offenses under the Code. The effects and 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 offense. 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, established under the National Drug Plan, receives seized assets. 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 FATF, FATF-style regional bodies, and the Egmont Group, to coordinate 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 or 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.

A small percentage of the money laundered in Spain is believed to be used for terrorist financing. It is primarily money from the extortion of businesses in the Basque region that is moved through the financial system and used to finance the Basque terrorist group ETA. After ETA announced the end of its cease-fire in June of 2007, reports of extortion against businesses located in the Basque and Navarra regions increased greatly. The FATF MER gives Spain a favorable review with regard to countering terrorist financing. Spain has long been dedicated to 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 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, meaning that Spanish authorities have not yet established and implemented a clear, efficient procedure to ensure the freezing of funds or other assets without delay.

As with all 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 euros (\$106). The CVAFT is charged with issuing freezing orders.

Spain is a member of the FATF and co-chairs the FATF Terrorist Finance Working Group. Spain is also involved with FSRBs as an observer 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 AML/CTF assistance, particularly to Spanish speaking countries in Latin America.

Spain actively collaborates with Europol, supplying and exchanging information on terrorist groups. In 2007, U.S. law enforcement agencies also reported excellent cooperation with their Spanish counterparts. Spanish media gave prominent coverage to the cooperation between the U.S. Drug Enforcement Administration (DEA) and Spanish law enforcement authorities that led to the August 10, 2007 Spanish arrest of an accused prominent drug trafficker. This was one of many cases that U.S. law enforcement is working in collaboration with various Spanish authorities to resolve. In September 2007, Spanish police arrested two Pakistani men who were indicted in the U.S. on money laundering charges following a joint counter-terrorism investigation with the FBI. The investigation found evidence that more than 1 million euros (U.S. \$1.46 million) flowed from the drug trade and other criminal actions to terrorist groups.

The GOS has signed criminal mutual legal assistance agreements with Argentina, Australia, Canada, Chile, the Dominican Republic, Mexico, Morocco, Uruguay, and the United States. Spain's mutual legal assistance treaty with the United States has been in effect since 1993 and provides for sharing of seized assets "to the extent permitted by [domestic] laws." Spain has also entered into bilateral agreements for cooperation and information exchange on money laundering issues with 14 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 21 FIUs around the world.

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.

The scale of money laundering and the sophisticated methods used by criminals represent a major threat to Spain. The GOS has passed and enacted legislation designed to help eliminate and prosecute

financial crimes. Spain should also review the resources available for industry supervision, and ensure that SEPBLAC has the resources it needs to effectively discharge the supervisory duties entrusted to it. The GOS should work to close the 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 terrorist 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

St. Kitts and Nevis 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 through and around the island, and the presence of known traffickers on the islands. The growth of its offshore sector and an inadequately regulated economic citizenship program further contribute to the federation's money laundering vulnerabilities.

The Ministry of Finance oversees St. Kitts and Nevis' Citizenship by Investment Program. An individual may qualify for citizenship with a U.S. \$350,000 minimum investment in real estate. In addition, the Government of St. Kitts and Nevis (GOSKN) created the Sugar Industry Diversification Foundation (SIDF) after the closure of the federation's sugar industry as a special approved project for the purposes of citizenship by investment. To be eligible, an applicant must make a contribution between U.S. \$200,000 to \$400,000 (based on the number of the applicant's dependents). The GOSKN requires applicants to make a source of funds declaration and provide evidence supporting the declaration. According to the GOSKN, the Ministry of Finance oversees the Citizenship Investment Program and has established a Citizenship Processing Unit to manage the screening and application process.

As a federation, there is anti-money laundering, counter-terrorist financing, and offshore legislation governing both St. Kitts and Nevis. However, each island has the authority to organize its own financial structure. With most of the offshore financial activity concentrated in Nevis, it has developed its own offshore legislation independently. As of October 2007, Nevis has one offshore bank, 90 licensed insurance companies, 33,165 international business companies (IBCs), 9,840 limited liability companies (LLCs), 3,684 international trusts, 47 multiform foundations (utilized for estate planning, charity financing, and special investment holding arrangements), and 3,684 trusts. Figures from 2007 indicate that the St. Kitts has 1,201 exempt companies, 257 exempt foundations, nine exempt partnerships, 23 exempt trusts, 51 captive insurance companies, one insurance manager, five trust service providers, 25 corporate service providers, two investment companies, and three licensed Internet gaming sites. Internet gaming entities must apply for a license as an IBC.

Bearer shares are permitted provided that bearer share certificates are retained in the safe custody of authorized persons or financial institutions authorized by the Minister of Finance as approved custodians. Legislation requires certain identifying information to be maintained about bearer certificates, including the name and address of the bearer of the certificate, as well as its beneficial owner. All authorized custodians are required by law to obtain proper documents on shareholders or beneficial owners before incorporating exempt or other offshore companies. This information is not publicly available and only available to the regulator and other authorized persons who have access to the information.

The GOSKN licenses offshore banks and businesses. The GOSKN states that extensive background checks on all proposed licensees are conducted by a third party on behalf of the GOSKN before a license is granted. By law, all offshore bank licensees are required to have a physical presence in the federation; shell banks are not permitted. The Eastern Caribbean Central Bank (ECCB) has direct responsibility for regulating and supervising the offshore bank in Nevis, as it does for the entire

domestic sector of St. Kitts and Nevis, and for making recommendations regarding approval of offshore bank licenses. Under Section 10(8) of the Nevis Offshore Banking Ordinance, 1996 as amended in 2002, the ECCB is required to review all applications for licenses and report its findings to the Minister of Finance prior to consideration of the application.

The St. Kitts and Nevis Gaming Board is responsible for ensuring compliance of casinos. The Financial Services Commission (FSC) is the primary regulatory body for financial services in the federation and has the authority to cooperate with foreign counterparts on supervisory issues. Separate regulators for St. Kitts and Nevis carry out the actual supervision of institutions on behalf of the FSC including anti-money laundering examinations. Nevis seeks to consolidate its regulatory regime to a single unit as of January 2009, which would regulate all financial services businesses in Nevis. This would expand supervision to credit unions, local insurance companies, and money transfer agencies. Nevis also seeks to establish a risk-based supervision program and will conduct risk assessments on all licensees, as well as establish a risk based supervision schedule for onsite and offsite monitoring.

The Proceeds of Crime Act (POCA) No. 16 of 2000 criminalizes money laundering for serious offenses (defined to include more than drug offenses), and imposes penalties ranging from imprisonment to monetary fines. The POCA also overrides secrecy provisions that may have constituted obstacles to administrative and judicial authorities' ability to access information with respect to account holders or beneficial owners. The POCA limits and monitors the international transportation of currency and monetary instruments. Any person importing into or exporting from St. Kitts and Nevis a value exceeding \$10,000 or its equivalent in Eastern Caribbean Currency needs to declare it through Customs. In addition, the Customs Control and Management Act criminalizes bulk cash smuggling. Customs and police share cash smuggling reports.

The FSC has issued guidance notes on the prevention of money laundering, pursuant to the Anti-Money Laundering Regulations. Regulations require financial institutions to identify their customers, maintain a record of transactions for up to five years, report suspicious transactions, and establish anti-money laundering training programs. The Anti-Money Laundering (Amendment) Regulations No. 36, 2001 and relevant Guidance Notes are presently under revision to include institutions' reporting obligations related to combating terrorist financing.

The Financial Intelligence Unit Act (FIUA) No. 15 of 2000 authorized the creation of a financial intelligence unit (FIU). The FIU began operations in 2001 and receives, collects, and investigates suspicious activity reports (SARs). All financial institutions, including nonbank financial institutions, are required by law to report suspicious transactions. Anti-money laundering regulations and the FIUA provide protection to reporting entities and employees, officers, owners, or representatives who forward suspicious reports to the FIU. The FIU has direct and indirect access to the records of other government entities via memorandums of understanding with domestic agencies. There is also indirect access to the records at financial institutions. The FIUA contains provisions for sharing information both domestically and with other foreign law enforcement agencies.

In 2007, the FIU received 96 SARs, almost double the number received in 2006. The FIU attributes this increase to efforts to increase awareness and educate entities of their reporting obligations. Of the 96 SARs, 40 were referred to law enforcement for appropriate action. The GOSKN did not report any 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 Anti-Terrorism Act (ATA) No. 21 of 2002 provides the FIU and Director of Public Prosecutions with the authority to identify, freeze, and/or forfeit terrorist finance-related assets. However, the law only allows for criminal forfeiture. Civil forfeiture is considered unconstitutional. Under the POCA, legitimate businesses can be seized by the FIU if proven to be connected to money laundering activities. The FIU and the Director of Public Prosecutions are responsible for tracing, seizing, and

freezing assets. The FIU can freeze an individual's bank account for a period not exceeding five days in the absence of a court order. The freeze orders obtained via the court at times ascribe an expiration of six months or more. Also under the POCA, there is 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. Between 2001 and 2006, the GOSKN froze approximately \$2 million in assets, of which \$1 million was forfeited. No assets were seized in 2007.

The ATA criminalizes terrorist financing. The ATA also implements various UN conventions against terrorism. The GOSKN circulates to its financial institutions the list of individuals and entities that have been included on the UN 1267 sanctions committee's lists. The GOSKN has some existing controls that apply to alternative remittance systems, but has undertaken no initiatives that apply directly to the potential terrorist misuse of charitable and nonprofit entities. To date, no terrorist related funds have been identified.

St. Kitts and Nevis is a member of the Caribbean Financial Action Task Force (CFATF) and is expected to undergo a mutual evaluation in 2008. St. Kitts and Nevis' Anti-Money Laundering/Combating Terrorist Financing Task Force will review the federation's legal and administrative structures and seek to address weaknesses in the regime in preparation for the upcoming mutual evaluation. St. Kitts and Nevis is also a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). The FIU is a member of the Egmont Group. The GOSKN 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. St. Kitts and Nevis is not a party to the UN Convention against Corruption, and has signed, but not ratified, the Inter-American Convention against Terrorism. A Mutual Legal Assistance Treaty (MLAT) between the GOSKN and the United States entered into force in 2000.

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 provide adequate resources and training to law enforcement agencies to effectively investigate money laundering cases. The GOSKN should also become a party to the UN Convention against Corruption.

St. Lucia

St. Lucia has developed an offshore financial service center that is vulnerable to money laundering. 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 six offshore banks, 2,851 international business companies (a 49 percent increase from 2006), six private mutual funds, two public mutual funds, 24 international insurance companies, 66 trust companies, three mutual fund administrators, 25 registered agents and five registered trustees (service providers), and 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 and the GOSL does not plan to consider the establishment of gaming enterprises.

Money laundering in St. Lucia is a crime under the 1993 Proceeds of Crime Act and the Money Laundering (Prevention) Act (MLPA) of 2003, which superseded the Money Laundering (Prevention) Act of 1999 and the Financial Intelligence Authority Act of 2002. The MLPA criminalizes the laundering of proceeds with respect to numerous predicate offenses, including narcotics, 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 (which include banks, credit unions, building societies, trust companies, and financial services providers) 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. The Financial Services Supervision Unit has issued detailed guidance notes to implement the MLPA. Currently, steps are also being taken to implement legislation to regulate money remitters.

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. IBCs intending to engage in banking, insurance or mutual funds business may not be registered without the approval of the Minister responsible for international financial services. An IBC may be struck off the register on the grounds of carrying on business against the public interest.

The Committee on Financial Services, established in 2001, 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 has implemented administrative procedures for an integrated regulatory unit to supervise the onshore and offshore financial institutions the GOSL currently regulates; however, the unit is not yet fully functional. The Eastern Caribbean Central Bank regulates St. Lucia's domestic banking sector.

The MLPA authorizes the establishment of St. Lucia's financial intelligence unit (FIU), which became operational in October 2003. 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 FIU has access to relevant records and databases of all St. Lucian government entities and financial institutions, and is permitted by law to share information with foreign FIUs. However, no formal agreement exists for sharing information domestically and with other FIUs. In 2007, the FIU received 39 suspicious transaction reports, two of which were referred to law enforcement agencies for further investigation. There are no recorded cases of money laundering within St. Lucia's banking sector for 2007.

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 shared narcotics assets. If the individual or business is not charged, then assets must be released within seven days. No assets were frozen in 2007.

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 GOSL 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 crimes investigations. In February 2000, St. Lucia and the United States brought into force a Mutual Legal Assistance Treaty.

The GOSL 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 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. 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. St. Lucia's FIU is not a member of the Egmont Group.

In accordance with international standards, 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.

The GOSL should criminalize the financing of terrorism. It should also enhance and implement its anti-money laundering legislation and programs, including adopting civil forfeiture legislation and ensuring that its FIU meets the Egmont Group standards. 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 its record of investigating, prosecuting, and sentencing money launderers and those involved in other financial crimes, as well as improving and implementing its asset seizure and forfeiture regime.

St. Vincent and the Grenadines

St. Vincent and the Grenadines (SVG) remains vulnerable to money laundering and other financial crimes as a result of the rapid expansion and limited regulation of its offshore sector. Money laundering is principally affiliated with the production and trafficking of marijuana in SVG, as well as the trafficking of other narcotics from South America. Money laundering occurs in various financial institutions such as banks (domestic and offshore) and money remitters. There has been a slight increase in fraud and the use of counterfeit instruments over the last year, such as tendering counterfeit checks or cash.

The domestic financial sector includes 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 six offshore banks, 8,573 international business corporations (an increase of 918 from the previous year), 13 offshore insurance companies, 55 mutual funds, 27 registered agents, and 154 international trusts. There are no offshore casinos and no Internet gaming licenses have been issued. There are no free trade zones in SVG. The Government of St. Vincent and the Grenadines (GOSVG) eliminated its economic citizenship program in 2001.

No physical presence is required for offshore sector entities and businesses, with the exception of offshore banks. Nominee directors are not mandatory except when an international business corporation (IBC) is formed to carry on banking business. Bearer shares are permitted for IBCs but not for banks. The International Business Companies (Amendment) Act No.26 and 44 of 2002 was enacted to immobilize bearer shares and requires registration and custody of bearer share certificates by a registered agent who must also keep a record of each bearer certificate issued or deposited in its custody. The record must contain pertinent information relating to the company issuing the shares, the number of the share certificate, and identity of the beneficial owner. The Offshore Finance Inspector has the ability to access the name or title of a customer account and confidential information about the customer that is in the possession of a license.

The Eastern Caribbean Central Bank (ECCB) supervises SVG's domestic banks. The International Banks (Amendment) Act No. 30 of 2002 provided the ECCB with enhanced authority to review and make recommendations regarding approval of offshore bank license applications, and to directly supervise the offshore banks in conjunction with the International Financial Services Authority (IFSA). The agreement includes provisions for joint on-site inspections to evaluate the financial soundness and anti-money laundering programs of offshore banks. The IFSA continues independently to supervise and regulate other offshore sector entities; however, its staff exercises only rudimentary controls over these institutions. The GOSVG has strengthened the structure and staffing of the IFSA to regulate offshore insurance and mutual funds. The Exchange of Information Act No. 29 of 2002 authorizes and facilitates the exchange of information among regulatory bodies.

The Proceeds of Crime and Money Laundering (Prevention) Act (PCMLPA) 2001 criminalizes money laundering, and requires financial institutions and other regulated businesses to report suspicious transactions. Reporting is required for all suspicious activities regardless of the transaction amount. In 2005, the PCMLPA was amended to expand the definition to include an all offences approach and extended the scope of sections relating to the seizure, detention, and forfeiture of cash. The Proceeds of Crime (Money Laundering) Regulations establish mandatory record-keeping rules and customer identification requirements. Financial institutions are required to maintain all records relating to transactions for a minimum of seven years.

Customers are required to complete a source of funds declaration for any cash transaction over 10,000 East Caribbean dollars (XCD) (approximately U.S. \$3,800). It is not mandatory to report other noncash transactions exceeding 10,000 XCD. 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 XCD.

The Financial Intelligence Unit Act No. 38 of 2001 (FIU Act) establishes the GOSVG's financial intelligence unit (FIU). Operational as of 2002, the FIU has the mandate to receive, analyze, and investigate financial intelligence, and prosecute money laundering cases. Suspicious activity related to drug trafficking is forwarded to the Narcotics Unit for further investigation, and activity related to fraud is forwarded to the Criminal Investigation Division. The FIU also has the ability to obtain production orders and stop/freeze orders. The FIU staff includes the Director, financial investigators, legal officers, and administrative officers. As of November 2007, the FIU received 159 suspicious activity reports for the year, and more than 750 since its inception. There was one conviction for money laundering in 2007.

The FIU is the main entity responsible for supervising and examining financial institutions for compliance with anti-money laundering and counter-terrorist financing laws and regulations. The function is also performed by the International Financial Services Authority (IFSA) and the ECCB. Money laundering controls also apply to nonbanking financial institutions and intermediaries, which the FIU monitors for compliance. Reporting entities are protected by law if fully cooperative with the FIU. An amendment to the FIU Act permits the sharing of information even at the investigative or

intelligence stage. The FIU does not have direct access to the records or databases of other government entities. Generally, records are still kept in physical form and must be retrieved manually.

Existing anti-money laundering legislation allows for the criminal forfeiture of intangible as well as 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 PCMLPA. Legitimate businesses can also be seized if used to launder drug money, support terrorist activity, or are otherwise used in a crime. A civil forfeiture bill has been drafted and is currently before the National Anti-Money Laundering Committee (NAMLC) for its approval. In 2007, approximately \$304,380 was frozen or seized. Of this amount, approximately U.S. \$69,889 was forfeited.

In 2006, the GOSVG enacted the United Nations (Anti-Terrorism Measures) (Amendment) (UNATMA) Act 2006, Act. No.13. The UNATMA criminalizes terrorist financing and imposes a legal obligation on financial institutions and relevant business to report suspicious transactions relating to terrorism and terrorist financing 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.

An updated extradition treaty and a Mutual Legal Assistance Treaty between the United States and the GOSVG entered into force in 1999. The FIU executes the Mutual Legal Assistance Treaty requests. A member of the Caribbean Financial Action Task Force (CFATF), the GOSVG is scheduled to undergo its second mutual evaluation in early 2008. The GOSVG is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and the FIU is a member of the Egmont Group. 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 Government of St. Vincent and the Grenadines has strengthened its anti-money laundering and counter-terrorist financing regime through legislation and the establishment of an effective FIU. The GOSVG should continue to ensure that this legislation is fully implemented, and that the FIU has access to all necessary information. 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 and devote resources to increase the cooperation among its regulatory, law enforcement, and FIU personnel in anti-money laundering and counter-terrorist financing operations and investigations. In addition, the GOSVG should consider computerizing its record keeping systems to ensure timely and effective information sharing. The GOSVG should pass civil forfeiture legislation and consider the utility of special investigative techniques. The GOSVG should also become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Suriname

Suriname is not a regional financial center. Narcotics-related money laundering is closely linked to transnational criminal activity related to the transshipment of Colombian cocaine. Domestic drug trafficking organizations and organized crime are thought to control much of the money laundering proceeds, which are “invested” in casinos, real estate, and private sector businesses. Additionally, money laundering occurs as a result of poorly regulated private sector activities, such as casinos and

car dealerships, the nonbanking financial system (including money exchange businesses or “cambios”), and a variety of other means, including construction, the sale of gold purchased with illicit money, and the manipulation of commercial bank accounts.

Suriname is not an offshore financial center and has no free trade zones. There is a gold economy in the interior mining regions of the country. Suriname has a significant informal economy, the majority of which is not linked to money laundering proceeds.

A package of legislation passed in 2002 included the criminalization of money laundering. The legislation, “Reporting of Unusual Transactions in the Provision of Services,” addresses multiple issues related to all types of money laundering, including criminalizing money laundering, reporting of unusual transactions, and requiring service providers to request identification from each customer making a transaction. The legislation applies to both banking and nonbanking financial institutions. The law also provides for the establishment of a financial intelligence unit (FIU) and requires financial institutions, nonbank financial institutions, and natural legal persons who provide financial services to report unusual transactions to the FIU. In total, approximately 130 entities in Suriname are required to report to the FIU. While the FIU has informed all entities of their reporting requirements, to date only the banking sector is in full compliance.

In accordance with international standards, objective and subjective indicators have been approved to identify unusual transactions. An unusual transaction is defined as any transaction that deviates from the usual account as well as any customer activities that are not “normal” daily banking business. Reporting is mandatory if financial transactions are above a certain threshold; however, sanctions for noncompliance are currently not enforced. The thresholds for financial institutions range from U.S. \$5,000 for money-transfer offices to U.S. \$10,000 for banks, insurance companies, money exchange offices, and savings and credit unions. Thresholds for nonbanking financial institutions and “natural legal persons” are U.S. \$5,000 for casinos, U.S. \$10,000 for dealers of precious metals and stones, and U.S. \$25,000 for notaries, accountants, lawyers, and car dealerships. In addition, service providers are required to confirm the identities of individual or corporate clients before completing requested services and to retain photocopies of identity documents and all other relevant documents pertaining to national and international transactions for a period of seven years. The legislation includes a due diligence section that holds individual bankers responsible if their institution launders money and ensures confidentiality to bankers and others with respect to their cooperation with law enforcement officials.

Statutory requirements limit the international transportation of currency and monetary instruments; amounts in excess of \$10,000 must be reported to authorities before entering or leaving Suriname. In addition, any person who wishes to take money in excess of U.S. \$10,000 out of the country must notify the Military Police. The Central Bank of Suriname also requires that all transactions in excess of U.S. \$10,000 be reported. Suriname does not recognize indigenous alternative remittance systems.

The FIU, which falls under the auspices of the Attorney General’s Office, is an administrative body that performs analytical duties. Its responsibilities entail requesting, analyzing, and reporting to the Attorney General’s office information on transactions that may constitute money laundering. If necessary, the FIU may request access to the records of other government entities. To facilitate interagency coordination, Suriname has an Anti-Money Laundering Project Team, which consists of representatives from the FIU, Judicial Police, the Attorney General’s Office, and the judiciary. Bureaucracy and the lack of financial and human resources have made it difficult for the FIU to perform to its best capabilities. On the basis of a Memorandum of Understanding (MOU), Suriname shares information regarding money laundering with the FIU in the Netherlands. Another MOU was concluded with the Netherlands Antilles in October 2007. The number of unusual transaction reports received by the FIU was not available for 2007.

Suriname's anti-money laundering regime also includes a Financial Investigation Team (FOT) under the authority of the Judicial Police. The FOT is the body responsible for investigating all suspicious transactions identified by the FIU. Upon making a determination that an unusual activity report is indeed suspicious and sufficient to initiate an investigation, the FIU refers the matter to the Attorney General's Office. If the Attorney General's office concurs with the determination, it directs the FOT to conduct an investigation. Prosecutors use evidence collected from FOT investigations to build legal cases. However, the FOT suffers from a lack of personnel and resources that have rendered it largely ineffective over the past year. The 2004 sentencing of an individual to seven years imprisonment for intentional money laundering and for attempting to export a small amount of cocaine remains the most significant and longest money laundering sentence to date. Resource constraints and a severe shortage of judges are proving to be a limiting factor in expanding this success. A new class of seven judges could partially redress the problem, but they will not complete their judicial training until 2008.

While the number of prosecutions in 2007 related to money laundering was not public information, there were several significant convictions in 2007 related to illegal transfers of money. In August 2007, De Surinaamse Bank President Siegmund Proeve and former Bank President Edward Muller were sentenced to six months imprisonment for the illegal transfer of approximately U.S. \$14.5 million in casino profits to foreign countries between 1998 and 2003. The defendants were charged with transferring funds without the permission of the Foreign Exchange Commission and for the transfer of amounts over U.S. \$10,000 without reporting it to the Central Bank. Other defendants in the case were Procurement Officer Patrick Bagwandin, who was sentenced to a conditional three-month imprisonment, and Canadian Dorsett Group staffer Jeffrey Claque, who was sentenced to six months. The bank was fined U.S. \$358,000. The defendants are appealing the case and are serving their sentences while the case is under appeal.

In July 2007, a judge handed down the verdict for a 2006 case in which three people were arrested with a large sum of money and charged with money laundering. Two of the defendants were arrested after police put up a roadblock between Paramaribo and the country's most western district, Nickerie. The police seized the money and the vehicle the two were driving. The three were sentenced to 12 weeks imprisonment and each paid an additional fine of U.S. \$3,600. The prosecution filed an appeal in this case, as is possible under Suriname law, to seek a stricter sentence.

Close cooperation between Suriname and the Netherlands led to the 2005 arrest of three persons in a high profile money laundering scandal. In January 2006, one of the three was sentenced by a Dutch court to two-and-a-half years imprisonment for money laundering. In August 2006, the second suspect was convicted in Suriname, also on money laundering charges, and sentenced to one and a half years in prison. The third suspect was former Minister of Trade and Industry Siegfried Gilds, who resigned his position after the Attorney General announced he was under investigation for laundering money and membership in a criminal organization. The former Minister is alleged to have laundered close to \$1.27 million between 2003 and 2005. His trial is ongoing.

An amendment to the criminal code enacted in 2003 allows authorities to confiscate illegally obtained proceeds and assets obtained partly or completely through criminal offenses; however, assets cannot be converted to cash or disposed of until the case is settled. New assets forfeiture legislation, which would make this possible, is under consideration in Parliament. There are no provisions for civil forfeiture, and there is no legal mechanism that designates the proceeds gained by the sale of forfeited goods to be used directly for law enforcement efforts. There is no entity for the management and disposition of assets seized and forfeited for narcotics-related money laundering offenses.

The financing of terrorism is not a crime in Suriname. Suriname does have legislation that allows the authorities to freeze assets of those suspected of money laundering. The Central Bank of Suriname circulates to commercial banks the names of individuals/entities that are designated by the United Nations 1267 Sanctions Committee list as associates of Al-Qaeda, the Taliban, or Usama bin Laden.

There are no known cases of charitable or nonprofit entities serving as conduits for financing terrorism in Suriname.

Upon its independence in 1975, Suriname automatically adopted an extradition treaty held between the United States and the Kingdom of the Netherlands into its own legislation, which serves as the extradition treaty between the United States and the Republic of Suriname. The GOS has an agreement with the Netherlands on extradition of nonnationals and mutual legal assistance with regard to criminal matters; but, under Surinamese law, citizens of Suriname “will not be extradited.” Money laundering is an extraditable offense. Suriname has bilateral treaties and cooperation agreements with the United States on narcotics trafficking, and with Colombia, France and the Netherlands Antilles on transnational organized crime. 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, making it no longer necessary for the process to be first routed through The Hague. Parties to the Agreement, which covers cooperation with regard to drug trafficking, trafficking in persons, and organized crime, had a follow-up meeting in March 2007 and expanded the cooperation to include information sharing on transnational crime and financial crimes.

Suriname is party to the 1988 UN Drug Convention and, in May 2007, acceded to the UN Convention against Transnational Organized Crime. The GOS is not a party to the UN Convention against Corruption or the Inter-American Convention against Terrorism. Draft legislation to become a party to the UN International Convention for the Suppression of the Financing of Terrorism has been prepared by the Ministry of Justice and Police, and is awaiting the Council of Ministers’ approval. Suriname 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. Suriname’s FIU is not a member of the Egmont Group. In 2006, a joint team from the FIUs of Canada and the United States visited Suriname and agreed to sponsor Suriname’s FIU in the Egmont membership process. The two organizations proposed steps to be taken by Suriname to qualify for the Egmont application process. A crucial step recommended is the formal criminalization of terrorist financing, which is a requirement for all new members of the Egmont Group.

The GOS should pass legislation to criminalize terrorist financing. Recent convictions have demonstrated the ability and willingness of the Government of Suriname to combat money laundering. However, the GOS should take steps to further enhance its anti-money laundering regime to conform to international standards. Suriname should devote the necessary resources to effectively investigate and prosecute money laundering cases. The GOS should consider implementing provisions for civil forfeiture, and create a program for the management and disposition of seized and forfeited assets. The GOS should bolster the capacity of the FIU with the necessary personnel and financial resources, and implement reforms to permit the FIU to qualify as a member of the Egmont Group.

Switzerland

Switzerland is a major international financial center. There are 331 banks and a large number of nonbank financial intermediaries. Swiss 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 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 vulnerable to potential money launderers. However, Swiss authorities are aware of these factors and are sensitive to the size of the Swiss banking industry (14.5 percent of GDP) relative to the size of the economy. Moreover, client confidentiality laws, also called bank secrecy, are waived automatically in cases of suspected money laundering and fraud.

Money Laundering and Financial Crimes

Reporting indicates that criminals attempt to launder criminal proceeds in Switzerland via a wide range of illegal activities conducted worldwide. These illegal activities include, but are not limited to, financial crimes, narcotics trafficking, arms trafficking, organized crime, terrorist financing and corruption. Although both Swiss and foreign individuals or entities launder money in Switzerland, foreign narcotics trafficking organizations, often based in the Balkans, Eastern Europe, or South America, dominate the narcotics-related money laundering operations in Switzerland.

Swiss bank accounts also figure in fraud and corruption of foreign government officials and heads-of-state. Recent examples of public figures that have been the subject of Swiss money laundering allegations or investigations include a former Kyrgyzstan President, a former Russian Minister of Atomic Energy, the Nigerian dictator Sani Abacha, former Pakistani Prime Minister Benazir Bhutto, and former Haiti President Jean-Claude Duvalier. These individuals have Swiss bank accounts and have moved national funds to Switzerland for personal use. Swiss banks routinely screen PEPs (Politically Exposed Persons) accounts for illicit money transfers.

Switzerland has significant anti-money laundering (AML) legislation in place, making banks and other financial intermediaries subject to strict know-your-customer (KYC) and reporting requirements. Switzerland has also implemented legislation for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets. Legislation that aligns the Swiss supervisory arrangements with the Basel Committee's "Core Principles for Effective Banking Supervision" is contained in the Swiss Money Laundering Act. Money laundering is a criminal offense in Switzerland. However, Swiss law does not recognize certain types of criminal offenses as predicate offenses for money laundering, including illegal trafficking in migrants, counterfeiting and pirating of products, smuggling, insider trading, and market manipulation.

Swiss money laundering laws and regulations apply to both banks and nonbank financial institutions. The Federal Banking Commission, the Federal Office of Private Insurance, and the Swiss Federal Gaming Board serve as primary oversight authorities for a number of financial intermediaries, including banks, securities dealers, insurance institutions, and casinos. Other financial intermediaries are required to either come under the direct supervision of the Money Laundering Control Authority (MLCA) of the Federal Finance Department or join an accredited self-regulatory organization (SRO). SROs are nongovernmental self-regulating organizations authorized by the Swiss government to oversee implementation of AML measures by their members. The SROs must be independent of the management of the intermediaries they supervise and must enforce compliance with due diligence obligations. Noncompliance can result in a fine or a revoked license. About 6,000 financial intermediaries are associated with SROs; the majority of these are financial management companies.

The Swiss Federal Banking Commission's AML regulations were revised in 2002 and became effective in 2003. These regulations, aimed at the banking and securities industries, codify a risk-based approach to suspicious transaction and client identification and install a global know-your-customer risk management program for all banks, including those with branches and subsidiaries abroad. In the case of higher-risk business relationships, additional investigations by the financial intermediary are required. The regulations require increased due diligence in the cases of politically exposed persons (PEPs) by ensuring that decisions to commence relationships with such persons be undertaken by at least one member of the senior executive body of a financial institution. All provisions apply to correspondent banking relationships as well. Swiss banks may not maintain business relationships with shell banks (banks with no physical presence at their place of incorporation), but there is no requirement that banks ensure that foreign clients do not authorize shell banks to access their accounts in Swiss banks.

The 2002 Banking Commission regulations mandate that all cross-border wire transfers must contain identifying details about the funds' remitters, though banks and other covered entities may omit such information for "legitimate reasons." The Swiss Federal Banking Commission has said that there are

no plans at the moment to follow EU regulations aimed at registering names, addresses, and account numbers of everyone making even small money transfers between EU member states.

Revisions to the Swiss Penal Code regarding terrorist financing entered into force on October 1, 2003. Article 260 of the Penal Code provides for a maximum sentence of five years' imprisonment for terrorist financing. Article 100 of the Penal Code, also added in 2003, extends criminal liability for terrorist financing to include companies. The Financial Action Task Force's 2005 mutual evaluation of Switzerland found it "largely compliant" with FATF Special Recommendation II regarding the criminalization of terrorist financing; however, it noted that the Swiss Penal Code criminalizes the financing of an act of criminal violence, not the financing of an individual, independent of a particular act. The evaluation also noted that Switzerland wasn't compliant with respect to correspondent banking, beneficial ownership of legal persons, and cash couriers. On 29 September 2006 the Federal Council decided on the next steps regarding the implementation of the revised FATF recommendations to combat money laundering and terrorist financing, and on extending the scope of the Money Laundering Act to cover terrorist financing. The adoption of anti-money laundering (AML) regulations planned for 2008-2009 will make these crimes predicate offenses.

In June 2007, the Swiss Parliament approved a new financial market regulation bill aimed at creating a new regulator to boost the image of Switzerland's financial workplace by combining the activities of three existing watchdog groups. But the Federal Financial Market Supervisory Authority (FINMA) will be delayed for a year and has been criticized in some quarters for lacking full autonomy from the government. FINMA will finally group together the regulatory work of the Federal Banking Commission, the Federal Office of Private Insurance and the Money Laundering Control Authority at the beginning of 2009. It will investigate suspected cases of money laundering and corruption. The FINMA is scheduled to become operational in early 2009.

The Swiss do not have laws comparable to those in the U.S. to report large cash transactions, cross-border currency declarations, and large cash purchases. As a result, the Swiss are unable to effectively initiate bulk cash investigations because they have no legal reporting requirement for cash into or out of Switzerland. Switzerland does have suspicious transaction reports (STRs), which are referred to law enforcement through the Money Laundering Reporting Office (MROS)—the Swiss financial intelligence unit (FIU).

Switzerland's banking industry offers the same account services for both residents and nonresidents. These can be opened through various intermediaries who advertise their services. As part of Switzerland's international financial services, banks offer certain well-regulated offshore services, including permitting nonresidents to form offshore companies to conduct business, which can be used for tax reduction purposes. Pursuant to an agreement signed between the EU and Switzerland in 2004, EU residents have tax withheld on interest payments from savings accounts based in Switzerland. This measure, enacted in concert with the EU's Savings Directive (2003/48/EC), was implemented on July 1, 2005.

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. 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

Money Laundering and Financial Crimes

strategic goods, war material, and medicinal products, as well as laws relating to anti-money laundering prohibitions, all apply.

Switzerland ranks fifth in the highly profitable artwork trading market, exporting SFr. 1,592 million (approximately U.S. \$1,460,000) worth of artwork in 2004. Because of the size of the Swiss art market organized crime has attempted to transfer stolen art or to use art to launder criminal funds via Switzerland. The United States is by far Switzerland's most important trading partner in this area, having purchased U.S. \$578 million worth (or 36 percent) of works of art in 2006. The 2003 Cultural Property Transfer Act, implemented in June 2005, codifies in Swiss law elements of the 1970 United Nations Educational, Scientific, and Cultural Organization (UNESCO) Convention. This measure increases from five to thirty years the time period during which stolen pieces of art may be confiscated from those who purchased them in good faith. The law also allows police forces to search bonded warehouses and art galleries.

The MROS or FIU is charged with receiving and processing suspicious transaction reports (STRs). MROS does not have any investigative powers of its own nor can it obtain additional information from reporting entities after receiving a STR. Last year, banks submitted the highest number of reports in relative terms (over 58 percent.) The payment services sector followed with 26.5 percent of all STRs filed. By canton, Zurich is on the top of the list of filing STRs with 18 percent, followed by Tessin with 14 percent and Geneva with 10 percent.

In 2006, eight reports were received by the MROS regarding terrorist finance; 20 reports were received in 2005. Out of the total number (154) of STRs submitted since 2001 in connection with suspected terrorist financing, 149 or 97 percent have been forwarded to law enforcement agencies. Suspicious activity reports were often prompted by press reports. If one compares the figures for the categories with those for 2005, it is apparent that outside information was an increasingly important factor in 2006. More than 56 percent of STRs were prompted by outside information in 2006 as opposed to 41 percent in 2005. Of these 149, 44 cases have been dropped, 5 cases have been temporarily suspended and 100 cases are still pending.

Under the 2002 Efficiency Bill, the Swiss Attorney General is vested with the power to prosecute crimes addressed by Article 340 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 increased the effectiveness of the prosecution of organized crime, money laundering, corruption, and other white-collar crime, by increasing the personnel and financing of the criminal police section of the federal police office. The law confers on the Federal Police and Attorney General's office the authority to take over cases that have international dimensions, involve several cantons, or which deal with money laundering, organized crime, corruption, and white collar crime.

If financial institutions determine that assets were derived from criminal activity, the assets must be frozen immediately until a prosecutor decides on further action. Under Swiss law, suspect assets may be frozen for up to five days while a prosecutor investigates the suspicious activity. Switzerland cooperates with the United States to trace and seize assets, and has shared a large amount of funds seized with the U.S. Government (USG) and other governments. The Government of Switzerland (GOS) has worked closely with the USG on numerous money laundering cases. Swiss legislation permits "spontaneous transmittal," a process allowing the Swiss investigating magistrate to signal to foreign law enforcement authorities the existence of evidence in Switzerland. Eight percent of the 1,693 foreign judicial assistance requests originated from the U.S. However, Swiss privacy laws make it extremely difficult for bank officials and Swiss police to divulge financial crime information to U.S. authorities absent a Mutual Legal Assistance Treaty (MLAT) request or Letters Rogatory.

Since September 11, 2001, Swiss authorities regularly alert 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 UNSCR 1267 Sanctions Committee’s consolidated list.

Along with the U.S. and UN lists, the Swiss Economic and Finance Ministries have drawn up their own list of individuals and entities connected with international terrorism or its financing. Swiss authorities have thus far blocked about 48 accounts totaling SFr. 25.5 million (approximately U.S. \$20,648,360) from individuals or companies linked to individuals or entities listed pursuant to relevant UN resolutions. The Swiss Attorney General also separately froze 41 accounts representing about SFr. 25 million (approximately U.S. \$22,943,800) on the grounds that they were related to terrorist financing, but the extent to which these funds overlap with the UN consolidated list has yet to be determined.

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 is a party to the 1988 UN Drug Convention. Switzerland ratified the UN Convention against Transnational Organized Crime on October 27, 2006. Swiss ratification of the UN Convention against Corruption is still pending.

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 supervisory purposes. Switzerland is a member of the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision, and its FIU is a member of the Egmont Group.

The Government of Switzerland hopes to correct the country’s image as a haven for illicit banking services. The Swiss believe that their system of self-regulation, which incorporates a “culture of cooperation” between regulators and banks, equals or exceeds that of other countries. The primary interest of the Swiss system is to avert bad risks by countering them at the account-opening phase, where due diligence and know-your-customer procedures address the issues, rather than relying on an early-warning system on all filed transactions. The GOS 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, 82 percent of the STRs that are filed lead to the opening of criminal investigations. While generally positive, Switzerland’s FATF mutual evaluation report nonetheless identified weaknesses in the Swiss anti-money laundering and counter-terrorist financing regime, including problems with correspondent banking and the identification of beneficial owners. Per FATF Special Recommendation IX, the GOS should implement cross-border currency reporting requirements. Switzerland should also put forward effective AML legislation and rules that monitor and regulate money service businesses.

Syria

Syria is not an important regional or offshore financial center, due primarily to its still underdeveloped private banking sector and the fact that the Syrian pound is not a fully convertible currency. Despite rapid growth in the banking sector since 2004, industry experts estimate that only eight percent of Syria’s population of nearly 20 million people actually uses banking services. Consequently, some 70 percent of all business transactions are still conducted in cash. Additionally, there continue to be significant money laundering and terrorist financing vulnerabilities in Syria’s financial and nonbank financial sectors that have not been addressed by necessary legislation or other government action. 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 financing of terrorism. The most obvious

indigenous money laundering threat involves Syria's political and business elite, whose corruption and extra-legal activities continue unabated. The U.S. Department of State has designated Syria as a State Sponsor of Terrorism.

The Syrian 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 private banks, 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 begun offering a broader range of retail services to private customers. However, these state-owned banks still retain a monopoly on all government banking business, and account for some 80 percent of all bank branches nationwide. Furthermore, as a state-owned bank, CBS has no bottom-line incentive to stop financing Syria's many poor-performing public enterprises.

In May 2004, the U.S. Department of Treasury designated CBS, along with its subsidiary, the Syrian Lebanese Commercial Bank, as a financial institution of "primary money laundering concern," pursuant to Section 311 of the USA PATRIOT Act. This designation resulted from information that 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 CBS is vulnerable to exploitation by criminal and/or terrorist enterprises. In April 2006, Treasury promulgated a final rule, based on the 2004 designation, prohibiting U.S. financial institutions from maintaining or opening correspondent accounts with CBS or its Syrian Lebanese Commercial Bank subsidiary.

The Syrian Arab Republic Government (GOS) 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. Under Law No. 28, subsidiary branches of private foreign banks are required to have 51 percent Syrian ownership to be licensed in Syria. 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 in Syria, including Bank of Syria and Overseas (BSOM), Banque BEMO Saudi Fransi, the International Bank for Trade and Finance, Bank Audi, Arab Bank, Byblos Bank, and Syria Gulf Bank. Three more private banks, the Bank of Jordan, Fransa Bank and Qatar National Bank have obtained the necessary licenses and are expected to begin operations in Syria in 2008. A new law was enacted in May 2005 that allows for the establishment of Islamic banks and the first such bank, al-Sham Islamic Bank, began operations in August 2007. Shortly thereafter, Syria International Islamic Bank (IIB) opened its doors in September. Al-Baraka Islamic Bank was also officially licensed in 2007 and is expected to begin operations in early 2008.

By mid-2007, the Syrian banking sector reported assets totaling U.S. \$29.5 billion and held deposits totaling \$17.2 billion. Syrian banks 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 expertise in finance, insufficient automation and communication infrastructure, regulations that limit Syrian banks' ability to make money on their liquidity, and restrictions on foreign currency transactions.

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 du Liban et d'Autre Mer), BEMO (Banque Europeenne Pour le Moyen-Orient Sal), BBAC (Bank of Beirut and Arab Countries), Bank Societee Generale, Fransa Bank, SBA (Societee du Banks Arabe) and Basra International Bank. Four additional public free zones are planned to be established in Homs, Dayr al Zur, Idleb, and the Port of Tartous. The Al-Ya'rubiye'h free zone in al-Hasakeh province, near the northeastern Syrian-Iraqi border, is scheduled to be opened in early 2008.

In recent years, both China and Iran announced plans to build free zones in Syria, although Iran later dropped this idea in favor of pursuing a regular Free Trade Agreement with Syria. China's free zone in

Adra, however, is on-schedule to provide roughly 200 Chinese companies with a regional gateway for their goods. Recently, a Syrian investor, in cooperation with partners from the Gulf, obtained preliminary approval for the establishment of a private free zone near the al-Tanf border crossing with Iraq. The volume of goods entering the free zones is estimated to be in the billions of dollars and is growing, especially with 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.

Legislation approved in the last few years provides the Central Bank of Syria with new authority to supervise the banking sector and investigate financial crimes. In September 2003, the GOS passed Decree 59; this criminalized money laundering and created an Anti-Money Laundering Commission (Commission) in May 2004. In response to international pressure to improve its anti-money laundering and counter-terrorist financing (AML/CTF) regulations, the GOS passed Decree 33 in May 2005, which strengthened the Commission and empowered 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, and the GOS's Legal Advisor, and will include the Chairman of the Syrian Stock Market once the market is operational.

Under Decree 33, all banks and nonbank financial institutions are required to file reports with the Commission for transactions over \$10,000, as well as Suspicious Transaction Reports (STRs) 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 STRs 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 two years, but more time is needed for the information to penetrate the market.

Once a STR 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 GOS 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 STR 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 GOS 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. has taken action to freeze the assets of designated individuals, but has not frozen the assets of any Syrian citizens in 2007.

In 2007, the Commission investigated 130 suspicious transaction cases, 15 of which were forwarded by foreign countries, including Qatar, Croatia and Ukraine. Eleven of these cases were referred to the criminal court system for prosecution. Over the past two years, the Commission investigated 263 cases and referred 34 of them to the criminal court system. At the end of 2007, all criminal cases are pending, and there have been no 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 delay 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 2007, and hopes to expand to 30 by the end of 2008. However, the lack of expertise further undermined by a lack of political will continues to impede effective implementation of existing AML/CTF regulations.

The GOS has not updated its laws regarding charitable organizations to include strong AML/CTF language. A promised updated draft law is still pending. The GOS 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, this remains a largely unregulated area.

Although Decree 33 provides the Central Bank with the legal basis 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 per day. Even the GOS admits that it does not have visibility into the amount of money that currently is in circulation. The GOS 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 GOS 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 GOS 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. Although moneychangers had until the end of 2006 to license their operations, to date, only nine moneychangers applied for licensing and just two money exchange offices have begun operating legally. The Commission does have the authority to monitor the sector under Decree 33, but the GOS has not yet begun investigating illegal money-changing operations. Consequently, hawaladars in Syria's black market remain a source of concern for money laundering and terrorist financing.

While the GOS 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. In September 2006, the Minister of Finance issued a decision stipulating the establishment of a unit specializing at combating money laundering and terrorist financing in the General Directorate of Customs. 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 reportedly implemented a form asking individuals to voluntarily declare currency when entering or exiting the country, although consistency of implementation and any action resulting from enforcement remain unknown.

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 and the released evaluation report found Syria to be fully compliant with five of the 49 recommendations, largely compliant on eight, partially compliant on 26 and noncompliant on eight, although two of those eight recommendations were not applicable to Syria. In 2007, the Syrian FIU became a fully accepted member of the Egmont Group.

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. Syria has signed, but not ratified the UN Convention against Corruption. Syria is ranked 138 out of 180 countries on Transparency International's 2007 Corruption Perception Index

While Syria has made modest progress in implementing AML/CTF regulations that govern its formal financial sector, the continuing lack of transparency of the state-owned banks and their vulnerability to political influence reveals the absence of political will to address AML/CTF in the largest part of the banking sector. In addition, nonbank financial institutions and the black market will continue to be vulnerable to money laundering and terrorist financiers. To build confidence in Syria's intentions, the Central Bank should be granted independence and supervisory authority over the entire sector. Additionally, 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 GOS has stated its intention to create the technical foundation through which different government agencies could share information about financial crimes, this does not exist. In addition, it remains doubtful that the GOS has the political will to punish terrorist financing, by classifying 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 of these issues remain obstacles to developing a comprehensive and effective AML/CTF regime in Syria. The GOS should become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

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, trade fraud, and smuggling. There has traditionally been a

Money Laundering and Financial Crimes

significant volume of informal financial activity through unregulated nonbank channels, but in recent years Taiwan has taken steps to shift much of this activity into official, regulated financial 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 most commonly linked to SAR reporting 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 and in 2007. 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 (FIU), the Money Laundering Prevention Center (MLPC).

The MLPC, a law enforcement-style FIU, is located within the Ministry of Justice Investigation Bureau (MJIB). The FIU is tasked to receive, analyze, and disseminate suspicious transaction reports, currency transaction reports and cross-border currency movement declaration reports. The MLPC also assists other law enforcement authorities to investigate money laundering and terrorist financing cases. MLPC staff has law enforcement status.

The 2003 amendment expanded the list of predicate crimes for money laundering, widened the range of institutions subject to suspicious transaction reporting, and mandated compulsory reporting to the MLPC of significant currency transactions in excess of New Taiwan dollars (NT \$) 1 million (approximately U.S. \$30,980). As of November 2007, the MLPC received 1,065,879 currency transaction reports and in 2006 it received 1,089,768. The amendments further expanded the scope of reporting entities beyond traditional financial institutions to include: automobile dealers, jewelers, boat and aviation dealers, real estate brokers, credit cooperatives, consulting companies, insurance companies, and securities dealers.

In July 2007, the MLCA was amended to expand its coverage to include a new agricultural bank, trust companies, and newly licensed currency exchanges as well as hotels, jewelry stores, postal offices, temples, and bus/railway stations. The list of predicate offenses was expanded to include offenses against the Public Procurement Law, Bills Finance Management Law, Insurance Law, Financial Holding Company Law, Trust Law, Credit Cooperative Association Law, and Agriculture Financing Law. The number of agencies with money laundering responsibilities was expanded from the Ministry of Justice, Ministry of Transportation and Communication, and Ministry of Finance to include also the Financial Supervisory Commission (established in July 2004), Ministry of Economic Affairs, Council of Agriculture (supervising a new agriculture bank and the credit departments of farmers' and fisherman's associations), and Taiwan's Central Bank (monitoring currency exchanges). The amended law also authorized Taiwan agencies to share information obtained from the MLCA with law enforcement agencies in countries that have signed a mutual legal assistance agreement (MLAA) with Taiwan and on a reciprocal basis with other countries.

Taiwan 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 NT \$10 million (approximately U.S. \$309,000) or at least a one-year sentence is up to NT \$500,000 (approximately U.S. \$15,500). The reward for information on a case with a fine of between NT \$2 and \$10 million (approximately U.S. \$61,500 and \$308,000) or less than a one-year sentence is up to NT \$200,000 (approximately U.S. \$6,200).

Two new articles added to the 2003 amendments to the MLCA grant prosecutors and judges the power to freeze assets related to suspicious transactions and give law enforcement more powers related to

asset forfeiture and the sharing of confiscated assets. The 2007 amendment to the MLCA permits the freezing of proceeds of money laundering for up to one year. 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 NT \$1 million is 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. In 2006, the MLPC received 1,281 suspicious transaction reports and 689 of them resulted in prosecutions. As of November 2007, the MLPC received 2,953 reports. Thirty of them involved an amount exceeding NT \$5 million (approximately U.S. \$154,600), which resulted in prosecutions based on the MCLA. Of these 30 cases, 19 relate to financial crimes, four to corruption, one to narcotics, and six to other miscellaneous crimes.

Institutions are also required to maintain records necessary to reconstruct significant transactions. 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 on behalf of a third party, to prove the true identity of the account holder. Individual bankers can be fined NT \$200,000 to \$1 million (approximately U.S. \$6,200 to \$30,900) for not following the provisions of the MLPA. Starting in August 2006, the Financial Supervisory Commission required banking institutions to collect, verify and store information about any banking customer that makes any single cash or electronic remittance above NT \$30,000 (approximately \$927). The requirement was adopted in response to suggestions submitted to Taiwan in 2004 by the FATF.

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, the Banking Bureau of the Financial Supervisory Commission, 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 the Central Bank, as of September 2007, Taiwan hosted 32 local branches of foreign banks, two trust and investment companies, and 65 offshore banking units.

On January 5, 2006, legislation was ratified to allow expansion of offshore banking unit (OBU) operations to the same scope as Domestic Business Units (DBU). This was done to assist China-based Taiwan businesspeople in financing their 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 Financial Supervisory Commission (FSC).

Taiwan prosecuted 689 cases involving money laundering in 2006, compared with 947 cases involving financial crimes during the same period of 2005. Among the 689 cases, 631 involved unregistered stock trading, credit card theft, currency counterfeiting or fraud. Among the 58 other money laundering cases, 11 were corruption-related and one was drug-related. In July 2007, the MCLA was amended so that only cases involving amounts exceeding NT \$5 million (U.S. \$154,578) were covered under the MLCA, while the rest were handled in accordance with other laws. Figures for the full year are not available yet, but the number of MLCA-based prosecution cases in the first 11 months dropped to 30. Using the most current figures available, between January and October 2007, the number of drug-related investigations reached 73,411, an increase of 13.4 percent when compared to the same period in 2006. Only 10 percent of these cases were related to drug trafficking. The number of subjects investigated in 2007 increased 10.9 percent to 71,202 from January-October 2006. The number of

Money Laundering and Financial Crimes

indicted subjects grew 36 percent to 31,614 from January-October 2007 and the number of subjects cleared further declined 5.6 percent to 16,657.

To comply with Financial Action Task Force (FATF) Special Recommendation Nine on bulk cash smuggling, the July 2007 legislation required individuals to report currency transported into or out of Taiwan in excess of NT \$60,000 (approximately U.S. \$1,850), U.S. \$10,000 in foreign currency, 20,000 Chinese Yuan (approximately U.S. \$2,700), or gold worth more than U.S. \$20,000. When foreign currency in excess of NT \$500,000 (approximately U.S. \$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 currency when the amount exceeds U.S. \$5 million for an individual resident and U.S. \$50 million for a corporate entity. Starting August 1, 2006, those who transfer funds over NT \$30,000 (approximately U.S. \$900) 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. A new "Counter-Terrorism Action Law" (CTAL) has been under review by the Legislative Yuan since 2003. The new law would explicitly designate the financing of terrorism as a major crime. Under the proposed CTAL, the National Police Administration, the MJIB, and the Coast Guard would be able to seize terrorist assets even without a criminal case in Taiwan. Also, in emergency situations, law enforcement agencies would be able to freeze assets for three days without a court order.

Assets and income obtained from terrorist-related crimes could also be permanently confiscated under the proposed CTAL, unless the assets could be identified as belonging to victims of the crimes. Under the MLCA Taiwan officials currently have the authority to freeze and/or seize terrorist-related financial assets. 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 Banking Bureau of the FSC circulates the names of individuals and entities included on the UN 1267 Sanctions Committee's consolidated list, as well as names designated by the U.S. Treasury, to all domestic and foreign financial institutions and relevant government agencies. Banks are required to file a report on cash remittances if either of the parties involved are 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, after obtaining approval from the Central Bank, are authorized to use banks to remit income earned by foreign workers to their home countries. These brokers may not start the remittance services before they obtain the guaranty of their correspondent banks. They are required to sign and retain a standard remittance service contract with foreign workers and establish remittance records for each contracting foreign worker. There were 25 foreign labor employment brokers as of December 2007. If brokers accept money in Taiwan dollars for delivery overseas in another currency, they are violating Taiwan law. It is illegal for retail outlets 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.

In April 2007, the Ministry of Justice Investigation Bureau (MJIB) uncovered a 13-office network engaged in cross-Strait underground remittances and money laundering. The network's accounting records showed that cross-Strait underground remittances through the network exceeded NT \$2.1 billion (U.S. \$63 million). The MJIB arrested eight persons. Over the past five years, the MJIB has

uncovered 43 cross-Strait underground remittance channels involving capital flows totaling NT \$136.2 billion (U.S. \$4.2 billion).

Authorities in Taiwan do not believe that charitable and nonprofit organizations in Taiwan are being used as conduits for the financing of terrorism. Such organizations are required to register with the government and, like any other individual or corporate entity, are checked against list of names designated by the United Nations or the U.S. Treasury as being involved in terrorist financing activities. 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, all of which have opened since 2004, including the Taipei Free Trade Zone, the Taichung Free Trade Zone, the Keelung Free Trade Zone, the Kaohsiung Free Trade Zone, and the 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, as of November 2007 there were 17 shipping and logistics companies listed in the Kaohsiung Free Trade Zone, 19 logistics companies in Taichung Free Trade Zone, 11 logistics and shipping companies in Keelung Free Trade Zone, one logistics company in Taipei Free Trade Zone, and 81 manufacturers and enterprises in Taoyuan Air Cargo Free Trade Zone. Shipments through these FTZs in the first ten months of 2007 was valued at NTD 43.7 billion (\$1.3 billion), equivalent to 0.3 percent of Taiwan's two-way trade in the same period. 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 that provide—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. 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 Taiwan and U.S. law enforcement agencies 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. In 2007, Taiwan underwent its second round mutual evaluation by the APG.

The MLPC is a member of the Egmont Group of financial intelligence units. The Investigation Bureau of the Ministry of Justice has actively engaged in international cooperation, and the number of cooperation cases in the first 11 months of 2007 reached 74. The MOJ has signed mutual legal assistance memoranda with four jurisdictions.

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 investigate underground finance and its links to trade and also enact legislation regarding alternate remittance systems.

Tanzania

While not an important regional financial center, Tanzania is vulnerable to money laundering and has weaknesses in its anti-money laundering/counter-terrorist financing (AML/CTF) regime, specifically in its financial institutions and law enforcement capabilities. However, with the enactment of the Anti-Money Laundering (AML) Act, 2006 and the creation of a financial intelligence unit (FIU), the Government of Tanzania (GOT) is improving its capability to track and prosecute money laundering. Money laundering is more likely to occur in the informal nonbank financial sector, as opposed to the formal sector, which is largely undeveloped. Real estate and used car businesses appear to be vulnerable trade industries involved in money laundering. 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 Tanzania's two free trade zones are being used in trade-based money laundering schemes or by financiers of terrorism.

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 Bank of Tanzania (BOT) circulates to Tanzanian financial institutions the names of suspected terrorists and terrorist organizations on the United Nations Security Council Resolution (UNSCR) 1267 Sanction Committee's consolidated list, but to date no assets have been frozen under this provision. In 2004, the Government of Tanzania 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 2007 with its anti-money laundering 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. The Anti-Money Laundering Act, which creates a financial intelligence unit as an extra-ministerial department of the Ministry of Finance, was passed by the Parliament in December 2006 and signed into law in July 2007. The AML regulations implementing the Act were published in September 2007. The AML Act empowers the FIU to receive and share information with foreign FIUs and other comparable bodies. At present, the FIU has a small core staff—a Commissioner, an analyst, and an information technology expert. Current plans call for the recruitment of three additional staff members. The FIU has not yet set up its office and has not yet begun the analysis of suspicious transactions. It is working toward building capacity to become operational, and has applied for membership in the Egmont Group.

The AML Act criminalizes cash smuggling in and out of Tanzania. The AML Act and regulations require all “reporting persons”—banks and financial institutions, cash dealers, accountants, real estate agents, dealers in precious stones, customs officers, auctioneers, and legal professionals handling real estate or funds—to obtain specific information from citizen and noncitizen customers, maintaining specific identification procedures, and to report suspicious and unusual transactions to the FIU within 24 hours. The AML Act governs all serious crimes, including narcotics and terrorism. The FIU is developing a sensitization and outreach program to ensure that financial and nonfinancial institutions are aware of their reporting obligations under the AML Act.

The GOT 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. Tanzania is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). The Government of Tanzania has detailed personnel to the ESAAMLG Secretariat. In 2007, Tanzania was listed 94 out of 179 countries in Transparency International’s Corruption Perceptions Index.

Tanzania has made many improvements in its compliance with international AML standards. The GOT should focus on the practical implementation of its new AML Act, including dedicating the resources necessary to build an effective FIU. The FIU should work towards attaining international standards and membership in the Egmont Group.

Thailand

Thailand has introduced a number of measures in recent years to strengthen its AML/CTF framework. Illicit proceeds are generated from drug trafficking, illegal gambling, theft, corruption, prostitution, human trafficking, illegal logging, production and distribution of counterfeit consumer goods, production and sale of counterfeit travel documents, and from crime in bordering countries. Thailand remains a transit point for heroin en route to the international drug markets from Burma and Laos, and a drug money laundering center for transnational organized crime groups in Thailand. Authorities believe Thailand’s major narcotics problem now is the trafficking of large quantities of methamphetamine produced in Burma. The illegal economy in Thailand is estimated as much as 13 percent of gross domestic product (GDP) and money laundering predicate offenses are estimated to generate illicit proceeds as much as five percent of Thailand’s GDP. The widespread use of cash and a large informal sector provide many avenues for illicit proceeds to be laundered in Thailand.

Thailand's 1999 anti-money laundering legislation, the Anti-Money Laundering Act (AMLA) B.E. 2542 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. No cases of terrorist financing have been prosecuted.

The current list of predicate offenses in the AMLA does not meet international best practices standards consistent with the first and second recommendations of the Financial Action Task Force (FATF) 40 Recommendations, which apply the crime of money laundering to all serious offenses or with the minimum list of acceptable designated categories of offenses. Additionally, the definition of "property involved in an offense" in the AMLA is limited to proceeds of predicate offenses and does not extend to instrumentalities of a predicate offense or a money laundering offense.

The AMLA 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 Bank of Thailand, the Securities and Exchange Commission, and the Department of Special Investigation (DSI) are responsible for investigating financial crimes. During the 2007 fiscal year, AMLO forwarded 83 cases for civil asset forfeiture to the Attorney General's office for prosecution totaling 309 million baht in Thai currency (approximately U.S. \$10.5 million); fifteen other cases remain under investigation. AMLO has a memorandum of understanding with the Royal Thai Customs, which shares information and evidence of smuggling and customs evasion involving goods or cash exceeding one million baht (approximately U.S. \$34,000) with AMLO. In criminal narcotics 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 Assets Examination Committee, which is separate from AMLO and was created by the post coup government to deal with corruption, has filed 1,865 cases with assets valued at 1.64 billion baht (approximately U.S. \$56.6 million) and 1,644 cases are on trial.

The Ministry of Justice also houses a criminal investigative agency, the Department of Special Investigations (DSI), which is separate from the Royal Thai Police (RTP). DSI has responsibility for investigating the criminal offense of money laundering (as distinct from civil asset forfeiture actions carried out by AMLO) and for several 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.

Article 13 of the Anti-Money Laundering Act, B.E. 2542 requires financial institutions to submit three categories of cash transactions. For example, transactions that are worth two million baht (approximately U.S. \$68,300) or more; transactions involving assets worth five million baht (approximately U.S. \$170,000) or more; and suspicious transactions, on reasonable grounds, must be reported to the financial intelligence unit (FIU).

In addition to reporting large and suspicious transactions, 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. In January 2007, the Bank of Thailand issued notification to financial institutions (which includes Thai and foreign commercial banks, finance companies, as well as assessment management companies) to adopt “know your customer” and customer due diligence procedures to comply with international standards and practices. The requirement was made effective immediately. However, there is no penalty for noncompliance. 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, and 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/counter-terrorist financing 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. Lacking power to conduct transactional testing, BOT does not currently examine its financial institutions for anti-money laundering compliance. Legislation to eliminate the impediments is under review.

Anti-money laundering controls are also enforced by other Royal Thai Government (RTG) 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 five million baht or greater (approximately U.S. \$170,000), or a cash payment of two million baht or greater (approximately U.S. \$68,300) for the purchase of real property.

The Exchange Control Act of B.E. 2485 (1942), amended in 1984, states that foreign currencies can be brought into Thailand without limit. The Ministry of Finance issued a regulation, effective October 28, 2007, that requires any person who transports foreign currencies in or out of the country exceeding U.S. \$15,000, to declare such to the Customs office, which, in turn, reports the information directly to the Ministry. There is no restriction on the amount of Thai currency that may be brought into the country. However, absent authorization to exceed the limits, a person traveling to Thailand’s bordering countries including Vietnam is allowed to take out no more than 500,000 baht (approximately U.S. \$17,000) and to other countries no more than 50,000 baht (approximately U.S. \$1,700).

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. Approximately 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. These deficiencies have been recognized and are currently being addressed by the relevant government agencies.

Financial institutions (such as banks, finance companies, savings cooperatives, etc.), land registration offices, and persons that act as solicitors for investors are required to report significant cash, property, and suspicious transactions. Reporting requirements for most financial transactions (including purchases of securities and insurance) exceeding two million baht (approximately U.S. \$68,300), and property transactions exceeding five million baht (approximately U.S. \$170,000), have been in place since October 2000. The AMLO Board is considering 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. 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, the Chinese underground banking system) 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 they are granted 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 anti-money laundering prevention 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 five-year record maintenance requirement for onsite inspections. At present, there are approximately 560 authorized moneychangers and 28 remittance agents. In 2004, the Bank of Thailand limited the maximum amount to \$5000 or equivalent for authorized moneychangers to sell foreign currencies and requires customers to present a passport or other traveling document. There are no limitations for buying currencies or no annual transaction volume. However, for remittance agents, the BOT limits the annual transaction volume for agents to U.S. \$60,000 for offices in the Bangkok area, and U.S. \$30,000 for offices located outside of Bangkok. 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.

The Thai Prime Minister endorsed a cabinet decision in October 2007 to abolish an incentives system that went into effect three years earlier under the "Office of the Prime Minister's Regulation on Payment of Incentives and Rewards in Proceedings against Assets under the Anti-Money Laundering Act." Under this now largely defunct rewards system, AMLO investigators and their supervisors, as well as other investigative agencies were eligible to receive personal commissions on the property that they seized if it was ultimately forfeited. The United States, other countries, and international organizations, including UNODC, criticized this system on the grounds that it threatened the integrity of its AML regime and created a conflict of interest by giving law enforcement officers a direct financial stake in the outcome of forfeiture cases. The USG ceased providing technical assistance to the AMLO until the reward system was abolished,

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.

The RTG has issued instructions to all authorities to comply with UNSCR 1267. 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. In 2006 Thailand signed the Treaty On Mutual Legal Assistance In Criminal Matters Among Like-Minded ASEAN Member Countries but has not yet ratified the agreement. AMLO has memoranda of understanding on money laundering cooperation with 31 other financial intelligence units and also exchanges information with FIUs with which it has not entered into an MOU, including the United States. Thailand cooperates with USG and other nations' law enforcement authorities on a range of money laundering and illicit narcotics related investigations. AMLO responded to 87 requests for information from foreign FIUs in 2007. The AMLO joined the Egmont Group of financial intelligence units in June 2001.

Thailand became a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body, in 1997. The most recent mutual evaluation of Thailand was conducted by the APG in 2007. The report noted that Thailand's AML/CTF regime is "not fully in line with international standards and codes; there are weaknesses in the legal framework, the pursuit of money laundering cases, the coverage of institutions and in enforcement."

AMLO has drafted amendments that will be proposed in early 2008 to deal with many of these deficiencies, including expanding the definition of property involved in an offense to include instrumentalities, creating an assets forfeiture fund, and restructuring AMLO. Additional amendments,

approved by the Thai cabinet in February 2007 but still pending, would add additional predicate offenses under Section 5 of the AMLA, including environmental crimes, foreign exchange offenses, securities fraud, illegal gambling, firearms trafficking, bid-rigging, labor fraud, and customs and excise offenses.

The Government of Thailand should continue to implement AML/CTF programs that adhere to world standards, including expanding the number of predicate crimes to adhere to the minimum list of designated categories of offenses prescribed by FATF. Predicate offenses should include trafficking in humans and migrant smuggling, counterfeiting and intellectual property offenses, as well as the “structuring” of transactions. Per some of the major findings in the 2007 APG mutual evaluation, AML/CTF obligations should be extended to nonfinancial businesses and professions such as gold shops, jewelry stores and car dealers. The insurance and securities sectors should institute AML compliance programs. Besides onsite consultation, AMLO should undertake audits of financial institutions to ensure compliance with requirements of AMLA and AMLO regulations. RTG authorities 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. Customs and most law enforcement agencies need to provide more training on, and dedicate specialized staff to carry out, anti-money laundering and terrorist finance investigations, especially outside of Bangkok. Authorities should give higher priority to reducing the use of cash in Thailand and to encourage more activity in the formal sector to help reduce money laundering and terrorist finance risks. Authorities should place an emphasis on prosecuting money launderers; in 2005 and 2006 there were few money laundering prosecutions and no convictions. Thailand should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

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, narcotics trafficking organizations are only one source of the total funds laundered in Turkey. Other sources of laundered funds include smuggling, counterfeit goods, fraud, forgery, robbery, and kidnapping. 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 thought 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 40 to 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. The GOT is working on additional reforms to combat the unregistered economy and move these businesses onto the tax rolls.

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 2006, 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 for which the punishment is imprisonment for one year or more. 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 has a new law, which protects the identity of those who file suspicious transaction reports, and, as of October 2007, has helped to push suspicious transaction reports above 2,000. 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 information and documents are requested may not withhold the requested items by claiming the protection provided by privacy provisions to avoid submitting the requested items. Despite the information collected for new accounts and transactions, customer due diligence (CDD) and other preventative measures have not been fully implemented and Turkey has failed to adopt a risk-based approach, as recommended by the Financial Action Task Force (FATF). There are no requirements for ongoing CDD and only limited requirements for the collection of beneficial ownership information. There is no requirement for financial institutions to exercise enhanced due diligence on business relationships or transactions with suspicious persons, including persons from or in countries which do not sufficiently apply FATF recommendations.

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 filed has been low, even taking into consideration the fact that many commercial transactions are conducted in cash. In 2006, 1140 STRs were filed. The upward trend continues as shown by the following results: in 2005, 352 STRs were filed; in 2004, 288 STRs were filed; and, in 2003, 177 STRs were filed.

Turkey does not have foreign exchange restrictions. With limited exceptions, banks and special finance institutions must inform authorities within 30 days about transfers abroad exceeding U.S. \$50,000 (approximately 60,000 new Turkish liras) or its equivalent in foreign currency notes (including transfers from foreign exchange deposits). Travelers may take up to U.S. \$5,000 (approximately 6,000 new Turkish 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 and law enforcement communities.

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 several Designated Non-Financial Businesses and Professions (DNFBPs), such as art dealers, insurance companies, lotteries, vehicle sales outlets, antique dealers, pension funds, exchange houses, jewelry stores, notaries, sports clubs, and real estate companies. While the legislation has been improved to

require reporting from a wide range of industries and entities, almost all STRs continue to be submitted by banks, which suggests inadequate supervision or regulation of these DNFBPs. 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. In August 2007, a regulation on money laundering crime was enacted enforcing MASAK's authority to combat these crimes. However there continues to be limited training and specialization in, or understanding of, money-laundering and terrorist financing among law enforcement units and judicial authorities, resulting in a high number of acquittals in anti-money laundering and counter-terrorist financing (AML/CTF) cases.

According to MASAK statistics, as of December 31, 2006 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, prosecutors, 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 specific provision in Turkish law for the sharing of seized assets with other countries; however the United States and Turkey have shared seized assets in one narcotics case.

MASAK's General Communiqué No. 3, dated February 2002, 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 names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee consolidated list, as well as U.S.-designated names, are routinely distributed to financial institutions and appropriate Turkish agencies. However Turkey has failed to take steps to employ an effective regime to combat terrorist financing, especially as it relates to UNSCRs 1267 and 1373. For example, while the GOT has implemented UNSCR 1267, it has failed to establish punishment or sanctions for institutions that fail to observe a freezing order, and it has not established procedures for delisting entities or unfreezing funds. Additionally, the GOT has not taken steps that would allow it to freeze the assets of entities designated by other jurisdictions, as required under UNSCR 1373.

Another area of vulnerability in the area of terrorist financing is the GOT's supervision of nonprofit organizations. The nonprofit sector is well regulated, but it is not audited on a regular basis for CTF vulnerabilities and does not receive adequate AML/CTF outreach and guidance from the GOT. The General Director of Foundations (GDF) issues licenses for charitable foundations and oversees them.

However, there are a limited number of auditors to cover more than 70,000 institutions. The Ministry of Interior regulates charitable nongovernmental associations (NGOs). The GDF, as part of the Ministry of Interior, keeps central registries of the charitable organizations they regulate and they require charities to verify and prove their funding sources and to have 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 NGOs 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 2006. 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 (recently expanded to include 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.

In the months after 9/11, the Council of Ministers decreed (2482/2001) all funds and financial assets of individuals and organizations included on the UNSCR 1267 Sanctions Committee's consolidated list be frozen. However, the tools available at that time under Turkish law for locating, freezing, seizing, and confiscating terrorist assets were cumbersome, limited, and ineffective. In late 2001, the Council of Ministers froze the funds of one individual accused of financing terror in Turkey. This individual filed an appeal in 2001, and in June 2006 the 10th Chamber of the Turkish Administrative Court overruled the original Council of Ministers decision on technical grounds. The 10th Chamber's decision was appealed, and upon review, in February 2007 the Highest Chamber Council of the Turkish Administrative Court upheld the original decision to freeze the individual's assets on the grounds that there were no legal irregularities in the original decision. The assets of the 1267-listed individual continue to be frozen. Since then, changes in the law relating to MASAK, the Turkish criminal code, and the anti-terrorism law give more authority to seize and freeze assets quickly and make the Turkish system more compliant with international standards.

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). Since 1998, MASAK has been a member of the Egmont Group of Financial Intelligence Units. Turkey is a party to the 1988 UN Drug Convention, the UN International Convention for Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. In January 2005, Turkey became a party to the Council of Europe (COE) Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime.

With the passage of several new pieces of legislation, the Government of Turkey took steps in 2006 and 2007 to strengthen its AML/CTF regime. The GOT now faces the challenge of aggressively implementing these laws. In 2007 the GOT established a High Coordination Council on Financial Crimes, which consists of MASAK, Finance Ministry, Capital Markets Board, and Central Bank representatives. The aim of this board is to improve coordination among the agencies to combat financial crimes and support the work of MASAK. MASAK must improve its automation to be able to access banks' and other financial institutions' data bases, so as to accelerate MASAK's process and enable it to refer cases more quickly to prosecutors. The lack of prosecutions and convictions for money laundering is troubling. Law enforcement and judicial authorities need to be given additional training and develop expertise on AML/CTF issues. There is an over-reliance on STRs to initiate money laundering investigations in Turkey. Law enforcement and customs authorities should be enabled to follow the money and value trails during the course of their investigations, and should not be required to turn that portion of the investigation over to MASAK. MASAK should second members of the Turkish National Police and prosecution offices in order fulfill its mandate to investigate preliminary indications of money laundering. As currently staffed, MASAK does not have criminal investigative experience although it is required to make such initial determinations. The GOT should also regulate and investigate remittance networks to thwart their potential misuse by terrorist organizations or their supporters. The GOT needs to fully implement the provisions of UNSCRs 1267 and 1373, and should consider expanding its narrow legal definition of terrorism, which currently is limited to acts committed by members of organizations against the Turkish Republic by pressure force and violence using terror, intimidation, oppression or threat. The GOT should also strengthen its oversight of foundations and charities, which currently receive only cursory overview and auditing. Turkey should take steps to improve the CDD procedures and other preventative measures, as well as adopt a risk-based approach to AML/CTF. Supervision and regulation of DNFBPs covered by the 2006 legislation also needs to be improved.

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. No updated statistics are available for 2007.

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. The Financial Services Commission has a staff of 21, including four regulators. The FSC became a statutory body under the Financial Services Commission Ordinance 2001 and became operational in 2002. It reports directly to the Governor, as well as to 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 insulating 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 (FCU), 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 in 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 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, there is no supervisory or regulatory authority to oversee regulatory compliance by money remitters and investment dealers. 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 are required to conduct due diligence on previously existing accounts.

As with the other United Kingdom Caribbean overseas territories, the Turks and Caicos underwent an evaluation of its financial regulations in 2000, cosponsored 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.

In 1999, the FSC, acting as the secretary for the MLRA, issued nonstatutory Guidance Notes to the financial sector, 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). No statistics are available on the number of SARs received by the FCU in 2007, nor are there current statistics on the number of investigations, prosecutions, or convictions.

Travelers entering or leaving the TCI with more than U.S. \$10,000 must make a declaration to Customs officials. In November 2007, a Bahaman citizen who entered TCI with over U.S. \$14,000 in cash was arrested for making a false declaration after completing a Customs form stating that he was traveling with less than \$10,000. The investigation of this incident marks the first time Customs and

the FCU have worked together on a joint investigation. In 2007, the FCU also assisted Canadian law enforcement in the investigation of two Canadian citizens, who were charged with fraud and money laundering in September.

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 subject to the 1988 UN Drug Convention. The TCI is a member of the Caribbean Financial Action Task Force, and underwent a mutual evaluation in September 2007. The results of the mutual evaluation should be presented to the CFATF plenary in 2008. TCI's FIU is not a member of the Egmont Group of financial intelligence units. 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 TCI does not have a Tax Information Exchange Agreement with the United States.

The Government of the Turks and Caicos Islands has put in place the relevant legislative framework to combat money laundering, but needs to implement relevant provisions of its anti-money laundering regime, criminalize terrorist financing, ensure that its FIU is fully functioning, and ensure that money laundering cases are investigated and prosecuted. The Government of the TCI should reform its current regulatory structure to be in full accordance with international standards by extending existing regulations to all sectors, bringing all obligated entities under the supervision of a regulatory body, and enhancing 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. The TCI 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 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 October 1, 2007, Ukraine had approximately 173 active banks, two of which are state-owned. There are no offshore financial centers or facilities under Ukraine's jurisdiction.

Ukraine's 2005 budget eliminated the tax and customs duty privileges available in eleven Special Economic Zones (SEZs) and nine Priority Development Territories (PDTs) that had been associated with rampant evasion of customs duties and taxes. In late 2006, a government no longer in power registered a draft law with Parliament to restore tax and customs privileges for businesses operating in the SEZs. The law never came to a final vote, and the new government that assumed power in late 2007 has said that it will not reintroduce the privileges.

In January 2001, the Government of Ukraine (GOU) enacted the "Act on Banks and Banking Activities," which introduced some anti-money laundering (AML) requirements for 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 provides definitions for “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.

The Financial Action Task Force (FATF) placed Ukraine on the list of noncooperative countries and territories (NCCT) in September 2001. After a number of unsuccessful legislative attempts to develop an anti-money laundering (AML) regime that met international standards, the FATF called upon its members to invoke countermeasures in December 2002. At that time, the U.S. designated Ukraine as a jurisdiction of primary money laundering concern, under Section 311 of the USA PATRIOT Act. The GOU passed comprehensive AML legislation in February 2003, and promised significant institutional reform. The FATF withdrew its call for members to invoke countermeasures, after which the United States revoked its USA PATRIOT Act designation of the GOU as a jurisdiction of primary money laundering concern. The FATF removed Ukraine from the NCCT list in February 25, 2004.

Ukraine’s legislation requires banks and other financial service providers to implement AML compliance programs: conduct due diligence to identify beneficial owners prior to allowing the opening of an account or conducting certain transactions; report suspicious transactions to the national financial intelligence unit (known as the State Committee for Financial Monitoring, or “SCFM”) and maintain records on suspicious transactions; and, 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. In August 2003, the State Commission established the State Register of financial institutions, and by March 2007, the State Register contained information on 1,956 nonbank financial institutions.

Since November 2004, the GOU has made several efforts to pass a set of amendments to the AML law to bring Ukraine’s regime into compliance with FATF’s revised Forty plus Nine recommendations. The Verkhovna Rada, Ukraine’s Parliament, twice rejected the government’s draft in 2005. The government redrafted the law, narrowing its scope to the FATF recommendations and omitting provisions introducing a 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 draft law, entitled “On Amending Some Legislative Acts of Ukraine on Prevention to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing,” was passed by the Parliament on June 19, 2007 but not signed into law. Because the draft law passed during a period when the authority of the Parliament was not recognized by the President, the draft law will now again need to be addressed by the Parliament.

In 2004, authorities reduced the threshold for compulsory financial monitoring from Ukrainian Hryvnias (UAH) 300,000 (approximately U.S. \$59,430) for cashless payments and UAH 100,000 (approximately U.S. \$19,800) for cash payments, to UAH 80,000 (approximately U.S. \$15,848) 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.

Cash smuggling is substantial in Ukraine, although it is reportedly related more closely 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. As of August 2005 travelers are required to declare cross-border transportation of cash sums in excess of U.S. \$3,000, and declare the origin of funds exceeding U.S. \$10,000.

In January 2006, Ukraine enacted Law 3163-IV, which amended the initial AML laws. Under this 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, the FATF in February 2006 suspended its direct monitoring of Ukraine.

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 at least three years of imprisonment, 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 and is 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. However, a draft law “On the Opposition,” which was submitted to the Parliament in early 2007, specifies that the Parliament’s opposition party could assign persons to certain leadership jobs in a number of state agencies, including the SCFM. Specifically, the draft law reserves the job of director and of two of the four deputy director positions to the opposition party in the Parliament. The law, if enacted, would likely contradict the November 2002, Law on Money Laundering Prevention. By year-end, the Parliament had taken no action on this draft.

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. As of October 1, 2007, the SCFM had established 22 local branches. The SCFM is authorized to conclude interagency agreements and exchange intelligence on financial transactions involving money laundering or terrorist financing with other FIUs. As of October 2007, the SCFM had concluded memoranda of understanding (MOUs) with thirty-three foreign FIUs, including FinCEN. It has become a regional leader with regard to the volume of case information exchanged with counterpart FIUs.

The SCFM collects and analyzes data, and identifies possible cases for prosecution to the Prosecutor General’s Office (PGO). Although the SCFM is an administrative unit, it has processed, analyzed and developed some cases to the point of establishing probable cause before referring a case for further investigation. In 2006, the SCFM received 841,589 transaction reports, which include both STRs and automatic threshold reports. Banks filed the majority of the reports. The SCFM sent 446 separate cases to law enforcement agencies and the Prosecutor General’s Office (PGO) for “active research”. As a

result of subsequent investigation of these cases, law enforcement agencies initiated 164 criminal cases in 2006. Of these, prosecutors brought only eight cases to trial, with only one conviction. In the period 2003 through 2006, twenty of 325 cases went to trial with, with only three resulting in convictions on charges of money laundering.

Although the reporting system is effective and the SCFM has generated a substantial number of probable cases for referral, it has not led to a meaningful number of convictions. Many observers believe that the low prosecution rate is caused by a reluctance of the PGO to pursue the cases referred by the SCFM. Local prosecutors may close money laundering investigations and cases prematurely or arbitrarily, possibly because of lack of sufficient manpower or resources or because of corruption. Other possible reasons include a weak understanding of money laundering crimes (prosecutors often identify tax evasion with money laundering, for example) and a belief that other types of crimes should take priority over money laundering.

The SCFM acknowledges the existence and use of alternative remittance systems in Ukraine. In 2007, the Security Service of Ukraine published a report signaling that hawala might be on the rise in Ukraine due to a large number of Ukrainians working abroad and the growth of foreign communities in Ukraine. The SCFM and security agencies monitor charitable organizations and other nonprofit entities that might be used to finance terrorism.

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 particularly 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. The system, which became fully operational in December 2006, provides the SCFM with unobstructed access to the databases of twelve ministries and agencies, including the Ministries of Internal Affairs, Economy and Finance, as well as the State Tax Administration, State Security Service, State Customs Administration, State Property Fund, State Statistics Administration, Border Guard Service, Securities Commission, Financial Services Commission, and Control and Revision Department.

On September 21, 2006, the Rada enacted revisions to Article 258 of the Criminal Code, adding Article 258-4 that 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.

Law 3163-IV 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 an SCFM-issued list of beneficiaries of, or parties to, terrorist financing. Banks must freeze assets for two days and immediately inform the SCFM and law enforcement bodies whenever a party to a transaction appears on the list. The SCFM can extend the freeze to five days. 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.

The GOU has cooperated with U.S. efforts to track and freeze the financial assets of terrorists and terrorist organizations. 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. Additionally, the two countries have a bilateral taxation agreement that provides for the exchange of information in administrative, civil, and criminal matters related to taxation and tax evasion.

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 has signed, but has yet to ratify, to the UN Convention against Corruption (UNCAC). Ukraine is a member of MONEYVAL, a FATF-style regional body (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 entities 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 remains unproven. Both law enforcement officers and the judiciary need a better understanding of the theoretical and practical aspects of investigating and prosecuting money laundering cases. Law enforcement agencies should give higher priority to investigating money laundering cases. The Prosecutor General's Office should address the deficiencies of that office, particularly in its organization and staff training. The GOU should establish oversight capabilities of local investigators, prosecutors, and judges to insure that cases are vigorously pursued and prosecuted. Ukraine's authorities should take steps to better understand the depth of their country's alternative remittance systems, and begin to address a monitoring and reporting regime. Likewise, Ukraine should take steps to enact a regulatory regime for charitable and nonprofit organizations that goes beyond monitoring. Ukraine should ratify the UNCAC and more aggressively address its public corruption problem by prosecuting and convicting corrupt public officials.

United Arab Emirates

The United Arab Emirates (UAE) is an important financial center in the 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; 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) 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 money laundering vulnerabilities in the UAE include hawala, trade fraud, smuggling, the real estate boom, the misuse of the international gold trade, and conflict diamonds.

The Central Bank is responsible for supervising the UAE's 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. 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 counter-terrorist financing (AML/CTF) 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 U.S. \$10,900). The law imposes criminal penalties for money laundering that includes up to seven years in prison plus a fine of up to 300,000 dirhams (approximately U.S. \$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 the equivalent of U.S. \$545 and for all nonaccount holder bank transactions over U.S. \$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 whether the terrorist 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 as defined in the law.

The law also provides for asset seizure and confiscation. Article 31 gives the Attorney General the authority to seize or freeze assets until the investigation is completed. Article 32 confirms the Central Bank's authority to freeze accounts for up to seven days if it suspects that the funds will be used to fund or commit any of the crimes listed in the law. The law also allows the right of appeal to "the

competent court” of any asset freeze under the law. The court will rule on the complaint within 14 days of receiving the complaint. Law No. 1/2004 also 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 (UNSCR) 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 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. In 2007, the UAE took steps toward fulfillment of its UN nonproliferation obligations. On August 31, 2007 the UAE issued Law No. 13 of 2007 on export and import controls. With regard to the UAE’s UNSCR 1737 and 1747 commitments, the UAE Central bank ordered banks and other financial institutions to freeze accounts or deposits of designated entities. It also ordered financial institutions to cease transfers on behalf of designated entities and to refrain from entering into new commitments for grants, financial assistance, and concession loans to the Iranian Government

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 (STRs), the AMLSCU is authorized to send information requests to foreign regulatory authorities to conduct its preliminary investigations based on suspicious transaction report data. The AMLSCU joined the Egmont Group in June 2002. As of October 2007, the AMLSCU has received and investigated a total of 4392 suspicious transactions reports (STRs), for the period of December 2000 until April 2007. The AMLSCU reports that it has issued a total of 42 freeze orders in response to STRs between December 2000 (prior to the establishment of the FIU) and October 2006.

It is unclear how many money laundering prosecutions have taken place in the UAE in 2007. However, there were two high profile money laundering cases in the UAE during the 2006/2007 timeframe. In November, the Sharjah Appeals Court upheld a verdict sentencing seven men to five years in prison for money laundering. An Abu Dhabi court also sentenced two of the individuals to life imprisonment for drug trafficking and the rest to ten year sentences for drug trafficking. The individuals were arrested in 2006 for attempting to smuggle 2.5 tons of hashish from Pakistan to Holland, via Sri Lanka, the UK, and Belgium. UAE authorities worked with law enforcement officials in the respective countries to track the shipment. In October 2007, the Dubai police referred 48 suspects to the Public Prosecutors on charges of money laundering and abetting drug trafficking.

Several amendments were made to the Central Bank Regulations 24/2000 in July 2006. First, the regulations added the term “terrorist 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 AMLSCU in writing of such transactions “in case of any doubt”. Finally, enhanced due diligence requirements for charities were promulgated, 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.

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 its nontransparency to law enforcement and regulators and the highly resilient nature of the system. 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 October 2007, the Central Bank had registered 246 hawaladars, with an additional 70 applicants working to complete their registration requirements. Once registered, 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. Officials argue that the registration program is still in the initial phase of determining the magnitude of the industry. As of August 2007, the Central Bank reported that it had received over 800 quarterly activity reports from hawaladars.

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. All cash forfeiture cases are handled at the judicial level because there are no administrative procedures to handle forfeited cash. Still, enforcement mechanisms are lax. Customs officials, police, and judicial authorities tend to not regard large cash imports as potentially suspicious or criminal type activities, arguing that the UAE is a cash-based economy, and it is not unusual for people to carry significant sums of cash.

Dubai remains the center of the UAE's burgeoning diamond trade, although new facilities are springing up in the Emirates of Ajman and Ras Al Khaimah as interest spreads in the lucrative business. The UAE has been a member of the Kimberley Process Certification Scheme for Rough Diamonds since November 2002, and began certifying rough diamonds exported from the UAE on January 1, 2003. Law No. 13 of 2004 regulates supervision of Import/Export and Transit of Rough Diamonds. Article 5 of the law prohibits the import of rough diamonds, unless they are accompanied by a Kimberley Process certificate and in a sealed, tamper resistant container.

The Dubai Diamond Exchange (DDE), a subsidiary of the Dubai Multi Commodities Center (DMCC), is a quasi-governmental organization charged with issuing Kimberley 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 familiarize the estimated 50 diamond traders operating in Dubai with the new KP requirements. Under the KP regulations, UAE Customs is the sole point of entry for both rough and finished diamonds to the 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 a medium to provide counter valuation in hawala transfers, particularly between Dubai and Mumbai.

The former head of the Dubai Diamond Exchange implemented enhanced monitoring measures in compliance with the Moscow Resolution on Cote d'Ivoire of November 2005, but two suspect

diamond shipments of questionable provenance released by the DDE in 2006 and 2007 indicate continuing weaknesses in the process. The UN Group of Experts on Cote d'Ivoire, visiting Dubai in May 2007, raised with the DDE the release in September 2006 and January 2007, respectively, of two shipments of diamonds with suspect Ghanaian certificates of origin. In both cases the World Diamond Council was requested to verify the origin of the diamonds. In the first instance the WDC's Working Group Diamond Experts concluded that the assessed diamonds bore characteristics unknown in Ghanaian diamonds, but possibly consistent with stones from Guyana or Brazil. In the second case, the diamonds were released before the WDC's final report was released. The Group also reported that individuals in Dubai's Gold Land stated that they had in their possession large quantities of African diamonds without Kimberley Process certification.

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 U.S. \$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.

The UAE's real estate market continues to grow with the various emirates following Dubai's model of opening up some property ownership to expatriates. Dubai's real estate market grew significantly in 2007, 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 lease-hold 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. The UAE does not have a central database to show registered property owners within the UAE, which encumbers international money laundering investigations.

Since the September 11, 2001 terrorist attacks, the UAE Government (UAEG) 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 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 one financial free zone (FFZ). The number of FTZs is growing, with 37 operating in the UAE. 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 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 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, 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.

In 2007 the Cabinet issued Resolution No. 28 that provided implementing regulations for financial free zones. The regulations specify that FFZs submit their semi-annual reports on activities and compliance to the UAE Cabinet. The regulations also spell out that inspections of FFZs will be carried out by cabinet resolution through a ministerial committee. These inspections will be carried out in cooperation with the FFZs. Results will be referred to the cabinet for action. The Regulation also instructs the FFZs to enter into Memorandums of Understanding (MOUs) with relevant authorities, such as the Central Bank, the Ministry of Economy, the Securities and Commodities Authority, and the Insurance Authority, for the purposes of better coordination, cooperation, and control.

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 ruler 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 156 institutions to operate within the DIFC as authorized firms licensed to carry on financial services in or from the DIFC. The DFSA also regulates ancillary service providers (provide legal or accountancy services in 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 18 suspicious transaction reports issued from firms operating in the DIFC (nine in 2007). 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.

As a result, the DIFC acknowledged the need to enhance its regulatory and compliance authority. On July 18, 2007, it enacted regulations for nonfinancial Anti-Money Laundering Anti Terrorist Finance which applies Financial Action Task Force (FATF) compliant requirements in the DIFC jurisdiction to real estate agents, dealers in precious metals and stones, dealers in high value goods (cash payments of over U.S. \$15,000), nonAuthorized Service Providers, lawyers, accountants, auditors, and nonDFSA regulated Trust and Company Service Providers. These regulations do not apply to DFSA regulated firms. With regard to auditors and accountants, for example, this would apply to those that do not audit authorized firms. The DFSA has undertaken a campaign to reach out to other international regulatory authorities to facilitate information sharing. As of November 2007, the DFSA has MOUs with several 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). On October 23, 2007, the DFSA entered into a MOU with the five U.S. banking supervisors.

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, including the UN International Convention for the Suppression of the Financing of Terrorism. It has signed and ratified the UN Convention against Corruption. The UAE ratified the UN Convention against Transnational Organized Crime on May 7, 2007. The UAE supported the creation of the Middle East and North Africa Financial Action Task Force (MENAFATF) in November 2004, and will assume its presidency for 2008.

International Monetary Fund (IMF) conducted an assessment of the UAE financial system in 2007. The report concluded that the government of the UAE is in the midst of implementing an important agenda for further strengthening the country's banking system and its prudential and regulatory oversight. The report contains no information on the UAE compliance with the FATF's 40 recommendations and Nine Special Recommendations.

The Government of the UAE has shown some progress in enhancing its AML/CTF program. Information sharing between the AMLSCU and foreign FIUs has substantially improved. However, several areas requiring further action by the UAEG remain. Law enforcement and customs officials 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 precious gems, commodities used as counter-valuation in hawala transactions, and the misuse of trade to launder narcotics proceeds. The UAE should increase the resources it devotes to investigation of AML/CTF both federally at the AMLSCU and at emirate level law enforcement. The Central Bank should move from the initial phase of hawaladar registration to compliance and enforcement coupled with investigations. The cooperation between the Central Bank and the DFSA needs improvement, and lines of authority need to be clarified. Cabinet Resolution No. 28 of 2007 should help in this regard. The UAE should

conduct more follow-ups 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 IMF recently conducted the UAE's mutual evaluation AML/CTF assessment, which is scheduled for discussion at the April 2008 MENAFATF Plenary and the June 2008 FATF Plenary. The UAE should work toward implementing the recommendations of the IMF assessment upon its completion.

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 as these entities have tightened their controls and increased their vigilance. The use of bureaux de change, cash smugglers (into and out of the UK), and traditional gatekeepers (including solicitors and accountants) to move and launder criminal proceeds has been increasing since 2002. Also on the rise are credit/debit card fraud and the purchasing of high-value assets to disguise illegally obtained money.

Criminal proceeds are mostly generated in the large metropolitan areas in the UK. Drug traffickers and other criminals are able to launder substantial amounts of money in the UK despite improved anti-money laundering measures introduced under the 2002 Proceeds of Crime Act (POCA). Much of the money made in the UK benefits criminals who operate in the UK. Cities such as London, Liverpool and Birmingham have large drug markets and also serve as supply points for markets in smaller cities and towns, drawing in significant flows of illicit cash.

According to an analysis by the UK's Serious Organized Crime Agency (SOCA), such crimes in the UK generate about £15 billion (approximately U.S. \$29.3 billion) per annum. Businesses that are particularly attractive to criminals are those with high cash turnovers and those involved in overseas trading. Illicit cash is consolidated in the UK, and then moved overseas where it can more readily enter the legitimate financial system, either directly or by means such as purchasing property. Cash can be smuggled in a number of ways: it can be transported by courier, freight or post and moved through the various points of exit from the UK. Cash smuggling techniques are adaptable; smugglers can easily change techniques if they suspect law enforcement is targeting a particular route or method.

Because cash is the mainstay of the drugs trade, traffickers make extensive use of money transmission agents (MTA), cash smuggling, and Informal Value Transfer Systems ("underground banking") to remove cash from the UK. Heroin proceeds from the UK are often laundered through Dubai en route to traffickers in Pakistan and Turkey. Cocaine proceeds are repatriated to South America via Jamaica and Panama.

As money laundering laws become stricter, money laundering becomes more difficult. Because dealers in the UK generally collect sterling, most traffickers are left with excess small currency (usually £10 notes). This has created cash smuggling operations to move large sums of sterling out of the country. The SOCA analysis suggests that more sterling has exited the UK in recent years than entered due to the relative ease of converting sterling in other countries.

The UK has implemented many of the provisions of the Financial Action Task Force (FATF) 40 Recommendations and Nine Special 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. The UK underwent a FATF mutual evaluation process in 2006, and the report was accepted by that body in June 2007. The mutual evaluation report (MER) cited many improvements to the anti-money laundering and counter-terrorist financing (AML/CTF) regime since the previous on-site assessment, conducted in 1996. On the 49 recommendations, the UK received 24 ratings of “compliant” and 12 ratings of “largely compliant.” Of the 5 core FATF recommendations (Recommendations 1, 5, 10, and 13, Special Recommendations II and IV), the UK’s AML/CTF regime was deemed at least compliant in all of them.

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 of 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.

Following an extensive consultation period in late 2006, Her Majesty’s Treasury published Money Laundering Regulations in July 2007. The regulations implement the Directive 2005/60/EC (also known as the Third EU Money Laundering Directive), agreed under the UK’s EU Presidency in 2005. The provisions include: extended supervision so that all businesses in the regulated sector comply with money laundering requirements; strict tests of money services businesses; extra checks on customers identified by firms as posing a high risk of money laundering; a requirement to establish the source of wealth of customers who are high ranking public officials overseas; and a strengthened and risk-based regime in casinos, in line with international standards. The regulations took effect December 15, 2007. EU Council Regulation No. 1889/2005, known as the “Cash Controls Regulation”, also became applicable in the UK on June 15, 2007. This regulation obliges each EU state to maintain a cash declaration system for every person entering or exiting the EU with 10,000 euros cash or its equivalent in other currencies. The UK employs a written declaration system.

The Proceeds of Crime Act 2002 (POCA) created a new criminal offense, applicable to all regulated sectors, of failing to disclose suspicious transactions in respect to all crimes, not just “serious,” narcotics- or terrorism-related crimes, as had previously been the rule. The POCA also expanded investigative powers relative to large movements of cash. 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. The “Money Laundering Regulations 2003,” along with amending orders for the POCA and the Terrorism Act, impose requirements on various entities, including attorneys, and introduce a client identification requirement, requirements on internal reporting procedures and training. The introduction of the Fraud Act 2006, which took effect on 15 January 2007, saw significant changes to offenses in the fraud and forgery offence group. Changes were also made to the way in which the police record fraud offenses.

The UK’s banking sector provides accounts to residents and nonresidents, who can open accounts through 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. The FSA also regulates 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. The 2007 FATF mutual evaluation cited a number of concerns including the enforceability of the guidance to some financial institutions regarding customer due diligence, politically exposed persons, and beneficial ownership.

The Serious Organized Crime and Police Act of 2005 (SOCAP) amended the money laundering provisions in the POCA. One of these changes was the creation of the Serious Organized Crime Agency (SOCA), which houses the UK's financial intelligence unit (FIU). In 2006, SOCA assumed all FIU functions from the National Criminal Intelligence Service (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, including suspicious activity reports (SARs). Under the law, SOCA's functions are not restricted to serious or organized crime but are applicable to all crimes, and those functions include assistance to other agencies in their enforcement responsibilities. The number of SARs has steadily increased since the establishment of the SOCA even with the slightly relaxed reporting requirements, that allow banks (but no other obliged entities) to proceed with low value transactions not exceeding 250 pounds (approximately \$500) involving suspected criminal property without requiring specific consent to operate the account. However, the reporting of every such transaction is still required. Additionally, under the SOCAP, foreign acts would no longer be considered money laundering and would not be considered as such if they do not violate the law in the foreign jurisdiction.

The Serious Crime Act 2007 merges ARA's operational arm with the Serious Organised Crime Agency (SOCA) and ARA's training function with the National Policing Improvement Authority (NPIA), as well as extending the powers of civil recovery to wider prosecution authorities and the powers of cash seizure to a wider range of law enforcement bodies. The POCA has enhanced the efficiency of the forfeiture process and increased the recovered amount of illegally obtained assets by consolidating existing laws on forfeiture and money laundering into a single piece of legislation, and, perhaps most importantly, creating a civil asset forfeiture system for the proceeds of unlawful conduct. The Assets Recovery Agency (ARA), established to enhance financial investigators' power to request client information from any bank, is a product of this legislation. The Act provides for confiscation orders and for restraint orders to prohibit dealing with property. It also allows for asset recovery of property obtained through or used for 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 POCA 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 approximately U.S. \$250 million in 2006, a fivefold increase in five years.

In one illustrative case, Operation Labici was an investigation into an organized group of money launderers operating in the UK but controlled from Dubai and Pakistan. They used hawala, to eventually move drug money between the UK, Pakistan and Dubai as well as to and from other countries. The UK end of the organization provided laundering services to UK drug dealers. Records

seized showed that almost £15 million (U.S. \$30 million) in cash had been passed. In September 2007 the last of eight men was sentenced as a result of Operation Labici. The main defendant received ten years imprisonment; the eight defendants together received 39 years for money laundering.

The Terrorism (United Nations Measures) Order 2001 makes it an offense for any individual to provide financial or related services, 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 covered entity to fail to disclose to Her Majesty's Treasury a suspicion that a customer or entity 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 by introducing warrants enabling police to search any property owned or controlled by a terrorist suspect. The Act also extends terrorism stop and search powers to cover bays and estuaries, with improved search powers at ports; extends police powers to detain suspects after arrest for 28 days (although intervals exceeding two days must be approved by a judicial authority); and increases the flexibility of the proscription regime, including the power to proscribe groups that glorify terrorism.

As a direct result of the events of September 11, 2001, the FID established a separate National Terrorist Financing Investigative Unit (NTFIU), controlled by the Metropolitan Police Services (MPS), also known as "Scotland Yard," 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 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 has 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, including the authority to remove management, appoint trustees and place organizations into receivership. The Government intends to revise its reporting requirements 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, the UN Convention against Corruption, the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism. SOCA is a 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, and the two countries 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 has a comprehensive AML/CTF regime. However, as discussed in the FATF mutual evaluation, there are areas that should be further addressed by the authorities. The UK should develop legislation and clearly enforceable implementing regulations to ensure that beneficial owners are identified and verified and that customer due diligence is required and ongoing, regardless of an already established relationship with the client. The UK should also develop clear regulations regarding politically exposed persons as well as correspondent banking relationships. Risk-based measures should be codified and taken, not only in the context of customer due diligence, but also

with regard to the identification and treatment of wire transfers, the standards and measures set by the designated nonfinancial businesses and professions, and to more effectively target the resources of the supervisory entities. The 2005 Gambling Act should be amended to require the gaming industry to be covered in the same manner as the financial and designated nonfinancial businesses and professions, including giving the Gambling Commission a full range of sanctions. 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. Authorities should also ensure the FIU's operational and authoritative independence.

Uruguay

In the past, Uruguay's strict bank secrecy laws, liberal currency exchange, capital mobility regulations, and overall economic stability made it a regional financial center vulnerable to money laundering, though the extent and the nature of suspicious financial transactions have been unclear. In 2002, banking scandals and mismanagement, along with massive withdrawals of Argentine deposits, led to a near collapse of the Uruguayan banking system, significantly weakening Uruguay's role as a regional financial center. This crisis has diminished the attractiveness of Uruguayan financial institutions for money launderers in the medium term.

Uruguay is a founding member of the Financial Action Task Force for South America (GAFISUD). Since early 2005, the former director of the Government of Uruguay's (GOU) Center for Training on Money Laundering Issues (CECPLA) has served as the GAFISUD Executive Secretary. In 2005, the IMF concluded a thorough examination of Uruguay's money laundering regime, which also served as a GAFISUD mutual evaluation. The examination recognized Uruguay's advances with its new legislation but pointed out that some regulations still needed to be drafted. It also noted the understaffing of Uruguay's financial intelligence unit (FIU). An IMF risk assessment is planned for March 2008.

Money laundering is criminalized under Law 17.343 of 2001 and Law 17.835 of 2004. Under Law 17.343, predicate offenses include narcotics trafficking; corruption; terrorism; smuggling (value over U.S. \$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 an offense separate from the underlying crimes. The courts have the power to seize and confiscate property, products or financial instruments linked to money laundering activities. Law 17.835 significantly strengthens the GOU's anti-money laundering regime by including specific provisions related to the financing of terrorism and to the freezing of assets linked to terrorist organizations, as well as provisions for undercover operations and controlled deliveries.

The first arrest and prosecution for money laundering under Law 17.835 occurred in October 2005. The case is still underway. A more recent high profile case, involving money laundering tied to the largest cocaine seizure in Uruguay's history is also underway, with 14 people indicted in September 2006 for money laundering. This case has significantly invigorated the GOU's efforts to fight money laundering and to push for increased reporting of suspicious activities. A more recent case (September 2007), also involving a large cocaine seizure and proceeds from trafficking, is in the initial stages of investigation. There have been no prosecutions in 2007.

Uruguay's FIU, the Financial Information and Analysis Unit (UIAF), is a directorate of the Central Bank. Created in 2000 under Central Bank Circular 1722, the UIAF receives, analyzes, and disseminates suspicious activity reports (SARs). Law 17.835 of 2004 expands the realm of entities required to file SARs, makes reporting of such suspicious financial activities a legal obligation, and confers on the UIAF the authority to request additional related information.

Money Laundering and Financial Crimes

Compliance by reporting entities has increased from 94 SARs in all of 2006 to 98 SARs in just the first half of 2007. While the level of staffing at the UIAF is still not adequate, the Central Bank has hired 3 additional staff for a total of 7 full-time personnel and established a timeline of June 2008 to reach full staffing of 19 people. The recent high profile narcotics money laundering cases have provided a boost to the Central Bank's efforts. In addition, the UIAF is updating its hardware and software systems through funding from the Organization of American States.

Under Law 17.835, all obligated entities must implement anti-money laundering policies, such as thoroughly identifying customers, recording transactions over U.S. \$10,000 in internal databases, and reporting suspicious transactions to the UIAF. This obligation extends to all financial intermediaries, including banks, currency exchange houses, stockbrokers, insurance companies, casinos, art dealers, and real estate and fiduciary companies. Implementing regulations have been issued by the Central Bank for all entities it supervises (banks, currency exchange houses, stockbrokers, and insurance companies), and are being issued by the Ministry of Economy and Finance for all other reporting entities. On November 26, 2007, the Central Bank issued Circular 1.978, which requires financial intermediary institutions, exchange houses, credit administration companies and correspondent financial institutions to implement detailed anti-money laundering and counter-terrorist financing policies, and report wire transfers over U.S. \$1,000. This circular requires these institutions to pay special attention to business with politically exposed persons (PEPs); persons, companies, and financial institutions from countries that are not members of the Financial Action Task Force (FATF) or a FATF-style regional body; and persons, companies, and financial institutions from countries that are subject to FATF special measures for failure to comply with the FATF Recommendations.

Law 17.835 also extends reporting requirements to all persons entering or exiting Uruguay with over U.S. \$10,000 in cash or in monetary instruments. This measure has resulted in the seizure of over U.S. \$720,000 in undeclared cross-border movements since the declaration requirement entered into force in December 2006.

Three government bodies are responsible for coordinating GOU efforts to combat money laundering: the UIAF, the National Drug Council, and the Center for Training on Money Laundering (CECPLA). The President's Deputy Chief of Staff heads the National Drug Council, which is the senior authority for anti-money laundering policy. The Director of CECPLA serves as coordinator for all government entities involved and sets general policy guidelines. The Director defines and implements GOU policies, in coordination with the Finance Ministry and the UIAF. The Ministry of Economy and Finance, the Ministry of the Interior (via the police force), and the Ministry of Defense (via the Naval Prefecture) also participate in anti-money laundering efforts. The financial private sector, most of which is foreign-owned, has developed self-regulatory measures against money laundering, such as the Codes of Conduct approved by the Association of Banks and the Chamber of Financial Entities (1997), the Association of Exchange Houses (2001), and the Securities Market (2002).

Despite the power of the courts to confiscate property linked to money laundering, real estate ownership is not publicly registered in the name of the titleholder, complicating efforts to track money laundering in this sector, especially in the partially foreign-owned tourist industry. The UIAF and other government agencies must obtain a judicial order to have access to the name of titleholders. The GOU is in the process of implementing a national computerized registry that will facilitate the UIAF's access to titleholders' names. Data is being progressively loaded into the system, with a completion target date of December 2008. The UIAF is already using the loaded data for investigation purposes.

Fiduciary companies called "SAFIs" are also thought to be a convenient conduit for illegal money transactions. As of January 1, 2006, all SAFIs are required to provide the names of their directors to the Finance Ministry. In addition, the GOU implemented a comprehensive tax reform law in July 2007, which prohibited the establishment of new SAFIs as of that date. All existing SAFIs are to be

eliminated by 2010. The tax reform law also implemented a personal income tax for the first time in Uruguay.

Offshore banks are subject to the same laws and regulations as local banks, with the GOU requiring them to be licensed through a formal process that includes a background investigation. There are six offshore banks and 21 representative offices of foreign banks. Offshore trusts are not allowed. Bearer shares may not be used in banks and institutions under the authority of the Central Bank, and any share transactions must be authorized by the Central Bank. There are eight free trade zones in Uruguay, all but two being little more than warehouses for regional distribution. The other two house software development firms, back-office operations, call centers, and some light manufacturing/assembly. Some of the warehouse-style free trade zones have been used as transit points for containers of counterfeit goods bound for Brazil and Paraguay.

The GOU states that safeguarding the financial sector from money laundering is a priority, and Uruguay remains active in international anti-money laundering efforts. Uruguay is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. In January 2007, the GOU ratified the UN Convention against Corruption and the OAS 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 USG and the GOU are parties to extradition and mutual legal assistance treaties that entered into force in 1984 and 1994, respectively.

Uruguay is one of only two countries in South America that is not a member of the Egmont Group of financial intelligence units. Egmont membership would allow its UIAF greater access to financial information that is essential to its efforts to combat money laundering and terrorist financing. The UIAF plans on presenting its candidacy to the Egmont Group in June 2008, with the sponsorship of Spain, Peru, Argentina and Colombia.

The Government of Uruguay has taken significant steps over the past few years to strengthen its anti-money laundering and counter-terrorist financing regime. The passage of legislation criminalizing terrorist financing places Uruguay ahead of many other nations in the region. The UIAF's future membership in the Egmont Group, as well as the GOU's continued implementation and enforcement of its anti-money laundering and counter-terrorist financing programs, should continue to be priorities for the GOU.

Uzbekistan

Uzbekistan is not an important regional financial center and does not have a well-developed financial system. Legitimate business owners, ordinary citizens, and foreign residents generally attempt to avoid using the Uzbek banking system for transactions except when absolutely required, because of the onerous nature of the Government of Uzbekistan's (GOU) financial control system, the fear of GOU seizure of one's assets, and lack of trust in the banking system as a whole. As a result, Uzbek citizens have functioning bank accounts only if they are required to do so by law. They only deposit funds they are required to deposit and often resort to subterfuge to avoid depositing currency. The Central Bank of Uzbekistan (CBU) states that deposits from individuals have been increasing over the past five years.

Narcotics proceeds are controlled by local and regional drug-trafficking organizations and organized crime. Foreign and domestic proceeds from criminal activity in Uzbekistan are held either in cash, high-value transferable assets, such as gold, 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 and regions, Iran, India, Korea, the Middle East, Europe, and the U.S. The black market for smuggled goods does not appear to be significantly funded by narcotics proceeds. It is likely, however, that drug dealers use the robust black market to clean their drug-related money.

Reportedly, the unofficial, unmonitored cash-based market creates an opportunity for small-scale terrorist or drug-related laundering activity destined for internal operations. For the most part, the funds generated by smuggling and corruption are not directly laundered through the banking system but through seemingly legitimate businesses such as restaurants and high-end retail stores. There appears to be virtually no money laundering through formal financial institutions in Uzbekistan because of the extremely high degree of supervision and control over all bank accounts in the country exercised by the Central Bank, 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 cash across Uzbekistan's porous borders for deposit in the banking systems of other countries, such as Kazakhstan, Russia or the United Arab Emirates.

Money laundering from the proceeds from drug-trafficking and other criminal activities is a criminal offense. Article 41 of the Law on Narcotic Drugs and Psychotropic Substances (1999) stipulates that any institution may be closed for performing a financial transaction for the purpose of legalizing (laundering) proceeds derived from illicit narcotics trafficking. GOU officials noted that there have been no related cases thus far in Uzbekistan.

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, there is still insufficient information to fully assess the implementation and use of this legislation. Officials from the State Prosecutor's Office reported that Article 243 does not work well because different judges and attorneys can interpret it in different ways.

The CBU, 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 U.S. \$1,000 in salary expenses for legal entities and U.S. \$500 in salaries for individuals must be tracked and reported to the authorities. The CBU unofficially requires commercial banks to report on private transfers to foreign banks exceeding U.S. \$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, possibly not sufficient time to reconstruct significant transactions. The law protects reporting individuals with respect to their cooperation with law enforcement entities. However, reportedly, the GOU has not adopted "banker negligence" laws that make individual bankers responsible if their institutions launder money.

A new law to combat money laundering and terrorist financing, passed in 2004, took effect in January 2006. However, in April 2007 the main provisions of the law were suspended by a Presidential decree until January 2013. This essentially means there may not be an effective anti-money laundering law in Uzbekistan for the next six years. The provisions of the law required certain entities to report cash transactions above U.S. \$40,000 (approximately), as well as suspicious transactions. GOU officials claimed that the anti-money laundering law burdened banks and investigators with reporting thousands

of benign suspicious transactions that wasted resources on investigations. They reported 17,000 suspicious transactions in a six-month period before the law was suspended compared with 400 in the six months following the suspension of the law. In addition, this law also covered some nonbanking financial institutions, such as investment foundations, depositaries and other types of investment institutions; stock exchanges; insurers; organizations which render leasing and other financial services; organizations of postal service; pawnshops; lotteries; and notary offices. It did not include intermediaries such as lawyers, accountants, or broker/dealers. Casinos are illegal in Uzbekistan.

An April 2006 Presidential decree established the Department on Combating Tax, Currency Crimes and Legalizations of Criminal Proceeds under the GPO. The Department, which the Government of Uzbekistan claims is the functional equivalent of a Financial Intelligence Unit (FIU), is charged with monitoring and preventing money laundering and terrorist financing. It analyzes information received from banks and financial institutions, creates and keeps electronic databases of financial crimes, and, when warranted, passes information to the CBU, tax and law enforcement authorities, or other parts of the GPO for investigation and prosecution of criminal activity. However, given the suspension of the main provisions of the anti-money laundering law in 2007, it is unclear whether there will be any investigations or prosecutions.

The Law on Banks and Bank Activity (1996), article 38, stipulates conditions under which banking information can be released to law enforcement, investigative and tax authorities, prosecutor's office and courts. Different conditions for disclosure apply to different types of clients—individuals and institutions. In September 2003, Uzbekistan enacted a bank secrecy law that prevents the disclosure of client and ownership information for domestic and offshore financial services companies to bank supervisors and law enforcement authorities. In all cases, private bank information can be disclosed to prosecution and investigation authorities, provided there is a criminal investigation underway. The information can be provided to the courts on the basis of a written request in relation to cases currently under consideration. Protected banking information also can be disclosed to tax authorities in cases involving the taxation of a bank's client. Additionally, under the 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 transactions with monetary funds and other property to report such transactions to the GPO's FIU. GOU officials noted that the secrecy law does not apply if a group is on a list of designated terrorist organizations.

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 U.S. \$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 U.S. \$2,000. Residents wishing to take out higher amounts must obtain authorization to do so; amounts over U.S. \$2,000 must be approved by an authorized commercial bank, and amounts over U.S. \$5,000 must be approved by the CBU. International cash transfers to or from an individual person are limited to U.S. \$5,000 per transaction; there is no monetary limit on international cash transfers made by legal entities, such as a corporation. 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.

The Department of Investigation of Economic Crimes within the Ministry of Internal Affairs (MVD) conducts investigations of all types of economic offenses. A specialized structure within the NSS and the Department on Tax, Currency Crimes and Legalization of Criminal Proceeds is also authorized to

Money Laundering and Financial Crimes

conduct investigations of money laundering offenses. 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. Officials from the Office of the State Prosecutor reported that there were 11 money laundering-related cases in 2006 and five in 2007. Of these 16 recent cases, officials stated that three are still pending. The status or disposition of the other cases is unknown. 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 CBU, which has, in turn, forwarded these lists to banks operating in Uzbekistan. According to the CBU and the Office of the State Prosecutor, 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. GOU officials noted that most overseas migrants work in more advanced countries such as Russia or Korea where remittances can be easily tracked through financial institutions. We are not aware of any legislative initiatives under consideration. Although officially there is complete currency convertibility, in reality convertibility requests can be significantly delayed or refused.

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. We are aware of no new legislation or changes in 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 U.S. \$97,000) has been deposited into this fund since its inception. Roughly U.S. \$80,000 has been turned over to Uzbek law enforcement agencies. In 2004, however, the Cabinet of Ministers issued an order to close the Special Fund as of November 1, 2004. Under the new procedure, each agency manages the assets it seizes. There is also a specialized fund within the MVD to reward those officers who directly participate in or contribute to law enforcement efforts leading to the confiscation of property. This fund has generated 20 percent of its assets from the sale of property confiscated from persons who have committed offenses such as the organization of criminal associations, bribery and racketeering. The GOU enthusiastically enforces existing drug-related asset seizure and forfeiture laws. The GOU has not been forthcoming with information regarding the total dollar value of assets seized from crimes. Reportedly, existing legislation does not permit sharing of seized narcotics assets with other governments.

The GOU realizes the importance of international cooperation in the fight against drugs and transnational organized crime and has made efforts to integrate the country in the system of international cooperation. Uzbekistan has entered into agreements with Uzbek supervisors to facilitate the exchange of supervisory information including on-site examinations of banks and trust companies operating in the country. Uzbekistan has entered into bilateral agreements for cooperation or exchange of information on drug related issues with the United States, Germany, Italy, Latvia, Bulgaria, Poland, China, Iran, Pakistan, the Commonwealth of Independent States (CIS), and all the countries in Central Asia. It has multilateral agreements in the framework of the CIS, under the Shanghai Cooperation Organization, and under memoranda of understanding. An “Agreement on Narcotics Control and Law Enforcement Assistance” was signed with the United States on August 14, 2001, with two supplemental agreements that came into force in 2004.

Uzbekistan does not have a Mutual Legal Assistance Treaty with the United States. However, Uzbekistan and the United States have reached informal agreement on mechanisms for exchanging adequate records in connection with investigations and proceedings relating to narcotics, terrorism, terrorist financing and other serious crime investigations. In the past, Uzbekistan has cooperated with appropriate law enforcement agencies of the USG and other governments investigating financial crimes and several important terrorist-related cases. However, cooperation in these areas has become increasingly problematic in an atmosphere of strained 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. The EAG will conduct a mutual evaluation of Uzbekistan in 2008, which will include an analysis of Uzbekistan’s decision to suspend the key provisions of the money laundering law.

The GOU is an active party to the relevant agreements concluded under the CIS, the Central Asian Economic Community (CAEC), the Economic Cooperation Organization (ECO), the Shanghai Cooperation Organization, and the “Six Plus Two” Group on Afghanistan. Uzbekistan 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. Uzbekistan has yet to become a party to the UN Convention against Corruption.

A lack of trained personnel, resources, and modern equipment continues to hinder Uzbekistan’s efforts to fight money laundering and terrorist financing. Moreover, the April 2007 decree suspending the main provisions of the money laundering law until 2013 is likely to result in major setbacks. The GOU should rescind this decree, reinstating the provisions of the law, while continuing to refine its pertinent legislation to bring it up to international standards. Additional refinements should expand the cross-border currency reporting rules to cover the transfer of monetary instruments, and precious metals and gems. 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. While the establishment of an FIU was a positive step in 2006, much will depend, in the future, on the

unit's ability to effectively cooperate with other GOU law enforcement and regulatory agencies in receiving and disseminating information on suspicious transactions. In the short term, FIU operations will depend on whether there is any incoming reporting activity at all, given the suspension of the law.

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 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. The International Companies Act was amended in 2006. Taken with Ministerial Order No. 15 (April 2007), this amendment immobilized Bearer Shares and required the identification of Bearer Share custodians.

Vanuatu's financial sector includes five domestic licensed banks (that carry out domestic and offshore business); one credit union; eight international banks; seventy insurance companies (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 eight international banks and approximately 3,603 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 (VFSC). 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 the Vanuatu Financial Intelligence Unit (VFIU) within the State Law Office. Under the Financial Transactions Reporting (Amendment) Act No. 28 of 2005, the VFIU has a role in ensuring compliance by financial services sector with financial reporting obligations. The VFIU 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 VFIU 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, the 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) that involve any single transaction in excess of Vanuatu currency Vatu (VT) 1,000,000, or its equivalent in a foreign currency, and wire transfers into and out of Vanuatu in excess of VT 1,000,000 (approximately U.S. \$9,100). 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 counter-terrorist financing procedures and systems, as well as provide the VFIU a copy of their internal procedures. Failure to do so will result in a fine or imprisonment for an individual, or a fine in the case of a corporate entity. The amendments supersede any inconsistent banking or other secrecy provisions and clarify the VFIU'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 to the Department of Customs and Inland 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 VFIU 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 offshore 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 for which it has responsibility. The Customs and Revenue Branch issues operating licenses.

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. The Proceeds of Crime Act No. 30 of 2005 through its new Section 74A effective in November 2005, required all incoming and outgoing passengers to and from Vanuatu to declare to the Department of Customs cash exceeding one million VT in possession (approximately U.S. \$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. The VFSC has prepared the Trust and Company Services Providers Bill and the GOV will present the bill before Parliament during the first half of 2008. 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. Insurance Regulation Order No.16 of 2006 was issued on May 2006, and regulates the insurance industry, to include intermediary and agents roles.

International Business Companies (IBC) traditionally could be registered using bearer shares, shielding the identity and assets of beneficial owners of these entities. Secrecy provisions protected all information regarding IBCs and provided penal sanctions for unauthorized disclosure of information. These secrecy provisions, along with the ease and low cost of incorporation, made IBCs ideal mechanisms for money laundering and other financial crimes. Section 125 of the International Companies Act No. 31 of 1992 (ICA), provided 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 VFIU 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. Moreover, the International Companies (Amendment) Act No. 45 of 2006 (ICA) revised the regime governing IBC operations. Ministerial Order No. 15 of 2007 created a Guideline of Custody of Bearer Shares, which immobilized Bearer Shares and requires the identification of Bearer Share custodians.

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 (U.S. \$1,000,000), 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 VT 100 million (U.S. \$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 in January 2006. The GOV has not yet signed the UN Convention against Corruption. The VFIU 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 counter-terrorist financing regime since its first evaluation in 2000 by criminalizing terrorist financing, requiring a wider range of entities to report to the VFIU 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 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. The GOV should also establish a viable asset forfeiture regime and circulate the updated UNSCR 1267 Sanctions Committee updated list of designated terrorist entities.

Venezuela

Venezuela is one of the principal drug-transit countries in the Western Hemisphere, with an estimated 250 metric tons of cocaine passing through the nation annually. 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 sources of money laundering are from proceeds generated by cocaine and heroin trafficking organizations and the embezzlement of dollars from the petroleum industry. 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 49 banks, primarily serves the domestic market. All but one of these banks 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. Under the Organic Law against Organized Crime, money laundering is an autonomous offense,

Money Laundering and Financial Crimes

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 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, major gaps remain. Two years after promulgation, not a single case has been 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, and the financial intelligence unit (FIU) does not have the necessary autonomy to operate effectively. Widespread corruption within the judicial and law enforcement sectors also 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 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 31 and has undergone multiple bureaucratic changes, with five different directors presiding over the UNIF since 2004. The SBIF and the UNIF are viewed dubiously within the financial sector, with credible reports indicating that both are used by the government to investigate political opponents.

The UNIF receives reports on currency transactions (CTRs) exceeding approximately U.S. \$10,000 and suspicious transaction reports (STRs) 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, the Bank Deposits and Protection Guarantee Fund, and other nonregulated 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 U.S. \$10,000, the sale and purchase of foreign currency exceeding U.S. \$10,000, and summaries of cash transactions that exceed approximately U.S. \$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. 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). No statistics are available on the number of STRs or CTRs received in 2007. 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, or the Attorney General's office, a judge can waive these rights, making Venezuela one of least restrictive countries in Latin America from an investigatorial 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. The Organic Law against Organized Crime calls for a new unit 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. However, if the GOV does not criminalize the financing of terrorism, the UNIF faces suspension from the Egmont Group in June 2008. Due to the unauthorized disclosure of information provided to the UNIF by the Financial Crimes Enforcement Network (FinCEN), the United States FIU, FinCEN suspended information exchange with the UNIF in January 2007. FinCEN and the UNIF are currently negotiating a Memorandum of Understanding (MOU) that outlines the parameters for future information exchange between the two FIUs. Once signed, FinCEN will begin sharing financial intelligence with the UNIF again.

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. The GOV 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 and the United States signed a Mutual Legal Assistance Treaty (MLAT) in 1997, but it has not entered into force.

The Government of Venezuela took no significant steps to expand its anti-money laundering regime in 2007. There were no prosecutions or convictions for money laundering in 2007, and this is unlikely to change in 2008. The 2005 passage of the Organic Law against Organized Crime was a step towards strengthening the GOV's abilities to fight money laundering. However, Venezuela needs to enforce the law by creating procedures to expedite asset freezing, establishing an autonomous financial investigative unit, and ensuring that law enforcement and prosecutors have the necessary expertise and resources to successfully investigate and prosecute money laundering cases. The GOV should also criminalize the financing of terrorism and establish procedures for freezing terrorist assets. The UNIF should sign the MOU with FinCEN that will allow it to resume sharing financial intelligence with the United States, and take the necessary steps to ensure that information exchanged with other financial intelligence units is subject to the appropriate safeguards mandated by the Egmont Group.

Vietnam

Vietnam is not an important regional financial center, but is the site of significant money laundering activities. 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. 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 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 that 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 2007 were estimated to be approximately \$2.8 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 Government of Vietnam (GOV) does not require any explanation of the source or intended use of funds brought into the country in this way. In 2006, Vietnam Airlines was implicated in a U.S. \$93 million money laundering scheme uncovered by the Australian Crime Commission. Vietnamese organized crime syndicates operating in Australia and involved in money transfer businesses used the airline to help smuggle money to Vietnam.

A form of informal value transfer service, which often operates through the use of domestic jewelry and gold shops, is widely used to transfer funds within Vietnam. Money or value transmitters are defined as financial institutions by Decree No. 74 and are therefore subject to its AML-related provisions; however, the informal transmitters have not been brought under regulation or supervision.

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 and no money laundering cases have yet been prosecuted. Article 251 does not meet current international standards and amongst other weaknesses, the law requires a very high burden of proof (essentially, a confession) to pursue AML allegations, so prosecutions are nonexistent and international cooperation is extremely difficult. The GOV has plans to revise Article 251 and present the draft to Parliament in 2008.

In June 2005, GOV 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 nonbank financial institutions. The State Bank of Vietnam (SBV) and the Ministry of Public Security (MPS) take primary responsibility for preventing and combating money laundering. Neither the Penal Code, nor the decree covers counterterrorist finance. Reportedly, the Prime Minister has discussed the possibility of dealing with terrorist financing through issuance of a government directive. However, such a directive would have no penal force.

The 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 Vietnam Dong (VND) 200 million (approximately U.S. \$13,000) or more, or equivalent amount in foreign currency or gold. The threshold for savings transactions is VND 500 million (approximately U.S. \$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 U.S. \$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 U.S. \$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 (AMLIC) under the State Bank of Vietnam (SBV). Similar to a Financial Intelligence Unit (FIU), the AMLIC will function as the sole body to receive and process financial information. It will have the right to request concerned agencies to provide information and records for suspected

transactions. The AMLIC 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 AMLIC staff is currently split between two office locations with only two computers for its staff members. The Center has 13 full time staff members, and is working to hire more. The AMLIC has established liaison with ministries and agencies such as Ministries of Justice, Public Security, Finance, Foreign Affairs, the Supreme People's Procuracy, the Supreme People's Court, and the Banking Association. Since the Center became operational, it has received 20 suspicious transaction reports and has referred six cases to MPS for investigation. The AMLIC has virtually no IT capacity and a very low level of analytical ability.

The MPS is responsible for investigating money laundering related offences. There is no information from MPS on investigations, arrests, and prosecutions for money laundering or terrorist financing, but the SBV reports that there have been no arrests or prosecutions for money laundering since January 1, 2007. 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. MPS signed a nonbinding Memorandum of Understanding with DEA in 2006 to strengthen law enforcement cooperation in combating transnational drug-related crimes, including money laundering, but claims it is unable to provide such information due to constraints within the Vietnamese legal system. In May 2007, Vietnam became a member of the Asia/Pacific Group on Money Laundering (APG). As a member of APG, Vietnam has committed to a comprehensive review of its AML/CTF regime in 2008.

Vietnam is a party to the 1999 UN 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 either the UN Convention against Transnational Organized Crime or the UN Convention against Corruption. Vietnam is ranked 123 out of 179 countries in Transparency International's 2007 Corruption Perception Index.

The Government of Vietnam should promulgate all necessary regulations to implement fully the 2005 decree on the Prevention and Combating of Money Laundering. Vietnam should also pass legislation to make terrorist financing a criminal offense as well as including provisions governing the prevention and suppression of terrorist 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. The AMLIC needs to be equipped with an electronic information reporting system. Vietnam should take additional steps to establish an anti-money laundering/counter-terrorist financing regime that comports with international standards.

Yemen

The Yemeni financial system is not well developed and the extent of money laundering is not known. Yemen is not considered an important regional financial center; nor is it considered an offshore financial center. Although financial institutions are technically subject to limited monitoring by the Central Bank of Yemen, in practice, alternative remittance systems, such as hawala, are not subject to scrutiny and are vulnerable to money laundering and other financial abuses. The banking sector is relatively small with 17 commercial banks, including four Islamic banks. All banks are under Central Bank supervision. Local banks account for approximately 62 percent of the total banking activities, while foreign banks cover the other 38 percent.

Yemen has a large underground economy. The smuggling of trade goods and contraband is 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 with profits laundered and repatriated via hawala networks. Smuggling and piracy are rampant along Yemen's sea border with Oman, across the Red Sea from the Horn of Africa, and along the land border with Saudi Arabia.

In April 2003 Yemen's Parliament passed anti-money laundering (AML) legislation (Law 35). 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. In November 2007 the Cabinet sent a draft counter-terrorist financing law to Parliament.

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 (STRs). In addition, the law requires that reports be submitted to the Anti-Money Laundering Information Unit (AMLIU), an information-gathering unit within the Central Bank. This unit acts as the financial intelligence unit (FIU), which in turn reports to the Anti-Money Laundering Committee (AMLC), within the Central Bank.

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 Central Bank of Yemen, and the Association of Banks. The AMLC is authorized to issue regulations and guidelines and provide training workshops related to combating money laundering efforts.

There are approximately 448 registered money exchange businesses in Yemen, which serve primarily as currency exchangers in addition to performing funds transfer services. Money transfer businesses are required to register with Central Bank for one permit, but can open offices at multiple locations. Fund transfers that exceed the equivalent of \$10,000 require permission from the Central Bank. The Central Bank has not begun to examine the money exchange business for AML compliance.

The AMLIU is understaffed with only a few employees, although it also uses the services of field inspectors from the Central Bank's Banking Supervision Department. The AMLIU has no database and is not networked internally or to the rest of the Central Bank. The Central Bank 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.

Law 35 also grants the AMLC the ability to exchange information with foreign entities that have 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.

Money Laundering and Financial Crimes

Prior to passage of the AML law, the Central Bank issued Circular 22008 in April 2002, instructing financial institutions to 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 inbound and out-bound money transfer of more than \$10,000 cash without prior permission from the Central Bank, although this requirement is not strictly enforced. Banks must also report suspicious transactions to the AMLIU. The circular is 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". In 2005, two STRs were filed with the AMLIU and in 2006, three STRs were filed. The number of STRs filed in 2007 with the AMLIU is not available. However, in 2007 the AMLIU forwarded one suspicious case to the Office of the Public Prosecutor for suspected money laundering. There have not been any money laundering prosecutions or convictions in Yemen.

At present, Yemen has no cross-border cash declarations or disclosure requirements. However, according to the Customs Authority, inspectors will fill out a declaration form after money has been discovered leaving or entering the country at the border.

Yemen has one free trade zone (FTZ) in Aden. Identification requirements are enforced. For example, truckers must file the necessary paperwork in relevant trucking company offices and must wear ID badges. FTZ employees must undergo background checks by police, the Customs Authority and employers. There is no evidence that the FTZ is being used for trade-based money laundering or terrorist financing schemes.

In September 2003, the Central Bank responded to the UNSCR 1267 Sanctions Committee's consolidated list, the Specially Designated Global Terrorists by the United States pursuant to E.O. 13224, and Yemen's Council of Ministers' directives, by issuing 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 Central Bank. As a result, one account was immediately frozen. 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. However, since the February 2004 addition of Yemeni 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. There is no information on whether Yemeni authorities have identified, frozen, seized, or forfeited other assets related to terrorist financing.

The Government of Yemen (GOY) has a forfeiture system in place. A judge must order the forfeiture for the items involved in or proceeds from the crime for which the defendant was convicted. Forfeiture is available for all crimes and extends to funds and property. Authorities deposit forfeited funds into the general treasury unless the funds are the proceeds from a drug offense, in which case the proceeds go to law enforcement authorities, who can use the proceeds to buy vehicles or other equipment. If the court orders a defendant to forfeit property, the judge issues an order to auction off the property to the public, with the funds from the auction going into the general treasury. In some instances, the courts can order real property, such as a dwelling, to be closed for one year before the owner may use it again. Yemen has not yet forfeited any real property.

In 2001 the government enacted a law governing charitable organizations. This law entrusts the Ministry of Social Affairs and Labor (MOSAL) 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. Central Bank Circular No. 33989 of June 2002 and Circular No. 91737 of November 2004, ordered banks to enhance controls regulating opening and managing charities' accounts. This

was in addition to keeping these accounts under continuous supervision in coordination with the MOSAL.

The Central Bank is 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.

Yemen is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF). There is no information available on Yemen's mutual evaluation by MENAFATF. Yemen is a party to the 1988 UN Drug Convention; it has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. The GOY is a party to the UN Convention against Corruption. Yemen is listed 131 out of 179 countries in Transparency International's 2007 Corruption Perception Index.

The Government of Yemen should continue to develop an anti-money laundering regime that adheres to international standards, including the FATF 40 Recommendations and Nine Special Recommendations on terrorist financing. Banks and nonbank financial institutions should enhance their capacity to detect and report suspicious financial transactions to the FIU. The AMLIU needs substantial improvement of its analytical capabilities. Yemen must investigate the abuse of alternative remittance systems such as hawala networks with regard to money laundering and terrorist financing. Law enforcement and customs authorities should also examine trade-based money laundering and customs fraud. Yemen should enact specific legislation with respect to terrorist financing and forfeiture of the assets of those suspected of terrorism. Yemen should enforce sanctions and freeze the assets of Sheikh Abdul Majid Zindani, who was added to the UN 1267 Sanctions Committee's consolidated list in February 2004. 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.

Zimbabwe

Zimbabwe is not a regional financial center, but as economic conditions continue to deteriorate for the eighth straight year, money laundering has become a growing problem. This is a result of official corruption and impunity; a flourishing parallel exchange market; rampant smuggling of precious minerals; 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 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 and diamond exports and illegal gold and diamond trading.

During 2007, the government took some steps to prevent money laundering and illegal smuggling activities, including the installation of a new electronic surveillance system to monitor all transactions in the banking system and launch of an operation targeted at illegal precious minerals mining and trading.

In December 2003, the GOZ submitted the Anti-Money Laundering and Proceeds of Crime Act to Parliament, which enacted the legislation. This bill criminalizes money laundering and implements 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 extends the anti-money laundering law to all serious offenses. The Act mandates a prison sentence of up to fifteen years for a

conviction. It also criminalizes terrorist financing and authorizes 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 outline and reinforce 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 or violating rules on properly maintaining customer data carries a possible fine of Zimbabwe \$3 million (approximately U.S. \$100 at the official exchange rate or less than U.S. \$2 at the parallel market rate) for each day during which a financial institution is in default of compliance. During the year, the RBZ, in cooperation with police, launched Operation Chikorokoza Chapera ("No Illegal Panning") to crack down on rampant illegal gold mining and smuggling. The RBZ reported that it had secured nearly 100 convictions from 221 investigations to date. In November, the government also enacted stiffer penalties for dealing in illegal minerals under the Precious Stones Trade Amendment Bill. Those convicted of illegally possessing or trading in precious minerals now face a penalty of a minimum of five years imprisonment and a fine of up to Zimbabwe \$50 million (approximately U.S. \$1,666 at the official exchange rate or less than \$33 at the parallel market rate).

The 2004 Act provides for the establishment of The Financial Intelligence Inspectorate and Evaluation Unit (FIIE), Zimbabwe's financial intelligence unit (FIU). The FIIE is housed within the RBZ. The FIIE receives suspicious transaction reports (STRs), issues guidelines, such as the Anti-Money Laundering Guidelines issued in May 2006, and enforces compliance with procedures and reporting standards for obligated entities.

In June 2007, the RBZ installed an electronic surveillance system to track all financial transactions in the banking system. The FIIE reported that after the launch of the new system, there was a noticeable improvement in self-regulation at banks as demonstrated by an increase in the number of STRs received. During the year, the RBZ continued to tightly control 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 2007, after a sharp devaluation, the Zimbabwe dollar was still trading on the parallel market at a premium of approximately 4,900 percent above 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. In May, the RBZ cancelled the foreign currency exchange license of NMB Bank, the first indigenous bank in Zimbabwe, after a senior NMB official allegedly externalized more than U.S. \$4.5 million in embezzled funds and fled the country. RBZ cited a breach of Exchange Control Regulations and a failure to report suspicious transactions as required under the Act.

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. Most financial 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.

In August 2006, 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 ease bookkeeping and the handling of cash transactions under runaway inflation and at the same time assert greater GOZ control over the financial sector. 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. 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 steep economic decline and increasingly isolated, Zimbabwe's laws and regulations remained ineffective in combating money laundering. 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, targeting opponents, and tightening control over precious minerals 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. Transparency International ranks the Government of Zimbabwe at 150 of 179 countries on its 2007 Corruption Perceptions Index. 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. In March 2007, the Zimbabwe Parliament ratified the UN Convention against Corruption. However, Zimbabwe has yet to ratify the UN Convention against Transnational Organized Crime and the African Union Convention against Corruption, and 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 assumed the Presidency for ESAAMLG for the 2006/2007 administrative year. Zimbabwe experienced the first completed mutual evaluation undertaken by ESAAMLG. The report was accepted at the plenary and Council of Ministers meeting in August 2007.

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 economic collapse, and rebuilding the economy to restore confidence in the currency. The GOZ can illustrate its commitment to combating money laundering and terrorist 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/counter-terrorist financing regime that comports with international standards. The GOZ should also become a party to the UN International Convention for the Suppression of the Financing

of Terrorism, and should ratify the African Union Convention against Corruption and the UN Convention against Transnational Organized Crime.

